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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)

On 14 February 2020, the Company entered into the EPC Framework Agreement with Harbin Electric, pursuant to which the Company (through its wholly-owned subsidiary, Harbin Electric International) agreed to provide the EPC Services to the Unlisted Harbin Electric Group subject to and upon the terms and conditions set out in the EPC Framework Agreement.

Since Harbin Electric is a controlling shareholder of the Company, it and its subsidiaries (other than the Group) are connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the EPC Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As certain applicable percentage ratio(s) in respect of the proposed Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the transactions contemplated under the EPC Framework Agreement are subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened at which ordinary resolution(s) will be proposed to approve, among others, the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. A circular containing, among others, details of the EPC Framework Agreement, a letter from the Independent Board Committee and a letter of advice from the Independent Financial Adviser together with the notice of EGM will be despatched to the Shareholders on or before 6 March 2020 in accordance with the Listing Rules.

On 14 February 2020, the Company entered into the EPC Framework Agreement with Harbin Electric, pursuant to which the Company (through its wholly-owned subsidiary, Harbin Electric International) agreed to provide the EPC Services to the Unlisted Harbin Electric Group subject to and upon the terms and conditions set out in the EPC Framework Agreement.

The principal terms and conditions of the EPC Framework Agreement are set out below:

14 February 2020

1. The Company; and
2. Harbin Electric.

Subject to the fulfillment of the conditions set out below, the EPC Framework Agreement shall have a term commencing from the date on which the Company obtained approval of the Independent Shareholders at the EGM in respect of, inter alia, the EPC Framework Agreement and the transactions contemplated thereunder and ending on 31 December 2022, which may be renewed after expiry subject to the compliance with all applicable laws and regulations (including the Listing Rules), the setting of new annual caps (if applicable) and the entering into of a new framework agreement.

Pursuant to the EPC Framework Agreement, the Company (through its wholly-owned subsidiary, Harbin Electric International) agreed to provide the EPC Services, which consist of the contracting and the provision of related services for the whole process or certain stages of the engineering construction projects, including but not limited to the design, procurement, construction and trial operation, to the Unlisted Harbin Electric Group from time to time according to their needs arising from their ordinary course of business at fair and reasonable market prices and on normal commercial terms.

The Unlisted Harbin Electric Group has the right to engage other EPC service providers of their choice according to their business needs and is not obliged to engage the Group for the provision of the EPC Services. At the same time, the Group is not obliged to accept orders from the Unlisted Harbin Electric Group for the provision of the EPC Services.

The EPC Framework Agreement is conditional upon the parties thereto having duly executed the EPC Framework Agreement and the Company having obtained approval of the Independent Shareholders at the EGM in respect of the EPC Framework Agreement and the transactions contemplated thereunder.

Pursuant to the EPC Framework Agreement, the prices and payment terms for the transactions contemplated under the EPC Framework Agreement shall be fair and reasonable and determined with reference to the market price and terms.

For the purposes of ascertaining the market price and terms, the Group will make reference to the market price and charging basis applicable to the EPC Services of the same or similar type provided by the Group to Independent Third Parties on normal commercial terms, and will take into account any comparable transactions of the same or similar type provided by the Group to Independent Third Parties within the same or a recent period of time.

As confirmed by the Company, the prices for the EPC Services provided to the customers are based on the estimated costs for the EPC projects as a whole plus a reasonable profit margin. In general, EPC procuring parties select their EPC service providers by way of a tender process. Harbin Electric International will first understand the specifics of the EPC Services to be provided, which are usually set out in the tender request documents. Different projects, such as power plants for different power types with different size, will involve different kinds and extent of services. Harbin Electric International will then determine the estimated EPC Services involved with details of the types of services involved and timing of providing such services. Based on the design, equipment and construction requirements of the EPC projects, Harbin Electric International will determine the amounts of internal and external costs associated. Internal costs mainly include expenses for employees for the project management, while external costs mainly include costs paid to different contractors for provision of different services such as design and construction services and provision of equipment. Steps for ascertaining these costs and providing its fee quotation will be set out in the Circular.

Pursuant to the EPC Framework Agreement, the Company will also implement an internal control mechanism to monitor the pricing for transactions of the same or similar type in the market, in order to ensure the fairness and reasonableness of the prices for the transactions entered into pursuant to the EPC Framework Agreement from time to time, and that the actual price and terms for the transactions between the Group and the Unlisted Harbin Electric Group will be no less favourable to the Company than those provided to Independent Third Parties for transactions of the same or similar type. In the event that such price and terms for the transactions between the Group and the Unlisted Harbin Electric Group are less favourable to the Company than those provided to Independent Third Parties, the Company will negotiate with the Unlisted Harbin Electric Group to ensure that such price and terms will not be less favourable.

Further details of the internal control mechanism will be set out in the Circular.

The payment terms will be specified in the agreements to be entered into by the relevant parties and determined in accordance with usual market practices and similar projects in the past.

