

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



# Harbin Power Equipment

有限公司

有限公司

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

(Stock Code: 1100)

FINANCIAL SERVICES FRAMEWORK AGREEMENT

## FORMATION OF FINANCE COMPANY

which shall be the obligation of the Company to set up a finance company with a registered capital of RMB 100,000,000, of which RMB 30,000,000 shall be contributed by the Company and RMB 70,000,000 shall be contributed by the other shareholders. The interest rate of the loan shall be 8% per annum, and the loan shall be repaid by the Company within 12 months.

to set up a finance company with a registered capital of RMB 100,000,000, of which RMB 30,000,000 shall be contributed by the Company and RMB 70,000,000 shall be contributed by the other shareholders.

## FINANCIAL SERVICES FRAMEWORK AGREEMENT

Agreement between the Company and the other shareholders for the formation of a finance company. The Company shall be responsible for the formation of the finance company, and the other shareholders shall contribute the remaining capital. The interest rate of the loan shall be 8% per annum, and the loan shall be repaid by the Company within 12 months.

## **LISTING RULES IMPLICATIONS**

Harbin Electric is the controlling shareholder of the Company and therefore the formation of the Finance Company with Harbin Electric pursuant to the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios are less than 2.5%, the transactions contemplated under the Capital Contribution Agreement is exempt from Independent Shareholders' approval requirements but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

As the Finance Company (once established) will be a subsidiary (and therefore an "associate" under the Listing Rules) of Harbin Electric, the Finance Company once established will be a connected person of the Company under the Listing Rules. The transactions contemplated under the Financial Services Framework Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Depository Services exceed 2.5% and the annual caps exceeds HK\$10,000,000, the Depository Services under the Financial Services Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Loan Services to be provided by the Finance Company to the Group is for the benefit of the Group on normal commercial terms (or better to the Group) where no security is granted over the assets of the Group in respect of the Loan Services, the Loan Services pursuant to the Financial Services Framework Agreement are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

As it is expected that each of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual service charges and fees payable for the Settlement Services and the Other Financial Services will not exceed 0.1%, such transactions are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

An independent board committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of terms of the Depository Services under the Financial Services Framework Agreement and the annual caps for the maximum value of the Depository Services to be received by the Group from the Finance Company for each of the years ending 31 December 2010, 2011 and 2012. The Company has appointed the IFA as an independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders in this regard.

A circular containing, among other things, further information on the Financial Services Framework Agreement and the transactions contemplated thereunder, a letter of advice from the independent board committee and a letter of recommendation from the independent financial adviser, and the notice of EGM will be despatched to the Shareholders in accordance with the Listing Rules.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Depository Service under the Financial Services Framework Agreement. Each of Harbin Electric and its associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

On 10 February 2010, CBRC granted the “Approval of the Preparation to Incorporate a Finance Company by Harbin Electric Corporation” (Yinjianfu [2010] No. 82). Harbin Electric has been approved to prepare for the incorporation of the Finance Company. The establishment of the Finance Company is subject to obtaining of the relevant approvals from the appropriate PRC authorities, including but not limited to the CBRC and the SAIC.

## **I. CAPITAL CONTRIBUTION AGREEMENT**

On 9th April 2010, the JV Parties entered into the Capital Contribution Agreement, the principal terms of which are set out below:

Date : 9th April 2010

Parties :

- (i) The Company;
- (ii) Harbin Electric;
- (iii) Harbin GeneratorsCo;
- (iv) Harbin BoilersCo;
- (v) Harbin TurbinesCo;
- (vi) Jiamusi ElectricCo;

Parties (iii), (iv) and (v) above are subsidiaries of the Company. Party (ii) above is the controlling shareholder of the Company and Party (vi) is a subsidiary of Party (ii).

