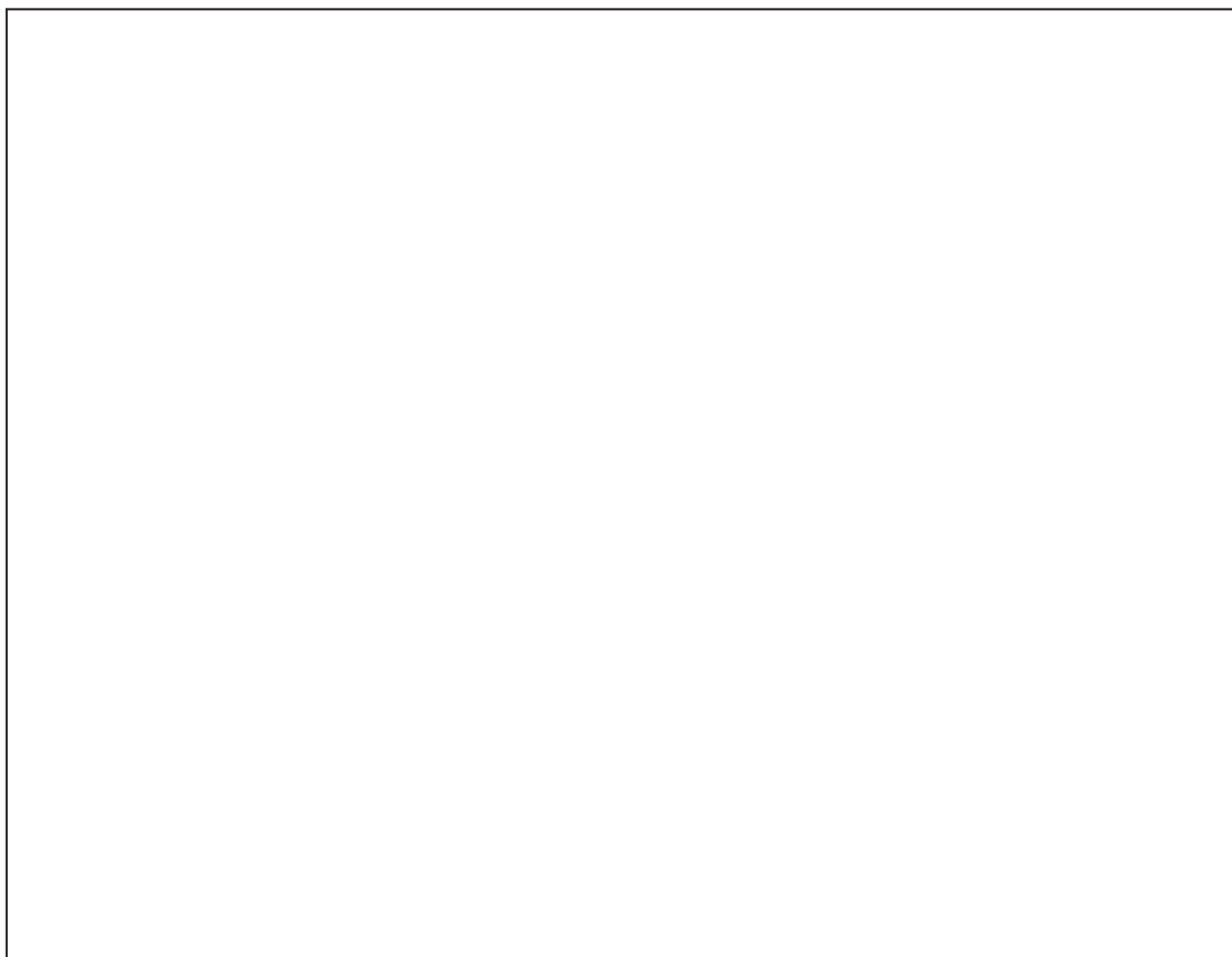


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HARBIN ELECTRIC CORPORATION



## 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.



