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哈电集团
HARBIN ELECTRIC CORPORATION

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)

CONTINUING CONNECTED TRANSACTIONS

Harbin Electric Company Limited (the “Company”) hereby announces that, on 31 December 2013, the Company entered into a new continuing connected transaction agreement with its parent company, Harbin Electric Corporation (“Harbin Electric”), which is subject to the approval by the Board. On 3 January 2014, the Company convened a board meeting to consider and approve such agreement (which became effective from 1 January 2014) in relation to (1) the cross-provision of welfare and support services between the Group and the Parent Group; and (2) the trading of certain materials and accessory parts between the Group and the Parent Group, during the three financial years commencing from 1 January 2014 and ending on 31 December 2016.

Since Harbin Electric is the controlling shareholder of the Company, it is a connected person of the Company and therefore the transactions contemplated under the New Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As each of the New Annual Caps in respect of (1) provision of services by the Group to the Parent Group; (2) provision of services by the Parent Group to the Group; (3) sale of materials and accessory parts by the Group to the Parent Group; and (4) purchase of materials and accessory parts by the Group from the Parent Group respectively does not exceed 5% of the applicable ratios under Rule 14.07 of the Listing Rules, no independent shareholders' approval of the Agreements is required pursuant to Rule 14A.34 of the Listing Rules. Details of the transactions will be included in the annual reports and accounts of the Company for each of the relevant financial years in accordance with Rule 14A.46 of the Listing Rules.

BACKGROUND TO AND REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company and the Parent Company entered into an agreement on 22 December 2010, pursuant to which the Group has been providing to and receiving from the Parent Group certain welfare and support services. Such agreement and the annual caps for the transactions contemplated thereunder were the subject of the Company's announcement dated 22 December 2010. While the Group has taken measures to reduce its requirements for welfare and support services from the Parent Group, the continuation of the receipt and provision of services between the Group and the Parent Group is nevertheless necessary.

In light of the business growth of the Group, the Group requires certain materials, accessory parts and processing services to sustain its business development. The Board considers the Parent Group is able to guarantee the quality of materials and services provided as well as provide high quality materials and reliable services at a reasonable price. The Group may also gain profits by selling certain surplus raw materials or by-products arising from the production process of the Group to the Parent Group.

The Original Agreement has expired. In view of the production and operation needs, the Company entered into the New Agreement with the Parent Company on 31 December 2013. The New Agreement was approved by the Board on 3 January 2014 and came into effect from 1 January 2014. The Directors consider it beneficial for the Group to facilitate the management of the new transactions relating to the provision of services and the trading of materials and accessory parts under the agreement. The Directors (including the independent non-executive Directors) believe that the terms of the Agreement (including the New Annual Caps) are (1) on normal commercial terms, fair and reasonable; (2) in the ordinary course of business of the Group; and (3) in the interests of the Company and Shareholders as a whole.

THE NEW AGREEMENT

Date: 31 December 2013

Parties: (1) the Company; and
(2) the Parent Company.

Cross-provision of services

Pursuant to the terms of the New Agreement, the Group will provide to the Parent Group, among other things, electricity and the Parent Group will provide to the Group social services including, among other things, staff training, environmental services, maintenance, staff medical care, heat supply in staff dormitories and staff retirement management. Such services are to be provided on substantially the same terms as the Original Agreement.

Cross-supply of materials and accessory parts

Pursuant to the terms of the New Agreement, the Group and the Parent Group would supply materials and accessory parts to each other.

Term

The New Agreement became effective from 1 January 2014 and will expire on 31 December 2016 (both days inclusive).

Major terms

The fees payable in respect of the transactions contemplated under the New Agreement are to be fixed by reference to the applicable state price or, failing which, the market price for the relevant service or product. The “market price” under the New Agreement is determined by reference to the price of similar services or products provided by cooperative manufacturers in Harbin, or if no such prices are available, a 5% markup over actual cost for the provision of such services or products will apply.

Services or products provided between members of the Group and the Parent Group will be of a standard and subject to terms no less favourable than those on which it provides similar services or products to any cooperative manufacturers (including its own employees). Members of the Group and the Parent Group will give each other priority over any cooperative manufacturers in relation to the provision of services and products. If any member of the Group or the Parent Group is able to secure the provision of any of the services or products contemplated under the New Agreement from a cooperative manufacturer in the vicinity of Harbin on more favourable terms, it is entitled to terminate the relevant transaction by giving one month’s notice.