Proposed name of the Finance Company : 哈爾濱電氣集團財務有限責任公司 (Harbin Electric Finance Company Limited\*)

Place of incorporation of the Finance Company: The PRC

Equity interest : The percentage of the equity interests in the Finance Company are to be held by the JV Parties as follows: –

- (i) the Company: 21%
- (ii) Harbin Electric: 51%
- (iii) Harbin GeneratorsCo: 8%
- (iv) Harbin BoilersCo: 8%
- (v) Harbin TurbinesCo: 8%
- (vi) Jiamusi ElectricCo: 4%

Registered capital: The initial registered capital of the Finance Company is proposed to be RMB300 million (approximately HK\$342 million), which shall be contributed by the JV Parties as follows:–

- (i) the Company: RMB63,000,000
- (ii) Harbin Electric: RMB153,000,000
- (iii) Harbin GeneratorsCo: RMB24,000,000
- (iv) Harbin BoilersCo: RMB24,000,000
- (v) Harbin TurbinesCo: RMB24,000,000
- (vi) Jiamusi ElectricCo: RMB12,000,000

Under the Capital Contribution Agreement, the Finance Company is required to set up a temporary bank account within 30 days after obtaining the pre-approval of name registration (名稱預先核准登記). Each of the JV Parties is required to contribute their respective capital commitment in full within 10 days from the date that bank account is set up.

As at the date of this announcement, none of the JV Parties has committed to provide any shareholders' loan or further capital contribution to the Finance Company.

Scope of business:

The purpose of the Finance Company is to create a non bank financial institution within the Harbin Electric Group to facilitate handling of the corporate funding and related finance activities of the Harbin Electric Group. The proposed scope of business of the Finance Company comprises the following:–

- (i) provision of finance services and financing consultancy services, credit verification and related consultancy and agency services to member companies;
- (ii) provision of assistance to member companies in payment and receipt of transaction proceeds;
- (iii) provision of approved insurance agency services;
- (iv) provision of guarantees to member companies;
- (v) dealing with entrusted loans and entrusted investments among member companies;
- (vi) provision of bill acceptance and bill discount services to member companies;
- (vii) provision of intra-group transfer and settlement services to member companies, and liquidation planning;
- (viii) provision of deposit services to member companies;
- (ix) provision of loans and finance leasing services to member companies;
- (x) inter-bank borrowing and lending; and
- (xi) other business as may be approved by the CBRC.

Board of directors:

The board of directors of the Finance Company shall comprise of seven (7) directors, of which (i) Harbin Electric and Jiamusi ElectricCo will have the right to appoint four directors; and (ii) the Company, Harbin GeneratorsCo, Harbin BoilersCo and Harbin TurbinesCo will have the right to appoint three directors.

Share of benefit and risks:	JV Parties shall be entitled to such benefit and shall bear such risk in proportion to their respective contribution to the registered capital in the Finance Company.
Voting rights:	Voting rights of the JV Parties shall be in proportion to their respective contribution to the registered capital in the Finance Company.
Term:	The Finance Company is to be a limited liability company in perpetuity. In accordance with PRC laws, the Finance Company will be established on the date of issue of its business licence.

### **Transferability**

If any of the JV Parties wishes to dispose of their respective equity interests in the Finance Company, the other JV Parties shall be entitled to pre-emptive rights to acquire any equity interest proposed to be disposed of by the other party.

### **Termination**

If for any reason the Finance Company cannot be established, the costs incurred in the course of setting up the Finance Company will be borne by the JV Parties in proportion to their respective contribution to the registered capital in the Finance Company and the Capital Contribution Agreement will be terminated.

## **II. FINANCIAL SERVICES FRAMEWORK AGREEMENT**

On 9th April 2010, the Company and Harbin Electric entered into the Financial Services Framework Agreement, the principal terms of which are set out below:

<b>Date :</b>	9th April 2010
<b>Parties:</b>	(i) The Company; and (ii) Harbin Electric
<b>Term:</b>	The Financial Services Framework Agreement shall be for a term of 3 years from the satisfaction of all of the following conditions precedent: –  (i) Independent Shareholder having approved the Financial Services Framework Agreement and the financial services provided pursuant to the Financial Services Framework Agreement;

- (ii) The Finance Company having obtained the Finance Permit (金融許可證) and the Enterprise Legal Person Business Licence (企業法人營業執照)

Subject to the compliance with applicable laws and the Listing Rules, the term of the agreement will upon expiry automatically be renewed for a further term of 3 years unless terminated by either party before the expiry of each term.

