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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)

CONTINUING CONNECTED, AN ACTION ANNOUNCEMENT IN RELATION TO THE ENTERING INTO THE PRODUCT AND SERVICE FRAMEWORK AGREEMENT WITH HARBIN ELECTRIC COMPANY LIMITED

ENTERING INTO THE PRODUCT AND SERVICE FRAMEWORK AGREEMENT WITH HARBIN ELECTRIC

Reference is made to the announcement issued by the Company on 9 December 2016 in relation to the Original Products and Services Framework Agreement entered into between the Company and Harbin Electric.

The Board hereby announces that, as the Original Products and Services Framework Agreement will expire on 31 December 2019, the Company entered into the new Products and Services Framework Agreement with Harbin Electric on 24 December 2019, pursuant to which the cross-provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Group and the Unlisted Harbin Electric Group within the next three years, including (1) the provision of services by the Group to the Unlisted Harbin Electric Group; (2) the provision of services by the Unlisted Harbin Electric Group to the Group; (3) the sale of products by the Group to the Unlisted Harbin Electric Group; and (4) the purchase of products by the Group from the Unlisted Harbin Electric Group. In particular, in each full year during the term of this agreement, the cap for the provision of services by the Group to the Unlisted Harbin Electric Group is amounts to RMB2,000,000 (equivalent to approximately HK\$2,220,569); the cap for the provision of services by the Unlisted Harbin Electric Group to the Group amounts to RMB72,000,000 (equivalent to approximately HK\$79,940,489); the cap for the sale of products by the Group to the Unlisted Harbin Electric Group amounts to RMB170,000,000 (equivalent to approximately HK\$188,748,376); and the cap for the purchase of products by the Group from the Unlisted Harbin Electric Group amounts to RMB65,000,000 (equivalent to approximately HK\$72,168,497).

LISTING RULE IMPLICATION

Since Harbin Electric is the controlling shareholder of the Company, it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Products and Services Framework Agreement entered into between the Company and Harbin Electric, and the cross-provision of products and services between the Group and the Unlisted Harbin Electric Group constitute continuing connected transactions of the Company.

Given that the mutual provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Group and the Unlisted Harbin Electric Group, and each of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps of each transaction is less than 5%, the Company is subject to the reporting and announcement requirements in respect of the Products and Services Framework Agreement, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement issued by the Company on 9 December 2016 in relation to the Original Products and Services Framework Agreement entered into between the Company and Harbin Electric.

The Board hereby announces that, as the Original Products and Services Framework Agreement will expire on 31 December 2019, the Company entered into the new Products and Services Framework Agreement with Harbin Electric on 24 December 2019, pursuant to which the cross-provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Group and the Unlisted Harbin Electric Group within the next three years, including (1) the provision of services by the Group to the Unlisted Harbin Electric Group; (2) the provision of services by the Unlisted Harbin Electric Group to the Group; (3) the sale of products by the Group to the Unlisted Harbin Electric Group; and (4) the purchase of products by the Group from the Unlisted Harbin Electric Group. In particular, in each full year during the term of this agreement, the cap for the provision of services by the Group to the Unlisted Harbin Electric Group is amounts to RMB2,000,000 (equivalent to approximately HK\$2,220,569); the cap for the provision of services by the Unlisted Harbin Electric Group to the Group amounts to RMB72,000,000 (equivalent to approximately HK\$79,940,489); the cap for the sale of products by the Group to the Unlisted Harbin Electric Group amounts to RMB170,000,000 (equivalent to approximately HK\$188,748,376); and the cap for the purchase of products by the Group from the Unlisted Harbin Electric Group amounts to RMB65,000,000 (equivalent to approximately HK\$72,168,497).

PROVISIONS AND SERVICES FRAMEWORK AGREEMENT

1. DATE

24 December 2019

2. PARTIES

- (i) The Company; and
- (ii) Harbin Electric.

3. TERM

A valid term of three years commencing from 1 January 2020 and ending on 31 December 2022.

4. MATERIALS AND SERVICES

The cross-provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Group and the Unlisted Harbin Electric Group, including:

- (1) the provision of services by the Group to the Unlisted Harbin Electric Group, including training and supply of power and energy, etc.;
- (2) the provision of services by the Unlisted Harbin Electric Group to the Group, including ancillary social services, etc.;
- (3) the sale of products by the Group to the Unlisted Harbin Electric Group, including products design, raw materials, equipment and accessory parts, etc.; and
- (4) the purchase of products by the Group from the Unlisted Harbin Electric Group, including products design, raw materials, equipment and accessory parts, etc..

5. P P

The fees payable for the transactions contemplated under the Products and Services Framework Agreement will be determined with reference to the applicable statutory price or, failing which, the market price for the relevant service or product. The “market price” under the new agreement will be determined with reference to the price of similar services or products provided by third parties in Harbin, or if no such prices are available for reference, a 5% markup over actual cost for the provision of such services or products will apply.

The standard and terms for the cross-provision of products and services between the Group and the Unlisted Harbin Electric Group will be no less favourable than those on which similar services or products are provided to any third parties (including its own employees). The Group and the Unlisted Harbin Electric Group will give each other priority over any third parties in relation to the provision of services and products. If the Group or the Unlisted Harbin Electric Group is able to secure the provision of any of the services or products contemplated under the new agreement from a third party in the vicinity of Harbin on more favourable terms, it is entitled to terminate the relevant transaction by giving one month’s advance notice.

