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DEFINITIONS

Unless the context requires otherwise, the following expressions used in this circular shall have the meanings as follow:

“Announcement”	the announcement of the Company dated 18 July 2023 in relation to, among others, the Disposal;
“Asset Purchase Agreement”	the asset purchase agreement dated 18 July 2023 entered into between the Company and Jiamusi Electric in relation to, among others, the Disposal;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Harbin Electric Company Limited, a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1133);
“Completion”	completion of the Disposal pursuant to the Asset Purchase Agreement;
“Conditions Precedent”	the conditions precedent to Completion as set out under the section headed “Conditions Precedent” in this circular;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Disposal”	the disposal of the Sale Equity by the Company to Jiamusi Electric pursuant to the Asset Purchase Agreement;
“Domestic Shareholder(s)”	the holder(s) of the Domestic Shares;

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“Domestic Share(s)”	ordinary domestic share(s) with a par value of RMB1.00 each in the share capital of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Disposal;
“Existing Entrusted Management Agreement”	the entrusted management agreement dated 29 December 2022 entered into among the Company, Power Equipment Company and Jiamusi Electric, pursuant to which the Company agreed to entrust Jiamusi Electric with all the businesses and assets of Power Equipment Company, and Jiamusi Electric agreed to provide entrusted management services to Power Equipment Company, for a term commencing on 1 January 2023 and ending on 31 December 2023 (both days inclusive);
“Group”	the Company and its subsidiaries;
“H Shareholder(s)”	the holder(s) of the H Shares;
“H Share(s)”	overseas listed foreign share(s) with a par value of RMB1.00 each in the share capital of the Company, listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars;
“Harbin Electric Corporation”	哈爾濱電氣集團有限公司(Harbin Electric Corporation*), a state-owned enterprise and the controlling shareholder of the Company as at the Latest Practicable Date;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in relation to the Asset Purchase Agreement and the Disposal;

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“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Asset Purchase Agreement and the Disposal;
“Independent Shareholder(s)”	Shareholder(s) other than (i) Harbin Electric Corporation and its associates and (ii) any other persons who are involved or interested in the Disposal;
“Independent Valuer”	China United Assets Appraisal Group Co., Ltd.;
“Jiamusi Electric”	哈爾濱電氣集團佳木斯電機股份有限公司(Jiamusi Electric Machine Company Limited*), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000922);
“Letters of Undertaking”	the two letters of undertaking both dated 18 July 2023 issued by the Company in connection with the Disposal;
“Latest Practicable Date”	29 September 2023, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time;
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules;
“Performance Commitment”	the commitment given by the Company in favour of Jiamusi Electric in respect of the value of the Performance Commitment Asset during the Performance Commitment Period pursuant to the Performance Guarantee Agreement;
“Performance Commitment Asset”	patents and non-patented technology of Power Equipment Company, being the subject matter of the Performance Commitment under the Performance Guarantee Agreement;

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“Performance Commitment Period”	the period commencing from the beginning of the financial year in which Completion took place and concluding by the end of the second consecutive financial year thereafter (i.e. the financial years ending 31 December 2023, 2024 and 2025 if Completion takes place on or before 31 December 2023);
“Performance Guarantee Agreement”	the performance guarantee agreement dated 18 July 2023 entered into between the Company and Jiamusi Electric in relation to, among others, the Performance Commitment;
“Power Equipment Company”	哈爾濱電氣動力裝備有限公司(Harbin Electric Power Equipment Company Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date and immediately prior to Completion;
“PRC”	the People’s Republic of China, which shall for the purpose of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Equity”	51% equity interest in Power Equipment Company, being the subject matter of the Asset Purchase Agreement;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;
“Shareholder(s)”	the holder(s) of the Shares;
“Share(s)”	Domestic Share(s) and/or H Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transitional Period”	the period from the Valuation Benchmark Date (excluding the date thereof) to the date of Completion (including the date thereof);
“Valuation Benchmark Date”	31 March 2023, being the valuation benchmark date of the appraised asset value of the entire equity interest in Power Equipment Company; and
“%”	per cent.

DEFINITIONS

For the purposes of this circular, unless the context requires otherwise, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK\$1 to RMB0.92. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables, the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Unless the context requires otherwise, references to the singular number include references to the plural and vice versa and references to one gender include every gender.

** For identification purpose only*

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Announcement. On 18 July 2023, the Company entered into the Asset Purchase Agreement with Jiamusi Electric, pursuant to which the Company has conditionally agreed to sell, and Jiamusi Electric has conditionally agreed to purchase, the Sale Equity, representing 51% equity interest in Power Equipment Company, for a total consideration of RMB400,697,400 (equivalent to approximately HK\$435,540,652) in cash. Upon Completion, Power Equipment Company will be owned as to 51% by Jiamusi Electric and 49% by the Company. Following the Disposal, Power Equipment Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the Group's accounts.

In connection with the Disposal, on 18 July 2023, the Company also (a) entered into the Performance Guarantee Agreement with Jiamusi Electric, pursuant to which the Company shall guarantee that the Performance Commitment be met, and undertake to compensate Jiamusi Electric for any shortfall from the Performance Commitment, upon the Asset Purchase Agreement having become effective; and (b) issued the Letters of Undertaking, pursuant to which the Company, among other things, undertakes to indemnify Power Equipment Company against all losses incurred by it arising out of or in connection with (i) the failure of Power Equipment Company to obtain property ownership certificates for certain real estate properties; and (ii) the occurrence of certain issues in relation to labour dispatch of Power Equipment Company.

The purpose of this circular is to provide the Shareholders with (i) further details of the Asset Purchase Agreement and the Disposal; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Asset Purchase Agreement and the Disposal; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Asset Purchase Agreement and the Disposal; and (iv) the notice of the EGM.

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THE ASSET PURCHASE AGREEMENT

On 18 July 2023, the Company entered into the Asset Purchase Agreement with Jiamusi Electric, pursuant to which the Company has conditionally agreed to sell, and Jiamusi Electric has conditionally agreed to purchase, the Sale Equity, representing 51% equity interest in Power Equipment Company, for a total consideration of RMB400,697,400 (equivalent to approximately HK\$435,540,652) in cash.

The principal terms and conditions of the Asset Purchase Agreement are set out as follows:

Date

18 July 2023

Parties

- (1) The Company (as vendor); and
- (2) Jiamusi Electric (as purchaser).

Subject Matter

Subject to the terms and conditions under the Asset Purchase Agreement, the Company has agreed to sell, and Jiamusi Electric has agreed to purchase, the Sale Equity, representing 51% equity interest in Power Equipment Company, together with all rights and benefits attaching thereto with effect from the date of Completion.

Consideration and Payment Terms

The consideration of the Sale Equity is RMB400,697,400 (equivalent to approximately HK\$435,540,652).

The consideration shall be paid by Jiamusi Electric to the Company in cash in the following manner:

- (i) RMB200,348,700 (equivalent to approximately HK\$217,770,326), being 50% of the total consideration, shall be paid by Jiamusi Electric to the Company as and when the Asset Purchase Agreement is signed and becomes effective; and
- (ii) RMB200,348,700 (equivalent to approximately HK\$217,770,326), being the remaining 50% of the total consideration, shall be paid by Jiamusi Electric to the Company upon Completion.

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Basis of Consideration

The consideration was determined after arm's length negotiations between the Company and Jiamusi Electric with reference to the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date as appraised by the Independent Valuer (the "**Valuation**"). On 30 June 2023, the Independent Valuer issued the "Asset Valuation Report on the Valuation Project of the Proposed Cash Acquisition of 51% Equity Interest in Harbin Electric Power Equipment Company Limited by Jiumusi Electric Machine Company Limited*" (《哈爾濱電氣集團佳木斯電機股份有限公司擬現金收購哈爾濱電氣股份有限公司持有哈爾濱電氣動力裝備有限公司51%股權評估項目資產評估報告》) (the "**Valuation Report**"), the conclusion of which was that the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date amounted to RMB785,681,200. Based on the aforesaid valuation conclusion, the Company and Jiumusi Electric agreed that the consideration of the Sale Equity shall be RMB400,697,400 (being 51% of the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date).

The conclusion of the Valuation was, in principle, arrived at by adopting the asset-based approach, whereby based on the statement of financial position of Power Equipment Company as at the Valuation Benchon

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the business development of Power Equipment Company, it is considered more appropriate and reliable to adopt the asset-based approach for the valuation of the entire equity interest of Power Equipment Company as compared with the income approach which will involve the forecasting of Power Equipment Company's earnings in future years and be subject to uncertainty arising therefrom; whereas in respect of the patents and non-patented technology of Power Equipment Company, given its corresponding revenue contribution is quantifiable and has a certain continuity, adopting the income approach can better reflect its asset value.

Profit Forecast

Since the asset-based approach and the income approach (in respect of the asset value of the patents and non-patented technology of Power Equipment Company) were adopted for the Valuation, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules, and accordingly, Rules 14.62 and 14A.70(13) (in respect of paragraph 29(2) of Appendix 1, Part B) of the Listing Rules apply.

According to the Valuation Report, details of the principal assumptions, including commercial assumptions, upon which the profit forecast in relation to the asset value of the patents and non-patented technology of Power Equipment Company is based, are set out as follows:

1. *General assumptions of the profit forecast in relation to the Valuation*

- (i) **Transaction Assumption:** it is assumed that all assets to be appraised are in the process of transaction, and the appraisal is made by the Independent Valuer based on a simulated market according to the transaction conditions of the assets to be appraised. The transaction assumption is one of the most fundamental precondition assumptions for the performance of asset valuation.
- (ii) **Open Market Assumption:** it is assumed that for assets trading or to be traded on the market, both trading parties are in equal position and have the opportunities and time to obtain sufficient market information so as to make informed judgments on the assets' functions, usage and trading price, etc.. The open market assumption is based on the assumption that assets are publicly tradable in the market.
- (iii) **Assumption on Continuing Operation of the Assets:** the valuation approach, parameters and bases shall be determined based on whether the assets to be appraised will continue to be used in accordance with the current purpose, as well as the method, scale, frequency and circumstance of use, or will be used with some changes thereto.

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2. *Special assumptions of the profit forecast in relation to the Valuation*

- (i) It is assumed that the external economic environment remains unchanged and the current national macro-economy will not change significantly as at the Valuation Benchmark Date.
- (ii) It is assumed that there will be no significant change in the social and economic environment where Power Equipment Company (as the appraised company) operates and the applicable policies on taxes and tax rates, etc..
- (iii) It is assumed that Power Equipment Company (as the appraised company) continues to operate under its existing mode of operations management, and its operations management team continues to act diligently and responsibly.
- (iv) The Valuation is based solely on the existing operating capacity of Power Equipment Company (as the appraised company) as at the Valuation Benchmark Date, and does not take into consideration any potential expansion of operating capacity as a result of various reasons, including but not limited to management, business strategies and additional investment, or any potential changes in production and operations in the future.
- (v) The assets to be appraised under the Valuation are based on their actual inventories as at the Valuation Benchmark Date, and the current market prices of the relevant assets are based on their effective domestic prices as at the Valuation Benchmark Date.
- (vi) It is assumed that the basic information and financial information provided by the Company and Jiamusi Electric (both as principals) and Power Equipment Company (as the appraised company) are true, accurate and complete.
- (vii) The scope of valuation is based solely on the valuation report form provided by the Company and Jiamusi Electric (both as principals) and Power Equipment Company (as the appraised company), without taking into consideration any possible contingent assets and contingent liabilities not included in the list provided by the Company and Jiamusi Electric (both as principals) and Power Equipment Company (as the appraised company).
- (viii) The impact of inflation has not been taken into account in arriving at the parameter values under the Valuation.
- (ix) It is assumed that there is no seasonality in the cash flows of Power Equipment Company (as the appraised company) and cash flows are evenly disbursed throughout the year.
- (x) If there is any change in the aforesaid conditions, the valuation results will usually become invalid.

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Da Hua Certified Public Accountants (Special General Partnership), the auditor of the Company, has reviewed the arithmetic accuracy of the calculations of the income approach adopted by the Independent Valuer in respect of the Valuation (which does not involve the adoption of accounting policies and the reasonableness of the assumptions), a letter of which is set out in Appendix II to this circular.

The Board confirmed that the profit forecast of the patents and non-patented technology of Power Equipment Company in the Valuation was made after due and careful enquiry by the Board and is fair and reasonable, a letter of which is set out in Appendix III to this circular.

Effective Date

The Asset Purchase Agreement shall take effect upon execution by the parties thereto, subject to the fulfilment of all of the following conditions:

- (i) the Asset Purchase Agreement and the Disposal having been approved by the board of directors and at a shareholders' meeting of Jiamusi Electric in accordance with the applicable laws and regulations, and the articles of association of Jiamusi Electric;
- (ii) the Asset Purchase Agreement and the Disposal having been approved by the Board and at the EGM in accordance with the applicable laws and regulations (including but not limited to the Listing Rules), and the articles of association of the Company;
- (iii) the Disposal having been approved by Harbin Electric Corporation;
- (iv) the result in respect of the Valuation having been notified to Harbin Electric Corporation; and
- (v) the Disposal having been approved by the State Administration of Science, Technology and Industry for National Defence of the PRC.

Save for the Asset Purchase Agreement and the Disposal which have yet to be approved at a shareholders' meeting of Jiamusi Electric and at the EGM under conditions (i) and (ii) above, all of the aforesaid conditions have been fulfilled as at the Latest Practicable Date.

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Conditions Precedent

Completion is subject to the fulfilment of all of the following conditions:

- (i) the Asset Purchase Agreement having become effective;
- (ii) no relevant regulatory authorities requiring the termination or suspension of the Asset Purchase Agreement and the transactions contemplated thereunder; and
- (iii) all necessary procedures in respect of Completion having been completed in accordance with the terms of the Asset Purchase Agreement and the requirements of applicable laws and regulations.

Completion

Within 20 business days after the fulfilment of the Conditions Precedent, the Company and Jiamusi Electric shall complete all relevant procedures in respect of the transfer of the Sale Equity, including but not limited to the change of industrial and commercial registration (the “**Registration of Change**”).

Completion shall take place upon completion of the Registration of Change.

Arrangements during the Transitional Period

During the Transitional Period, any profit or loss of Power Equipment Company shall be enjoyed or borne (as the case may be) by the Company and Jiamusi Electric in proportion to their respective equity interests in Power Equipment Company as if Completion has taken place.

In addition, Power Equipment Company shall not carry out any form of profit distribution during the Transitional Period. Any retained profits of Power Equipment Company before the Valuation Benchmark Date shall be shared between the Company and Jiamusi Electric in proportion to their respective equity interests in Power Equipment Company after Completion.