**Services:**

Pursuant to the Financial Services Framework Agreement, Harbin Electric will ensure the provision of the Financial Services to the Group at a fair and reasonable price and on normal commercial terms. Harbin Electric undertakes under the Financial Services Framework Agreement that the terms of any Financial Services to be provided by the Finance Company to the Group will be no less favourable than (i) those offered by independent third parties to the Group, and (ii) those offered by the Finance Company to independent third parties (excluding the Group). The Group is not under any obligation to obtain any or all of the Financial Services from the Finance Company and may obtain such Financial Services based on its business needs.

*Depository Services*

The Group may from time to time deposit money with the Finance Company pursuant to the Financial Services Framework Agreement. The Finance Company shall accept deposits from the Group at an interest rate not less than (i) the standard deposit rate promulgated by the PBOC from time to time, or (ii) the interest rate as may be offered by any independent third party to the Group for the same type of deposits. Money raised by the Company from equity issues on public offerings will be dealt with in accordance with applicable PRC laws.

Moneys deposited by the Company and its subsidiaries with the Finance Company may only be deployed for loans to members of the Group. To the extent not utilised for such purposes, the Finance Company may only deploy funds for services or products provided by PBOC or one or more other commercial banks in the ordinary course of its business.

*Loan Services*

The Group may from time to time request the Finance Company to provide Loan Services to them pursuant to the Financial Services Framework Agreement. The Finance Company shall provide such loan services to the Group at an interest rate not higher than (i) the standard lending rate promulgated by the PBOC reduced by a certain percentage of such rate as permitted by

The Group is entitled, to the extent permitted under the laws, to set-off any amount owing by the Group to the Finance Company against the deposits (including the accrued interest) placed by the Group with the Finance Company.

### **Proposed annual caps for the Depository Services**

The table below sets out the maximum cap for the value of Depository Services to be received by the Group (in respect of which Independent Shareholders' approval is proposed to be sought at the EGM) from the Finance Company for each of the years ending 31 December 2010, 2011 and 2012:–

*Table 1: Annual caps*

	<b>Year ending 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Receipt of Depository Services – Daily maximum outstanding balance of deposit (including accrued interest and handling fees)	7,000,000	7,000,000	7,000,000

There has been no prior similar transaction between the Harbin Electric Group and the Group. As at 31 December 2007, 31 December 2008 and 31 December 2009, the Group (including Harbin GeneratorsCo, Harbin BoilersCo, Harbin TurbinesCo) had cash deposits in commercial banks cash in the amount of approximately RMB9.8 billion, RMB10.8 billion and RMB14.7 billion, including unrestricted and unpledged cash deposits of approximately RMB9.6 billion, RMB10.3 billion and RMB14.2 billion. The annual caps for 2010, 2011 and 2012 have been set by reference to approximately 61.6% of the average unrestricted and unpledged cash of the Group over the last three years ending 31 December 2009. Given that the Group may not be able to enjoy the benefits of utilizing the Financial Services provided by the Finance Company if the annual caps are set too low and that it may not be in the interests of the Company and its Shareholders as a whole if the annual caps are set too high, the executive Directors (excluding the independent non-executive Directors whose views are to be included in the Shareholders' circular to be issued by the Company as mentioned in this announcement) are of the view that determining the annual caps in between the range of 50% to 100% of the Groups' average unrestricted and unpledged cash deposits over the last three years ending 31 December 2009 is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

Set out below is a summary of the Group's consolidated bank deposits, cash and cash equivalents, interest-bearing bank borrowings as extracted from the relevant annual reports and interim reports of the Company:

