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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)

ANNOUNCEMENT FORMATION OF JOINT VENTURE COMPANY WITH GENERAL ELECTRIC (CHINA) CO., LTD.

FORMATION OF THE JV COMPANY WITH GE CHINA

The Board announced that on 14 March 2017, the Company entered into the joint venture enterprise agreement with GE China, accordingly, it was agreed that General Harbin Electric (Qinhuangdao) Gas Turbine Co., Ltd. (哈電通用(秦皇島)燃氣輪機有限公司) be established in Qinhuangdao, Hebei, the PRC, where it will be managed and operated pursuant to the terms of the JV Agreement.

The registered capital of the JV Company is RMB667,000,000 (equivalent to approximately HK\$750,000,000, with the Company and GE China (the “Parties”) each to contribute RMB333,500,000 (equivalent to approximately HK\$375,000,000 and be entitled to 50% of the registered capital of the JV Company.

LISTING RULES IMPLICATIONS

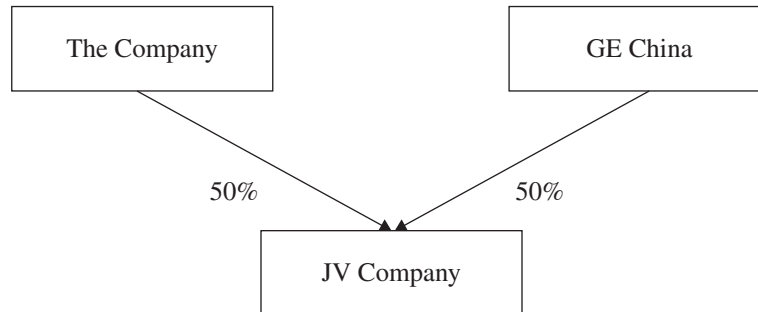
As the highest applicable percentage ratios (as defined under the Listing Rules) calculated under the Listing Rules in respect of the JV Agreement are more than 5% but less than 25%, the entering into of the JV Agreement with GE China and the formation of the JV Company constituted a discloseable transaction of the Company, and the Company is subject to the report and announcement requirements but exempt from the circular and shareholders' approval requirements for under Chapter 14 of the Listing Rules.

I. BACKGROUND OF THE JV COMPANY AND INVESTMENT DESCRIPTION

The primary reason for the formation of the JV Company by the Company and GE China is to extend greater economic collaboration and to seek the in-depth strategic cooperation in the field of power generation utilizing combined-cycle gas-turbine technology, and to establish the JV Company into a highly competitive gas turbine manufacturer in the PRC as well as overseas markets.

The Company and GE China will each contribute capital (in cash) amounting to RMB333,500,000 to the registered capital and will each be entitled to 50% of such registered capital of the JV Company.

The shareholding structure of the JV Company is set out below:



II. PRINCIPAL TERMS OF THE JV AGREEMENT

1. Business of the JV Company

Manufacturing of gas turbines and related components and spare parts, sale of original products; export, import, wholesale of and acting as commissions agent (other than in auctions) for such gas turbines and related components and parts, and the provision of technical support.

2. Parties to the JV Agreement

- (i) the Company; and
- (ii) GE China.

To the best knowledge of the directors having made all reasonable enquiries, both GE China and its ultimate beneficial owners are independent third parties.

3. Date and Term of the JV Agreement

The JV Agreement is entered into on 14 March 2017.

Operation of the JV Company is for a term of 15 years, beginning from the date of the JV Company's establishment until the date falling 15 years after its date of establishment. Unless the JV Company is terminated or dissolved earlier in accordance with relevant provisions of the JV Agreement, the Company and GE China should hold discussion and negotiate in goodwill concerning the continued development of the JV Company prior to the expiration of the joint venture period or any extension thereof. The joint venture period may be extended by mutual agreement between the JV Parties.

4. Condition Precedents to the JV Company Formation

The parties may only submit the JV Agreement and all other required application documents to State Administration of Industry and Commerce of the PRC or such designated local authority in-charge of the business registration of the JV Company and/or the Ministry of Commerce of the PRC or other designated local authority for registration, approval or filing of incorporation subject to the satisfaction of all the following conditions:

- (i) the signing by the JV Parties of memoranda of understanding (or equivalent preliminary transaction documents) in respect of the formation of joint ventures for the research and development of a modified version of the 9F gas turbine and for provision of gas turbines repair and maintenance services, where such memoranda of understanding or equivalent preliminary transaction documents shall at least include the shareholding structure, scope of business and timetable for establishment of such joint ventures;
- (ii) Both JV Parties having passed the anti-monopoly review process by the authority in commerce according to the “Anti-Monopoly Law of the PRC”; and
- (iii) Both JV Parties having reached a agreement in respect of relevant contracts referred to in the JV Agreement and having signed the relevant contracts.

