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# 哈尔滨动力设备股份有限公司

## HARBIN POWER EQUIPMENT COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

### CONTINUING CONNECTED TRANSACTIONS

Approved by the Board of directors held on 14 December 2010, the Company entered into the New Agreement with the Parent Company on 22 December 2010 which relates to the terms upon which (i) various welfare and support services are to be provided by the Group to the Parent Group and vice versa, and (ii) the sale and purchase of certain materials and accessory parts between the Group and the Parent Group, for the three financial years ending 31 December 2013.

Since Parent Company is a 50.93% shareholder of the Company, it is a connected person of the Company and therefore the transactions contemplated under the New Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As each of the New Annual Caps in respect of (i) provision of services by the Group to the Parent Group, (ii) provision of services by the Parent Group to the Group, (iii) sale of materials and accessory parts by the Group to the Parent Group, and (iv) purchase of materials and accessory parts by the Group from the Parent Group respectively does not exceed 5% of the applicable percentage ratios (under Rule 14.07 of the Listing Rules), no independent shareholders' approval of the Agreements is required pursuant to Rule 14A.34 of the Listing Rules. Details of the Agreements will be included in the annual report and accounts of the Company for each of the relevant financial years in accordance with Rule 14A.46 of the Listing Rules.

### BACKGROUND TO AND REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Members of the Group and the Parent Company and its subsidiaries have entered into the Existing Agreement on 21 January 2008, pursuant to which the Group has been providing to and receiving from the Parent Group certain welfare and support services. The Existing Agreement and the annual caps for the transactions contemplated there under were the subject of the Company's announcement dated 22 January 2008. While the Group has taken measures to reduce its requirements for welfare and support services from the Parent Group, the continuation of the receipt and provision of services between the Group and the Parent Group is nevertheless necessary.

In light of the business growth of the Group, the Group requires further materials accessory parts and processing services to sustain its business. The Directors consider the Parent Group has improved the quality of materials and services provided and is able to provide high quality materials and reliable services at a reasonable price. The Group may

also gain profits by selling certain spare raw materials or by products arising from the production process of the Group to the Parent Group.

The Existing Agreement has expired and the Directors therefore considered now an opportune moment to revisit the basis upon which the Group and the Parent Group would do business and the services/business activities to be covered, for the benefit of the Group. As a result approved by the Board of directors held on 14 December 2010, the Company and the Parent Company has entered into the New Agreement on 22 December 2010. The Directors consider it beneficial to the Group to consolidate the provision of services under the Existing Agreement and the new transactions of sale and purchase of materials and accessory parts for ease of management. The Directors (including the independent non-executive Directors) believe that the terms of the Agreement (including the New Annual Caps) are (i) on normal commercial terms, fair and reasonable, (ii) in the ordinary course of business of the Group, and (iii) in the interests of the Company and Shareholders as a whole.

## **THE NEW AGREEMENT AND THE NEW ANNUAL CAPS**

**Date:** 22 December 2010

**Parties:** (1) the Company; and  
(2) the Parent Company.

### **Mutual supply of services**

Pursuant to the terms of the New Agreement, the Group would provide to the Parent Group, among other things, electricity and the Parent Group would provide to the Group social services including, among other things, staff training, environmental services, maintenance, staff medical care, heat supply in staff dormitories and staff retirement management. The services are to be provided on substantially the same terms as the Existing Agreement.

### **Mutual supply of materials and accessory parts**

Pursuant to the terms of the New Agreement, the Group and the Parent Group would supply to each other materials and accessory parts.

### **Term**

The New Agreement shall be effective from 1 January 2011 and expire on 31 December 2013 (both days inclusive).

### **Major terms**

The fees payable in respect of the transactions contemplated under the New Agreement are to be fixed by reference to the applicable state price for the relevant service or product, and if there is no applicable state price, the market price of such service or product. The “market price” under the New Agreement is determined by reference to the prices of similar services or products provided by third parties in Harbin, or if such prices are not available, the actual cost for the provision of that service or product plus a 5% profit will apply.

Services or products provided between members of the Group and the Parent Group will be of a standard and subject to terms no less favourable than those on which it provides similar services or products to any third party (including its own employees) and that

members of the Group and the Parent Group will give priority to the others over any third party in relation to the provision of services and products. If any member of the Group or the Parent 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 better terms, it is entitled to terminate the relevant transaction by giving one month's notice.