THE PERFORMANCE GUARANTEE AGREEMENT

On 18 July 2023, the Company also entered into the Performance Guarantee Agreement with Jiamusi Electric, pursuant to which the Company and Jiamusi Electric have conditionally agreed that the Company shall guarantee that the share of revenue of the Performance Commitment Asset for each financial year during the Performance Commitment Period meets the Performance Commitment, and undertake to compensate Jiamusi Electric for any shortfall from the Performance Commitment, upon the Asset Purchase Agreement having become effective.

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The principal terms and conditions of the Performance Guarantee Agreement are set out as follows:

Date

18 July 2023

Parties

- (1) The Company; and
- (2) Jiamusi Electric.

Performance Commitment Period

The Performance Commitment Period shall be a period of three financial years, commencing from the beginning of the financial year in which Completion took place and concluding by the end of the second consecutive financial year thereafter.

Should Completion take place on or before 31 December 2023, the Performance Commitment Period shall be the financial years ending 31 December 2023, 2024 and 2025. If Completion does not take place by 31 December 2023, the Performance Commitment Period will be postponed accordingly.

Performance Commitment

The Company shall guarantee that the share of revenue of the Performance Commitment Asset (i.e. portion of the revenue of Power Equipment Company attributable to the Performance Commitment Asset), to be assessed using the income approach, for each financial year during the Performance Commitment Period meets the following commitment:

	For the year ending 31 December 2023 <i>RMB'000</i>	For the year ending 31 December 2024 <i>RMB'000</i>	For the year ending 31 December 2025 <i>RMB'000</i>
Share of revenue	17,787.1	15,200.7	12,010.9

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The actual share of revenue of the Performance Commitment Asset for each financial year during the Performance Commitment Period will be based on the relevant special audit report issued by a qualified auditor to be engaged by Jiamusi Electric after the end of the corresponding financial year, calculated based on the following formula:

$$\text{Share of revenue} = \text{Revenue for the relevant period} \times \frac{\text{Utilisation rate of the Performance Commitment Asset}}{\text{Rate of share of the revenue of the Performance Commitment Asset}} \times \text{Amortisation rate of intangible assets}$$

Should the Performance Commitment Period be a period other than the three financial years ending 31 December 2023, 2024 and 2025, the relevant Performance Commitment shall be determined between the Company and Jiamusi Electric by way of separate written agreement.

Compensation Principles

Within 10 business days after the issue of the special audit report for each financial year during the Performance Commitment Period, Jiamusi Electric shall determine if the Company is required to pay any compensation pursuant to the Performance Guarantee Agreement and if so, serve a written notice to the Company in respect of the amount of compensation payable by the Company.

In the event that the Performance Commitment for any financial year during the Performance Commitment Period cannot be met, the Company shall compensate Jiamusi Electric in cash within 20 business days from the date of receipt of the written notice served by Jiamusi Electric (the “**Performance Compensation Obligation**”), calculated based on the following formula:

$$\text{Amount of compensation for the relevant period} = \frac{\text{(Accumulated share of revenue committed for the relevant period – Accumulated share of revenue realised for the relevant period)}}{\text{Sum of the share of revenue for each financial year during the Performance Commitment Period}} \times \text{Portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset} - \text{Accumulated amount of compensation payable in respect of the Performance Commitment Asset}$$

Note: According to the Valuation Report, the appraised asset value of the Performance Commitment Asset, being one of the assets of Power Equipment Company under the Valuation, as at the Valuation Benchmark Date was RMB40,900,000. As the Sale Equity amounts to 51% equity interest in Power Equipment Company and its consideration was based on 51% of the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date, the portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset is RMB20,859,000, being 51% of the appraised asset value of the Performance Commitment Asset as at the Valuation Benchmark Date.

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In addition, within 30 business days after the issue of the special audit report for the last financial year during the Performance Commitment Period, Jiamusi Electric shall engage a qualified auditor to conduct an impairment test on the Performance Commitment Asset and issue a special audit report on such impairment test. If there is a decrease in the appraised value of the Performance Commitment Asset as at the end of the Performance Commitment Period as compared to that as at the Valuation Benchmark Date, and such difference exceeds the total amount of compensation paid by the Company during the Performance Commitment Period, the Company shall compensate Jiamusi Electric in cash separately (the “**Impairment Compensation Obligation**”), calculated based on the following formula:

$$\begin{array}{rcccl} \text{Amount of} & & \text{Amount of the impairment loss on the} & & \text{Amount of} \\ \text{compensation payable} & = & \text{Performance Commitment Asset as at the end} & - & \text{compensation paid} \\ \text{in respect of the} & & \text{of the Performance Commitment Period} & & \text{during the Performance} \\ \text{impairment test} & & & & \text{Commitment Period} \end{array}$$

The total amount payable by the Company in cash in respect of the Performance Compensation Obligation and the Impairment Compensation Obligation shall not exceed the portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset (i.e. RMB20,859,000, being 51% of the appraised asset value of the Performance Commitment Asset as at the Valuation Benchmark Date).

Effective Date

The Performance Guarantee Agreement shall take effect upon execution by the parties thereto, subject to the Asset Purchase Agreement having become effective.

THE LETTERS OF UNDERTAKING

On 18 July 2023, the Company also issued the Letters of Undertaking at the request of Jiamusi Electric in connection with the Disposal, pursuant to which the Company, among other things, undertakes to indemnify Power Equipment Company against all losses incurred by Power Equipment Company arising out of or in connection with (i) the failure of Power Equipment Company to obtain property ownership certificates for certain real estate properties (the “**Properties**”) which are immaterial to the business operation of Power Equipment Company; and (ii) the occurrence of certain issues in relation to labour dispatch of Power Equipment Company which has been fully rectified since April 2023.

The Properties

The Properties comprise two real estate properties in the PRC with an aggregate building area of 672m², owned by the Group as at the Latest Practicable Date, for Power Equipment Company’s ancillary production use. It is considered that the failure to obtain property ownership certificates for the Properties would not materially affect the business operation of Power Equipment Company given (i) the Properties, being ancillary production rooms, do not constitute part of the main production facilities or principal place of operations of Power Equipment Company; and (ii) the aggregate building area and book value of the

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Properties only accounted for a relatively small proportion, being 0.63% and 1.21%, of the total building area and book value of all real estate properties of Power Equipment Company as at the Latest Practicable Date, respectively; thus, even in the event where the relevant regulatory authorities do order the Properties be demolished due to the failure to obtain their respective property ownership certificates, such demolition is not expected to cause any material adverse effect to the manufacturing activities and operations of Power Equipment Company.

Issues in relation to Labour Dispatch

During the two years ended 31 December 2022 and the three months ended 31 March 2023 (the “**Relevant Period**”), Power Equipment Company failed to keep the proportion of dispatched workers to total staff within 10%, which did not fully comply with the provisions of “The Interim Provisions on Labour Dispatch*” (《勞務派遣暫行規定》). As confirmed by Power Equipment Company, such non-compliance has been fully rectified since 30 April 2023 and, based on the written confirmation from the relevant regulatory authorities, no complaint or report had been made, and no administrative investigation or penalty had been conducted or imposed, in respect of Power Equipment Company’s non-compliance with the relevant laws and regulations concerning labour dispatch during the Relevant Period.

THE EXISTING ENTRUSTED MANAGEMENT AGREEMENT

Reference is also made to the announcements of the Company dated 30 November 2021 and 29 December 2022 respectively, in relation to, among others, the Existing Entrusted Management Agreement entered into among the Company, Power Equipment Company and Jiamusi Electric with an aim to lay a foundation for the smooth implementation of the Disposal.

The Existing Entrusted Management Agreement is effective until 31 December 2023 according to its terms. Prior to Completion, the Existing Entrusted Management Agreement will remain effective, and the Company, Power Equipment Company and Jiamusi Electric will continue to fulfil their respective obligations under the Existing Entrusted Management Agreement. Following Completion, the Company, Power Equipment Company and Jiamusi Electric will further negotiate whether the Existing Entrusted Management Agreement shall be terminated in advance.

LETTER FROM THE BOARD

INFORMATION ON POWER EQUIPMENT COMPANY

Power Equipment Company, a wholly-owned subsidiary of the Company as at the Latest Practicable Date and immediately prior to Completion, is a limited liability company established in the PRC by the Company in 2007 with a registered capital of RMB1,070,000,000. It is principally engaged in the research and development, manufacturing and sales of large and medium-sized AC/DC motors, nuclear pump motors and nuclear pumps.

The audited consolidated financial information of Power Equipment Company for the two years ended 31 December 2021 and 2022 prepared in accordance with China Accounting Standards for Business Enterprises are as follows:

	For the year ended 31 December 2021 (audited) RMB'000	For the year ended 31 December 2022 (audited) RMB'000
Net profit/(loss) before taxation	(323,532)	17,547
Net profit/(loss) after taxation	(309,527)	59,129

As at 31 December 2022, the audited net asset value of Power Equipment Company was approximately RMB502,871,584.05.

INFORMATION ON JIAMUSI ELECTRIC

Jiamusi Electric, a subsidiary of Harbin Electric Corporation, is a joint stock limited company incorporated in the PRC and listed on the Shenzhen Stock Exchange (stock code: 000922). It is principally engaged in the manufacturing and sales of electric motors, and its main products include explosion-proof motors, motors for lifting and metallurgy, shielded motors, electric pumps and nuclear motors.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, Power Equipment Company will be owned as to 51% by Jiamusi Electric and 49% by the Company. Following the Disposal, Power Equipment Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the Group's accounts. In accordance with Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments, the equity method will be used, in replacement of the cost method, as accounting treatment for the 49% equity interest in Power Equipment Company to be held by the Company following the Disposal, being a long-term equity investment in which the Company has changed from being able to exercise control over the investee to exercising significant influence, or exercising control together with other investors, over the investee, as a result of a disposal.

Based on the consideration of the Sale Equity under the Asset Purchase Agreement, the Company expects to recognise a pre-tax disposal gain of approximately RMB132,480,900 (equivalent to approximately HK\$144,001,000), representing 51% of the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date of RMB785,681,200 after having deducted the net asset value of Power Equipment Company as at the Valuation Benchmark Date of RMB525,914,700 (before deducting costs and expenses in relation to the Disposal). The actual effect of the Disposal on the consolidated financial statements of the Group is to be determined as at Completion and subject to audit.

The Company intends to use the proceeds from the Disposal to strengthen the general working capital of the Group and actively promote the transformation and development of the Group's business, in particular, the transformation and enhancement of the Group's traditional industries, the development of new energy industries, and the digitalisation of manufacturing processes, so as to enhance the Company's core competitiveness and development capabilities.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is principally engaged in the manufacturing of thermal power main equipment, hydropower main equipment, nuclear power main equipment, gas power equipment set and turnkey construction of power station projects.

The Board is of the view that the Company's disposal of controlling stake in Power Equipment Company and hence, exit from the motor business will allow the Group to further focus on its principal business of power generation equipment manufacturing, and concentrate resources to enhance the Group's competitiveness in the fields of power generation equipment manufacturing, system integration and provision of operation and maintenance services. In particular, the Group's strategic plans regarding the transformation and enhancement of the Company's traditional industries, the development of new energy industries, and the digitalisation of manufacturing processes all require substantial capital investment. The proceeds from the Disposal in the amount of approximately RMB400,697,400 (equivalent to approximately HK\$435,540,652) can further supplement the Company's general working capital required for such industrial transformation and development.

LETTER FROM THE BOARD

Moreover, Jiamusi Electric is an A-shares listed company principally engaged in motor manufacturing and technology development. The Board believes that Jiamusi Electric becoming a shareholder of Power Equipment Company pursuant to the Disposal will create synergy for the business development of Power Equipment Company by bringing new opportunities and resources to Power Equipment Company, which will in turn favour the 49% equity interest in Power Equipment Company retained by the Group upon Completion.

Save for the Disposal, the Company had no plan to dispose of any other equity interest in Power Equipment Company as at the Latest Practicable Date. Following the Disposal, the Company will continue to promote the sustainable and healthy development of Power Equipment Company by giving full play to its role as one of the shareholders of Power Equipment Company.

As such, the Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) believe that the terms of the Asset Purchase Agreement and the Disposal (including the consideration) are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Executive Directors Mr. Cao Zhi-an, Mr. Huang Wei and Mr. Zhang Ying-jian are also directors or senior managers of Harbin Electric Corporation, the holding company of Jiamusi Electric, and are therefore considered to be materially interested in the Disposal and had abstained from voting on the relevant board resolutions for considering and approving the entering into of the Asset Purchase Agreement and the Disposal. Save as disclosed above, none of the Directors has a material interest in the Disposal or had been required to abstain from voting on the relevant board resolutions for considering and approving the entering into of the Asset Purchase Agreement and the Disposal pursuant to the Listing Rules and/or the articles of association of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is therefore subject to notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Jiamusi Electric is a subsidiary, and thus an associate, of Harbin Electric Corporation, the controlling shareholder of the Company holding approximately 60.41% of the entire issued share capital of the Company. Pursuant to Chapter 14A of the Listing Rules, Jiamusi Electric is a connected person of the Company, and as one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% and the total consideration of the Disposal is more than HK\$10,000,000, the Disposal constitutes a connected transaction of the Company which is subject to reporting, announcement, circular and Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Independent Shareholders at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under Rules 13.39(5) and 13.39(5A) of the Listing Rules.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 18 to 19 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 20 to 43 of this circular, consider that the terms of the Asset Purchase Agreement and the Disposal are fair and reasonable and on normal commercial terms as far as the Independent Shareholders are concerned, and in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

The Directors (including the independent non-executive Directors) consider that the terms of the Asset Purchase Agreement and the Disposal are fair and reasonable and on normal commercial terms, and in the best interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

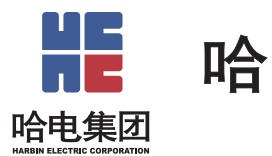
ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Completion is subject to the approval from the Independent Shareholders at the EGM and the fulfilment of the Conditions Precedent. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

10 October 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 51% EQUITY INTEREST IN A WHOLLY-OWNED SUBSIDIARY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Harbin Electric Company Limited (the “**Company**”) in relation to the proposed disposal of 51% equity interest in Harbin Electric Power Equipment Company Limited* (the “**Disposal**”). Details of the Disposal are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company to the shareholders dated 10 October 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 18 July 2023, the Company entered into the Asset Purchase Agreement with Jiamusi Electric, pursuant to which the Company has conditionally agreed to sell, and Jiamusi Electric has conditionally agreed to purchase, the Sale Equity.

As set out in the Board Letter, as one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is therefore subject to notification and announcement requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Jiamusi Electric is a subsidiary, and thus an associate, of Harbin Electric Corporation, the controlling shareholder of the Company holding approximately 60.41% of the entire issued share capital of the Company. Pursuant to Chapter 14A of the Listing Rules, Jiamusi Electric is a connected person of the Company, and as one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% and the total consideration of the Disposal is more than HK\$10,000,000, the Disposal constitutes a connected transaction of the Company which is subject to reporting, announcement, circular and Independent Shareholders’ approval requirements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. He Yu, Mr. Hu Jian-min, Mr. Tang Zhi-hong and Mr. Pan Qi-long, has been established to make a recommendation to the Independent Shareholders in relation to the Asset Purchase Agreement and the Disposal. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the “**Engagement**”).