In the event that the above conditions are not satisfied on 30 June 2017 or such other date agreed by the JV Parties, the JV Agreement will be terminated and shall not be submitted for registration, approval or filing. Unless otherwise agreed in the JV Agreement or by the JV Parties, neither party shall be liable to the other party for any liability under the JV Agreement or in relation to the establishment of the JV Company.

5. Shareholders’ contribution to the JV Company

The Company will contribute a total of RMB333,500,000 to the registered capital of JV Company, accounted for 50% thereof. GE China will also contribute a total of RMB333,500,000, accounted for 50% of the registered capital of the JV Company.

The Company and GE China will each make a payment of RMB133,400,000 as initial contribution within 90 days from the establishment of the JV Company, representing 40% of each of their total committed contribution. Subsequent contribution will be scheduled and fixed by reference to the business plan as approved by the board of directors of the JV Company, but in any event should be made not later than 5 years following the establishment of the JV Company.

Contribution of the JV Parties will be determined after arm’s length negotiation between the JV Parties with reference to the operation capital and other capital requirements of the JV Company.

6. The Board of Directors and Management Team of the JV Company

The board of directors of the JV Company (the “Board of JV Company”) will comprise 5 members. For the first 7 years in the joint venture term, 3 directors are to be appointed by GE China and 2 by the Company (including the chairman of the board); for the remaining 8 years in the joint venture term, 3 directors are to be appointed by the Company and 2 by GE China (including the chairman of the board). All directors will be appointed for a term of 3 years but may continue to hold office thereafter if being re-appointed by the appointing party.

Subject to as otherwise stated in the JV Agreement, the Articles of Association of the JV Company or in relevant contracts, any decisions shall be made by the Board of JV Company in a duly and lawfully convened Board meeting of the JV Company and decided by a simple majority of vote (either personally or by proxy) for that matter. However, any resolutions relating to, inter alia, amendments to the Articles of Association of the JV Company as set out in the JV Agreement may only be approved by unanimous vote for such resolution by all the directors (either personally or by proxy) attending the relevant Board meeting of the JV Company which has been duly and lawfully convened.

For the first 7 years in the joint venture term, the general manager and chief financial officer of the JV Company are to be appointed by GE China and the deputy general manager and deputy chief financial officer are to be appointed by the Company; starting from the 8th year of the joint venture term, the general manager and chief financial officer of the JV Company are to be appointed by the Company and the deputy general manager and deputy chief financial officer are to be appointed by GE China.

7. Sharing of Profit

Subject to fulfilling the relevant statutory requirements and working capital requirements, the JV Company shall make profit distribution to the contributing parties according to their shareholding percentage.

8. Cost of Development

- (i) In the event the Board of JV Company resolves to seek additional funding for the JV Company by way of capital increase, the Company and GE China shall be eligible to make extra contribution to the registered capital of the JV Company in the same proportion of their existing shareholding. If either party fail to pay all or any part of its contribution within 30 days after the deadline for the capital contribution as agreed in the capital increase agreement it has entered into, the other party shall be entitled to make the capital contribution instead. In this case the non-participating party will experience a dilution to its shareholdings in the JV Company. In such event, both joint venture parties shall be regarded as having grant their consents to such capital increase, and shall cause their representatives in the Board of JV Company to approve such capital increase. Both joint venture parties agree any future funding need of the JV Company will be met by fund raising in the form of capital increase or by other methods as may be approved by the Board of JV Company.
- (ii) As for liquidity, the JV Company may apply for loans from financial institutions by pledging assets of the JV Company as security subject to the provisions in the JV Agreement.
- (iii) If the JV Company is unable to raise its own funding, both JV Parties shall then make an commercially reasonable effort to help the JV Company in its fund raising exercise in accordance with their respective shareholding percentage, provided always that such financing proposal shall have been approved by the Board of JV Company. Unless otherwise agreed in writing, neither of the JV Parties are obliged to provide any security or guarantee to any financing to the JV Company.

9. Safety Affairs on Business Expansion

- (i) The JV Company shall procure comprehensive and sufficient insurance coverage for various kinds of risks from insurance companies in good standing in the PRC.
- (ii) The JV Company shall cause its board to adopt and require its entities to observe policies in relation to: (a) due and proper business operating process (including compliance of applicable laws and regulations against corruption and bribery), (b) complying the laws of the PRC against unfair competition, (c) prevention of conflict of interest, and (d) complying the law of the PRC concerning environment, health and safety.
- (iii) Other regulations on environment, health and safety.

