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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

**DISCLOSEABLE TRANSACTION
ENTERING INTO THE INVESTMENT AGREEMENT OF
ZESHENG ENVIRONMENTAL PROTECTION COMPANY
BY BOILER COMPANY**

**BOILER COMPANY ENTERING INTO THE INVESTMENT AGREEMENT
OF ZESHENG ENVIRONMENTAL PROTECTION COMPANY**

The Board hereby announces that Boiler Company, a wholly-owned subsidiary of the Company, entered into the Investment Agreement of Zesheng Environmental Protection Company with the Longyu Hongda, Meihekou State-owned Assets and Zesheng Environmental Protection Company on 9 April 2021, pursuant to which Boiler Company agreed to provide capital increase of RMB120 million to Zesheng Environmental Protection Company by way of cash and provide cash borrowings of no more than RMB40 million to Zesheng Environmental Protection Company, with a total investment of no more than RMB160 million (equivalent to approximately HK\$190.2588 million).

After the Investment, Boiler Company will hold approximately 50.42% equity interests in the Zesheng Environmental Protection Company. The Zesheng Environmental Protection Company will become a subsidiary of Boiler Company.

IMPLICATIONS UNDER THE LISTING RULES

As certain applicable percentage ratios in respect of the Investment are more than 5% but all of them are less than 25%, the Investment constitutes a discloseable transaction of the Company, and the Company is required to comply with the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board hereby announces that Boiler Company, a wholly-owned subsidiary of the Company, entered into the Investment Agreement of Zesheng Environmental Protection Company with the Longyu Hongda, Meihekou State-owned Assets and Zesheng Environmental Protection Company on 9 April 2021, pursuant to which Boiler Company agreed to provide capital of RMB120 million to Zesheng Environmental Protection Company by way of cash and provide cash borrowings of no more than RMB40 million to Zesheng Environmental Protection Company, with a total investment of no more than RMB160 million (equivalent to approximately HK\$190.2588 million).

PRINCIPAL TERMS OF THE INVESTMENT AGREEMENT OF ZESHENG ENVIRONMENTAL PROTECTION COMPANY

Investment Agreement of Zesheng Environmental Protection Company contains, inter alia, the following principal terms:

1. Date

9 April 2021

2. Parties

- (i) Boiler Company;
- (ii) Longyu Hongda;
- (iii) Meihekou State-owned Assets; and
- (iv) Zesheng Environmental Protection Company.

The Company confirms that, to the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, Longyu Hongda, Meihekou State-owned Assets and Zesheng Environmental Protection Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

3. Investment plan and price

Boiler Company agreed to provide capital increase of RMB120 million to Zesheng Environmental Protection Company by way of cash and provide cash borrowing of no more than RMB40 million to Zesheng Environmental Protection Company by way of cash, with a total investment of no more than RMB160 million (equivalent to approximately HK\$190.2588 million).

After the Investment, Boiler Company will hold approximately 50.42% equity interests in Zesheng Environmental Protection Company. Zesheng Environmental Protection Company will become a subsidiary of Boiler Company.

4. Payment method

Boiler Company shall pay the first installment of capital increase amounting to RMB100 million to Zesheng Environmental Protection Company within 15 days from the date of change in industrial and commercial registration of the Investment by Zesheng Environmental Protection Company;

Boiler Company shall pay the second installment of capital increase amounting to RMB10 million to Zesheng Environmental Protection Company within 15 days from the date of completion and acceptance of all projects under construction by Zesheng Environmental Protection Company;

Boiler Company shall pay the remaining installment of capital increase amounting to RMB10 million to Zesheng Environmental Protection Company within 15 days from the date of obtaining the Business Licenses for Hazardous Wastes (temporary license) by Zesheng Environmental Protection Company;

Before 15 May 2021, Boiler Company provided borrowings of no more than RMB40 million to Zesheng Environmental Protection Company.

5. The governance structure of Zesheng Environmental Protection Company after the Investment

After the Investment, the board of directors of the Zesheng Environmental Protection Company shall consist of 5 directors, among which 3 directors shall be nominated by Boiler Company, and 1 director and 1 employee director shall be nominated by Longyu Hongda. The chairman shall be recommended by Boiler Company and elected by the board of directors of Zesheng Environmental Protection Company.

After the Investment, the supervisory committee of the Zesheng Environmental Protection Company shall consist of 3 supervisors, among which 2 supervisors shall be recommended by Boiler Company and Longyu Hongda respectively, and the other one shall be an employee supervisor. The chairman of the board of supervisors shall be recommended by Longyu Hongda and elected by the supervisory committee of Zesheng Environmental Protection Company.

After the Investment, the general manager of Zesheng Environmental Protection Company shall be recommended by Longyu Hongda and appointed or dismissed by the board of directors of Zesheng Environmental Protection Company; the chief financial officer shall be recommended by Boiler Company and appointed or dismissed by the board of directors of Zesheng Environmental Protection Company.