During the past two years, Somerley Capital Limited was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to (a) a potential connected transaction of the Company[(potentiaol9.(i)0.5)0.6nof5 (5 (b(5 (0.006 Td[5 (s)0. (transaction)1

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Disposal, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Company is a company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacturing of thermal power main equipment, hydropower main equipment, nuclear power main equipment, gas power equipment set and turnkey construction of power station projects.

Set out below is a summary of the audited consolidated financial information of the Group for the three years ended 31 December 2020, 2021 and 2022 as extracted from the 2021 and 2022 annual reports of the Company respectively and unaudited consolidated financial information of the Group for the six months ended 30 June 2022 and 2023 as extracted from the 2023 interim report of the Company:

	For the six months ended		For the year ended		
	30 June		31 December		
	2023	2022	2022	2021	2020
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
Operating revenue	13,571	11,741	24,644	21,225	23,760
– <i>New power system with new energy as the main body</i>	6,702	5,392	19,706	16,859	
– <i>Clean and efficient industrial system</i>	1,811	1,601	3,051	2,772	
– <i>Green and low-carbon drive system</i>	493	677	1,325	1,010	
– <i>Others</i>	4,564	4,072	562	584	
– <i>Thermal power equipment</i>				7,562	8,710
– <i>Hydropower host equipment</i>				2,727	2,454
– <i>Power station engineering services</i>				4,496	6,405
– <i>Power station auxiliary equipment and ancillary products</i>				852	931
– <i>Nuclear products</i>				1,101	1,468
– <i>AC and DC motors and other</i>				4,488	3,792
Net profit/(loss) attributable to parent company	85	52	99	(4,142)	(7)

Note: Segment information of the Group has been changed in the 2022 annual report of the Company, and, therefore, there are two sets of comparison of segmental revenue of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June		As at 31 December	
	2023	2022	2021	2020
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Total assets	69,331	63,284	60,610	57,961
– <i>Current assets</i>	58,613	53,524	51,501	48,678
– <i>Non-current assets</i>	10,718	9,760	9,109	9,283
Total liabilities	57,097	50,910	48,416	41,761
– <i>Current liabilities</i>	52,941	45,859	44,452	38,406
– <i>Non-current liabilities</i>	4,156	5,051	3,963	3,355
Net assets attributable to parent company	11,525	11,728	11,569	15,677

During the year ended 31 December 2021 (“**FY2021**”), the Group recorded operating revenue of approximately RMB21.23 billion, representing a decrease of approximately 10.67% as compared to that for the year ended 31 December 2020 (“**FY2020**”). As advised by the Management, such decrease in operating revenue was mainly attributable to (i) the decrease in operating revenue from the domestic traditional industry segment (such as coal-fired power, hydropower and nuclear power) due to a decline in market demand and continued low prices; and (ii) the significant decline in operating revenue from international engineering projects due to the impact of the pandemic and international policies on the coal and power industry, as some projects were not executed as expected or did not commence as scheduled. The Group recorded net loss attributable to parent company of approximately RMB4,142 million for FY2021, representing a significant increase as compared to a loss of approximately RMB7 million for FY2020. As advised by the Management, such increase in loss was mainly attributable to (i) the decrease in gross profit from traditional industries (such as coal-fired power, hydropower and nuclear power) due to the decrease in product prices and increase in costs, which led to an increase in the number of loss contracts to be executed; (ii) the impact of the overseas pandemic and the increase in construction costs, which led to a larger loss on overseas international projects; and (iii) the increase in current overheads due to the one-off accrual of extra expenses for retired staff by the Company.

During the year ended 31 December 2022 (“**FY2022**”), the Group recorded operating revenue of approximately RMB24.64 billion, representing an increase of approximately 16.11% as compared to that for FY2021. As advised by the Management, such increase in operating revenue was mainly attributable to (i) the increase in operating revenue from the new-type power equipment (which mainly includes thermal power equipment, hydropower equipment, nuclear power equipment and steam equipment) due to the increase in sales volume and better contract realisation as a result of the Group’s effort in project management; and (ii) the increase in revenue from the clean and efficient industrial system (which mainly includes environmental protection products) as a result of the Group’s effort in promoting the transforming of industrial structure, leading to an increase in revenue from environmental protection products and industrial petrochemical equipment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded net profit attributable to parent company of approximately RMB99 million for FY2022 as compared to net loss attributable to parent company of approximately RMB4,142 million recorded for FY2021. As advised by the Management, such turnaround from loss to profit was mainly attributable to Group's efforts in deepening quality and efficiency improvement, and significantly improving product profitability. During FY2022, expenses decreased year-on-year, asset quality continued to be improved and impairment losses significantly decreased.

During the six months ended 30 June 2023 (“**HY2023**”), the Group recorded operating revenue of approximately RMB13.57 billion, representing an increase of approximately 15.58% as compared to that for the six months ended 30 June 2022 (“**HY2022**”). As advised by the Management, such increase in operating revenue was mainly attributable to the increase in operating revenue from the new-type power equipment as a result of the increase in sales volume and improved contract realisation. The Group recorded net profit attributable to parent company of approximately RMB85 million for HY2023, representing an increase of approximately 63.46% as compared to that for HY2022. As advised by the Management, such increase in profit was mainly attributable to the increase in operating revenue.

The Group had total assets, total liabilities and net assets attributable to parent company of approximately RMB69.33 billion, RMB57.10 billion and RMB11.53 billion as at 30 June 2023.

2. Information of Jiamusi Electric

With reference to the Board Letter, Jiamusi Electric, a subsidiary of Harbin Electric Corporation, is a joint stock limited company incorporated in the PRC and listed on the Shenzhen Stock Exchange (stock code: 000922). It is principally engaged in the manufacturing and sales of electric motors, and its main products include explosion-proof motors, motors for lifting and metallurgy, shielded motors, electric pumps and nuclear motors.

3. Information of Power Equipment Company

With reference to the Board Letter, Power Equipment Company is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in the research and development, manufacturing and sales of large and medium-sized AC/DC motors, nuclear pump motors and nuclear pumps.

As set out in the Board Letter, Power Equipment Company recorded a net loss of approximately RMB309.5 million for FY2021 and recorded a net profit of approximately RMB59.1 million for FY2022. As at 31 December 2022, Power Equipment Company had a net asset value of approximately RMB502.9 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Reasons for and benefits of the Disposal

As discussed in section headed “1. Information on the Group” of this letter above, the Group is principally engaged in the manufacturing of thermal power main equipment, hydropower main equipment, nuclear power main equipment, gas power equipment set and turnkey construction of power station projects. As advised by the Management, the products of the Group are mainly power generation equipment, while the products of Power Equipment Company are mainly driving and ancillary equipment for power station which consumes power, such as motors.

The Board is of the view that the Company’s disposal of controlling stake in Power Equipment Company and hence, exit from the motor business will allow the Group to further focus on its principal business of power generation equipment manufacturing, and concentrate resources to enhance the Group’s competitiveness in the fields of power generation equipment manufacturing, system integration and provision of operation and maintenance services. In particular, the Group’s strategic plans regarding the transformation and enhancement of the Company’s traditional industries, the development of new energy industries, and the digitalisation of manufacturing processes all require substantial capital investment. The proceeds from the Disposal in the amount of approximately RMB400,697,400 (equivalent to approximately HK\$435,540,652) can further supplement the Company’s general working capital required for such industrial transformation and development.

Taking into account that (i) the Disposal represents the Group’s plan to exit from the motor business; (ii) the Disposal will allow the Group to further focus on its principal business of power generation equipment manufacturing; and (iii) the proceeds from the Disposal will supplement the Company with the capital required to implement its strategic plans, we consider that although the Disposal is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Principal terms of the Disposal

(i) *The Asset Purchase Agreement*

Set out below are the principal terms and conditions of the Disposal, details of which are set out in the section headed “THE ASSET PURCHASE AGREEMENT” of the Board Letter:

Date:

18 July 2023

Parties:

- (1) The Company (as vendor); and
- (2) Jiamusi Electric (as purchaser)

Subject Matter:

Subject to the terms and conditions under the Asset Purchase Agreement, the Company has agreed to sell, and Jiamusi Electric has agreed to purchase, the Sale Equity, representing 51% equity interest in Power Equipment Company, together with all rights and benefits attaching thereto with effect from the date of Completion.

Consideration and Payment Terms

The consideration of the Sale Equity is RMB400,697,400 (equivalent to approximately HK\$435,540,652).

The consideration shall be paid by Jiamusi Electric to the Company in cash in the following manner:

- (i) RMB200,348,700 (equivalent to approximately HK\$217,770,326), being 50% of the total consideration, shall be paid by Jiamusi Electric to the Company as and when the Asset Purchase Agreement is signed and becomes effective; and
- (ii) RMB200,348,700 (equivalent to approximately HK\$217,770,326), being the remaining 50% of the total consideration, shall be paid by Jiamusi Electric to the Company upon Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Effective Date and Conditions Precedent:

The Asset Purchase Agreement shall take effect upon execution by the parties thereto, subject to the fulfilment of all of the following conditions:

- (i) the Asset Purchase Agreement and the Disposal having been approved by the board of directors and at a shareholders' meeting of Jiamusi Electric in accordance with the applicable laws and regulations, and the articles of association of Jiamusi Electric;
- (ii) the Asset Purchase Agreement and the Disposal having been approved by the Board and at the EGM in accordance with the applicable laws and regulations (including but not limited to the Listing Rules), and the articles of association of the Company;
- (iii) the Disposal having been approved by Harbin Electric Corporation;
- (iv) the result in respect of the Valuation having been notified to Harbin Electric Corporation; and
- (v) the Disposal having been approved by the State Administration of Science, Technology and Industry for National Defence of the PRC.

Completion is subject to the fulfilment of all of the following conditions:

- (i) the Asset Purchase Agreement having become effective;
- (ii) no relevant regulatory authorities requiring the termination or suspension of the Asset Purchase Agreement and the transactions contemplated thereunder; and
- (iii) all necessary procedures in respect of Completion having been completed in accordance with the terms of the Asset Purchase Agreement and the requirements of applicable laws and regulations.

Within 20 business days after the fulfilment of the Conditions Precedent, the Company and Jiamusi Electric shall complete all relevant procedures in respect of the transfer of the Sale Equity, including but not limited to the change of industrial and commercial registration (the "**Registration of Change**"). Completion shall take place upon completion of the Registration of Change.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Arrangements during the Transitional Period

During the Transitional Period, any profit or loss of Power Equipment Company shall be enjoyed or borne (as the case may be) by the Company and Jiamusi Electric in proportion to their respective equity interests in Power Equipment Company as if Completion has taken place.

In addition, Power Equipment Company shall not carry out any form of profit distribution during the Transitional Period. Any retained profits of Power Equipment Company before the Valuation Benchmark Date shall be shared between the Company and Jiamusi Electric in proportion to their respective equity interests in Power Equipment Company after Completion.

6. Evaluation of the consideration

The valuation

With reference to the Board Letter, the consideration was determined after arm's length negotiations between the Company and Jiamusi Electric with reference to the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date as appraised by the Independent Valuer (i.e. the Valuation).

According to the Valuation Report, the appraised value of Power Equipment Company's entire equity interest as at the Valuation Benchmark Date amounted to RMB785,681,200. Based on the aforesaid valuation conclusion, the Company and Jiamusi Electric agreed that the consideration of the Sale Equity shall be RMB400,697,400 (being approximately 51% of the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date). In preparing the Valuation Report, the Independent Valuer selected the asset-based approach to conclude the Valuation.

For due diligence purpose, we have reviewed the Valuation Report prepared by the Independent Valuer and have discussed with the Independent Valuer regarding the valuation of the Power Equipment Company with details set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Scope of work and qualifications of the Independent Valuer*

The Independent Valuer was engaged to prepare the Valuation Report which sets out independent valuations on the market value of 100% equity interest in Power Equipment Company as at the Valuation benchmark Date. The Valuation Report has been prepared in compliance with the relevant professional standards issued by China Appraisal Society. We have discussed the expertise of the Independent Valuer with its relevant staff members. We understand that the Independent Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and the signing persons of the Valuation Report have over 10 years' industry experience in conducting valuation exercises. We have also reviewed the terms of the Independent Valuer's engagement letter and noted that the purpose of the Valuation is to provide an opinion of value of Power Equipment Company. The Independent Valuer's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

In the course of our review, we have discussed with the Independent Valuer the methodologies, bases and assumptions adopted in the Valuation Report, further details are set out below.

(b) *Valuation methodologies*

As mentioned above, the Valuation was concluded based on the asset-based approach. We noted from the Valuation Report that the Valuation Report was prepared by the Independent Valuer in accordance with various requirements/standards, including《資產評估基本準則》(Asset Evaluation Standards – Basic Standards*) as issued by Ministry of Finance of the PRC,《中華人民共和國資產評估法》(Asset Appraisal Law of the PRC*) as passed by the National People's Congress of the PRC and other relevant valuation standards published by the PRC government. In particular, Asset Evaluation Standards – Basic Standards* states that, among others, (i) fundamental approaches of assets valuation method include market approach, income approach and asset-based approach; and (ii) valuer should analyse the applicability of the three fundamental valuation approaches and select the valuation method. Based on our discussion with the Independent Valuer, we understand that the Independent Valuer has considered these three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach:

- (1) The asset-based approach reflects the fair market value of the assets from an asset replacement perspective. As the Independent Valuer has obtained the assets and liabilities related information from Power Equipment Company and the required information for the asset-based approach from external source, the Independent Valuer is able to perform comprehensive verification and assessment on the assets and liabilities of Power Equipment Company. Therefore, the asset-based approach is adopted for the Valuation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the purpose of assessing the Valuation, the Independent Valuer interviewed the management of Power Equipment Company to understand the business of Power Equipment Company, obtained Power Equipment Company's assets and liabilities related information and collected the relevant information which fulfils the asset-based approach requirement (including evidence for existence of the relevant assets and liabilities, and market price information of relevant assets) to assess the market value of Power Equipment Company's assets and liabilities as at the Valuation Benchmark Date. Given that the requirement of the asset-based approach is fulfilled, we are also of the view that the asset-based approach is applicable for the Valuation.

- (2) As Power Equipment Company possesses the foundation and condition for continuing operation, the future income and risks can be projected and quantified, and hence the income approach is applicable. Power Equipment Company's major products include nuclear motors, general motors (both civilian and military) and explosion-proof electric motors (both civilian and military), and Power Equipment Company derives majority of income from nuclear motors. The nuclear power industry is subject to the government policies in the PRC, the development of such industry is relatively uncertain. Therefore, the asset-based approach is preferred while the income approach is not adopted for the Valuation.