As confirmed by the Company, payment is usually divided into three parts, namely prepayment, progress payment and payment for the warranty of quality, as follows:

- (i) a prepayment of approximately 10% of the total contract price is usually payable by the EPC procuring parties to Harbin Electric International after the execution of the agreement for EPC projects;
- (ii) during the EPC project, progress payments in the aggregate of approximately 80% of the total contract price is usually payable in instalments according to the progress of the project (i.e. the progress of the design, equipment manufacturing and installation, and construction works respectively); and
- (iii) payment for the warranty of quality of approximately 10% of the total contract price is usually payable upon the completion of the project and the expiry of the quality warranty period.

The proposed Annual Caps are as follows:

|                                                                              | f<br>1,000,000,000 | f<br>1,000,000,000 | f<br>1,000,000,000 |
|------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
|                                                                              | 2020               | 2021               | 2022               |
| Provision of EPC Services by the Group to the Unlisted Harbin Electric Group | RMB 1,000,000,000  | RMB 1,000,000,000  | RMB 1,000,000,000  |

The provision of the EPC Services by the Group to the Unlisted Harbin Electric Group under the EPC Framework Agreement is a new transaction to be conducted between the parties. As such, there are no historical transaction amounts. The Annual Caps have been determined with reference to the estimated amount of the EPC Services that may be provided to the Unlisted Harbin Electric Group each year.

An EPC project for power plants involves design, equipment procurement and construction works, which amounts to a large contract sum and can usually cost several hundred million RMB for a single project, therefore requiring relatively higher Annual Caps. Upon communication with Harbin Electric, it is expected that Harbin Electric will develop a number of power plant projects through investment on its own or jointly with other third parties gradually in the coming three years. Harbin Electric International intends to take part in the tender process for the abovementioned projects and may provide the EPC Services to the Unlisted Harbin Electric Group upon being selected as the EPC service provider.

When determining the Annual Caps, the Company has considered the following bases and assumptions when estimating the contract amounts of the EPC Services that may be provided and billed by Harbin Electric International to the Unlisted Harbin Electric Group for each of the three years ending 31 December 2022:

(i) Upon communication with the Unlisted Harbin Electric Group, it is expected that the Unlisted Harbin Electric Group is planning to develop several power stations over the years from 2020 to 2022, which would require EPC Services in power stations construction. Such developments will either be carried out solely by its own or through joint venture arrangements with other industry players. The Company expects that certain of the projects with joint venture arrangements would be carried out by the Unlisted Harbin Electric Group as

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International, estimated the impact of possible changes of timetable to the timing of the progress payments. During discussion with the Unlisted Harbin Electric Group, the Company also understood that the involvement of the Unlisted Harbin Electric Group in certain planned projects will be subject to further discussions with the business partners. Accordingly, the number of EPC projects that may constitute continuing connected transactions of the Group may also change. Furthermore, based on the experience of the Company's management in the industry, the Company is of the view that there may be possible fluctuation for the price of EPC projects in the future. As such, considering the possibility of the increase in the number of future EPC projects which constitute continuing connected transactions of the Group, and the possibility of EPC project price fluctuation, the Company has allowed a buffer of approximately 10% when determining the proposed Annual Caps.

Having regard to the above, the Company has therefore considered it reasonable to set the Annual Caps at RMB1 billion.

## MANUFACTURING OF POWER-GENERATING EQUIPMENT

The Group is among the largest manufacturers of power-generating equipment in the PRC, and 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, etc..

Harbin Electric International is a wholly-owned subsidiary of the Company which is principally engaged in the business of providing EPC Services and complete equipment for thermal power plants, hydropower plants and combined-cycle power plants, contracting large scale power transmission and transformation facilities and public facilities, and providing comprehensive and professional after-sale services for power stations.

Harbin Electric is a 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.

The provision of EPC Services has been the principal business of Harbin Electric International and the provision of the EPC Services to the Unlisted Harbin Electric Group is beneficial for the business expansion and development of Harbin Electric International. In addition, the main focus of the EPC business of Harbin Electric International has always been on overseas markets, whereas the provision of the EPC Services to the Unlisted Harbin Electric Group will mainly target the PRC market which will allow Harbin Electric International to further understand the EPC market conditions in the PRC, improve its ability to execute projects in the PRC and bring positive impact to the development of the PRC market.

The Directors (excluding the independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) are of the view that the terms of the transactions contemplated under the EPC Framework Agreement (including the Annual Caps) are:

- (1) fair and reasonable;
- (2) entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and
- (3) in the interest of the Company and the Shareholders as a whole.