10. Transfer

Without the consent of the other party, neither party shall sell, transfer, assign, pledge, gift or otherwise dispose of its entire or partial equity interest in the JV Company to any third party. After obtaining the prior consent from the other party, if the party (the “Proposed Vendor”) intends to transfer its entire or partial equity interest in the JV Company to a third party, the other party has the right to acquire the equity interest proposed to be transferred on conditions not more favourable to the purchaser than those set out in the transfer notice issued by the Proposed Vendor.

11. Default and Compensation

If either party is in breach of any representations, guarantees or obligations under the JV Agreement and such party does not remedy that breach within thirty days after the other party sending it a notice requiring it to remedy the breach, the defaulting party shall compensate the other party any losses that may be incurred by its defaulting act. The JV Parties further agree that if there is a delay in capital contribution by either of them, the non-defaulting party may require the defaulting party to pay an interest on the amount of the delayed payment at 0.01% per day. In the event that the JV Company ceases as a result of delay in capital contribution by either party, the non-defaulting party may require the defaulting party to compensate for all the costs and expenses incurred by it for the formation of the JV Company.

In no event shall a party be responsible or liable for any loss in profit or revenue or cost of capital, or any claim by customers of the JV Company on the above, or any special, consequential, incidental or indirect damage;

12. Effect of the JV Agreement

The JV Agreement will come into effect on the date where the board of directors of each of the Company and GE China approves the JV Agreement and transactions contemplated thereunder.

III. BENEFITS OF INVESTING IN THE JV COMPANY

- (i) The investment for the formation of the JV Company could further strengthen the production capacity and the ability in design, research and development in the fuel-fired generator segment of the Company, which shall be beneficial to the Company's development in the fuel-fired generators segment;
- (ii) the investment for the formation of the JV Company will enable the Company to gain access to the state-of-the-art technology in fuel-fired generator and to offer top quality products to the market. With domestic production of such products, cost reduction shall be achieved, thereby enhancing the competitiveness of the Company in the fuel-fired generator market;
- (iii) the investment for the formation of the JV Company will enable the Company in taking advantage of the opportunity emerged in the PRC's "13th Five-year plan" for expansion in usage of fuel-fired generator to increase the business scale and profit of the segment.

IV. INFORMATION ON THE COMPANY AND THE COUNTERPARTY

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.

GE China is an investment purpose company founded and wholly owned by General Electric Company in the PRC. Its scopes of business cover both industrial manufacturing and financial services and commands leading positions in a variety of business operations. The subsidiaries of GE China are engaged in, amongst others, aircraft engines, gas turbines, power generation, power distribution and transmission, oil and gas, water treatment, medical imaging diagnostic equipment, commercial financing and consumer financing as well as industrial products.

The directors of the Company considered that the terms of the JV Agreement:

- (1) are fair and reasonable; and
- (2) in the interest of the Company and its shareholders as a whole.

V. IMPLICATIONS OF THE LISTING RULES

As the highest applicable percentage ratios, as defined under the Listing Rules, in respect of the JV Agreement is higher than 5% but less than 25% in accordance with the Listing Rules, the entering into of the JV Agreement with GE China and establishment of the JV Company constitute a discloseable transaction of the Company. The Company is subject to the reporting and announcement requirements but exempted from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

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;
“Domestic Share(s)”	domestic share(s) of RMB1.00 each in the ordinary capital of the Company;
“Director(s)”	directors of the Company;
“GE China”	General Electric (China) Co., Ltd., a foreign-owned company for investment purpose established under the law of the PRC;
“H Share(s)”	overseas-listed foreign invested ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange;
“HK\$”	lawful currency of Hong Kong;
“Independent Third Party”	Third party who is independent of the Company and any of its connected parties (as defined under the Listing Rules) or their respective associates (as defined under the Listing Rules) and not connected to them;
“JV Agreement”	joint venture enterprise agreement entered into between the Company and GE China;
“JV Company”	General Harbin Electric (Qinhuangdao) Gas Turbine Co., Ltd. (哈電通用(秦皇島)燃氣輪機有限公司), a joint venture company formed by the Company and GE China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“RMB”	lawful currency of the People’s Republic of China;
“Share(s)”	the Domestic Shares and H Shares ;
“Shareholder(s)”	holders of the Shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“%”

percentage.

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

Harbin, PRC
14 March 2017

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 Mr. Song Shi-qi; and the Independent Non-executive Directors of the Company are Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Yu Wen-xing.