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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)

CONNECTED TRANSACTIONS — TRANSFER OF EQUITY IN KUNMING COMPANY BY MACHINERY COMPANY

The Company hereby announces that, on 25 March 2016, the board of directors (the “Board”) of Harbin Electric Company Limited (the “Company”) reviewed and approved the transfer of 55.64% equity in Harbin Electrical Machinery (Kunming) Company Limited (哈爾濱電機廠(昆明)有限責任公司) (“Kunming Company”) held by Harbin Electrical Machinery Company Limited (哈爾濱電機廠有限責任公司) (“Machinery Company”), a subsidiary of the Company, to Harbin Electric Corporation (哈爾濱電氣集團公司) (“Harbin Electric”).

Harbin Electric is the controlling shareholder of the Company and connected person of the Company under the Listing Rules. Machinery Company is a subsidiary of the Company. As such, the transfer of 55.64% equity in Kunming Company by Machinery Company to Harbin Electric (the “Transfer of Equity in Kunming Company”) constitutes a connected transaction of the Company. As the applicable percentage ratio regarding such transfer calculated under the Listing Rules is less than 5%, the Company is subject to the reporting and announcement requirements in relation to the Transfer of Equity in Kunming Company but is exempt from the 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 Transfer of Equity in Kunming Company or is required to abstain from voting on resolutions of the Board to approve the Transfer of Equity in Kunming Company and the transactions contemplated thereunder.

The independent directors of the Company has reviewed the Transfer of Equity in Kunming Company and considered that the Transfer of Equity in Kunming Company is in the interest of the Company as a whole.

I. PARTIES AND SUBJECT

Purchaser:	Harbin Electric.
Vendor:	Machinery Company.
Subject:	the 55.64% equity in Kunming Company proposed to be transferred to Harbin Electric by Machinery Company.
Date of transaction:	the Transfer of Equity in Kunming Company will be effected upon approval of the Board.

II. BACKGROUND OF KUNMING COMPANY

Kunming Company was incorporated in 1996 as a holding subsidiary of 昆明電機廠 under Kunming SASAC, the principal products of which were small-to-medium size hydropower generation equipment. In 2010, Kunming Company was merged into Harbin Electric. In 2011, Machinery Company contributed RMB250 million to Kunming Company and became the controlling shareholder. Currently, Machinery Company, Harbin Electric and 昆明產業開發投資有限責任公司 hold equity in Kunming Company as to 55.64%, 34.63% and 9.73%, respectively.

The assets, financial and operational conditions of Kunming Company in the latest three years are as follows:

Unit: ten thousand RMB

Item	As at	As at	As at
	31 December 2013	31 December 2014	31 December 2015
Total assets	91,333.71	85,273.79	78,872.10
Total liabilities	52,690.81	53,130.25	55,801.22
Net assets	38,642.90	32,143.55	23,070.88
Operational Income	47,065.01	41,906.79	30,379.37
Operational profit	-337.42	-7,009.27	-9,155.35
Net profit	692.45	-6,702.81	-9,006.37

III. REASONS FOR THE TRANSFER OF EQUITY IN KUNMING COMPANY

In recent years, the market of small-to-medium size hydropower generation products in the PRC experienced material changes, accompanied by excessive supply by manufacturers, intensified competitions and dropping prices of products in the industry, all of which together led to a significant loss making by Kunming Company. The transfer of equity in Kunming Company shall mitigate the operational risks faced by Machinery Company.

IV. METHOD AND CONSIDERATION OF TRANSFER

(1) Method of transfer

The transaction shall be conducted by way of transfer agreement.

(2) Consideration of the transfer

Based on the valuation report dated 31 December 2015 issued by Pan-China Assets Valuation Co., Ltd in Heilongjiang (黑龍江眾華資產評估有限公司), the appraised value of the entire equity in Kunming Company is RMB313,638,300. The consideration of the transfer of the 55.64% equity in Kunming Company held by Machinery Company is RMB174,508,400.

V. OTHER INFORMATION

The Company together with its subsidiary is one of the largest manufacturers of power plant equipment in the PRC, the principal activities of which include the manufacturing of thermal power main equipment, hydro power main equipment, nuclear power main equipment, gas power equipment and turnkey construction of power station projects.

Harbin Electric is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power plant equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

The transfer of the equity in Kunming Company to Harbin Electric by Machinery Company is subject to the relevant laws and procedures concerning state-owned enterprise and state-owned property rights transfer. Upon completion of the transfer, Machinery Company will no longer hold any equity in Kunming Company.

The directors of the Company (including the independent non-executive directors) are of the view that the terms of this connected transaction are:

- (1) fair and reasonable;
- (2) entered into in the Group's ordinary course of business and on normal commercial terms or more favourable terms; and
- (3) in the interest of the Company and its shareholders as a whole.

DEFINITIONS

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

“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;
“Board”	the board of Directors;
“controlling shareholder”	the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Harbin Electric”	Harbin Electric Corporation (哈爾濱電氣集團公司), a state-owned enterprise and the controlling shareholder of the Company;
“Machinery Company”	Harbin Electrical Machinery Company Limited (哈爾濱電機廠有限責任公司), a subsidiary of the Company;
“Kunming Company”	Harbin Electrical Machinery (Kunming) Company Limited (哈爾濱電機廠(昆明)有限責任公司), a subsidiary of Machinery Company;
“subsidiary(ies)”	the meaning ascribed to it under the Listing Rules;
“connected person(s)”	the meaning ascribed to it under the Listing Rules;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“Kunming SASAC”	Kunming Branch of State-owned Assets Supervision and Administration Commission (SASAC) of Yunnan Provincial People’s Government (雲南省昆明市國有資產監督管理委員會);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“RMB”	Renminbi, the lawful currency of the PRC.

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

Harbin, PRC
25 March 2016

As at the date of this announcement, the executive directors of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi; the non-executive director of the Company is Mr. Zou Lei; and the independent non-executive directors of the Company are Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Yu Wen-xing.