Harbin Electric, being a controlling shareholder of the Company holding 1,030,952,000 Domestic Shares, representing approximately 60.41% of the issued share capital of the Company as at the date of this announcement, is a connected person of the Company under the Listing Rules. The subsidiaries of Harbin Electric (other than the Group), being associates of Harbin Electric, are also connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the EPC Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As certain applicable percentage ratio(s) in respect of the proposed Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the transactions contemplated under the EPC Framework Agreement are subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The EGM will be convened at which ordinary resolution(s) will be proposed to approve, among others, the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. Harbin Electric and its associates will abstain from voting in relation to the ordinary resolution(s) to be put forward at the EGM for the purpose of approving the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

An Independent Board Committee, comprising all the independent non-executive Directors, will be established to advise the Independent Shareholders in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the same.

A circular containing, among others, details of the EPC Framework Agreement, a letter from the Independent Board Committee and a letter of advice from the Independent Financial Adviser together with the notice of EGM will be despatched to the Shareholders on or before 6 March 2020 in accordance with the Listing Rules.

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

|                              |                                                                                                                                                                                                                                                                             |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Annual Cap(s)”              | the maximum annual amount of the transactions contemplated under the EPC Framework Agreement to be transacted for each of the three years ending 31 December 2022;                                                                                                          |
| “associate(s)”               | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                     |
| “Board”                      | the board of Directors;                                                                                                                                                                                                                                                     |
| “Circular”                   | the circular to be issued by the Company to the Shareholders containing, among others, details of the EPC Framework Agreement, a letter from the Independent Board Committee and a letter of advice from the Independent Financial Adviser together with the notice of EGM; |
| “Company”                    | 哈爾濱電氣股份有限公司(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;                                                                              |
| “connected person(s)”        | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                     |
| “controlling shareholder(s)” | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                     |

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|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Director(s)”                   | the director(s) of the Company;                                                                                                                                                                                                                                    |
| “Domestic Share(s)”             | the ordinary unlisted domestic share(s) with a nominal value of RMB1.00 each in the issued share capital of the Company;                                                                                                                                           |
| “EGM”                           | the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps;                                               |
| “EPC”                           | engineering procurement and construction;                                                                                                                                                                                                                          |
| “EPC Framework Agreement”       | the framework agreement dated 14 February 2020 entered into between the Company and Harbin Electric in respect of, among others, the provision of EPC Services from the Group to the Unlisted Harbin Electric Group;                                               |
| “EPC Services”                  | the EPC services, which consist of the contracting and the provision of related services for the whole process or certain stages of the engineering construction projects, including but not limited to the design, procurement, construction and trial operation; |
| “Group”                         | the Company and its subsidiaries;                                                                                                                                                                                                                                  |
| “Harbin Electric”               | 哈爾濱電氣集團有限公司(Harbin Electric Corporation Co., Ltd.*), a wholly state-owned enterprise and a controlling shareholder of the Company;                                                                                                                                 |
| “Harbin Electric International” | 哈爾濱電氣國際工程有限責任公司(Harbin Electric International Engineering Co., Ltd.*), a wholly-owned subsidiary of the Company;                                                                                                                                                   |
| “H Share(s)”                    | the ordinary share(s) with a nominal value of RMB1.00 each in the issued share capital of the Company which are listed on the Main Board of the Stock Exchange;                                                                                                    |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC;                                                                                                                                                                                                            |

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Independent Board Committee”   | an independent committee of the Board established for the purpose of reviewing the EPC Framework Agreement and the transactions contemplated thereunder;                                                                                                                                                                                                                                       |
| “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 with regard to the EPC Framework Agreement and the transactions contemplated thereunder; |
| “Independent Shareholder(s)”    | the Shareholder(s) other than Harbin Electric and its associates;                                                                                                                                                                                                                                                                                                                              |
| “Independent Third Party(ies)”  | party(ies) who and whose ultimate beneficial owners are third parties independent of the Group and connected persons of the Group;                                                                                                                                                                                                                                                             |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time;                                                                                                                                                                                                                                                                                |
| “percentage ratio(s)”           | the percentage ratio(s) under Rule 14.07 of the Listing Rules, other than the profits ratio and the equity capital ratio;                                                                                                                                                                                                                                                                      |
| “PRC”                           | the People’s Republic of China but excluding, for the purposes of this announcement, Hong Kong, the Macau Administrative Region of the PRC and Taiwan;                                                                                                                                                                                                                                         |
| “RMB”                           | Renminbi, the lawful currency of the PRC;                                                                                                                                                                                                                                                                                                                                                      |
| “SFO”                           | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;                                                                                                                                                                                                                                                                            |
| “Share(s)”                      | the Domestic Share(s) and the H Share(s);                                                                                                                                                                                                                                                                                                                                                      |
| “Shareholder(s)”                | the holder(s) of the Shares;                                                                                                                                                                                                                                                                                                                                                                   |

|                                  |                                                              |
|----------------------------------|--------------------------------------------------------------|
| “Stock Exchange”                 | The Stock Exchange of Hong Kong Limited;                     |
| “Unlisted Harbin Electric Group” | Harbin Electric and its subsidiaries (other than the Group); |
| “%”                              | per cent.                                                    |

\* *For identification purposes only*

By Order of the Board

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*Chairman*

Harbin, the PRC  
14 February 2020

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