

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Harbin Power Equipment Company Limited (the "Company"), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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哈爾濱動力設備股份有限公司
Harbin Power Equipment Company Limited

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1133)

**CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF THE DEPOSITORY SERVICES UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



CHINA MERCHANTS SECURITIES (HK) CO., LTD.

A letter of recommendation from the Independent Board Committee is set out on page 16 of this circular and a letter of recommendation from China Merchants Securities (HK) Co., Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 29 of this circular.

A notice convening the extraordinary general meeting (the "EGM") of Harbin Power Equipment Company Limited to be held at 17th Floor Meeting Room, Block B, 39 Sandadongli Road, Xiangfang District, Harbin, Heilongjiang Province, the People's Republic of China on Thursday, 3 June 2010 at 10:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day at 9:00 a.m. is set out on pages 34 to 35 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. If you do not intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to office address of the Company at Block B, No 39 Sandadongli Road, Xiangfang District, Harbin, Heilongjiang Province, People's Republic of China as soon as possible and in any event not less than twenty-four (24) hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

19 April 2010

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DEFINITIONS

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

“Annual Caps”	the maximum value of the Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2012 as set out in this circular;
“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 on Thursday, 3 June 2010 for the purposes of, inter alia, passing the relevant ordinary resolution for approving the Non-exempt Continuing Connection Transactions and the Annual Caps;
“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;

* For identification purposes only

DEFINITIONS

“Financial Services”	the Depository Service, the Loan Services, the Settlement Services and Other Financial Services;
“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;
“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;
“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;
“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;

* For identification purposes only

DEFINITIONS

“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) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Depository Services under the Financial Services Framework Agreement and the Annual Caps;
“Independent Board Committee”	a board committee comprising of the independent non-executive Directors of the Company constituted to make recommendations to the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions and the Annual Caps;
“Independent Shareholders”	the Shareholders other than Harbin Electric and its associates;
“Independent Third Party(ies)”	person(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is a third party/parties 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;
“Latest Practicable Date”	16 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;

* For identification purposes only

DEFINITIONS

“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;
“Non-exempt Continuing Connected Transactions”	the receipt of Depository Services by the Group from the Finance Company as contemplated under the Financial Services Framework Agreement, which constitutes continuing connected transactions subject to Independent Shareholders’ approval, further details of which are set out in this circular;
“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;

DEFINITIONS

“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 circular, 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.

* For identification purposes only

LETTER FROM THE BOARD



哈爾濱動力設備股份有限公司
Harbin Power Equipment Company Limited

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1133)

Executive Directors:

Mr. Gong Jing-kun
Mr. Zou Lei
Mr. Duan Hong-yi
Mr. Wu Wei-zhang
Mr. Shang Zhong-fu

Registered Office and headquarters:

Block 3 Nangang District
High-Technology Production Base
Harbin, Heilongjiang
PRC

Independent Non-Executive Directors:

Mr. Sun Chang-ji
Mr. Jia Cheng-bing
Ms. Li He-jun
Mr. Yu Bo
Mr. Liu Deng-qing

Principal Place of Business in Hong Kong:

20th Floor
Alexandra House
16-20 Chater Road
Central
Hong Kong

19 April 2010

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF THE DEPOSITORY SERVICES UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

Reference is made to the Company's announcement dated 9 April 2010 in relation to, inter alia, the Financial Services Framework Agreement.

The purpose of this circular is (i) to provide you with further information in relation to the transactions contemplated under the Financial Services Framework Agreement; (ii) to set out the opinions and recommendations of the Independent Board Committee and the IFA; and (iii) to give you notice of the EGM at which the resolutions set out therein will be proposed. The EGM will be held on Thursday, 3 June 2010 for the purposes of, among others, obtaining the approval from the Independent Shareholders for the Non-exempt Continuing Connected Transactions and the Annual Caps by way of poll. Each of Harbin Electric and its associates, which holds an aggregate of 701,235,000 Shares as at the Latest Practicable Date, will abstain from voting on the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

FINANCIAL SERVICES FRAMEWORK AGREEMENT

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

- Date: 9 April 2010
- Parties: (i) The Company; and
(ii) Harbin Electric
- Term: 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 Shareholders 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.

LETTER FROM THE BOARD

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 relevant regulations from time to time for loans of this type; or (ii) the interest rate as may be offered by any third party to the Group for the same type of loans. The annual credit that may be extended by the Finance Company to the Group should in principal not be less than the maximum amount of deposits made by them for the three years ending 31 December 2012.

The Group will not be required to provide any security for the Loan Services 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 2010, 2011 and 2012.