For our due diligence purpose, we have discussed with the Management regarding the operation environment of the nuclear industry. As advised by the Management, the nuclear power industry is subject to extensive laws and regulations of the PRC government. Such laws and regulations regulate many aspects of operations, including the construction of power stations, permissions for electric power business, control of nuclear fuel and radioactive waste and environmental, safety and health standards etc. In this respect, we noted that the State Council of the PRC issued the 《民用核設施安全監督管理條例》(Regulations on Civil Nuclear Facility Safety Supervision and Administration*) which sets out a series of implementation rules to regulate safety of nuclear facilities. In particular, with reference to the Regulations on Civil Nuclear Facility Safety Supervision and Administration*, before the construction of a nuclear facility, operator must submit the 《核設施建造申請書》(Nuclear Facility Construction Application*), 《初步安全分析報告》(Preliminary Safety Analysis Report*) and other relevant materials to the National Nuclear Safety Administration of the PRC for review and approval; and construction shall not commence until the《核設施建造許可證》(Nuclear Facility Construction Permit*) is obtained. As the development of which highly depends on the government policies in the PRC, we concur with the Independent Valuer that the development of nuclear power industry could be relatively uncertain. In addition, we noted that the financial performance of Power Equipment Company was relatively unstable. For instance, Power Equipment Company recorded a net loss of approximately RMB309.5 million for FY2021, while recording a net profit of approximately RMB59.1 million for FY2022. Based on the above, we also consider that the income approach is not the preferable valuation approach as compared to the asset-based approach for the valuation of Power Equipment Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) As the Independent Valuer was unable to obtain information regarding comparable transactions of similar corporate scale and there were only a few comparable listed companies in the market, the market approach was not adopted in the Valuation.

For our due diligence purpose, we also tried to identify comparable companies listed on the Main Board of the Stock Exchange with similar principal business as Power Equipment Company, being the manufacturing and sales of nuclear power motors in the PRC. Based on the above selection criteria, we could not identify any comparable companies. Accordingly, we also consider that the market approach is not applicable for the Valuation.

Having considered (i) that the Valuation Report was prepared by the Independent Valuer in accordance with various requirements/standards; (ii) that the Independent Valuer had also considered market approach and income approach during the course of the Valuation before concluding the Valuation with the asset-based approach; and (iii) the aforesaid reasons for not adopting the market approach and income approach, we concur with the Independent Valuer on the adoption of asset-based approach to conclude the Valuation, and accordingly, we did not cross-check the Valuation with the other two valuation approaches. We also consider that the valuation methodologies adopted by the Independent Valuer are fair and reasonable.

(c) *Valuation assumptions*

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions adopted for performing the Valuation. We understand from the Independent Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Valuation. We also consider the assumptions adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the Independent Valuer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) *Details of valuation*

In arriving at the Valuation, the Independent Valuer categorised the assets and liabilities of Power Equipment Company into different categories. Based on the Valuation Report and our discussion with the Independent Valuer, in determining the valuation of the assets and liabilities of Power Equipment Company, the Independent Valuer has considered the applicable valuation methodologies taking into account the nature of the subject assets/liabilities in accordance with the relevant valuation requirements/standards, such as 《資產評估執業準則 - 企業價值》(Practice Standards for Assets Appraisal – Enterprise Value*) which sets out, among others, the factors to be considered when performing asset-based approach valuation, 《資產評估執業準則 - 無形資產》(Practice Standards for Assets Appraisal – Intangible Assets*) and 《資產評估執業準則 - 不動產》(Practice Standards for Assets Appraisal – Real Estate*) which set out, among others, the requirements, key steps and methodologies in the valuation of intangible assets and real estates. As confirmed by the Independent Valuer, the appraisal methodologies of assets and liabilities are consistent with normal market practice. We have also enquired the Independent Valuer the details of asset-based approach valuation, including the basis of appraising different categories of assets and liabilities and the reasons for difference between the book value and appraised value. During our discussion with the Independent Valuer, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the asset-based approach valuation. The appraisals of the assets and liabilities of Power Equipment Company are summarised below:

(i) *Current assets*

The book value and appraised value of Power Equipment Company's current assets were approximately RMB2,407.46 million and RMB2,424.96 million respectively as at the Valuation Benchmark Date. The increase in appraised value of current assets as compared to the book value was primarily due to the increase in appraised value of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As for inventories, the increase in appraised value was due to (i) the valuation gain of raw material which was calculated based on the quantities of inventories and the current market prices; and (ii) the valuation of finished goods in stock which took into account of the sales profit.

(ii) Non-current assets

The book value and appraised value of Power Equipment Company's non-current assets were approximately RMB1,020.22 million and RMB1,197.69 million respectively as at the Valuation Benchmark Date. The increase in appraised value of non-current assets as compared to the book value was primarily due to the increase in appraised value of fixed assets and intangible assets, while being partially offset by the decrease in appraised value of construction in progress (which was due to the reclassification of certain renovation costs into fixed assets).

The Independent Valuer adopted the replacement cost method in assessing the appraised value of the fixed assets, which took into account the current status of the assets and the cost to be incurred to replicate such assets. Based on our review of the Valuation, we noted that the fixed assets of Power Equipment Company mainly represent self-constructed buildings and equipment including manufacturing machines, electric appliances, and vehicles. Under the replacement cost method, the assets were appraised based on individual conditions such as the replacement cost, residue rate and obsolescence. Upon our enquiry, the Independent Valuer advised us that the adoption of replacement cost method could estimate the cost to replace/construct such relevant fixed assets with similar utility which usually have no active or liquid market and is consistent with normal market practice. As the fixed assets mainly include self-constructed buildings and equipment which have been used by Power Equipment Company for certain period of time, we also consider that direct comparison with market prices is not applicable, while the replacement cost method could estimate the cost to replace/construct the relevant assets with similar utility. Having considered the above, in particular that (i) the adoption of replacement cost method is consistent with normal market practice; and (ii) the assets were appraised based on individual conditions such as the replacement cost, residue rate and obsolescence, we consider the appraisal methodologies of the fixed assets to be fair and reasonable.

The intangible assets of Power Equipment Company include certain land use rights and patents and non-patented technology (i.e. the Performance Commitment Asset). The Independent Valuer adopted the market comparison approach to appraise the market value of the land use rights, based on the transaction prices of comparable land near the Valuation Benchmark Date. Upon our enquiry, the Independent Valuer advised us that the market comparison approach is generally used in the valuation

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of industrial land use rights, and the subject land was used by Power Equipment Company for industrial purpose. Given that the Independent Valuer could identify comparable transactions of the same nature in proximity to the subject land which met the relevant land valuation requirement, the market comparison approach was adopted to appraise the market value of the land use rights.

As mentioned earlier, the Independent Valuer performed the valuation in accordance with, among others, the Practice Standards for Assets Appraisal – Real Estate*. The Practice Standards for Assets Appraisal – Real Estate* has set out, among others, key considerations for selecting comparable transactions and key steps in performing real estate valuation. According to the Practice Standards for Assets Appraisal – Real Estate*, when performing real estate valuation under market approach, the valuer should analyse and make adjustments for any material differences between the comparable transactions and the subject assets. For our due diligence purpose, we have reviewed details of comparable land transactions (including but not limited to location, usage, size, transaction price and date) considered by the Independent Valuer. The subject lands of the comparable transactions are of the same usage and in proximity to the subject land of Power Equipment Company. We also noted from the Valuation Report that the Independent Valuer adjusted the comparable transactions based on various factors, such as the date, land use rights conditions, location characteristics and individual conditions. We also noted that the aforementioned adjustment factors cover the consideration factors of comparable land transactions as covered in the Practice Standards for Assets Appraisal – Real Estate*. Based on our review of the comparable land transactions, we do not doubt the fairness and reasonableness of the adjustments made by the Independent Valuer. Having considered the above, we consider the appraisal methodologies of the land use rights to be fair and reasonable.

In relation to the patents and non-patented technology (i.e. the Performance Commitment Asset), the Independent Valuer adopted the income approach. The Independent Valuer has performed the valuation in accordance with, among others, the Practice Standards for Assets Appraisal – Intangible Assets*. The Practice Standards for Assets Appraisal – Intangible Assets* has set out, among others, the key steps in performing intangible assets valuation. According to the Practice Standards for Assets Appraisal – Intangible Assets*, for valuation of intangible assets under income approach, the valuer should reasonably estimate the expected income of the assets and analyse relevant expected change.9 (.)12.a. asset thTimale apeceash(.)12.a

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In addition, we have reviewed the Valuation Report, which sets out details and justification of various parameters considered by the Independent Valuer under the income approach, including but not limited to the forecasted revenue, forecast period and discount rate. Upon our further enquiry, the Independent Valuer advised us that they have interviewed the management of Power Equipment Company and discussed, among others, the key assumptions and parameters adopted in the income approach valuation of the patents and non-patented technology (including but not limited to the operating conditions, revenue model, depreciation, effective tax rate and discount rate). For our due diligence purpose, we have reviewed the financial forecast of Power Equipment Company, which was adopted by the Independent Valuer in the income approach valuation. For our due diligence purpose, we have also reviewed relevant underlying information relating to financial forecast, such as the historical financial information and contract information of Power Equipment Company. Based on our discussion with the Independent Valuer and the Management and our review of the aforesaid information, we noted that the financial forecast was prepared after considering the historical financial information, the existing contracts and orders on hand and the operating condition of Power Equipment Company as well as the market conditions. In this regard, we noted that (i) the Management has taken into account the historical financial performance of Power Equipment Company as it is expected that Power Equipment Company will continue with its current principal businesses; and (ii) the financial forecast was also prepared after considering the existing contracts and orders on hand of Power Equipment Company, including the expected revenue and delivery progress based on such contracts and orders, and, based on our review, these are in line with the historical financial information and details of contracts of Power Equipment Company. In relation to other parameters under the income approach (such as income sharing ratio, residue rate, effective tax rate and discount rate), we noted that such parameters were determined according to the conditions of the relevant patents and non-patented technology and the market parameters. In particular, we noted that (i) the income sharing ratio represents the ratio of contribution to the revenue as a result of the usage of the patents and non-patented technology, and such ratio was adopted by the Independent Valuer based on the income sharing ratio of companies in the same industry in the PRC (such market income sharing ratios, as advised by the Independent Valuer, were commonly used in valuation of similar assets in the PRC; and based on our review of information provided by the Independent Valuer, the ratio adopted was consistent with the information of market income sharing ratios); (ii) the residue rate was applied given the expected decrease in contribution to revenue by such patents and non-patented technology following the development of new technology, and such residue rate was consistent with the generally adopted rate of similar patents and non-patented technologies in other valuation engagements performed by the Independent Valuer; (iii) the effective tax rate was based on the actual income tax rate of Power Equipment Company; and (iv) the discount rate was

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determined based on the capital asset pricing model, a commonly adopted model to determine the discount rate, and, based on our review, the determination process was consistent with the usual methodologies in the capital asset pricing model.

As the Independent Valuer adopted income approach to appraise market value of patents and non-patented technology of Power Equipment Company, it is stipulated under Rule 14.62 of the Hong Kong Listing Rules that the Company is required to obtain (i) a letter from its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and (ii) a report from its financial advisers confirming that they are satisfied that the forecasts in such valuations have been made by the Directors after due and careful enquiry; and if no financial advisers have been appointed in connection with the transaction, the Company must provide a letter from the Board confirming they have made the forecast after due and careful enquiry. We consider that the above stipulation of the Listing Rules could safeguard the interest of the Shareholders and we noted that the Company has complied with the said requirements (see Appendix II and Appendix III to the Circular). Based on the above (including but not limited to our review of the details and justification of various parameters considered by the Independent Valuer under the income approach as set out in the Valuation Report, and interview and discussion with the management of Power Equipment Company by the Independent Valuer) and our aforesaid discussion with the Independent Valuer, we do not doubt the fairness and reasonableness of the principal basis and assumptions adopted by the Independent Valuer for the valuation of patents and non-patented technology.

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(iii) Current liabilities

The book value of Power Equipment Company's current liabilities was the same as the appraised value, being approximately RMB2,091.16 million as at the Valuation Benchmark Date.

(iv) Non-current liabilities

The book value and appraised value of Power Equipment Company's non-current liabilities were approximately RMB810.61 million and RMB745.80 million respectively as at the Valuation Benchmark Date. The decrease in appraised value of non-current liabilities as compared to the book value was primarily due to the decrease in appraised value of deferred income as certain deferred income was considered non-repayable and was appraised based on the tax payable value.

Having considered that (i) the asset-based approach valuation was performed by the Independent Valuer in accordance with various requirements/standards; (ii) the Independent Valuer has considered the applicable valuation methodologies taking into account the nature of the subject assets/liabilities; and (iii) the appraisal methodologies of assets and liabilities are consistent with normal market practice, we consider that the valuation methodologies adopted by the Independent Valuer in assessing Power Equipment Company's assets and liabilities are fair and reasonable.

(e) *Conclusion*

Having discussed with the Independent Valuer and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions used for the Valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the appraised value as at the Valuation Benchmark Date are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the independent valuation conducted by the Independent Valuer in respect of the appraised value of Power Equipment Company.

Evaluation of the consideration

The consideration of the Sale Equity is RMB400,697,400, which is equal to approximately 51% of the appraised asset value of the entire equity interest in Power Equipment Company as appraised by the Independent Valuer. Having considered the details and our due diligence work on the Valuation as set out above, we are of the view that the consideration is fair and reasonable as far as the Independent Shareholders are concerned.

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(iii) The Performance Guarantee Agreement

On 18 July 2023, the Company also entered into the Performance Guarantee Agreement with Jiamusi Electric, pursuant to which the Company and Jiamusi Electric have conditionally agreed that the Company shall guarantee that the share of revenue of the Performance Commitment Asset for each financial year during the Performance Commitment Period meets the Performance Commitment, and undertake to compensate Jiamusi Electric for any shortfall from the Performance Commitment, upon the Asset Purchase Agreement having become effective.

Set out below are the principal terms and conditions of the Performance Guarantee Agreement, details of which are set out in the section headed “THE PERFORMANCE GUARANTEE AGREEMENT” of the Board Letter:

Date:

18 July 2023

Parties:

- (1) The Company; and
- (2) Jiamusi Electric

Performance Commitment Period:

The Performance Commitment Period shall be a period of three financial years, commencing from the beginning of the financial year in which Completion took place and concluding by the end of the second consecutive financial year thereafter.

Should Completion take place on or before 31 December 2023, the Performance Commitment Period shall be the financial years ending 31 December 2023, 2024 and 2025. If Completion does not take place by 31 December 2023, the Performance Commitment Period will be postponed accordingly.

