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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)

CONNECTED TRANSACTION – PROVISION OF ENTRUSTMENT LOAN

PROVISION OF ENTRUSTMENT LOAN

On 15 July 2010, Harbin Generator, a non-wholly-owned subsidiary of the Company, has agreed to provide a working capital loan of RMB30,000,000 (approximately HK\$34,365,000) to Kunming Generator through China Merchants Bank by way of the Entrustment Loan at an interest rate of 5.31% per annum (or an effective rate of 5.26% per annum after deduction of fees payable to China Merchants Bank). The Entrustment Loan is to be secured by a charge over certain receivables of Kunming Generator.

LISTING RULES IMPLICATIONS

Harbin Electric is the controlling shareholder of the Company. Harbin Electric has entered into an agreement with Kunming SASAC pursuant to which Kunming Generator will, upon the relevant PRC regulatory approvals being obtained, become a non-wholly owned subsidiary of Harbin Electric. In view of this Kunming Generator is considered an associate of Harbin Electric and therefore a connected person of the Company. Accordingly the provision of the Entrustment Loan constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios are less than 5%, the provision of the Entrustment Loan is exempt from independent shareholders' approval requirements but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

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ENTRUSTMENT LOAN

Set out below are the principal terms of the Entrustment Loan pursuant to the Entrustment Agreement and the Loan Agreement:

Principal:	Harbin Generator
Agent/Lender:	China Merchants Bank, Harbin Xuefu Branch (招商銀行股份有限公司哈爾濱學府支行) China Merchants Bank is a commercial bank incorporated in the PRC. To the best of the Directors knowledge, information and belief having made all reasonable enquiries, China Merchants Bank is an Independent Third Party.
Borrower:	Kunming Generator Kunming Generator is principally engaged in the business of manufacturing of small-scale hydro power equipment.
Loan amount:	RMB30,000,000 (approximately HK\$34,365,000) in a single drawdown
Term:	12 months
Interest:	5.31% per annum (payable on a monthly basis). The interest rate is determined with reference to the benchmark one-year lending rate announced by the People's Bank of China.
Handling fee:	0.05% per annum, payable by Harbin Generator to China Merchants Bank in a lump sum after drawdown of the Entrustment Loan
Use of loan proceeds:	The loan proceeds are required to be applied for the purchase of raw materials. Failure to comply with this requirement entitles the lender to demand early repayment of all or part of the loan amount and a default interest of 100% over the interest payable on the non-complying part
Event of Default:	China Merchants Bank is entitled to, at the request of Harbin Generator, demand early repayment of the principal loan amount and all interests accrued thereon on occurrence of any of the following events: (1) Kunming Generator is in breach of any of its obligations under the Loan Agreement; (2) material deterioration of the operation status of Kunming Generator;

- (3) material deterioration of the operation status of the guarantor;
- (4) damage, dissipation or material depreciation of the charged assets which puts the loan at risk;
- (5) any other situation whereby China Merchants Bank would be entitled to demand early repayment of the loan pursuant to any laws and regulations and securities regulations

Security:

The Entrustment Loan is to be secured by a charge over certain receivables of Kunming Generator pursuant to the Charge Agreement dated 15 July 2010 entered into between Kunming Generator and Harbin Generator. The receivables are fees payable by 9 PRC companies within 1-2 years under their respective supply agreements with Kunming Generator with a total receivable amount of over RMB40,000,000 as at the date of this announcement

REASONS FOR, AND BENEFITS OF, THE FINANCIAL ASSISTANCE TO KUNMING GENERATOR

Given that the lending rate of the Entrustment Loan is higher than the interest rate the Group could obtain by placing the same amount of deposit with commercial banks in the PRC and that the Entrustment Loan is a secured loan, the Directors consider that the Entrustment Loan provides an ample opportunity to utilise the Group's idle cash for a better return. The Group may also get acquire an understanding of the operating environment for hydro-power equipment in southwest PRC through Kunming Generator.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Entrustment Loan pursuant to the Entrustment Agreement and the Loan Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the Directors has a material interest in the transaction which required him/her to abstain from voting on the board resolution approving the provision of the Entrustment Loan.

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. Harbin Generator is principally engaged in the business of manufacture of steam turbine generator sets and hydro turbine generator sets.

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 Electric is the controlling shareholder of the Company. Harbin Electric has entered into an agreement with Kunming SASAC pursuant to which Kunming Generator will, upon the relevant PRC regulatory approvals being obtained, become a non-wholly owned subsidiary of Harbin Electric. In view of this Kunming Generator is considered an associate of Harbin Electric and therefore a connected person of the Company. Accordingly the provision of the Entrustment Loan constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios are less than 5%, the provision of the Entrustment Loan is exempt from independent shareholders' approval requirements but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

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;
“China Merchants Bank”	China Merchants Bank Company Limited;
“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;
“Directors”	the directors of the Company;
“Entrustment Agreement”	the entrustment loan entrustment agreement (委託貸款委託合同) dated 15 July 2010 entered into between Harbin Generator and China Merchants Bank;
“Entrustment Loan”	the entrustment loan of RMB30,000,000 provided by China Merchants Bank to Kunming Generator at the request of Harbin Generator in accordance with the Entrustment Agreement and the Loan Agreement;
“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;
“Harbin Generator”	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;
“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;
“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);
“Kunming Generator”	昆明電機廠有限公司, a company incorporated in the PRC;
“Kunming SASAC”	昆明市國有資產監督管理委員會 (Kunming City State-owned Assets Supervision and Administration Commission*);
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“Loan Agreement”	the entrustment loan agreement (委託貸款借款合同) dated 15 July 2010 entered into between China Merchants Bank and Kunming Generator;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“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;
“%”	per cent.

In this announcement, exchange rate of HK\$1.1455: RMB1 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

Hong Kong, 16 July 2010

At the date of this announcement, the Executive Directors of the Company are Mr. Gong Jingkun, 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.

* *for identification purposes only*