*Table 2: Group's deposits and borrowings*

	As at 31 December		As at 30 June	
	2008	2007	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Bank deposits	3,079,921	940,000	4,470,428	574,594
Cash and cash equivalents	7,221,676	8,681,542	7,292,224	7,886,309
Interest-bearing bank borrowings	4,405,818	4,763,279	4,380,026	4,083,702

In arriving at the above proposed annual caps set out in Table 1 above, in addition to the above reasons, the following factors have also been considered:

- (i) the amount of unrestricted and unpledged deposits the Group has placed with independent commercial banks as at 31 December 2007, 31 December 2008 and 31 December 2009;
- (ii) the utilization of the Depository Services when considered in the context of the Loan Services and the Settlement Services that are available to the Group can greatly facilitate deployment of surplus funds within the Group which can have a material impact as the business of the Group grows and its cash resources increase; and
- (iii) the possible favourable interest rate to be obtained by the Group from the Finance Company compared with interest rate that could otherwise be obtained by placing deposits with independent commercial banks.

As the Group is not under any obligations to place deposits in the Finance Company, the Directors are of the view that, through the Financial Services Framework Agreement, the Group can benefit from the flexibility in the allocation of its unrestricted cash should the terms be attractive to the Company, and the annual caps are fair and reasonable.

### **Internal Controls and Risk Management**

In order to safeguard the interests of the Shareholders, the Financial Services Framework Agreement provides for the following risk management measures:

- (i) to ensure security of the deposits made by the Group in the Finance Company, the Finance Company is required to make sure the safe operation of the deposit management information systems which have passed all safety tests in relation to online bank interfaces of commercial banks and reached safety standards of the PRC commercial banks and complied with the specifications under the CA safety certification;

- (ii) Harbin Electric has given a guarantee that the Finance Company shall be operated in strict compliance with the risk monitoring indicators required by the CBRC and the major risk monitoring indicators such as the gearing ratio and liquidity ratio of the Finance Company shall comply with the requirements of the CBRC and other applicable laws and regulations;
- (iii) a copy of each internal control report to be submitted by the Finance Company to the CBRC shall also be provided to the Company;
- (iv) if there occurs any circumstance that may affect the deposits placed by the Group with the Finance Company or any significant hidden risks which may undermine the safety of such deposits, the Finance Company shall inform the Group of the same within 2 working days from the date of such occurrence and adopt measures to prevent or minimise any loss. On receipt of such notice, the Group is entitled to forthwith withdraw the deposit (together with interests accrued thereon). If the deposits (together with interests accrued thereon) could not be withdrawn, the loans provided by the Finance Company shall be utilized to set off against such deposits;
- (v) the Finance Company will by 10 a.m. on each working day provide the Company with a daily report on the status of the Group's deposits with the Finance Company to allow the Company to monitor and ensure that the average daily deposit balance (including interests accrued thereon) with the Finance Company would not exceed the annual caps;
- (vi) the Finance Company will on the fifth working day of each month provide a monthly financial report of the previous month to the Company for review;
- (vii) Harbin Electric has given a guarantee to the CBRC that it will make further capital contributions in the event that the Finance Company has difficulty in fulfilling its payment obligations to ensure normal operation of the Finance Company;
- (viii) Harbin Electric irrevocably and unconditionally has provided a separate letter of undertaking to the Company that, where the Finance Company fails to pay any amounts when due or perform any of its obligations under the Financial Services Framework Agreement: –
  - (a) Harbin Electric will immediately pay such amounts and perform such obligations on demand of the Company as if Harbin Electric is the primary obligor;
  - (b) to the extent permitted under the laws, in the event that the amount owing by the Group to Harbin Electric and any of its members (other than the Group) does not exceed the outstanding capital and accrued interest of the deposits placed by the Group with the Finance Company in accordance with the Financial Services Framework Agreement, the Company is entitled to set off such amount owing by the Group to Harbin Electric and any of its members (other than the Group) against the deposits placed by the Group. Harbin Electric shall sign and procure any of its members (other than the Group) to sign any document to effect such agreement in relation to such set-off; and
  - (c) Harbin Electric will, on demand of the Company, promptly indemnify the Company for any losses suffered as a result of the non-performance of the Finance Company of its obligations under the Financial Services Framework Agreement, or invalidity or illegality of such obligations (which have caused any expenses, loss or liability incurred by the Group) due to any reason.