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Performance Commitment:

The Company shall guarantee that the share of revenue of the Performance Commitment Asset (i.e. portion of the revenue of Power Equipment Company attributable to the Performance Commitment Asset), to be assessed using the income approach, for each financial year during the Performance Commitment Period meets the following commitment:

	For the year ending 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share of revenue	17,787.1	15,200.7	12,010.9

The actual share of revenue of the Performance Commitment Asset for each financial year during the Performance Commitment Period will be based on the relevant special audit report issued by a qualified auditor to be engaged by Jiamusi Electric after the end of the corresponding financial year, calculated based on the following formula:

$$\begin{array}{ccccccccc} \text{Share of} & & \text{Revenue for} & & \text{Utilisation rate of} & & \text{Rate of share of the} & & \text{Amortisation} \\ \text{revenue} & = & \text{the relevant} & \times & \text{the Performance} & \times & \text{revenue of the} & \times & \text{rate of} \\ & & \text{period} & & \text{Commitment Asset} & & \text{Performance} & & \text{intangible} \\ & & & & & & \text{Commitment Asset} & & \text{assets} \end{array}$$

Should the Performance Commitment Period be a period other than the three financial years ending 31 December 2023, 2024 and 2025, the relevant Performance Commitment shall be determined between the Company and Jiamusi Electric by way of separate written agreement.

Compensation Principles:

Within 10 business days after the issue of the special audit report for each financial year during the Performance Commitment Period, Jiamusi Electric shall determine if the Company is required to pay any compensation pursuant to the Performance Guarantee Agreement and if so, serve a written notice to the Company in respect of the amount of compensation payable by the Company.

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In the event that the Performance Commitment for any financial year during the Performance Commitment Period cannot be met, the Company shall compensate Jiamusi Electric in cash within 20 business days from the date of receipt of the written notice served by Jiamusi Electric (the “**Performance Compensation Obligation**”), calculated based on the following formula (the “**Performance Compensation Formula**”):

$$\begin{array}{rcl}
 \text{Amount of compensation for the relevant period} & = & \frac{\text{(Accumulated share of revenue committed for the relevant period – Accumulated share of revenue realised for the relevant period) Sum of the share of revenue for each financial year during the Performance Commitment Period}}{\text{Portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset}^{\text{Note}}} \times \text{Accumulated amount of compensation payable in respect of the Performance Commitment Asset}
 \end{array}$$

Note:

According to the Valuation Report, the appraised asset value of the Performance Commitment Asset, being part of the assets of Power Equipment Company under the Valuation, as at the Valuation Benchmark Date was RMB40,900,000. As the Sale Equity amounts to 51% equity interest in Power Equipment Company and its consideration was based on 51% of the appraised asset value of the entire equity interest in Power Equipment Company as at the Valuation Benchmark Date, the portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset is RMB20,859,000, being 51% of the appraised asset value of the Performance Commitment Asset as at the Valuation Benchmark Date.

In addition, within 30 business days after the issue of the special audit report for the last financial year during the Performance Commitment Period, Jiamusi Electric shall engage a qualified auditor to conduct an impairment test on the Performance Commitment Asset and issue a special audit report on such impairment test. If there is a decrease in appraised value of the Performance Commitment Asset as at the end of the Performance Commitment Period as compared to that as at the Valuation Benchmark Date, and such difference exceeds the total amount of compensation paid by the Company during the Performance Commitment Period, the Company shall compensate Jiamusi Electric in cash separately (the “**Impairment Compensation Obligation**”), calculated based on the following formula (the “**Impairment Compensation Formula**”):

$$\begin{array}{rcl}
 \text{Amount of compensation payable in respect of the impairment test} & = & \text{Amount of the impairment loss on the Performance Commitment Asset as at the end of the Performance Commitment Period} - \text{Amount of compensation paid during the Performance Commitment Period}
 \end{array}$$

The total amount payable by the Company in cash in respect of the Performance Compensation Obligation and the Impairment Compensation Obligation shall not exceed the portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset (i.e. RMB20,859,000, being 51% of the appraised asset value of the Performance Commitment Asset as at the Valuation Benchmark Date).

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Effective Date:

The Performance Guarantee Agreement shall take effect upon execution by the parties thereto, subject to the Asset Purchase Agreement having become effective.

Our assessment

The appraised asset value of the Performance Commitment Asset as at the Valuation Benchmark Date was RMB40,900,000 according to the Valuation Report, representing approximately 5.20% of the Valuation. As advised by the Management, the performance commitment under the Performance Guarantee Agreement is in accordance with 《監管規則適用指引– 上市類第1號》(Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category*), which is applicable to transactions entered into by Jiamusi Electric as an A share listed company, as published by the China Securities Regulatory Commission.

For our due diligence purpose, we have reviewed the Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category*. We noted that the Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category* sets out, among others, relevant requirements for performance guarantee for significant assets restructuring of A share listed companies, including but not limited to the scope and performance guarantee methodologies and formula. According to the Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category*, in significant assets restructuring of A share listed companies, when the transaction consideration is determined basTd[(detert)0.5 (e (i(o)TRobin)uTRobin) basTd[(deteappracth)1235 (anTd[(dete(unded[(dete(whic

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Having considered that (i) the performance commitment under the Performance Guarantee Agreement is in accordance with the Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category* as published by the China Securities Regulatory Commission; (ii) the Performance Compensation Formula and the Impairment Compensation Formula follow the compensation principles of the Guidelines for the Application of Regulatory Rules – No.1 of the Listing Category*; (iii) the appraised asset value of the Performance Commitment Asset only represented a relatively small portion (approximately 5.20%) of the Valuation; and (iv) the total amount payable by the Company in cash in respect of the Performance Compensation Obligation and the Impairment Compensation Obligation shall not exceed the portion of the consideration of the Sale Equity attributable to the Performance Commitment Asset, we consider that the terms of the Performance Guarantee Agreement are fair and reasonable.

7. Financial effects of the Disposal and use of proceeds

As set out in the Board Letter, upon Completion, Power Equipment Company will be owned as to 51% by Jiamusi Electric and 49% by the Company. Following the Disposal, Power Equipment Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the Group's accounts. In accordance with Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments, the equity method will be used, in replacement of the cost method, as accounting treatment for the 49% equity interest in Power Equipment Company to be held by the Company following the Disposal, being a long-term equity investment in which the Company has changed from being able to exercise control over the investee to exercising significant influence, or exercising control together with other investors, over the investee, as a result of a disposal.

Based on the consideration of the Sale Equity under the Asset Purchase Agreement, the Company expects to recognise a pre-tax disposal gain of approximately RMB132,480,900 (equivalent to approximately HK\$8– Long-t

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OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Asset Purchase Agreement are on normal commercial terms and are fair and reasonable; and (ii) although the Disposal is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Asset Purchase Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

For the purposes of this letter, unless the context requires otherwise, conversion of RMB into HK\$ is based on the approximate exchange rate of HK\$1 to RMB0.92. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.

* *For identification purpose only*

The following is a summary of the English translation of the Valuation Report issued by the Independent Valuer, China United Assets Appraisal Group Co., Ltd., Certified Assets Valuer, which has been prepared for the purpose of inclusion in this circular. The Chinese text of the Valuation Report shall prevail over the English text in the event of inconsistency.

(1) BASIC INFORMATION

As entrusted by Harbin Electric Company Limited (“**Harbin Electric**”) and Jiamusi Electric Machine Company Limited* (哈爾濱電氣集團佳木斯電機股份有限公司) (“**Jiamusi Electric**”),

2) *Open market assumption*

In an open market, it is assumed that for assets trading or to be traded on the market, both trading parties are in equal position and have the opportunities and time to obtain sufficient market information so as to make informed judgments on the assets' functions, usage and trading price, etc..The open market assumption is based on the assumption that assets are publicly tradable in the market.

3) *Assumption on continuing operation of assets*

The assumption on continuing operation of assets refers to the assumption that the valuation approach, parameters and bases shall be determined based on whether the assets to be appraised will continue to be used in accordance with the current purpose, as well as the method, scale, frequency and circumstance of use, or will be used with some changes thereto.

B. Special Assumptions

- 1) It is assumed in the valuation that the external economic environment remains unchanged and the current national macro-economy will not change significantly as at the valuation benchmark date.
- 2) There will be no significant change in the social and economic environment in which the enterprise operates and the applicable policies on taxes and tax rates, etc..
- 3) The enterprise continues to operate under its existing mode of operations management, and its operations management team continues to act diligently and responsibly.
- 4) The valuation is based solely on the existing operating capacity as at the valuation benchmark date, and does not take into consideration any potential expansion of operating capacity as a result of various reasons, including but not limited to management, business strategies and additional investment, or any potential changes in production and operations in the future.
- 5) Each of the assets to be appraised under the valuation are based on their actual inventories as at the valuation benchmark date, and the current market prices of the relevant assets are based on their effective domestic prices as at the valuation benchmark date.

- 6) It is assumed in the valuation that the basic information and financial information provided by the principal and the appraised entity are true, accurate and complete.
- 7) The scope of valuation is based solely on the valuation report form provided by the principal and the appraised entity, without taking into consideration any possible contingent assets and contingent liabilities not included in the list provided by the principal and the appraised entity.
- 8) The impact of inflation has not been taken into account in arriving at the parameter values under the valuation.
- 9) There is no seasonality in the cash flows of Power Equipment Company and it is assumed that the cash flows of Power Equipment Company are evenly disbursed throughout the year.
- 10) If there is any change in the aforesaid conditions, the valuation results will usually become invalid.

(3) DIFFERENCE ANALYSIS AND SELECTION OF VALUATION RESULTS

This valuation adopts the asset-based approach and income approach to conduct an overall valuation of Power Equipment Company, followed by verification and comparison. Considering the applicability of the valuation approaches and whether the purpose of the valuation is satisfied, this valuation adopts the results of asset-based valuation as the final results.

A. Difference of valuation results

The conclusion of the valuation of the appraised entity as at the valuation benchmark date adopting the asset-based approach is set out below:

The carrying value of the total assets was RMB3,427,687,300 and the appraised value was RMB3,622,641,700, representing an appreciation of RMB194,954,400, or 5.69%.

The carrying amount of the liabilities was RMB2,901,772,600 and the appraised value was RMB2,836,960,500, representing a depreciation of RMB64,812,100, or 2.23%.

The carrying value of the net assets was RMB525,914,700 and the appraised value was RMB785,681,200, representing an appreciation of RMB259,766,500, or 49.39%.

The conclusion of the valuation of the appraised entity as at the valuation benchmark date adopting the income approach is set out below:

The carrying value of the entire equity interest of shareholders was RMB525,914,700 and the appraised value was RMB795,596,200, representing an appreciation of RMB269,681,600, or 51.28%.

B. Difference analysis of valuation results

In this valuation, the value of the entire equity interest of shareholders calculated using the income approach is 1.26% higher than that using the asset-based approach. The main reasons for the differences between the two valuation approaches are:

- 1) Asset-based approach valuation takes the replacement cost of assets as the value standard, and reflects the socially necessary labour required for asset investment (purchase and construction costs), which usually changes with the changes in the national economy;
- 2) Income approach valuation takes the expected return of assets as the value standard, and reflects the operating ability (profitability) of the assets, which is usually influenced by various conditions such as the macro-economy, government control, and effective use of assets.

In summary, differences arise between the two valuation approaches due to the aforementioned reasons.

C. Selection of valuation results

The asset-based approach reflects the fair market value of assets from the perspective of asset replacement. Taking into account the circumstances of this valuation, the appraised entity has provided in detail information relating to its assets and liabilities, and the valuer has collected information from external sources to satisfy the requirements of the adoption of the asset-based approach, as well as conducted a comprehensive stocktaking and appraisal on the assets and liabilities of the appraised entity.

Power Equipment Company is principally engaged in the manufacturing and sales of electric motors, including general electric motors and explosion-proof electric motors – civilian electric motors, general electric motors and explosion-proof electric motors – military electric motors and nuclear power electric motors, with the manufacturing and sales of nuclear power electric motors as its main source of profit. China’s nuclear power industry is relatively more policy-oriented, correlated with the country’s strategic development. In particular, the construction of nuclear power projects requires approval by the State Council, and such development depends on China’s nuclear power policy; nuclear power industry should be green and low-carbon, while being “safe and controllable” at the same time. In history, nuclear power accidents that occurred in the world once led to approvals for nuclear power projects being significantly tightened in China. Accordingly, the nuclear power motor industry faces uncertainties during the course of its development.

In China, the development of military electric motors depends on the country’s military policy, and therefore, the military electric motor industry also faces uncertainties during the course of its development.

Therefore, as compared with other valuation methods, the valuation results adopting the asset-based approach are relatively more reliable, and this valuation takes the results of the asset-based valuation as the final valuation conclusion, and the value of the appraised entity as at the valuation benchmark date was RMB785.6812 million.

(4) VALUATION APPROACHES FOR VARIOUS ASSETS AND LIABILITIES IN THE VALUATION RESULTS

The valuation approaches of various assets and liabilities are as follows :

A. Current Assets

(1) *Cash and cash equivalents*

For cash and cash equivalents denominated in RMB, their carrying amounts after verification were taken as the appraised value.

(2) Notes receivables

For the appraisal of notes receivables, the appraisers verified the detailed accounts against the general accounts and statement balance, as well as the evaluated statements for consistency, and reviewed the consistency between par value, occurrence time, business content, and coupon rate of the notes and those in the account records to confirm the authenticity and completeness of the notes receivables. The verification results showed the consistency of the amounts in the accounts, statements and sheets, and the notes receivables were recorded truthfully, accurately, and did not bear any interests.

According to the specific situation of the entity, the following method was used to calculate the assessment risk loss of notes receivables.

Notes receivables – the assessment of loss in relation to commercial acceptance bills and acceptance bills issued by banks with lower credit ratings was based on the expected credit loss policy for notes receivables.

For commercial acceptance bills and bank acceptance bills accepted by financial companies and credit cooperatives, if the aging was less than 1 year, assessment risk loss shall be provided at 5%; for bank acceptance bills accepted by other banks, assessment risk loss shall be provided at 1 %.

Assessment risk loss of notes receivables was determined according to the above standards, and the appraised value was determined by deducting the assessment risk loss from the total notes receivables. The bad debt provision was appraised to be 0 according to relevant valuation regulations.

(3) Accounts receivables

For the assessment in relation to accounts receivables, the appraisers, based on their understanding of the existence and completeness of the accounts receivables and having verified its accuracy, analysed the amount, time and reason of the arrears, the recovery status of the accounts receivables, and the funds, credit standing, operating and management status of the debtors according to historical information and information obtained on-site, and determined the recoverability of the accounts receivables.

When analysing the recoverability of the accounts receivables, the method of calculating bad debt reserves in enterprise accounting was used to estimate the assessment risk loss of accounts receivables, details of which are as follows:

The assessment risk loss was 0% for full collection of accounts receivables from related parties based on good reasons;

For those accounts that could not be collected with solid proofs or with extra-long aging, the assessment risk loss was 100%.

