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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)

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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.

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.

22 December 2010

- (1) the Company; and
- (2) the Parent Company.

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.

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

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

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.

The transactions amount and caps of the past transactions based on the present agreement within

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

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.