## **Reasons for, and benefits of, the Capital Contribution Agreement and the Financial Services Framework Agreement**

The Directors understand that since the Finance Company has not been established as at the date of the signing of the Financial Services Framework Agreement, provisions in the Financial Services Framework Agreement which sought to impose certain obligations on the Finance Company may be unenforceable in accordance with PRC laws.

Notwithstanding the terms of the Financial Services Framework Agreement may be unenforceable against the Finance Company, given that Harbin Electric (being the controlling shareholder of the Company which will also be interested in 51% of the equity interest in the Finance Company) agreed to procure the Finance Company to provide the Financial Services (including the Depository Services, Loan Services, Settlement Services and Other Financial Services) to the Group, the Directors (excluding the independent non-executive Directors whose views are to be included in the Shareholders' circular to be issued by the Company as mentioned in this announcement) considered that the terms of the Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition to the above reasons and having considered the reasons set out below, the Directors (in respect of the proposed maximum daily amount to be deposited with the Finance Company only, excluding the independent non-executive Directors whose views are to be included in the Shareholders' circular to be issued by the Company as mentioned in this announcement) are of the view that the Capital Contribution Agreement and the Financial Services Framework Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms and the terms of which (including the proposed maximum daily amount to be deposited with the Finance Company) are fair and reasonable and in the interests of the Company and the Shareholders as a whole:–

- (i) PRC laws do not permit the lending of money between companies (even if they were members of the same group) if the lending entity is not a permitted financial institution in the PRC. Therefore, whilst the Company may have surplus cash on hand, it cannot easily use the same to fund the operations of its subsidiaries. The centralisation of the management of fund of the Group (as part of the Harbin Electric Group) through the Finance Company, can enhance efficiency of deployment of funds between members of the Group;
- (ii) the Finance Company is a non-bank financial institution approved and regulated by PBOC and CBRC and is engaged in providing various financial services in compliance with the rules and other operational requirements set by these regulatory authorities. The Finance Company will be required under 企業集團財務公司管理辦法 (Measures for the Administration of the Finance Companies of Enterprise Groups promulgated by the CBRC on 27 July 2004 (as amended on 28 December 2006)) to satisfy the following operation conditions in respect of assets and liabilities ratios: –
  - (a) the capital adequacy ratio is not less than 10%;
  - (b) the balance of borrowings shall not exceed the total capital;
  - (c) the total amount of outstanding guarantees provided shall not exceed the total capital;

- (d) the short-term securities investment to total capital ratio is not more than 40%;
  - (e) the long-term investment to total capital ratio is not more than 30%; and
  - (f) the self-owned fixed assets to total capital ratio is not more than 20%;
- (iii) the Finance Company will establish its system of internal control and risk management and implement the corporate governance guidelines in accordance with the requirements of the CBRC and are required under the Financial Services Framework Agreement to comply with the risk management measures outlined above;
- (iv) given that the terms of the services available to the Group will be no less favourable than those offered by other PRC commercial banks, the Group can benefit from the lower cost of funding and other financial service charges and thereby enhancing the profitability of the Group;
- (v) the Finance Company will only provide financial services to members of the Harbin Electric Group and will therefore be exposed to a lower level of potential risk than other PRC commercial banks dealing with customers of various credit ratings;
- (vi) the arrangements with Finance Company under the Financial Services Framework Agreement provides the Group with an alternative but do not preclude the Group from using the services of other PRC commercial banks. The Group still maintains its own discretion in choosing other PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefit of the Group; and
- (vii) the Company and its subsidiaries through its 45% equity interest in the Finance Company will be able to share the profits of the Finance Company.

