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哈尔滨动力设备股份有限公司

HARBIN POWER EQUIPMENT COMPANY LIMITED

(incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

CONTINUING CONNECTED TRANSACTIONS – FINANCIAL SERVICES FRAMEWORK AGREEMENT

FINANCIAL SERVICE FRAMEWORK AGREEMENT

On 13 April 2011, the Company entered into the Financial Services Framework Agreement with the Finance Company, pursuant to which the Finance Company will provide the Financial Services (including the Depositary Services, Loan Services, Settlement Services and Other Finance Services) to the Group. Pursuant to the Financial Services Framework Agreement, of the Finance Company will provide the Financial Services to the Group at a fair and reasonable price and on normal commercial terms. 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.

LISTING RULES IMPLICATIONS

Harbin Electric is the controlling shareholder of the Company. As the Finance Company is a subsidiary of Harbin Electric and therefore an associate of Harbin Electric and a connected person of the Company under the Listing Rules, the transactions contemplated under the Financial Services Framework Agreement 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 Depositary Services exceed 5% and the annual caps exceeds HK\$10,000,000, the Depositary 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 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 Chapter 14A 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 Depositary Services under the Financial Services Framework Agreement. The Company will appoint an independent financial adviser to advise the independent board committee 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 on or before 9 May 2011.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Depositary 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.

I. FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 13 April 2011, the Company and the Finance Company entered into the Financial Services Framework Agreement, the principal terms of which are set out below:

Date: 13 April 2011

Parties: (i) The Company; and

(ii) Finance Company

Term: The Financial Services Framework Agreement shall be for a term of 3 years from the Independent Shareholders having approved the Financial Services Framework Agreement and the financial services provided pursuant to the Financial Services Framework Agreement. 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, the Finance Company agreed to provide the Financial Services to the Group. The Finance Company 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 those offered by independent third parties to the Group and the benchmark rates determined by PBOC (if applicable). 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 deposit from the Group at an interest rate not less than the interest rate as may be offered by any independent third party to the Group for the same type of deposits.

Moneys deposited by the Company and its subsidiaries with the Finance Company may only be deployed for services or products provided by PBOC or one or more other commercial banks in the ordinary course of their 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 a fee or an interest rate not higher than the fee or the interest rate as may be offered by any third party to the Group for the same type of services. The annual credit that may be extended by the Finance Company to the Company and its subsidiaries should in principal not be less than the maximum amount of deposits made by them for each of the three years ending 31 December 2013.

The Group will not be required to provide any security for the loans provided by the Finance Company provided that the amount of the loans does not exceed the maximum amount of deposits placed by the Group from the Finance Company for each of the years ending 31 December 2011, 2012 and 2013.

In the event that any member of the Group is required to provide any security for the Loan Services, the Company would propose to seek Independent Shareholders' approval on the cap for the Loan Services and comply with the requirements under Chapter 14A of the Listing Rules.

Settlement Services

The Group may from time to time request the Finance Company to provide Settlement Services to them pursuant to the Financial Framework Agreement free of charge.

Other Financial Services

The Group may from time to time request the Finance Company to provide Other Financial Services to them pursuant to the Financial Framework Agreement. The fees charged by the Finance Company for the provision of such Other Financial Services will not be more than rate charged any third party on any member of the Group for the same type of services.

The Group is entitled, to the extent permitted under the laws, to set-off any amount owing by the Group to the Finance Company and/or Harbin Electric and its subsidiaries (other than the Group) against the deposit (including the accrued interest) placed by the Group with the Finance Company. On the other hand, the Finance Company does not have the right to set-off any amount owing by the Group to it against any deposit (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 the years 2011, 2012 and 2013:

	Year ending 31 December		
	2011	2012	2013
	<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

As disclosed in the Company's announcement dated 14 December 2010, the Company entered into a financial services framework agreement with the Finance Company, pursuant to which the annual caps for the daily maximum outstanding balance of deposit (including accrued interest and handling fees) for each of the years ending 31 December 2012 is RMB760 million. Such agreement will be terminated upon the Financial Framework Agreement becoming effective. As at 31 December 2010, the Group has cash deposits in the Finance Company in the amount of RMB759.1 million.