For accounts receivables a portion of which could not be collected from external entities and the uncollectible amount of which was difficult to determine, the assessment risk loss was estimated according to aging and historical collection analysis in accordance with the accounting methods of calculating provisions for bad debts. According to the understanding of and analysis regarding the debtors, as well as aging analysis, based on professional judgments, the appraisers determined that the assessment risk loss for accounts receivables with aging within 1 year (inclusive), between 1 and 2 years (inclusive), between 2 and 3 years (inclusive), between 3 and 4 years (inclusive), between 4 and 5 years (inclusive), and over 5 years was 5%, 25%, 50%, 80%, 80% and 100% respectively.

For accounts receivables that have been fully provided for impairment, the portion received in the future will offset the assessment risk loss.

Assessment risk loss of accounts receivables was determined according to the above standards, and the appraised value was determined by deducting the assessment risk loss from the total accounts receivables. The bad debt provision was appraised to be 0 according to relevant valuation regulations.

(4) *Contract assets*

Contract assets mainly consist of accounts receivables.

The appraisers verified the detailed accounts against the general accounts and statement balance, as well as the evaluated statements for consistency, reviewed financial records such as payment amount, occurrence time and business content, spot-checked the original accounting vouchers, contracts, etc. to verify the authenticity and completeness of their accounting content.

Based on the specific situation of the entity, the individual identification method and aging analysis method were used to estimate the assessment risk loss.

The assessment risk loss was 0% for full collection of accounts receivables from related parties based on good reasons;

For those accounts that could not be collected with solid proofs or with extra-long aging, the assessment risk loss was 100%.

For account receivables a portion of which could not be collected from external entity and the uncollectible amount of which is difficult to determine, the assessment risk loss was estimated according to aging and historical collection analysis in accordance with the accounting methods of calculating provisions for bad debts. According to the understanding of and analysis regarding the debtors, as well as aging analysis, based on professional judgments, the appraisers determined that the assessment risk loss for accounts receivables with aging within one year (inclusive), between 1 and 2 years (inclusive), between 2 and 3 years (inclusive), between 3 and 4 years (inclusive), between 4 and 5 years (inclusive), and over 5 years was 5%, 25%, 50%, 80%, 80% and 100% respectively.

The appraised value was determined by deducting the assessment risk loss from the total contract assets. The bad debt provision was appraised to be 0 according to relevant valuation regulations.

(5) *Prepayments*

As for the appraisal of the prepayments, the appraisers, on the basis of having verified the accuracy of prepayments, as well as historical information and those obtained on-site, analysed the amount, time and reason of the arrears, the recovery status of the prepayments, and the funds, credit standing, operating and management status of the debtors, and determined whether the debtor was bankrupt, revoked, or unable to provide goods or services on time as agreed in the relevant contract. In the absence of any abnormalities mentioned above, the verified carrying value was used as the appraised value.

(6) Inventories

Inventories included products in progress (self-made semi-finished products), finished products (inventory goods), and raw materials. The specific valuation method and process for inventories were as follows:

1) Raw materials

Raw materials mainly consisted spare parts for equipment maintenance. The appraisers verified the statement balance, detailed accounts, and the evaluated statements, conducted on-site random checks on relevant physical assets, understood the current status of raw materials, and verified the declared and actual quantities. No backlog, deterioration, damage, or scrap was found in most raw materials. After verifying the consistency between the accounts and tables and being satisfied that there were no abnormalities in quantity and amount, the appraised value was determined by multiplying the actual quantity by the market price per unit.

Power Equipment Company issued an explanation: there were 1,264 items in the raw materials, with a book balance of RMB28,781,962.87, most of which were spare parts for nuclear power special materials that would no longer be possible to use for production, testing and transfer as per original purpose due to subsequent project modifications and nuclear power quality assurance upgrades, while the remaining items were items leftover from many years ago, which could no longer be used for production, testing or transfer as per original purpose due to the upgrade of products and enhancement in market requirements.

The appraisers interviewed the relevant technical personnel and found that due to the specificity of these materials, neither similar enterprises nor other types of enterprises could use these specialised materials.

Due to the above limitations on usage, the appraised value was determined based on the market price of recycled metals in Harbin in this valuation.

2) *Finished products*

Finished products were mainly manufactured motors, some of which are sold normally, while others are overstocked or scrapped. The following valuation methods were mainly used:

Finished products under normal sales

In this valuation, appraised value was determined by multiplying the unit price (market price of the product excluding taxes minus sales expenses, sales taxes and a certain amount of net profit after tax) by the quantity. The specific formula was:

$$\text{Appraised value} = \text{Actual quantity} \times \text{Sales prices excluding taxes} \times (1 - \text{Product sales taxes and surcharges ratio} - \text{Sales expense ratio} - \text{Operating profit margin}) \times \text{Income tax rate} - \text{Operating profit margin} \times (1 - \text{Income tax rate}) \times r$$

- A. Sales prices excluding taxes: sales prices excluding taxes are determined based on the market price before and after the valuation benchmark date;
- B. Product sales taxes and surcharges ratio includes urban construction tax, education surcharges, land tax, property use tax, etc. calculated and paid based on value-added tax;
- C. Sales expense ratio is calculated based on the average ratio of various sales expenses to sales income;
- D. Operating profit margin = Operating profit ÷ operating revenue;
- E. Income tax rate is based on the actual income tax rate implemented by the enterprise;
- F. r is a certain rate of risk that is determined based on the investigation as at the benchmark date and the sales achieved after the benchmark date due to the presence of certain market risks and uncertainties in the future sales of the product. Among them, r is 0 for best-selling products, 50% for general sales products, and 100% for barely sellable products.

For the backlog of finished products, the verified book value was determined as the appraised value as the expected sales conditions were unable to be judged;

Among them: Power Equipment Company sued Shenyang Fan Ventilation Equipment Co., Ltd.* (瀋陽鼓風機通風設備有限公司) on 12 July 2021 for supply of goods in December 2008.

The plaintiff filed a lawsuit to the court in order to safeguard its legitimate rights and interests, requesting: (1) the court to order the defendant to compensate the plaintiff for losses in the amount of RMB3,048,000.00 due to the failure to perform the obligations under contract according to law; (2) the court to order the defendant to compensate the plaintiff for interests temporarily calculated to be in the amount of RMB104,635.30 arising from the losses suffered due to the defendant's failure to perform the contract according to law; (3) the abovementioned principal and interest to be in the total amount of RMB3,152,635.30; and (4) the defendant to bear all legal costs.

The court has not yet ruled on the lawsuit.

This lawsuit involves inventories (as indicated in No. 23, 24, 25, 26, 27 and 28 of the appraised table of finished products). As the result of the lawsuit could not be determined, this valuation took its book value as the appraised value of the inventories, and did not consider the influence of the pending lawsuit on the appraised value.

For finished products being disposed of, substantially scrapped or scrapped by Power Equipment Company, the net realisable value was determined as the appraised value.

Finished products with asset impairment losses provided:

All finished products with asset impairment losses provided were products of onerous contracts, and the following formula was adopted:

Appraised value = Actual quantity × Ex-factory unit price × (1 – Product sales taxes and surcharges ratio – Sales expense ratio)

3) *Products in progress*

Products in progress were machines in progress, which were in the normal production process except a small amount was scrapped.

Products in progress in normal production process

Considering that there were many onerous contracts for products in progress, and some of them still had a long term, the verified book value of products in progress was determined as the appraised value.

For scrapped products in progress, the net realisable value was determined as the appraised value.

B. Non-current Assets

(7) *Other non-current financial assets*

Other non-current financial assets included equity investment in Tianjin Bohai Steel No. 14 Enterprise Management Partnership* (天津渤鋼十四號企業管理合夥企業) and CCB Trust – Caidie Property Rights Trust Scheme No. 1* (建信信託-彩蝶一號財產權信託計劃) – Beneficial Rights in the Trust.

(1) Equity investment in Tianjin Bohai Steel No. 14 Enterprise Management Partnership* (天津渤鋼十四號企業管理合夥企業)

The appraisers first obtained evidence to verify the reasons, book value and actual circumstances of the equity investment, and reviewed the investment agreement and relevant accounting records to determine the authenticity and integrity of the equity investment, then focused on the terms of the investment agreement that had a great impact on the value, and verified the operating characteristics and operating conditions of the invested entity. The appraisers obtained the balance sheet (unaudited) as at the benchmark date confirmed by the seal of Tianjin Bohai Steel No. 14 Enterprise Management Partnership* (天津渤鋼十四號企業管理合夥企業), and determined the appraised value of other equity instruments investment by multiplying the net assets of Tianjin Bohai Steel No. 14 Enterprise Management Partnership* (天津渤鋼十四號企業管理合夥企業) as at the benchmark date by the shareholding ratio of the appraised entity.

- (2) CCB Trust – Caidie Property Rights Trust Scheme No. 1* (建信信託–彩蝶一號財產權信託計劃) – Beneficial Rights in the Trust

Bohai Steel Group Co., Ltd.* (渤海鋼鐵集團有限公司) transferred all of its 100% interests in the five target companies, Tianjin Xinlian Asset Management Trading Co., Ltd.* (天津信聯資管貿易有限公司), Tianjin Xinlian Asset Management Industrial Co., Ltd.* (天津信聯資管實業有限公司), Tianjin Xinlian Asset Management Enterprise Management Co., Ltd.* (天津信聯資管企業管理有限公司), Tianjin Xinlian Tiantie Industrial Co., Ltd.* (天津信聯天鐵實業有限公司), and Tianjin Chenda Asset Management Co., Ltd.* (天津晨達資產經營管理有限公司), to CCB Trust Co., Ltd.* (建信信託有限責任公司). The actual trust property transferred by Bohai Steel Group Co., Ltd.* (渤海鋼鐵集團有限公司) had been appraised to be RMB121.663 billion. Bohai Steel Group Co., Ltd.* (渤海鋼鐵集團有限公司) obtained 121.663 billion initial beneficial rights in the trust at every RMB1 of trust property being equivalent to one trust unit.

Due to debt obligations, Power Equipment Company obtained 1,586,755.2 initial beneficial rights in the trust from Bohai Steel Group Co., Ltd.* (渤海鋼鐵集團有限公司).

Due to the small proportion of beneficial rights held by Power Equipment Company in the trust, and the lack of open market value of the beneficial rights in the trust, as well as the failure of the appraisers to obtain the statement of CCB Trust – Caidie Property Rights Trust Scheme No. 1* (建信信託–彩蝶一號財產權信託計劃) – Trust Beneficial Rights, the audited book value of other non-current financial assets was determined as their appraised value.

(8) Fixed assets – housing and building

1) Selection of valuation approach

Based on the purpose of this valuation, and according to structural features, functional nature and other characteristics of housing and building assets included in the scope of valuation, the reasonable valuation approach for each kind of housing and building was determined as follows:

For self-built assets of housing and building, the replacement cost approach was adopted for valuation.

2) *Introduction of valuation approaches*

The replacement cost approach refers to the approach of calculating the investment required for the replacement of similar properties according to the market conditions and the structural characteristics of the housing and building to be appraised at a point of time on the valuation benchmark date, multiplying by the residue rate of the housing and building after comprehensive evaluation, and finally determining the value of the housing and building. The calculation formula was as follows:

$$\text{Appraised value} = \text{Replacement cost (tax exclusive)} \times \text{Residue rate}$$

A. Determination of replacement cost

As the appraised entity is a value-added tax general taxpayer, the replacement cost of housing and building assets in this valuation was exclusive of tax.

The replacement cost was generally comprised of construction and installation project costs, preliminary project expenses and other expenses, and capital cost. The calculation formula was:

$$\text{Replacement cost (tax exclusive)} = \text{Construction and installation project costs (tax exclusive)} + \text{Preliminary and other expenses (tax exclusive)} + \text{Capital cost}$$

a. Determination of construction and installation project costs

For key projects with budget and final accounts, the budget and final accounts adjustment approach was adopted, i.e. the appraisers calculated the construction and installation project costs of the project based on the project volume in the budget and final accounts, with reference to the current “Consumption Quota for Construction and Decoration Project in Heilongjiang Province (2019)*” (《黑龍江省建築與裝飾工程消耗量定額》(2019年)), “Consumption Quota for General Installation Projects in Heilongjiang Province (2019)*” (《黑龍江省通用安裝工程消耗量定額》(2019年)), “Consumption Quota for Municipal Works in Heilongjiang Province (2019)*” (《黑龍江省市政工程消耗量定額》(2019年)), and adjustment of the price differences for labour, materials and machinery in accordance with the information on project cost in the area where the appraised entity was located on the benchmark date;

For key projects without financial estimates and budget, the budget quota of similar projects was adopted in simulating the project volume, and the construction and installation project costs of the projects to be appraised were calculated according to relevant quotas and the applicable price documents on the benchmark date;

For general construction projects with smaller values, the appraisers referred to the budget quotas, construction quotas or financial estimate indicators of construction and installation project costs of the same type, and arrived at the construction and installation project costs of the project to be appraised after correction based on differences in the construction costs of floor height, column spacing, span, decoration standards, water and electricity facilities, etc..

b. Determination of preliminary expenses and other expenses

Preliminary expenses and other expenses were determined based on the standards of various fees and rates stipulated by the national standards, industry and local construction management departments as well as the administrative charging policy documents.

c. Determination of capital cost

According to a reasonable construction period of the appraised entity, the loan interest rate shall be calculated and determined with reference to the loan market quoted interest rate difference announced by the National Interbank Funding Center authorised by the People's Bank of China on 20 March 2023 (with reference to the 20th day of the month as the valuation benchmark date), based on the total construction and installation project cost, preliminary and other expenses, the capital cost was calculated based on the average investment of funds. The calculation formula was as follows:

Capital cost = [Construction and installation project cost (tax inclusive) + Preliminary and other expenses (tax inclusive)] × Reasonable construction period × Loan interest rate × 1/2

A. Purchase price

The purchase price of domestic standard equipment is mainly determined by checking the “2023 Mechanical and Electrical Product Price Information Inquiry System*” (《2023機電產品價格信息查詢系統》) issued by the Mechanical Industry Information Research Institute and online inquiry, consulting with manufacturers or trading companies on the latest market transaction price and the recent purchase price of similar equipment by enterprises; for a few devices whose purchase price cannot be found, the purchase price was determined by comparing the functions and production capacity of the same type of equipment of the same generation and applying the price change rate.