### **Listing Rules Implications**

Harbin Electric is the controlling shareholder of the Company and therefore the formation of the Finance Company with Harbin Electric pursuant to the Capital Contribution Agreement is a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios are less than 2.5%, the transactions contemplated under the Capital Contribution Agreement is exempt from Independent Shareholders' approval requirements but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

As the Finance Company (once established) will be a subsidiary (and therefore an "associate" under the Listing Rules) of Harbin Electric, the Finance Company once established will be a connected person of the Company under the Listing Rules. The transactions contemplated under the Financial Services Framework Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Depository Services exceed 2.5% and the annual caps exceeds HK\$10,000,000, the Depository Services under the Financial Services Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Loan Services to be provided by the Finance Company to the Group is for the benefit of the Group on normal commercial terms (or better to the Group) where no security is granted over the assets of the Group in respect of the Loan Services, the Loan Services pursuant to the Financial Services Framework Agreement are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. There are no annual caps in respect of the Loan Services specified under the Financial Services Framework Agreement.

As it is expected that each of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual service charges and fees payable for the Settlement Services and the Other Financial Services will not exceed 0.1%, such transactions are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

## **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; and (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.

Harbin Electric, together with its subsidiaries, was the oldest large-scale power plant equipment manufacturer in the PRC. Harbin Electric holds, as at the date of this announcement, 50.93% of the issued share capital of the Company.

Harbin GeneratorsCo is principally engaged in the business of manufacture of steam turbine generator sets and hydro turbine generator sets. Harbin BoilersCo is principally engaged in the business of manufacture of boilers. Harbin TurbinesCo is principally engaged in the business of manufacture of steam turbines. Jiamusi ElectricCo is principally engaged in the business of manufacture of motors.

An independent board committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of terms of the Depository Services under the Financial Services Framework Agreement and the annual caps for the maximum value of the Depository Services to be received by the Group from the Finance Company for each of the years ending 31 December 2010, 2011 and 2012. The Company has appointed the IFA as an independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders in this regard.

A circular containing, among other things, further information on the Financial Services Framework Agreement and the transactions contemplated thereunder, a letter of advice from the independent board committee and a letter of recommendation from the independent financial adviser, and the notice of EGM will be despatched to the Shareholders in accordance with the Listing Rules.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Depository Service under the Financial Services Framework Agreement. Each of Harbin Electric and its associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Capital Contribution Agreement”	the capital contribution agreement dated 9th April 2010 entered into between the Company, Harbin Electric, Harbin GeneratorsCo, Harbin BoilersCo, Harbin TurbinesCo and Jiamusi ElectricCo in respect of the formation of the Finance Company;
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission);
“Company”	Harbin Power Equipment Company Limited, a company incorporated in the PRC with limited liability, the H-shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Depository Services”	the provision of the depository services by the Finance Company in accepting deposits placed by the Group pursuant to the Financial Services Framework Agreement;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve the Depository Services to be provided by the Finance Company pursuant to the Financial Services Framework Agreement;
“Finance Company”	哈電集團財務有限責任公司 (HE Finance Company Limited*), a limited company incorporated in the PRC to be established in accordance with the Capital Contribution Agreement;
“Financial Services Framework Agreement”	the finance service framework agreement dated 9th April 2010 entered into between the Company and Harbin Electric in respect of the Financial Services;
“Financial Services”	the Depository Service, the Loan Services, the Settlement Services and Other Financial Services;