### **Historical Values and New Annual Caps**

The transactions amount and caps of the past transactions based on the present agreement within three years from 2008 to 2010 are shown in the following table (Unit: RMB / Yuan):

Transaction items	Year ended 31 December 2008		Year ended 31 December 2009		Year ended 30 June 2010	
	Transaction Amount RMB	Annual Cap RMB	Transaction Amount RMB	Annual Cap RMB	Transaction Amount RMB	Annual Cap RMB
Provision of service to the Parent Group	9,537,000	8,775,000	9,712,000	8,775,000	5,472,000	8,775,000
Provision of service by the Parent Group	49,223,000	55,890,000	52,348,000	55,890,000	20,800,000	55,890,000
Sale of materials and accessory parts to the Parent Group		50,630,000		50,820,000	11,225,000	50,820,000
Purchase of materials and accessory parts from the Parent Group	219,369,000	225,220,000	125,426,000	224,560,000	65,716,000	222,760,000

Please refer to the corresponding annual and interim report of the Company for the details of the connected transactions listed in above table.

### **New Annual Caps**

The total consideration which is to be paid and received by the Group under the New Agreement will be subject to the following maximum amount for the next three financial years ending 31 December 2013:

Transaction items	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Provision of service by the Parent Group	89,062,800	90,574,800	98,386,800
Sale of materials and accessory parts to the Parent Group	106,212,000	124,176,000	135,168,000
Purchase of materials and accessory parts from the Parent Group	246,494,000	288,958,040	334,662,040

The above new annual caps has little increase compared to the annual caps within the three years from 2008 to 2010, which is mainly due to the new connected person of Harbin Electrical Machinery (Kunming) Co., Ltd.

### **GENERAL**

The Group is principally engaged in the business of manufacturing power plant equipment, its principal activities include manufacturing of (i) thermal power equipment; (ii) hydro power equipment; (iii) nuclear power main equipment; turn-key construction of power station projects and other engineering projects; contract supply of complete sets of thermal and hydro power equipment; import and export of power equipment; technology transfer, technical consultation and services; and environmental protection engineering services.

The Parent Company, together with its subsidiaries, was the oldest large-scale power plant equipment manufacturer in the PRC. The Parent Company holds, as at the date of this announcement, 50.93% of the issued share capital of the Company, and as a result a connected person of the Company.

As each of the New Annual Caps in respect of (i) provision of services by the Group to the Parent Group, (ii) provision of services by the Parent Group to the Group, (iii) sale of materials and accessory parts by the Group to the Parent Group, and (iv) purchase of materials and accessory parts by the Group from the Parent Group respectively does not exceed 5% of the applicable percentage ratios (under Rule 14.07 of the Listing Rules), no shareholders' approval of the New Agreement or transactions contemplated thereunder is required. Details of the New Agreement will be included in the annual report and accounts of the Company of each of the relevant financial years in accordance with Rules 14A.45 and 14A.46 of the Listing Rules.

## **DEFINITIONS**

The following defined terms are used in this Announcement:

“Company”	Harbin Power Equipment Company Limited, a company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange
“Board”	the board of Directors
“Connected Person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Agreement”	the services agreement dated 21 January 2008 between members of the Group and the Parent Company and its then subsidiaries (other than 哈电发电设备国家工程研究中心有限公司 (Harbin Power Equipment National Engineering Research Centre Co., Ltd.))
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Annual Caps”	the maximum value of the total consideration which is to be paid or received by the Group under the New Agreement for each of the three financial years ending 31 December 2013 as set out under “The New Agreement And The New Annual Caps”
“New Agreement”	the agreement dated 14 December 2010 between the Company and the Parent Company
“Parent Company”	哈尔滨电气集团公司 (Harbin Electric Corporation), a state-owned enterprise and the controlling shareholder of the Company
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)
“PRC”	the People's Republic of China
“Share(s)”	the overseas listed foreign invested shares of RMB1.00 each in the capital of the Company which are listed on the Stock Exchange
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board

**Harbin Power Equipment Company Limited**

Ma Sui

Company Secretary

22 December 2010, Harbin, PRC

At the date of this announcement, the Executive Directors of the Company are Mr. Gong Jing-kun, Mr. Zou Lei, Mr. Duan Hong-yi, Mr. Wu Wei-zhang and Mr. Shang Zhong-fu; and the Independent non-executive Directors are Mr. Sun Chang-ji, Mr. Jia Cheng-bing, Ms. Li He-jun, Mr. Yu Bo and Mr. Liu Deng-qing.