For imported equipment, the purchase price was the FOB price plus imported equipment ancillary expenses. Ancillary expenses for imported equipment included overseas transportation, foreign transportation insurance fees, customs duties, consumption taxes, value-added taxes, bank fees, and company agency charges, which were calculated as follows:

Imported Equipment Calculation Table

No.	Item	Unit	Calculation formula
A	FOB price	Euro	
B	Overseas transportation	Euro	$A \times \text{Overseas transportation rate}$
C	Foreign transportation insurance fees	Euro	$(A+B) \times \text{Insurance rate}$
D	Total CIF foreign currency	Euro	$A+B+C$
E	Total CIF RMB	RMB	$D \times \text{Benchmark date exchange rate}$
F	Customs duties	RMB	$E \times \text{Tariff rate}$
G	Value-added taxes	RMB	$(E+F) \times \text{VAT rate}$
H	Bank fees	RMB	$A \times \text{Exchange rate} * \text{Bank finance rate}$
I	Foreign trade expenses	RMB	$E \times \text{Foreign trade rate}$
J	Inspection fees	RMB	$A \times \text{Exchange rate} * \text{Inspection rate}$
	Total	RMB	$E+F+G+H+I+J$

B. Transportation and miscellaneous expenses

Based on the purchase price (tax inclusive), transportation and miscellaneous expenses shall be calculated at different transportation and miscellaneous expense rates according to the cost of loading and unloading, transportation, storage, insurance and other related expenses incurred between the place of production and the place where the equipment was located. Transportation and miscellaneous expenses shall not be included in respect of purchase prices that included transportation expenses.

The calculation formula for transportation and miscellaneous expenses was as follows:

Imported equipment transportation and miscellaneous expenses =
CIF price × domestic transportation and miscellaneous expense
rate for imported equipment

Domestic equipment transportation and miscellaneous expenses =
Purchase price of equipment × Transportation and miscellaneous
expense rate

C. Installation and commissioning expenses

The installation and commissioning expense rate was determined with reference to the relevant equipment installation rate in the “Valuation Common Data and Parameter Manual*” (《資產評估常用數據與參數手冊》), and the consumption of auxiliary materials for the equipment, the basic installation situation, the degree of difficulty of installation and the past expenditure of the property right holding entity on the installation of the equipment. For small and installation-free equipment, its cost of installation shall not be considered.

The calculation formula for installation and commissioning expenses was as follows:

Cost for imported equipment installation = CIF price × Imported
equipment installation cost rate

Domestic equipment installation and commissioning expenses =
Purchase price of equipment × installation and commissioning
expense rate

D. Basic expenses

If the equipment did not require a standalone foundation or a foundation was simultaneously built during the construction of the factory, the book value of such foundation would have been reflected in the building and the relevant base cost will not be considered; whereas project estimates or settlement data for standalone foundation was determined based on the reference rate provided in the “Valuation Common Data and Parameter Manual*” (《資產評估常用數據與參數手冊》), together with an analysis in relation to the actual expenditure incurred by the property right holding entity.

The calculation formula for basic expenses was as follows:

Basic expenses = Purchase price of equipment × Basic rate

E. Preliminary and other expenses

Other expenses included construction management fees for the entity, project proposal fee and feasibility study fees, survey and design fees, project supervision fees, etc., which were calculated in accordance with the standard of other expenses for construction projects where the equipment is located, and the characteristics of such equipment.

Preliminary and other expenses (tax inclusive) = (Purchase price of equipment + Transportation and miscellaneous expenses + Installation and commissioning expenses + Basic expenses) × Tax-inclusive rate

Preliminary and other expenses (tax exclusive) = (Purchase price of equipment + Transportation and miscellaneous expenses + Installation and commissioning expenses + Basic expenses) × Tax-free rate

F. Capital cost

The period from acquisition of the equipment to its operation was calculated based on the overall construction cycle of the enterprise, with reference to the quoted interest rate of the loan market announced by the National Interbank Funding Center authorised by the People’s Bank of China in the month of the valuation benchmark date on 31 March 2023, and the calculation of the capital cost was based on the average investment of funds.

Capital cost = (Purchase price of equipment + Transportation and miscellaneous expenses + Installation and commissioning expenses + Basic expenses + Preliminary and other expenses (tax inclusive) × reasonable construction period × Loan interest rate × 1/2

G. Deductible value-added tax for equipment purchase

In accordance with the provisions of “The Notice on Several Issues Concerning the National Implementation of Value-added Tax Reform (Cai Shui [2008] No. 170)*” (《財稅[2008]170號》) 《關於全國實施增值稅轉型改革若干問題的通知》), “The Notice on Implementing the Pilot Programme of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36)*” (《財稅[2016]36號》) 《關於全面推開營業稅改徵增值稅試點的通知》) and the document titled “(Cai Shui [2018] No. 32)*” (《財稅[2018]32號》) and the Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the replacement cost of machinery and equipment which were eligible for the deduction of value-added tax should be deducted with the corresponding value-added tax. The deductible amount comprised the value-added tax involved in the purchase price, transportation and miscellaneous expenses, installation fees, basic expenses, preliminary and other expenses.

2) *Replacement cost for transportation vehicles*

The determination of the current tax-included purchase price of vehicles as at the valuation benchmark date was based on the local vehicle market sales information and the recent vehicle market price data, and on such basis, the inclusion of vehicle purchase tax and new car licence registration charges and miscellaneous expenses was made in accordance with the Vehicle Purchase Tax Law of the People’s Republic of China. According to “The Notice on Implementing the Pilot Programme of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36)*” (《財稅[2016]36號》) 《關於全面推開營業稅改徵增值稅試點的通知》) and the document titled “(Cai Shui [2018] No. 32)*” (《財稅[2018]32號》), and the Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the replacement cost of the vehicles for enterprises eligible for value-added tax deduction shall be:

Replacement cost (tax exclusive) = Purchase price + Vehicle purchase tax + License fee – Deductible value-added tax

Deductible value-added tax = Purchase price/1.13 × 13%

3) *Replacement cost for electronic equipment*

Electronic equipment price shall be determined on the valuation benchmark date according to the local market information and the recent market price information, as posted on ZOL, PConline or other websites that are of similar nature. Generally, manufacturers or agents would provide transportation, installation and adjustment services for free. The replacement cost shall be determined according to the purchase price excluding tax:

Replacement cost (tax exclusive) = Purchase price – Deductible value-added tax

Deductible value-added tax = Purchase price/1.13 × 13%

(2) Determination of residue rate

1) *Residue rate of machinery and equipment*

部、環境保護部令2012年第12號)), the final residue rate of vehicles shall be determined with reference to the residue rate calculated by using the following methods, whichever is lower, namely:

Residue rate of useful life = [Remaining useful life ÷ (Serviced life + Remaining useful life)] × 100%

Residue rate of mileage = (1 – Travelled mileage/Stipulated mileage) × 100%

Residue rate = Min (Residue rate of useful life, Residue rate of mileage)

Meanwhile, mandatory survey and evaluation were conducted for the subject vehicles. Where the survey and evaluation results show great difference from the residue rates determined above, appropriate adjustment should be made; where the two are equivalent to each other, no adjustment is required, namely:

Residue rate = Min (Residue rate of useful life, Residue rate of mileage) + a

a: Adjustment factors for special vehicle conditions.

In addition, for vehicles that are directly appraised based on the market price of used cars, the residue rate will no longer be considered.

3) *Residue rate of electronic equipment*

Residue rate = [Remaining useful life/(Serviced life + Remaining useful life)] × 100%

In addition, for electronic equipment that is directly appraised based on the second-hand market price, calculation of the residue rate is not required.

(3) Determination of appraised value

Appraised value = Replacement cost × Residue rate

For equipment to be scrapped, the appraised value was determined based on its realisable residual value, which was determined based on its realisable price in the scrap recycling market and its physical weight.

(10) Construction in progress*1) Construction in progress – civil engineering construction*

For construction in progress, the appraisers verified the progress and the payment for the constructions as stipulated in the contract, and based on the investigation and verification of the project progress, determined the completeness and accuracy of the carrying value for the constructions in progress.

For construction in progress with a relatively short reasonable construction period, the appraised value will be determined by assessing the carrying value after verification, provided that its carrying value is verified to be correct and that the change in its replacement cost is not significant.

The appraised value of this valuation was determined based on the verified carrying value as the project was relatively small in size and value.

2) Construction in progress – equipment installation construction

Construction in progress was valued using the replacement cost approach. In order to avoid double valuation of assets and omission of asset value, the following valuation approach was adopted considering the characteristics of the construction in progress and the types and specific conditions of each construction in progress – equipment installation construction:

For construction in progress with a relatively short reasonable construction period, the appraised value will be determined by assessing the carrying value after verification, provided that its carrying value is verified to be correct and that the changes in replacement cost of the equipment in progress and installation fees are not significant.

The constructions for the Workshop Digital Management System (Phase I) and the Oxyhydrogen Welding Machine had a relatively short reasonable construction period of not more than six months. The appraised value will be determined by assessing the carrying value after verification without regard to the capital costs.

The overhaul of the 10-meter sleeping car in the old area and the modification of the DCS measurement and control system of the pilot station in the new nuclear power generation area were regarded as modification costs, which will be included in the assessment of the main equipment, and therefore be appraised to be 0.

(11) Right-of-use assets

The scope of right-of-use assets under verification mainly represented the right-of-use assets attributable to the buildings and land leased by the property right holding entity.

Right-of-use assets represent the rights of using leased assets during the lease term of the lessee. The enterprise conducted the accounting in accordance with the provisions of the “Accounting Standards for Business Enterprises No. 21 – Leases (Amendments)*” (《企業會計準則第21號 - 租賃(修訂版)》) and confirmed the value of the right-of-use assets and lease liabilities.

(12) Intangible assets – land use rights

For the intangible assets – land use rights included in the scope of this valuation, the appraisers analysed the applicability of different valuation approaches based on the location, land use nature, utilisation conditions and local land market conditions of the appraised entity, and adopted the market comparison approach for valuation based on the purpose of the valuation, the usage of the appraised entity, the market environment and the relevant information collected.

Market comparison approach is the estimation of the objective and the reasonable price of the appraised land parcels after comparing it with similar real estate traded in the market near the valuation reference date according to the substitution principle, and properly adjusting the transaction price of such similar real estate. The basic calculation formula is as follows:

$$V=VB \times A \times B \times D \times E$$

In which:

V: Price of the appraised land parcels;

VB: Price of comparable land parcels;

A: Condition index of the appraised land parcels/condition index of the comparable land parcels = normal condition index/condition index of the comparable land parcels

B: Land price index of the appraised land parcels on the valuation reference date/land price index of the comparable land parcels on the transaction date

D: Regional factor condition index of the appraised land parcels/regional factor condition index of the comparable land parcels

E: Individual factor condition index of the appraised land parcels/individual factor condition index of the comparable land parcels

(13) Intangible assets – others*1) Patent rights and non-patented technologies*

This valuation took into account the characteristics of the industry in which the appraised entity is engaged, together with the relatively clear and quantifiable correspondence between the patent rights included in the scope of this valuation and the revenue of the appraised entity. As the value contribution of these technical intangible assets can be maintained to a certain degree of continuity, the income approach was adopted for the valuation and these intangible assets were appraised on an aggregate basis, taking into account the comprehensive impact of these intangible assets in the production process.

(1) Introduction of income mode

The basic formula of the income sharing method, which was a more reasonable method to measure the value of technical intangible assets of the appraised entity, was as follows:

$$P = K \times \sum_{i=1}^n \frac{R_i}{r^i}$$

In which:

P: appraised value of the technical intangible assets to be appraised;

R_i: expected incomes related to the technical intangible assets at year i after the valuation benchmark date;

K: consolidated sharing ratio of the technical intangible assets;

n: future income periods of the technical intangible assets to be appraised;

i: discounting period;

r: discounting rate.

(2) Determination of years of incomes

Expected years of incomes depends on the years of economic incomes of the technical intangible assets, being the period of time that can generate excess incomes for investors.

As the technological advancement associated with technical intangible assets is subject to factors such as continuous technological upgrades and research and development of alternative technologies, the years of economic incomes of technical intangible assets are generally lower than their statutory protection terms. Each of the technical intangible assets included in the scope of this valuation was formed successively from 2012 to 2023, and has been applied mainly in the production stage of products to improve the production control and utilisation of resources. This valuation comprehensively considered indicators such as the technological advancement of these technical intangible assets as at the valuation benchmark date and their future changes, and estimated that the years of overall economic incomes of these technical intangible assets will continue until the end of 2028.

Users of the report are reminded that the years of economic incomes of technical intangible assets determined in this valuation are until the end of 2028. However, this does not imply that the life of the technical intangible asset ends at the end of 2028.

(3) Expectation of income related to technical intangible assets

The patents in use included in the scope of this valuation play a role in the main business products of the appraised entity:

This valuation provides a consolidated forecast of the appraised entity's income from its principal activities, based on the appraised entity's historical annual income after considering the market development of the industry and the appraised entity's design capacity.

(4) Method of determining the sharing ratio K

The enterprise's income was a result of a combination of various factors, including enterprise management, technology, human resources, material and financial resources. Technology, as a specific factor of production, contributed to the overall revenue of the enterprise, and therefore it is reasonable to determine that technology has a share in the revenue of the enterprise.

The calculation of the share of revenue of technology by utilising the royalty rate represented the determination of a certain percentage of the revenue of the patent based on the revenue generated from the technical product. In determining the technical royalty rate, a range of values for the technical royalty rate was initially determined, and based on the factors affecting the value of the technology, a measurement system was established to determine the adjustment coefficient for the technical royalty rate to be estimated, ultimately obtaining the sharing ratio.

(5) Selection of discount rate

The discount rate r for technical assets such as patented and non-patented technologies in this valuation took into account a certain risk premium based on the weighted average cost of capital ("**WACC**") of the enterprise, namely:

$$r = \text{WACC} + \beta_1$$

In which:

WACC represents Weighted Average Return on Asset ("**WARA**");

β_1 represents specific risk adjustment coefficient for the intangible asset.

In general, the WARA, which is calculated by weighting the market value of each asset by the enterprise, shall be substantially equal to or close to the enterprise's WACC. In determining the market rate of return on intangible assets, the specific risk adjustment coefficient β_1 for the intangible asset was determined to be 5% based on the enterprise's WACC and the equilibrium relationship of $\text{WARA} = \text{WACC}$, comprehensive consideration of the proportion of intangible assets in the overall assets and analysis of the type of technical product,

market stability and profitability of the existing technical products and the duration of intangible assets, resulting in the appraised discount rate of the income approach for patented and non-patented technologies being 17.10%.

(6) Determination of the appraised value of patented and non-patented technologies

Items	April-					
	December					
	2023	2024	2025	2026	2027	2028
	RMB'0,000	RMB'0,000	RMB'0,000	RMB'0,000	RMB'0,000	RMB'0,000
Operating revenue	102,886.73	141,051.06	148,602.61	184,380.03	172,474.44	172,474.44
Patent utilisation rate	100%	100%	100%	100%	100%	100%
Income sharing ratio	1.44%	1.44%	1.44%	1.44%	1.44%	1.44%
Residue rate of intangible assets	100.00%	75.00%	56.25%	42.19%	31.64%	23.73%
Share of revenue	1,478.38	1,520.07	1,201.09	1,117.70	784.14	588.11
Income tax rate	15%	15%	15%	15%	15%	15%
Share of revenue after tax	1,256.62	1,292.06	1,020.93	950.04	666.52	499.89
Discount rate	17.10%	17.10%	17.10%	17.10%	17.10%	17.10%
Discounting coefficient	0.94	0.82	0.70	0.60	0.51	0.44
Current value	1,184.39	1,060.69	715.72	568.77	340.76	218.25
Appraised value	4,090.00					

The appraisers verified the general ledgers, subsidiary ledgers, accounting statements and appraisal particulars of the inspection of the enterprise, reviewed the relevant original vouchers and lease contracts, analysed the accuracy and reasonableness of the initial measurement and amortisation amount of each leased assets, which were in compliance with the accounting provisions of the accounting standards on leasing, and the book balance reasonably reflected the equity value of the relevant right-of-use assets shared by the enterprise as of the valuation benchmark date, therefore, the appraised value of this valuation was confirmed by the verified book value.