HISTORICAL VALUES AND THE NEW ANNUAL CAPS

Provision of services under the Original Agreement

The transaction amounts and caps of the transactions contemplated under the Original Agreement for the three years from 2011 to 2013 are shown in the following table: (Unit: RMB'000)

Transactions for the year ended 30 June 2013

	Transaction Item	Provision of services to the Parent Group	Provision of services by the Parent Group	Sale of materials and accessory parts to the Parent Group	Purchase of materials and accessory parts from the Parent Group
Year ended 31 December 2011	Annual cap	9,840	89,063	106,212	246,494
	Transaction amount	8,021	57,138	24,192	181,789
Year ended 31 December 2012	Annual cap	9,720	90,575	124,176	288,958
	Transaction amount	8,033	55,161	38,448	190,050
Year ended 30 June 2013	Annual cap	9,720	98,387	135,168	334,662
	Transaction amount	0	21,100	78	82,919

Please refer to the annual reports and interim reports of the Company for details of the connected transactions listed in the above table.

New Annual Caps

The total consideration to be paid and received by the Group under the New Agreement for the next three financial years ending 31 December 2016 will be subject to the following caps: (Unit: RMB'000)

Transaction Item	Provision of services to the Parent Group	Provision of services by the Parent Group	Sale of materials and accessory parts to the Parent Group	Purchase of materials and accessory parts from the Parent Group
Year ending 31 December 2014	5,000	90,150	65,300	253,370
Year ending 31 December 2015	2,000	90,150	65,300	253,370
Year ending 31 December 2016	2,000	90,150	65,300	253,370

Save for the annual cap in respect of provision of services by the Parent Group which basically remained at a similar level, the above New Annual Caps in respect of other transactions have been adjusted downward to different extents as compared to the annual caps for the three years from 2011 to 2013.

GENERAL

The Group is principally engaged in the business of manufacturing power plant equipment, its principal activities include manufacturing of (1) thermal power equipment; (2) hydro power equipment; (3) nuclear power main equipment; turn-key construction of power station projects and other engineering projects; contract supply of complete sets of thermal and hydro power equipment; import and export of power equipment; technology transfer, technical consultation and services; and environmental protection engineering services.

The Parent Company, together with its subsidiaries, is the longest-standing large-scale power plant equipment manufacturer in the PRC. The Parent Company holds, as at the date of this announcement, 50.93% of the issued share capital of the Company, and is thus a connected person of the Company.

As each of the New Annual Caps in respect of (1) provision of services by the Group to the Parent Group; (2) provision of services by the Parent Group to the Group; (3) sale of materials and accessory parts by the Group to the Parent Group; and (4) purchase of materials and accessory parts by the Group from the Parent Group respectively does not exceed 5% of the applicable ratios under Rule 14.07 of the Listing Rules, no shareholders' approval of the New Agreement and transactions contemplated thereunder is required. Details of the transactions will be included in the annual reports and accounts of the Company for each of the relevant financial years in accordance with Rules 14A.45 and 14A.46 of the Listing Rules.

DEFINITIONS

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

“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 Stock Exchange;
“Board”	the board of Directors of the Company;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Original Agreement”	the services agreement dated 22 December 2010 between members of the Group and the Parent Company and its then subsidiaries;
“Group”	the Company and its subsidiaries;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Harbin Electric”	哈爾濱電氣集團公司(Harbin Electric Corporation), a state-owned enterprise and the controlling shareholder of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“New Annual Caps”	the maximum value of the total consideration to be paid or received by the Group under the New Agreement for each of the three financial years ending 31 December 2016 as set out under “THE NEW AGREEMENT AND THE NEW ANNUAL CAPS”;
“New Agreement”	the new agreement dated 31 December 2013 between the Company and the Parent Company;
“Parent Company”	哈爾濱電氣集團公司(Harbin Electric Corporation), a state-owned enterprise and the controlling shareholder of the Company;
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group);
“PRC”	the People’s Republic of China;
“Share(s)”	the overseas listed foreign invested shares of RMB1.00 each in the capital of the Company which are listed on the Stock Exchange;
“Shareholder(s)”	the holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

By order of the Board
Harbin Electric Company Limited
Gao Xu-Guang
Company Secretary

Harbin, PRC, 3 January 2014

As at the date of this announcement, the executive Directors of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Song Shi-qi and Mr. Shang Zhong-fu; the non-executive Directors of the Company are Mr. Gong Jing-kun and Mr. Zou Lei; and the independent non-executive Directors of the Company are Mr. Sun Chang-ji, Mr. Fan Fu-chun, Mr. Jia Cheng-bing, Mr. Yu Bo and Mr. Liu Deng-qing.