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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

VOLUNTARY ANNOUNCEMENT IN RELATION TO RENEWAL OF THE ENTRUSTED MANAGEMENT AGREEMENT

This announcement is made by Harbin Electric Company Limited (the “**Company**”) on a voluntary basis to inform the Company and potential investors about the latest business development of the Company.

References are made to the announcement of the Company dated 14 December 2020 in relation to the proposed disposal of 51% equity interest in Power Equipment Company, a wholly-owned subsidiary of the Company, and the voluntary announcement dated 30 November 2021 in relation to the entering into of the entrusted management agreement among the Company, Power Equipment Company and Jiamusi Electric (the “**Original Entrusted Management Agreement**”) (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

RENEWAL OF THE ENTRUSTED MANAGEMENT AGREEMENT

The board of directors of the Company hereby announces that, as the Original Entrusted Management Agreement will expire on 31 December 2022, on 29 December 2022, the Company, Power Equipment Company and Jiamusi Electric, entered into a new entrusted management agreement (the “**New Entrusted Management Agreement**”) on substantially the same terms according to the needs of operation, pursuant to which, the Company agreed to continue to entrust Jiamusi Electric with the Entrusted Target, and Jiamusi Electric agreed to continue to exercise the Entrusted Management Services, including but not limited to:

- (1) fully exercise the management rights of Power Equipment Company in relation to the day-to-day operating and management matters, such as the management and arrangement of the annual procurement or supply, production, sales, safety, environmental protection, finance, quality of goods and middle and lower level personnel of Power Equipment Company, pursuant to the annual targets and plans set out by the Company;

- (2) participate in the amendment and improvement of the internal management systems of Power Equipment Company, including institutional setting, personnel arrangements and staff attendance and performance appraisal etc., and supervise the execution of such systems;
- (3) exercise the right to consider the resolutions relating to the day-to-day operating and management matters of Power Equipment Company which are required to be reviewed by the board of directors of Power Equipment Company according to applicable laws and the articles of association of Power Equipment Company in advance, coordinate meetings, including meetings of general managers, economical operating analysis meetings etc., and supervise the execution of the resolutions or decisions made at such meetings. Jiamusi Electric can criticise relevant personnel who execute the above resolutions and/or decisions poorly. For clarification, the decision of the Company shall not contravene with the exercise of the Entrusted Management Services carried out by Jiamusi Electric, and in which case, Jiamusi Electric shall have the right to refuse such execution;
- (4) deploy of personnel for the key management positions of Power Equipment Company depending on circumstances; and
- (5) other entrustment management matters that have been previously agreed in writing by the Company.

Each of the Company, Power Equipment Company and Jiamusi Electric has confirmed that all shareholder's rights of the Company shall remain with the Company, however, the Company shall not transfer Power Equipment Company's shareholding or sell any rights on the Entrusted Target to other third parties without the prior written consent of all parties.

In addition, the parties have confirmed that the non-recurring operating and management matters, including any amendments to the articles of association of Power Equipment Company, appointment and dismissal of directors and/or supervisors of Power Equipment Company, adjustment of accounting policies, material capital expenses, profit distribution, transfer or increase of capital reserves, external investment and disposal of assets etc. are not within the scope of the Entrusted Management Services.

Nevertheless, Jiamusi Electric shall have the right to propose timely replacement of unfit directors of Power Equipment Company, in respect of the appointment, election or employment of directors and senior management of Power Equipment Company, and have the right to propose the transfer, downgrade and/or removal of unsuitable senior management of Power Equipment Company.

TERM

The term of the New Entrusted Management Agreement commences from 1 January 2023 to 31 December 2023 (both days inclusive).

During the term of the New Entrusted Management Agreement, the profits and losses of Power Equipment Company shall be solely enjoyed or borne by the Company.

ENTRUSTED MANAGEMENT FEES

Pursuant to the New Entrusted Management Agreement, the base of the entrusted management fee is RMB1,200,000 (the “**Basic Remuneration**”). The actual fee charged shall be determined based on the completion of the Company’s annual operating targets by Power Equipment Company. If Power Equipment Company fails to complete the annual operating targets, Jiamusi Electric will receive an equal proportion of the basic remuneration as the entrusted management fee in accordance with the completion ratio of the Company’s annual operating targets. If Power Equipment Company exceeds the annual operating targets, Jiamusi Electric, on the basis of receiving the Basic Remuneration, shall receive an additional remuneration in accordance with the total profit of the Power Equipment Company exceeding the targets by 5%, but the annual management fee shall not exceed RMB3,000,000, all of which shall be paid within six months after the expiry of the New Entrusted Management Agreement. The entrusted management fee is determined after arm’s length negotiation with reference to the amount of the total assets of Power Equipment Company and the percentages derived from comparing the management fees received by companies in the same industry to the amount of the total assets managed by them.

The actual transaction amount of the entrusted management fee under the Original Entrusted Management Agreement is as follows:

	During the period from 30 November 2021 to 31 December 2021	During the period from 1 January 2022 to 31 December 2022
Entrusted management fee	RMB100,000	The payment shall be made based on the achievement of the business objectives of Power Equipment Company in 2022, and shall not exceed RMB3,000,000
Actual transaction amount	RMB100,000	The payment shall be made in June 2023, and the exact amount shall be determined based on the achievement of the business objectives of Power Equipment Company in 2022

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW ENTRUSTED MANAGEMENT AGREEMENT

The arrangement in relation to the Proposed Disposal has not been implemented eventually, mainly because Power Equipment Company and Jiamusi Electric need to further coordinate the differences between the two companies in terms of industrial development and operation management. The Company, Power Equipment Company and Jiamusi Electric intend to further coordinate and integrate the mode of production organisation and business model of the two companies in the future industry development through the Entrusted Management Services, so as to lay the foundation for the subsequent implementation of the Proposed Disposal.

The Entrusted Target continues to be entrusted to Jiamusi Electric, which is beneficial to (i) further expand the market and optimise the services provided by Power Equipment Company with the help of the platform and resources of Jiamusi Electric as an A-shares listed company, and improve the comprehensive competitiveness and market share of its products; (ii) learn from the transformation experience and market-oriented operation mechanism of Jiamusi Electric by Power Equipment Company, thereby further promote a deeper reform, introduce a more market-oriented management mechanism, and improve its self-management level and economic benefits; and (iii) sort out the actual business operation of Power Equipment Company and Jiamusi Electric systematically, and coordinate the differences in internal management, so as to lay a foundation for the smooth implementation of the subsequent Proposed Disposal.

The Directors (including the independent non-executive Directors) are of the view that the terms of the New Entrusted Management Agreement and the entrusted management fees are fair and reasonable and are on normal commercial terms, and are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Jiamusi Electric is a subsidiary of Harbin Electric Corporation. Accordingly, pursuant to Chapter 14A of the Listing Rules, Jiamusi Electric is a connected person (as defined in the Listing Rules) of the Company, and the transactions contemplated under the New Entrusted Management Agreement constitute continuing connected transactions of the Company. As the aforesaid continuing connected transactions are conducted on normal commercial terms or better, and all the percentage ratios (as defined in the Listing Rules) are less than 0.1%, such continuing connected transactions are therefore fully exempted from the shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Harbin, the PRC
29 December 2022

As at the date of this announcement, the executive Directors of the Company are Mr. Cao Zhi-an, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the independent non-executive Directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.