2) *Trademark rights*

Trademark is mainly used to identify products. Considering that patents and other technological resources are primarily the core of the related products and services of Power Equipment Company, and Power Equipment Company has not used the appraised trademark, the appraised trademark therefore had no impact on Power Equipment Company's operating results, and it was more appropriate to adopt the cost method for valuation.

The value of trademark rights was recognised based on the replacement value of the various costs and expenses required to invest in the formation of the intangible assets of trademark rights. The basic formula was as follows:

$$P=C_1+C_2+C_3(1)$$

In which:

P: appraised value

C₁: design costs

C₂: registration and renewal costs

C₃: maintenance and use costs

3) *Outsourcing software*

In terms of outsourcing software, the appraisers reviewed the relevant supporting information to understand the composition of the original entry value, the method and period of amortisation and reviewed the original contracts to verify that the amounts in the accounts and statements were consistent. The appraised value was confirmed by enquiring with the software supplier.

(14) *Deferred tax assets*

Deferred income tax assets were accounted for as deferred income tax assets arising from estimated liabilities, impairment of receivables, deductible losses and tax credits. At the time of verification, the appraisers verified whether the subsidiary ledgers were consistent with the general ledgers and statement balances, verified whether they were consistent with the detailed statements commissioned to be evaluated, and checked the account records such as the amount, time of occurrence and business content, so as to prove the authenticity and completeness of the deferred income tax assets. On the basis that the deferred tax assets were duly verified, the appraised value was determined by the verified book value.

C. Liabilities

The appraisers checked and verified the actual debtors and the debt amounts of various liabilities after exercising the valuation purpose, and determined the appraised value according to the items and amounts of liabilities that the property owner actually needs to bear after exercising the valuation purpose.

A summary of the asset valuation is set out in the table below:

Summary of results of the asset valuation

Valuation benchmark date: 31 March 2023

Unit: RMB'0,000

Items	Carrying	Appraised	Increase/	Changes%	
	value	value	decrease		
	A	B	C=B-A	D=C/A × 100%	
1	Current assets	240,746.33	242,495.52	1,749.19	0.73
2	Non-current assets	102,022.40	119,768.65	17,746.25	17.39
3	Including: Long-term equity investment	–	–	–	–
4	Investment properties	–	–	–	–
5	Fixed assets	88,478.56	99,317.13	10,838.57	12.25
6	Construction in progress	195.44	78.64	-116.80	-59.76
7	Intangible assets	4,196.88	11,221.36	7,024.48	167.37
7-1	Including: land use right	2,729.27	5,062.34	2,333.07	85.48
8	Other non-current assets	9,151.52	9,151.52	–	–
9	Total assets	342,768.73	362,264.17	19,495.44	5.69
10	Current liabilities	209,116.38	209,116.38	–	–
11	Non-current liabilities	81,060.88	74,579.67	-6,481.21	-8.00
12	Total liabilities	290,177.26	283,696.05	-6,481.21	-2.23
13	Net assets (owners' equity)	52,591.47	78,568.12	25,976.65	49.39

The reasons for the increase or decrease in the valuation of various categories of assets and liabilities are analysed as follows:

- (1) The increase in the valuation of the total assets was mainly due to the increase in the valuation of the buildings and structures, machinery and equipment, intangible assets – land use rights, and intangible assets – others.

1) Reasons for the increase in the valuation of the buildings and structures:

The original book value of some of the properties was accounted for at the net appraised value when the capital injection was made to the enterprise in 2016, thus the book value was relatively low;

The construction of the buildings (structures) and pipeline grooves was completed at an earlier point of time, and there had been a certain increase in labour, material and machinery costs for construction in recent years, resulting in an increase in the appraised value.

2) Reasons for the increase in the valuation of the machinery and equipment:

The main reasons for the impairment of the original appraised value of the machinery and equipment were due to the decrease in the price of some aged equipment and the fact that some assets in the substation were valued during civil construction. The increase in the net appraised value was mainly due to the fact that the actual economic lives of the machinery and equipment were longer than the depreciable life for the enterprise.

3) Reasons for the increase in the valuation of the intangible assets – land use rights:

The intangible asset – land use right was acquired a long time ago and the price of industrial land in the region where it was located had risen, resulting in an increase in its valuation.

4) Reasons for the increase in the valuation of the intangible assets – others:

The main reason was the existence of unrecorded patents in intangible assets – others which had been included in the scope of this valuation, resulting in the increase in the valuation of the intangible assets – others.

(2) Reasons for the decrease in the valuation of the liabilities

The reason for the decrease in the valuation of the liabilities was due to the decrease in the valuation of the deferred income. As the deferred income involved in the completed projects was not repayable, the income tax payable was regarded as the appraised value, thus resulting in the decrease in the valuation of the deferred income.

(6) SIGNIFICANT FACTORS

Matters that have a significant impact on the valuation conclusion are set out below:

A. Significant contracts and material litigations affecting manufacturing and operational activities and financial position

As at the valuation benchmark date, material litigations of Power Equipment Company are set out below:

Power Equipment Company commenced a lawsuit against Angang Heavy Machine Co., Ltd on 10 November 2021 in relation to a supply of goods in December 2012.

Claims: I. Termination of Contract No. 123024 “Turnkey Contract for Main Electric Motors for 1580 Furnace Rolling Mill for Handan Hongri Metallurgy Co., Ltd.*” (《邯鄲紅日冶金有限公司1580爐卷軋機主電機總包合同》). II. The defendant to compensate for the loss in the amount of of RMB1,000,000, with the amount of compensation to be ultimately determined on the basis of an opinion of identification (the amount of loss was confirmed to be RMB5,738,798.00 under the “Application for Change of Claim*” 《變更訴訟請求申請書》 dated 18 February 2023 of Power Equipment Company). III. The defendant be ordered to pay the plaintiff interest incurred from the date of the plaintiff’s filing of the lawsuit until the date of the defendant’s actual payment, calculated at the quoted interest rate of the loan market published by the National Interbank Funding Centre plus 50%. IV. The defendant be ordered to bear all litigation costs.

The case is pending decision to be made by the court.

The goods in stock involved in the litigation had been scrapped. The valuation was based on the net realisable value of the goods in stock, the net realisable value served as the appraised value, and the impact of the pending litigation was not taken into account in the valuation.

B. Types of assets or liabilities not recorded in the accounts and their estimated amounts

As at the valuation benchmark date, off-balance sheet assets within the scope of the valuation of Power Equipment Company included 355 patent rights and two trademark rights.

The following is the English translation of the text of the letter from the auditor of the Company, Da Hua Certified Public Accountants (Special General Partnership), Certified Public Accountants, which has been prepared for the purpose of inclusion in this circular. The Chinese text of the letter shall prevail over the English text in the event of inconsistency.

INDEPENDENT ASSURANCE REPORT ON THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

To the board of directors of Harbin Electric Company Limited,

We have examined the calculations of the discounted future estimated cash flows on which the valuation report prepared by China United Assets Appraisal Group Co., Ltd. dated 30 June 2023 in relation to the entire equity interest in Harbin Electric Power Equipment Company Limited (哈爾濱電氣動力裝備有限公司) as at 31 March 2023 (the “**Valuation**”) is based. Pursuant to Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), valuation based on discounted future estimated cash flows is regarded as a profit forecast.

I. Directors’ Responsibility in relation to the Discounted Future Estimated Cash Flows

E025

III. Auditor's Responsibility

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows on which the Valuation is based have been compiled in all material respects in accordance with the Assumptions and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purposes.

We do not assume any responsibility towards or accept any liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Such standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making enquiries to the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Harbin Electric Power Equipment Company Limited (哈爾濱電氣動力裝備有限公司).

Since the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its compilation. The Assumptions include hypothetical assumptions about future events and management actions which may or may not occur, and thus cannot be confirmed and verified in the same way as past results. Even if the events and actions anticipated do occur, actual results may still be different from the Valuation and the variation may be material.

Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

IV. Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the Assumptions.

Da Hua Certified Public Accountants (Special General Partnership)
Beijing, the PRC
14 July 2023

APPENDIX III LETTER FROM THE BOARD REGARDING PROFIT FORECAST

The following is the English translation of the text of the letter from the Board, which has been prepared for the purpose of inclusion in this circular. The Chinese text of the letter shall prevail over the English text in the event of inconsistency.

To: The Stock Exchange of Hong Kong Limited

Dear Sir/Madam,

Company: Harbin Electric Company Limited (the “Company”)

Re: Profit Forecast – Confirmation Letter pursuant to the Requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

Reference is made to the announcement of the Company dated 18 July 2023 in which it is stated that the valuation of the asset value of the equity interest in Harbin Electric Power Equipment Company Limited (哈爾濱電氣動力裝備有限公司) (“**Power Equipment Company**”) as at 31 March 2023 (the “**Valuation**”) was conducted by China United Assets Appraisal Group Co., Ltd. (the “**Independent Valuer**”) by adopting the asset-based approach and the income approach (in respect of the asset value of the patents and non-patented technology of Power Equipment Company), which therefore constitutes a profit forecast (the “**Profit Forecast**”) pursuant to Rule 14.61 of the Listing Rules.

The board of directors (the “**Board**”) of the Company has reviewed the bases and assumptions of the Profit Forecast and discussed the same with the Independent Valuer. The Board has also considered the letter dated 14 July 2023 from the Company’s auditor, Da Hua Certified Public Accountants (Special General Partnership), in relation to whether the Profit Forecast, so far as the calculations are concerned, has been properly compiled in all material respects in accordance with the assumptions used in the Valuation. Based on the foregoing, pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board confirms that the Profit Forecast has been made after due and careful enquiry.

By Order of the Board
Harbin Electric Company Limited
8 August 2023

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility for the information contained herein, includes particulars given in compliance with the Listing Rules for the purpose of giving information relating to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, persons or corporations having interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Long Positions in the Shares:

Name of Shareholder	Class of Shares	Nature of interest	Number of shares	Percentage of issued share capita of the relevant class	Percentage of total issued share capital
Harbin Electric Corporation	Domestic Shares	Directly and beneficially owned	1,030,952,000	100%	60.41%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any person or corporation who had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO.

4. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, Mr. Cao Zhi-an, Mr. Huang Wei and Mr. Zhang Ying-jian are directors or senior managers of Harbin Electric Corporation, which has an interest in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest which competed or may compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company was materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) none of the Directors or supervisors of the Company had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

10. EXPERTS

The following sets out the qualifications of each of the experts who has given its opinion or advice as contained in this circular:

Name	Qualification	Date of opinion/advice
China United Assets Appraisal Group Co., Ltd.	Certified Assets Valuer	30 June 2023
Da Hua Certified Public Accountants (Special General Partnership)	Certified Public Accountants	14 July 2023
Somerley Capital Limited	Licensed corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO	10 October 2023

As at the Latest Practicable Date, each of the above experts (i) had no direct or indirect shareholding in the Company or any other member of the Group, or any direct or indirect right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group; (ii) had no direct or indirect interests in any assets which had been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group; and (iii) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter, opinion and/or advice and references to its name in the form and context in which they are respectively included.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hpec.com>) for a period of 14 days from the date of this circular:

- (a) the Asset Purchase Agreement;
- (b) the written consents referred to in the paragraph headed “10. EXPERTS” in this appendix;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 18 to 19 in this circular; and
- (d) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 20 to 43 in this circular.

12. MISCELLANEOUS

- (a) The registered office of the Company is at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC.
- (b) The company secretary of the Company is Mr. Ai Li-song. The current joint company secretary of the Company, Mr. Tung Tat Chiu, who is a practicing solicitor in Hong Kong and the senior partner in Tung & Co., is assisting Mr. Ai Li-song to allow him to acquire relevant experience (pursuant to Note 2 to Rule 3.28 of the Listing Rules) and perform duties of a company secretary.
- (c) The principal place of business of the Company in the PRC is at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC.
- (d) The principal place of business of the Company in Hong Kong is at Room 1601, 16th Floor, LHT Tower, 31 Queen’s Road Central, Hong Kong.
- (e) The Hong Kong share registrar of the Company is Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, HongKong.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

(1) VOTING ARRANGEMENTS

Harbin Electric Corporation and its associates are required to, and will, abstain from voting on the resolution to be proposed for approving the Disposal at the EGM.

(2) REGISTRATION PROCEDURES FOR THE EGM

Shareholders shall note that, pursuant to Article 45 of the articles of association of the Company, the register of shareholders of the Company will be closed during the period from Thursday, 26 October 2023 to Tuesday, 31 October 2023, both days inclusive, during which no transfer of Shares will be registered. In order to qualify to attend and vote at the EGM, all transfer documents, together with the relevant share certificates, should be lodged to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for H Shareholders), or to the Company's principal place of business in the PRC (for Domestic Shareholders), no later than 4:30 p.m. on Wednesday, 25 October 2023. Shareholders whose names appear on the register of shareholders of the Company on Thursday, 26 October 2023 shall be entitled to attend the EGM to vote thereat.

(3) PROXY

- i. Any Shareholders entitled to attend and to vote at the EGM shall be entitled to appoint a proxy, who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more Shares may appoint more than one proxy.
- ii. To be valid, the proxy form and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the EGM or any adjournment thereof.
- iii. Domestic Shareholders shall deliver the proxy form and, if such proxy is signed by a person on behalf of his or her appointer pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority, to the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC.
- iv. H Shareholders shall deliver the proxy form and, if such proxy is signed by a person on behalf of his or her appointer pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority, to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- v. Completion and return of the proxy form will not affect the right of the Shareholders to attend and to vote at the EGM in person. In such event, the proxy form will be deemed to have been revoked.
- vi. Shareholders or their proxies shall produce their identification documents (and proxy forms in cases of proxies) when attending the EGM.

(4) MISCELLANEOUS

The EGM is expected to last for 20 minutes. Shareholders and their proxies attending the EGM shall be responsible for the transportation and accommodation expenses on their own.

As at the date of this notice, the executive Directors of the Company are Mr. Cao Zhi-an, Mr. Huang Wei and Mr. Zhang Ying-jian; and the independent non-executive Directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Tang Zhi-hong and Mr. Pan Qi-long.