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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 TRANSACTIONS-
ANNOUNCEMENT IN RELATION TO THE ENTERING INTO
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH
HARBIN ELECTRIC CORPORATION LIMITED**

**THE ENTERING INTO THE FINANCIAL SERVICES FRAMEWORK
AGREEMENT WITH HARBIN ELECTRIC**

References are made to the announcements of the Company dated 9 December 2016 and 22 February 2017 in relation to the entering into the Original Financial Services Framework Agreement and the Supplemental Agreement to the Financial Services Framework Agreement between the Company and Harbin Electric. The Board hereby announces that since the Original Financial Services Framework Agreement and the Supplemental Agreement to the Financial Services Framework Agreement will expire on 30 December 2019, the Company and Harbin Electric have, on 24 December 2019, entered into the new Financial Services Framework Agreement, pursuant to which the Company will, within three years, provide the Unlisted Harbin Electric Group with the Depository Services, Loan Services and Other Financial Services through Finance Company, a subsidiary of the Company, at fair and reasonable market prices and on normal commercial terms. In particular, regarding the Depository Services, no annual caps shall be set for the accumulated maximum daily deposit balance deposited with Finance Company by the Unlisted Harbin Electric Group; regarding the Loan Services, the cap for the accumulated maximum daily balance of loan services provided by Finance Company to the Unlisted Harbin Electric Group is RMB170,000,000 (equivalent to approximately HK\$188,748,376); the annual transaction caps for fees and commissions for Other Financial Services are RMB3,000,000 (equivalent to HK\$3,330,854).

LISTING RULES IMPLICATIONS

Since Harbin Electric is the controlling shareholder of the Company, pursuant to Chapter 14A of the Listing Rules, Harbin Electric is a connected person of the Company. The Company therefore entered into the Financial Services Framework Agreement with Harbin Electric, and the provision of financial services through Finance Company to the Unlisted Harbin Electric Group constitutes a continuing connected transaction of the Company. As:

- (1) the interest rates of the Depository Services provided by Finance Company to the Unlisted Harbin Electric Group are at fair and reasonable market rates and on normal commercial terms, which are the prevailing interest rates applicable to the same depository services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group, and no security by the assets of the Company is provided, therefore they provision of Deposit Services shall be fully exempt from shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules;
- (2) the fees and commissions for Other Financial Services provided by Finance Company to the Unlisted Harbin Electric Group were determined at fair and reasonable market prices and on normal commercial terms, which are the prevailing interest rates applicable to the same type of services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group. As all applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction caps for fees and commissions will not exceed 0.1%, the provision of the other Financial Services shall be fully exempt from shareholders' approval, annual review and all disclosure requirements in accordance with Rule 14A.76 (1) of the Listing Rules; and
- (3) with regard to the provision of Loan Services to the Unlisted Harbin Electric Group by Finance Company, the highest applicable ratio (as defined in the Listing Rules) in respect of the caps for the accumulated maximum daily balance of loan services provided by Finance Company to the Unlisted Harbin Electric Group are less than 5%. As such, the Company is subject to the reporting and announcement requirements in respect of the Financial Services Framework Agreement under Chapter 14A of the Listing Rules, but is exempt from the circular (including independent financial advice) and shareholders' approval requirements.

INTRODUCTION

References are made to the announcements of the Company dated 9 December 2016 and 22 February 2017 in relation to the entering into the Original Financial Services Framework Agreement and the Supplemental Agreement to the Financial Services Framework Agreement between the Company and Harbin Electric. The Board hereby announces that since the Original Financial Services Framework Agreement and the Supplemental Agreement to the Financial Services Framework Agreement will expire on 30 December 2019, the Company and Harbin Electric have, on 24 December 2019, entered into the new Financial Services Framework Agreement, pursuant to which the Company will, within three years, provide the Unlisted Harbin Electric Group with the Depository Services, Loan Services and Other Financial Services through Finance Company, a subsidiary of the Company, at fair and reasonable market prices and on normal commercial terms. In particular, regarding the Depository Services, no annual caps shall be set for the accumulated maximum daily deposit balance deposited with Finance Company by the Unlisted Harbin Electric Group; regarding the Loan Services, the cap for the accumulated maximum daily balance of loan services provided by Finance Company to the Unlisted Harbin Electric Group is RMB170,000,000 (equivalent to approximately HK\$188,748,376); the annual transaction caps for fees and commissions for Other Financial Services are RMB3,000,000 (equivalent to HK\$3,330,854).

PRINCIPAL TERMS OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Date

24 December 2019

2. Parties

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

3. Term of the Financial Services Framework Agreement

Commencing from 31 December 2019 and ending on 30 December 2022.