6. Profit distribution

All parties agree that Zesheng Environmental Protection Company will carry out profit distribution in accordance with the paid-in capital contribution ratio of each shareholder.

7. Equity transfer

After the completion of the Investment, Longyu Hongda and Meihekou State-owned Assets are entitled to transfer part of or all of their equity interests in Zesheng Environmental Protection Company to other shareholders of Zesheng Environmental Protection Company or a third party other than the shareholders of Zesheng Environmental Protection Company; before Zesheng Environmental Protection Company obtains the Business Licenses for Hazardous Wastes (temporary license), Longyu Hongda and Meihekou State-owned Assets shall not transfer part of or all of their shares in Zesheng Environmental Protection Company to a third party other than their related parties or the shareholders of Zesheng Environmental Protection Company.

After completion of the Investment, in the event that Longyu Hongda and Meihekou State-owned Assets transfer part of or all of their equity interests in Zesheng Environmental Protection Company to a third party other than the shareholders of Zesheng Environmental Protection Company, Boiler Company has the pre-emptive right under the same conditions. However, if Longyu Hongda and Meihekou State-owned Assets transfer their shares of Zesheng Environmental Protection Company to other related parties within Sihuan Pharmaceutical, Boiler Company agrees to forfeit the preemptive right and cooperate with the relevant procedures for the transfer of such shares.

After completion of the Investment, if the Boiler Company transfers its equity interests in Zesheng Environmental Protection Company to other related parties within HE, Longyu Hongda and Meihekou State-owned Assets agree to forfeit the preemptive right and cooperate with the relevant procedures for such equity transfer.

8. Anti-dilution and preemptive right

All parties agree that after completion of the Investment, if Zesheng Environmental Protection Company introduces new investors in any form, it shall ensure that the investment price of new investors shall not be lower than the investment price of the Investment.

After completion of the Investment, if Zesheng Environmental Protection Company carries out new equity financing in any form, each shareholder has the right to enjoy the preemptive right under the same conditions in accordance with the proportion of paid in capital contribution.

DETERMINATION FOR THE CONSIDERATION OF TRANSACTION

The consideration of the Investment is determined based on the market value of all equity interests of shareholders of Zesheng Environmental Protection Company as determined by Heilongjiang Guangrunyuan Assets Appraisal Co., Ltd. (“**Heilongjiang Guangrunyuan**”) on the benchmark date (i.e. 30 September 2020) (the “**Benchmark Date**”) (the “**Appraisal**”), and an asset appraisal report was issued on 31 December 2020.

The income method appraisal result was adopted in the Appraisal as the appraisal value. On the Benchmark Date, the registered capital of Zesheng Environmental Protection Company is RMB50 million. The appraisal value of the then total equity interests of the then shareholders of Zesheng Environmental Protection Company assessed by Heilongjiang Guangrunyuan is RMB162.0264 million (the “**Appraised Value**”). The registered capital per share of the Company is approximately RMB3.24. The parties agree that, based on the Appraised Value as the consideration of the Investment, the Boiler Company shall provide capital increase to Zesheng Environmental Protection Company by RMB120 million by way of cash and hold approximately 50.42% equity interests of Zesheng Environmental Protection Company.

Since the income approach is adopted by Heilongjiang Guangrunyuan in respect of valuation of all equity interests of the shareholders of Zesheng Environmental Protection Company, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The Company will issue a further announcement within 15 business days after the publication of this announcement in compliance with Rule 14.60A and Rule 14.62 of the Listing Rules.

REASONS FOR AND BENEFITS OF THE INVESTMENT

This investment is beneficial for the Boiler Company to seize the window period of rapid development of environmental protection industry, quickly enter the hazardous waste disposal industry, and realize the large-scale development of environmental protection sector; build the research and development base of hazardous waste disposal industry, train R&D talents, and strengthen technological innovation; build environmental protection demonstration project, and improve brand effect; drive the combustion equipment manufacturing, engineering procurement construction and operation services.

The Board is of view that the terms of the Investment Agreement of Zesheng Environmental Protection Company are fair and reasonable, the transaction is in the ordinary and usual course of business of the Company and on normal commercial terms or better, and is in the interests of the Company and the Shareholders as a whole.

No Directors has material interests in the Investment.

Information about the Company

The Company and its subsidiaries are among the largest manufacturers of power plant equipment in the PRC, the principal activities include the manufacturing of thermal power main equipment, hydropower main equipment, nuclear power main equipment, gas power equipment set and engineering procurement construction of power station projects, etc..

Information about Boiler Company

Boiler Company, a wholly-owned subsidiary of the Company, is a company incorporated in the PRC with limited liability, with a registered capital of RMB746,850,000. It is principally engaged in the manufacturing and sales of boilers, pressure vessels, steam turbine auxiliary equipment, boiler auxiliary equipment, power station valves and mechanical parts for thermal power stations, as well as manufacturing, sales, commissioning, technical consultation and technical services of industrial boilers, special boilers and energy-saving and environmental protection equipment.