6. A C

The annual caps in respect of the transactions contemplated under the Products and Services Framework Agreement between the Group and the Unlisted Harbin Electric Group are determined based on the business development need of the Group, actual transaction amounts of each transaction under the Original Products and Services Framework Agreement for the past three years and the service demand from the Group and the Unlisted Harbin Electric Group. The annual caps of each transaction will be as follows:

N . I	T			
	F	F	F	
	1 J 2020	1 J 2021	1 J 2022	
	31 D	31 D	31 D	
	2020	2021	2022	
1	Sale of products by the Group to the Unlisted Harbin Electric Group	RMB 170,000,000	RMB 170,000,000	RMB 170,000,000
2	Purchase of products by the Group from the Unlisted Harbin Electric Group	RMB 65,000,000	RMB 65,000,000	RMB 65,000,000
3	Provision of services by the Group to the Unlisted Harbin Electric Group	RMB 2,000,000	RMB 2,000,000	RMB 2,000,000
4	Provision of services by the Unlisted Harbin Electric Group to the Group	RMB 72,000,000	RMB 72,000,000	RMB 72,000,000

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Transaction caps and actual transaction amounts under the Original Products and Services Framework Agreement for the past three years are set out below:

		F	F	F
		1 J 2017	1 J 2018	1 J 2019
		31 D	31 D	30 J
T	I	2017	2018	2019
Sale of products by the Group to the Unlisted Harbin Electric Group	Transaction cap	RMB 12,000,000	RMB 12,000,000	RMB 12,000,000
	Actual transaction amount	RMB 5,560,000	RMB0	RMB0
Purchase of products by the Group from the Unlisted Harbin Electric Group	Transaction cap	RMB 195,000,000	RMB 195,000,000	RMB 195,000,000
	Actual transaction amount	RMB 61,280,000	RMB 19,590,000	RMB 3,650,000
Provision of services by the Group to the Unlisted Harbin Electric Group	Transaction cap	RMB 2,000,000	RMB 2,000,000	RMB 2,000,000
	Actual transaction amount	RMB0	RMB 30,000	RMB0
Provision of services by the Unlisted Harbin Electric Group to the Group	Transaction cap	RMB 84,000,000	RMB 84,000,000	RMB 84,000,000
	Actual transaction amount	RMB 55,410,000	RMB 64,160,000	RMB 9,580,000

REACTION AND BENEFIT FOR ENTERING INTO THE PRODUCT AND SERVICE FRAMEWORK AGREEMENT

In light of the business growth of the Group, the Group requires certain product design, raw materials, equipment and accessory parts to sustain its business development. The Unlisted Harbin Electric Group is able to guarantee the quality of product design, raw materials, equipment and accessory parts provided as well as provide high quality materials and reliable services at a reasonable price. The Group may also gain profits by selling certain product design, raw materials, equipment and accessory parts to the Unlisted Harbin Electric Group.

The Group has been providing energy services, such as power supply, to the Unlisted Harbin Electric Group and receiving ancillary social services from the Unlisted Harbin Electric Group at fair and reasonable market prices and on normal commercial terms. While the Group has taken measures to reduce its requirements for services from the Unlisted Harbin Electric Group, the continuation of the receipt and provision of services between the Group and the Unlisted Harbin Electric Group is nevertheless necessary.

INFORMATION OF THE PARTY

The Group is among the largest manufacturers of power-generating equipment in the PRC, the principal activities include the manufacturing of thermal power main equipment, hydro power main equipment, nuclear power main equipment, gas power equipment set and turnkey construction of power station projects, etc..

Harbin Electric is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC, whose ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the State Council.

The Board (including the Independent Non-executive Directors) are of the view that the terms of the Products and Services Framework Agreement are fair and reasonable; the transactions are entered into in the Company's ordinary course of business on normal commercial terms or more favourable terms; and in the interest of the Company and the shareholders as a whole.

None of the Directors has a material interest in the Products and Services Framework Agreement and the transactions contemplated thereunder, or is required to abstain from voting on the Board resolution approving the Products and Services Framework Agreement and the transactions contemplated thereunder.

The Independent Non-executive Directors of the Company have reviewed the Products and Services Framework Agreement, and are of the view that the agreement is beneficial to the business development of the Company and is in the interest of the Company as a whole.

LISTING RULE IMPLICATION

Since Harbin Electric is the controlling shareholder of the Company, it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Products and Services Framework Agreement entered into between the Company and Harbin Electric and the cross-provision of products and services between the Group and the Unlisted Harbin Electric Group constitute continuing connected transactions of the Company.

Given that the mutual provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Group and the Unlisted Harbin Electric Group, and each of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps of each transaction is less than 5%, the Company is subject to the reporting and announcement requirements in respect of the Products and Services Framework Agreement, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITION



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

“Board”	the board of Directors of the Company;
“Company”	Harbin Electric Company Limited, a company incorporated in the PRC with limited liability, the H-shares of which are listed on the Stock Exchange;
“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;
“Group”	the Company and its subsidiaries;
“Harbin Electric”	哈爾濱電氣集團有限公司(Harbin Electric Corporation Limited*), a state-owned enterprise and the controlling shareholder of the Company;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;

“Independent Non-executive Director(s)”	the independent non-executive director(s) of the Company;
“independent shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Original Products and Services Framework Agreement”	the products and services framework agreement dated 9 December 2016 entered into between the Company and Harbin Electric and to be expired on 31 December 2019;
“PRC”	the People’s Republic of China;
“Products and Services Framework Agreement”	the products and services framework agreement dated 24 December 2019 entered into between the Company and Harbin Electric;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Unlisted Harbin Electric Group”	Harbin Electric and its subsidiaries (other than the Group).

In this announcement, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$0.90067. Such exchange rate has been used for the purpose of illustration only and does not constitute a representation that any amounts have been or may be exchanged at this or any other rates.

* *For identification purposes only*

By Order of the Board
H  E C  L
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Chairman

Harbin, PRC
24 December 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the Independent Non-executive Directors of the Company are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min.