4. Subject Matter of the Financial Services Framework Agreement

Pursuant to the Financial Services Framework Agreement, Finance Company, a subsidiary of the Company, will provide the following Financial Services to the Unlisted Harbin Electric Group:

(i) Depository Services

Placing deposit by the Unlisted Harbin Electric Group.

(ii) Loan Services

Provision of guarantees for the Unlisted Harbin Electric Group; provision of bills acceptance and discounting services for the Unlisted Harbin Electric Group; provision of the Loan Services (including the loans provided by Finance Company to the Unlisted Harbin Electric Group and the entrusted loans provided by the Group through Finance Company to the Unlisted Harbin Electric Group) and finance leasing services for the Unlisted Harbin Electric Group.

(iii) Other Financial Services

Provision of financial and financing advice, credit assurance and relevant consulting and agency services for the Unlisted Harbin Electric Group; assisting the Unlisted Harbin Electric Group in the receipt and payment of transaction monies; entrusted loans and entrusted investments among the members of the Unlisted Harbin Electric Group; internal transfer and settlement among the members of the Unlisted Harbin Electric Group and formulation of proposals for the corresponding settlement and clearing.

The Unlisted Harbin Electric Group has the right to select financial institutions to provide financial services based on its own business needs and the right to determine the type and amount of financial services at its own discretion. The Unlisted Harbin Electric Group is not obliged to accept such Financial Services from Finance Company.

The Company may request the Unlisted Harbin Electric Group to provide pledge of assets or other guarantees when utilising the credit facility within the relevant limit.

5. Pricing Policy

(i) Depository Services

The interest rates of the Depository Services provided by Finance Company to the Unlisted Harbin Electric Group are at fair and reasonable market rates and on normal commercial terms, which are the prevailing interest rates applicable to the same depository services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group.

(ii) Loan Services

The interest rates or charges of the Loan Services provided by Finance Company to the Unlisted Harbin Electric Group are at fair and reasonable market rates and on normal commercial terms, which are the prevailing interest rates or rates applicable to the same loan services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group.

(iii) Other Financial Services

The fees and commissions for the Other Financial Services provided by Finance Company to the Unlisted Harbin Electric Group are at fair and reasonable market rates and on normal commercial terms, which are the rates applicable to the same type of services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group.

6. Annual Caps

(i) Depository Services

There shall be no annual caps set for the accumulated maximum daily deposit balance deposited with Finance Company by the Unlisted Harbin Electric Group.

(ii) Loan Services

The proposed annual caps for the Loan Services are set out as follows:

	Period from 31 December 2019 to 30 December 2020	Period from 31 December 2020 to 30 December 2021	Period from 31 December 2021 to 30 December 2022
The accumulated maximum daily balance of loan services provided to the Unlisted Harbin Electric Group by Finance Company	RMB170,000,000	RMB170,000,000	RMB170,000,000

Transaction caps and actual transaction amounts of the Loan Services for the past three years:

	Period from 31 December 2016 to 30 December 2017	Period from 31 December 2017 to 30 December 2018	Period from 31 December 2018 to 30 December 2019
The caps for the accumulated maximum daily balance of loan services provided to the Unlisted Harbin Electric Group in Finance Company	RMB220,000,000	RMB220,000,000	RMB220,000,000
The accumulated maximum daily balance of loan services actually occurred for the provision of loan services to the Unlisted Harbin Electric Group in Finance Company	RMB200,000,000	RMB190,000,000	RMB191,400,000

The proposed annual caps for the Loan Services were determined based on the actual transaction amounts for the past three years and the expected business development of Finance Company.

(iii) Other Financial Services

The proposed annual caps in respect of the fees and commissions for Other Financial Services are set out as follows:

	Period from 31 December 2019 to 30 December 2020	Period from 31 December 2020 to 30 December 2021	Period from 31 December 2021 to 30 December 2022
Fees and commissions for Other Financial Services	RMB3,000,000	RMB3,000,000	RMB3,000,000

REASONS AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. The provision of the Financial Services to the Unlisted Harbin Electric Group is beneficial to the business development of Finance Company, strengthens the presence of Finance Company in the financial industry and allows Finance Company to better facilitate the development of the Company's core businesses;
2. Placing deposit by the Unlisted Harbin Electric Group is regarded as financial assistance from Harbin Electric to the Company, which is conducive to the development of the businesses of Finance Company and the Company's core businesses;
3. The provision of the Loan Services and Other Financial Services is a conventional business of Finance Company. By providing services to the Unlisted Harbin Electric Group, Finance Company will be able to improve its revenue, and the Company, through its 91% equity interest in Finance Company, will also be able to gain revenue.