As at 31 December 2008, 31 December 2009 and 31 December 2010, the Group had cash deposits in commercial banks cash in the amount of approximately RMB10.8 billion, RMB14.7 billion and RMB12 billion, including unpledged cash deposits of approximately RMB10.3 billion, RMB14.2 billion and RMB11.7 billion. The annual caps for 2011, 2012 and 2013 have been set by reference to approximately 58% of the average unpledged cash of the Group over the last three years ending 31 December 2010. 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 unpledged cash deposits over the last three years ending 31 December 2010 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 unpledged bank deposits, cash and cash equivalents, interest-bearing bank borrowings as extracted from the relevant annual reports and interim reports of the Company:

	As at 31 December		As at 30 June	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Unpledged Bank deposits	1,090,000	3,553,595	2,620,000	4,470,428
Cash and cash equivalents	11,425,774	10,612,136	9,785,289	7,292,224
Interest-bearing bank borrowings	2,056,914	3,995,678	3,747,230	4,380,026

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

- (i) the amount of unpledged deposit the Group has placed with independent commercial banks as at 31 December 2008, 31 December 2009 and 31 December 2010;
- (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, used direct dedicated line when connecting to commercial banks and reached safety standards of the PRC commercial banks and complied with the specifications under the CA safety certification;
- (ii) 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 adhere to 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 danger 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 any loss or to minimize loss. On receipt of such notice, the Group is entitled to forthwith withdraw the deposit (together with interests accrued thereon). If the deposit (together with interests accrued thereon) could not be withdrawn, the deposit may be set-off against loans from the Finance Company;
- (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 with the Finance Company would not exceed the upper limit;
- (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 and the Finance Company will provide to the Company a copy of each regulatory report submitted to the CBRC within three working days after submission;
- (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) The Company may unilaterally terminate the Finance Service Framework Agreement if the Company and/or its subsidiaries may face material risk or loss as a result of the Finance Company's breach or possible breach of PRC laws and regulations, or the Finance Company's non-performance or breach of any provision of the Finance Service Framework Agreement, or the occurrence or possible occurrence of material operation problem or payment difficulty on the part of the Finance Company;

- (ix) Harbin Electric has irrevocably and unconditionally 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 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 member (other than the Group) to execute any document to effect such agreement in relation to such set-off; and
 - (c) Harbin Electric will, on demand of the Group, promptly indemnify the Group 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). For the avoidance of doubt, the guarantee given by Harbin Electric is a joint liability guarantee. The guarantee period shall be two years from the due date of the performance period of each principal indebtedness. Harbin Electric also agrees that if the Company and the Finance Company changes the performance period of any principal indebtedness, the guarantee period will commenced from the amended performance period.

Reasons for, and benefits of, the Financial Services Framework Agreement

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.

The Finance Company was duly established in the PRC as a non-banking financial institution in 2010. The principal business of the Finance Company includes the provision of, among others, deposit services, loan services, settlement services and other financial services. The Finance Company is regulated by the People's Bank of China (中國人民銀行) and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. The registered capital of Finance Company is RMB300 million. As at the date of this announcement, Harbin Electric, the Company, 哈爾濱電機廠有限責任公司 (a non-wholly owned subsidiary of the Company), 哈爾濱鍋爐廠有限責任公司 (a non-wholly owned subsidiary of the Company), 哈爾濱汽輪機廠有限責任公司 (a non-wholly owned subsidiary of the Company) and 佳木斯電機股份有限公司 (an indirect non-wholly-owned

subsidiary of Harbin Electric) is interested in 51%, 21%, 8%, 8%, 8% and 4% of the equity interest of the Finance Company, respectively.

Having considered the reasons set out below, the Directors (in respect of the proposed maximum daily amount to be deposited with the Finance Company, 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 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) the Finance Company is a non-bank financial institution approved and regulated by People's Bank of China (中國人民銀行) 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%;
- (ii) 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;
- (iii) 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;
- (iv) 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;

- (v) 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
- (vi) 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. As the Finance Company is 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 Depositary Services exceed 5% and the annual caps exceeds HK\$10,000,000, the Depositary 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 for the benefit of the Group on normal commercial terms (or better to the Group) where no security over the assets of the Group, the Loan Services pursuant to the Financial Services Framework Agreement are exempt from the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A 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

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. There are no annual caps in respect of the Loan Services specified under the Financial Services Framework Agreement.

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.

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. The Company will appoint an independent financial adviser to advise the independent board committee 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 on or before 9 May 2011.

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;
“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 to be provide 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”	哈爾濱電氣集團財務有限責任公司 (HE Finance Company Limited*) a limited company incorporated in the PRC;
“Finance Service Framework Agreement”	the finance service framework agreement dated 13 April 2010 entered into between the Company and the Finance Company 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 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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);
“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; provision of bill acceptance and bill discount services; and other loan services as may be approved by the CBRC (including but not limited to 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; 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;
“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;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

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

Harbin, 13 April 2011

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

* *for identification purposes only*