Information about Longyu Hongda and Meihekou State-owned Assets

Longyu Hongda is a company incorporated in the PRC with limited liability, with a registered capital of RMB100,000,000. It is principally engaged in medicine, medical equipment, food, health project investment, investment information consultation and enterprise management; technology development, technology transfer, technology promotion, technical consultation and technical services. The ultimate beneficial owner of Longyu Hongda is Sihuan Pharmaceutical, a limited company registered in Bermuda, the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 460).

Meihekou State-owned Assets is a company incorporated in the PRC with limited liability, with a registered capital of RMB10,000,000. It is principally engaged in state-owned capital operation (projects that need to be approved in accordance with the law could only be operated with the approval of relevant departments). The ultimate beneficial owner of Meihekou State-owned Assets is Meihekou Finance Bureau.

Information about Zesheng Environmental Protection Company

Zesheng Environmental Protection Company is a company incorporated in the PRC with limited liability. It is principally engaged in environmental protection engineering construction; solid waste treatment; hazardous waste treatment services; corrosive waste treatment services; medical and pharmaceutical waste treatment services; toxic waste treatment services, etc.

The equity structure of Zesheng Environmental Protection Company before and after the Investment is as follows:

Shareholder Name	Equity Structure before the Investment	Equity Structure after the Investment
Longyu Hongda	90%	44.62%
Meihekou State-owned Assets	10%	4.96%
Boiler Company	—	50.42%
Total	<u>100%</u>	<u>100%</u>

Before the Investment, the registered capital of Zesheng Environmental Protection Company was RMB50 million; after the Investment, the registered capital of Zesheng Environmental Protection Company was RMB100 million and Zesheng Environmental Protection Company will become a subsidiary of Boiler Company.

As at 31 December 2019 and 31 December 2020, the total assets of Zesheng Environmental Protection Company were RMB110,170,706.96 and RMB171,744,719.36, respectively.

The following table sets out the audited net profit (before and after taxation) of the Zesheng Environmental Protection Company for the two years ended 31 December 2020:

	For the year ended 31 December 2019 (RMB)	For the year ended 31 December 2020 (RMB)
Net profit before tax	0	0
Net profit after tax	0	0

Note: Zesheng Environmental Protection Company is the executive company of Meihekou hazardous waste disposal project, which was established in 2018. At present, the Meihekou hazardous waste disposal project is under construction, so Zesheng Environmental Protection Company has no profit for the two years ended 31 December 2020.

IMPLICATIONS UNDER THE LISTING RULES

As certain applicable percentage ratios in respect of the Investment are more than 5% but all of them are less than 25%, the Investment constitutes a discloseable transaction of the Company, and the Company is required to comply with the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors of the Company;
“Boiler Company”	Harbin Boiler Company Limited, a wholly-owned subsidiary of the Company;
“Company”	Harbin Electric Company Limited, a company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules;

“Director(s)”	director(s) of the Company.
“HE”	Harbin Electric Corporation Co., Ltd.* (哈爾濱電氣集團有限公司), the controlling shareholder of the Company;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Investment”	Boiler Company provided capital increase of RMB120 million to Zesheng Environmental Protection Company by way of cash and provided cash borrowings of no more than RMB40 million to Zesheng Environmental Protection Company;
“Investment Agreement of Zesheng Environmental Protection Company”	the Investment Agreement of Jilin Zesheng Environmental Protection Engineering Co., Ltd. and the Supplementary Agreement to the Investment Agreement of Jilin Zesheng Environmental Protection Engineering Co., Ltd. entered into between Boiler Company, Longyu Hongda, Meihekou State-owned Assets and Zesheng Environmental Protection Company on 9 April 2021 in respect of the Investment;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Longyu Hongda”	Longyu Hongda Investment Management Co., Ltd* (隆裕弘達投資管理有限公司);
“Meihekou State-owned Assets”	Meihekou State-owned Assets Marketing Co., Ltd.* (梅河口市國有資產經營有限責任公司);
“Parties”	Boiler Company, Longyu Hongda, Meihekou State-owned Assets and Zesheng Environmental Protection Company;
“percentage ratio(s)”	has the meaning ascribed thereto under the Listing Rules;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan;

“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	shareholders of the Company;
“Sihuan Pharmaceutical”	Sihuan Pharmaceutical Holdings Group Ltd., a company incorporated in Bermuda with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 460);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Zesheng Environmental Protection Company”	Jilin Zesheng Environmental Protection Engineering Co., Ltd.* (吉林省澤盛環保工程有限公司);

In this announcement, translation of RMB into HK\$ is based on the exchange rate of HK\$1.00 = RMB0.84096. This exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been or may be converted at such rate or any other exchange rate.

* *For identification purpose only*

By Order of the Board
Harbin Electric Company Limited
Ai Li-song
Company Secretary

Harbin, PRC
9 April 2021

As at the date of this announcement, the executive directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Sun Zhi-yong; and the independent non-executive directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.