“Group”	the Company and its subsidiaries;
“Harbin BoilersCo”	哈爾濱鍋爐廠有限責任公司, a non-wholly owned subsidiary of the Company and owned as to 90.94% by the Company, as to 5.22% by Hua Rong, as to 2.70% by Greatwall and as to 1.14% by Xin Da;
“Harbin Electric”	哈爾濱電氣集團公司 (Harbin Electric Corporation*), a state-owned enterprise and the controlling shareholder of the Company;
“Harbin Electric Group”	Harbin Electric and its subsidiaries, including the Group;
“Harbin GeneratorsCo”	哈爾濱電機廠有限責任公司, a non-wholly owned subsidiary of the Company and owned as to 89.63% by the Company and as to 10.37% by Hua Rong;
“Greatwall”	長城資產管理公司 (Greatwall Asset Management Company*), which is a state-owned enterprise established in the PRC and an Independent Third Party;
“Harbin TurbinesCo”	哈爾濱汽輪機廠有限責任公司, a non-wholly owned subsidiary of the Company and owned as to 70.91% by the Company, as to 26.96% by Hua Rong and as to 2.13% by Greatwall;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hua Rong”	華融資產管理公司 (Huarong Asset Management Company*), which is a state-owned enterprise established in the PRC and an Independent Third Party;
“IFA”	China Merchants Securities (HK) Co., Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities (as defined under the SFO), being the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in respect of the terms of the Depository Services under the Financial Services Framework Agreement and the annual caps;
“Independent Shareholders”	the Shareholders other than Harbin Electric and its associates;

“Independent Third Party”	a person who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is a third party independent of the Company and its connected persons (as defined under the Listing Rules);
“Jiamusi ElectricCo ”	佳木斯電機股份有限公司, an indirect non-wholly-owned subsidiary of Harbin Electric and owned as to 51.25% by the Harbin Electric and as to 48.75% by Jian Long;
“Jian Long”	北京健龍集團公司 (Jian Long Group*), which is a private joint-stock enterprise established in the PRC and an Independent Third Party;
“JV Parties”	the shareholders of the Finance Company, namely the Company, Harbin Electric, Harbin GeneratorsCo, Harbin BoilersCo, Harbin TurbinesCo and Jiamusi ElectricCo;
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“Loan Services”	the loan services to be provided by the Finance Company to the Group pursuant to the Financial Services Framework Agreement, including provision of guarantees; dealing with entrusted loans and entrusted investments; provision of bill acceptance and bill discount services; and provision of loans and finance leasing services;
“Other Financial Services”	other financial services to be provide by the Finance Company to the Group pursuant to the Financial Services Framework Agreement, including provision of finance services and financing consultancy services, credit verification and related consultancy and agency services; provision of assistance in payment and receipt of transaction proceeds; provision of approved insurance agency services; inter-bank borrowing and lending services; and other business as may be approved by the CBRC;
“PBOC”	People’s Bank of China (中國人民銀行);
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“SAIC”	the State Administration for Industry and Commerce;
“Settlement Services”	the provision of intra-group transfer and settlement services and liquidation planning services to be provide by the Finance Company to the Group pursuant to the Financial Services Framework Agreement;

“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of the overseas listed foreign invested shares of RMB1.00 each in the capital of the Company which are listed on the Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed to it under the Listing Rules;
“Xin Da”	信達資產管理公司 (Xin Da Asset Management Company*), which is a state-owned enterprise established in the PRC and an Independent Third Party;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“%”	per cent.

*In this announcement, exchange rate of HK\$1:RMB0.8772 has been used for illustrative purposes. No assurance is given that these currencies may be exchanged at this rate or at all.*

By order of the Board  
**Harbin Power Equipment Company Limited**  
**MA Sui**  
*Company Secretary*

Harbin, 9th April 2010

As at the date of this announcement, the Directors of the Company are:

*Executive Directors:* Mr. Gong Jing-kun, Mr. Zou Lei, Mr. Duan Hong-yi, Mr. Wu Wei-zhang and Mr. Shang Zhong-fu

*Independent non-executive Directors:* Mr. Sun Chang-ji, Mr. Jia Cheng-bing, Ms. Li He-jun, Mr. Yu Bo and Mr. Liu Deng-qing