INFORMATION ABOUT THE PARTIES

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, hydropower 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. Its ultimate beneficial owner is The State-owned Assets Supervision and Administration Commission of the State Council.

Finance Company is a subsidiary of the Company. As at the date of this announcement, the Group holds 91% equity interest in Finance Company and Harbin Electric holds the remaining 9% equity interest in Finance Company, Finance Company engages mainly in the provision of the Depository Services, Loan Services and Other Financial Services.

The Board (including Independent Non-executive Directors) is of view that the terms of the Financial Services Framework Agreement are fair and reasonable, and that the transaction was entered into in the Company's ordinary and usual course of business on normal commercial terms or better, as well as in the interest of the Company and its shareholders as a whole.

None of the Directors is materially interested in the Financial Services Framework Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board's resolutions in relation to the Financial Services Framework Agreement and the transactions contemplated thereunder.

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

LISTING RULES IMPLICATIONS

Since Harbin Electric is the controlling shareholder of the Company, pursuant to Chapter 14A of the Listing Rules, Harbin Electric is a connected person of the Company. The Company therefore entered into the Financial Services Framework Agreement with Harbin Electric, and the provision of financial services through Finance Company to the Unlisted Harbin Electric Group constitutes a continuing connected transaction of the Company. As:

- (1) the interest rates of the Depository Services provided by Finance Company to the Unlisted Harbin Electric Group are at fair and reasonable market rates and on normal commercial terms, which are the prevailing interest rates applicable to the same depository services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group, and no security by the assets of the Company is provided, therefore the provision of Deposit Services shall be fully exempt from shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules;
- (2) the fees and commissions for Other Financial Services provided by Finance Company to the Unlisted Harbin Electric Group were determined at fair and reasonable market prices and on normal commercial terms, which are the prevailing interest rates applicable to the same type of services provided by general commercial banks in the PRC to the Unlisted Harbin Electric Group. As all applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction caps for fees and commissions will not exceed 0.1%, the provision of the other Financial Services shall be fully exempt from shareholders' approval, annual review and all disclosure requirements in accordance with Rule 14A.76 (1) of the Listing Rules; and
- (3) with regard to the provision of Loan Services to the Unlisted Harbin Electric Group by Finance Company, the highest applicable ratio (as defined in the Listing Rules) in respect of the caps for the accumulated maximum daily balance of loan services provided by Finance Company to the Unlisted Harbin Electric Group are less than 5%. As such, the Company is subject to the reporting and announcement requirements in respect of the Financial Services Framework Agreement under Chapter 14A of the Listing Rules, but is exempt from the circular (including independent financial advice) and shareholders' approval requirements.

DEFINITIONS

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;
“Depository Services”	placing deposit with Finance Company by the Unlisted Harbin Electric Group;
“Director(s)”	the director(s) of the Company;
“Finance Company”	哈爾濱電氣集團財務有限責任公司(HE Finance Company Limited), a subsidiary of the Company. As at the date of this announcement, the Group holds 91% equity interest in Finance Company and Harbin Electric holds the remaining 9% equity interest in Finance Company;
“Financial Services Framework Agreement”	the Financial Services Framework Agreement dated 24 December 2019 entered into between the Company and Harbin Electric;
“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;

“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Independent Non-executive Director(s)”	the independent non-executive director(s) of the Company;
“Independent Shareholder”	has the meaning ascribed to it under the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Services”	the loan services to be provided by Finance Company to the Unlisted Harbin Electric Group, including provision of guarantees for the Unlisted Harbin Electric Group, provision of bills acceptance and discounting services for the Unlisted Harbin Electric Group; and provision of the Loan Services (including the loans provided by Finance Company to the Unlisted Harbin Electric Group and the entrusted loans provided by the Group through Finance Company to the Unlisted Harbin Electric Group) and finance leasing services for the Unlisted Harbin Electric Group;
“Original Financial Services Framework Agreement”	the Financial Services Framework Agreement dated 9 December 2016 entered into between the Company and Harbin Electric and to be expired on 30 December 2019;
“Other Financial Services”	provision of financial and financing advice, credit assurance and relevant consulting and agency services to be provided by Finance Company to the Unlisted Harbin Electric Group; assisting the Unlisted Harbin Electric Group in the receipt and payment of transaction monies; entrusted loans and entrusted investments among the members of the Unlisted Harbin Electric Group; internal transfer and settlement among the members of the Unlisted Harbin Electric Group and formulation of proposals for the corresponding settlement and clearing;
“PRC”	the People’s Republic of China;

“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
Harbin Electric Company Limited
Si Ze-fu
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, 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.