LETTER FROM THE BOARD

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 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

	Year ending 31 December		
	2010	2011	2012
	<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

LETTER FROM THE BOARD

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 Directors (including independent non-executive Directors) 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	
	2009 RMB'000 (Audited)	2008 RMB'000 (Audited)	2007 RMB'000 (Audited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Bank deposits (excluding restricted bank deposits and pledged bank deposits)	3,553,595	3,079,921	940,000	4,470,428	574,594
Cash and cash equivalents	10,612,136	7,221,676	8,681,542	7,292,224	7,886,309
Interest-bearing bank borrowings (due within and after one-year)	3,995,678	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.

LETTER FROM THE BOARD

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;

LETTER FROM THE BOARD

- (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 Board understands that since the Finance Company has not been established as at the date of the signing of the Financial Services Framework Agreement and is not a contracting party under the Financial Services Framework Agreement, provisions in the Financial Services Framework Agreement which sought to impose certain obligations on the Finance Company may not be enforceable against the Finance Company in accordance with PRC laws. However, the Financial Services Framework Agreement remains a valid and binding agreement against Harbin Electric under PRC laws. Given that (i) the Group and Harbin Electric and its subsidiary, Jiamusi ElectricCo, together holds 100% of the equity interest in, and the right to appoint all of the directors of, the Finance Company and (ii) the contractual obligations of Harbin Electric under the Financial Services Framework Agreement, the executive Directors consider that compliance by the Finance Company of the terms of the Financial Services Framework Agreement can as a matter of practical fact be ensured.

Notwithstanding the terms of the Financial Services Framework Agreement may not be enforceable 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 (including the independent non-executive Directors) 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.

LETTER FROM THE BOARD

In addition to the above reasons and having considered the reasons set out below, the Directors (including the independent non-executive Directors) 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) 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;

LETTER FROM THE BOARD

- (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. 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.

LETTER FROM THE BOARD

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.

INFORMATION ON THE GROUP

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.

INFORMATION ON HARBIN ELECTRIC

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.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 16 of this circular which contains its recommendation to the Independent Shareholders in respect of the ordinary resolution set out in the notice of EGM set out on 34 to 35 of this circular to approve the Non-exempt Continuing Connected Transactions to be subject to the Annual Caps.

The advice of the IFA to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole is set out on pages 17 to 29 of this circular.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

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



哈爾濱動力設備股份有限公司
Harbin Power Equipment Company Limited

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1133)

19 April 2010

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF THE DEPOSITORY SERVICES UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Harbin Power Equipment Company Limited (the "Company") in respect of the resolution to approve the Non-exempt Continuing Connected Transactions subject to the Annual Caps, details of which are set out in the "Letter from the Board" contained in the circular of the Company (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the "Letter from the Board", the advice of the IFA in its capacity as the IFA to the Independent Board Committee and the Independent Shareholders in respect of whether (i) the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole; and (ii) the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, as set out in the "Letter from China Merchants Securities (HK) Co., Limited" as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the IFA in relation thereto as stated in its letter, we consider the terms of the Non-exempt Continuing Connected Transactions and the Annual Caps to be fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Non-exempt Continuing Connected Transactions.

Yours faithfully,

Independent Board Committee

SUN CHANG-JI JIA CHENG-BING LI HE-JUN YU BO LIU DENG-QING

Independent Non-executive Directors

LETTER FROM CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

The following is the text of a letter from China Merchants Securities (HK) Co., Limited for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Depository Services contemplated under the Financial Services Framework Agreement.



48th Floor,
One Exchange Square,
Central,
Hong Kong

19 April 2010

To: *the Independent Board Committee and
the Independent Shareholders of
Harbin Power Equipment Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE DEPOSITORY SERVICES UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

Reference is made to the announcement made by the Company dated 9 April 2010 (the "Announcement") concerning, among other things, the Company and Harbin Electric entered into the Financial Services Framework Agreement on 9 April 2010 pursuant to which Harbin Electric will procure the Finance Company to provide Depository Services, Loan Services, Settlement Services and Other Financial Services to the Group.

China Merchants Securities (HK) Co., Limited was appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the provision of Depository Services contemplated under the Financial Services Framework Agreement, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 19 April 2010 (the "Circular") issued by the Company to the Shareholders, of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

Harbin Electric is the controlling shareholder of the Company and the Finance Company (once established) will be a subsidiary of Harbin Electric. In accordance with the Listing Rules, (i) the Finance Company is therefore an associate of Harbin Electric; (ii) each of Harbin Electric and the Finance Company (once established) is a connected person of the Company; and (iii) the proposed transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions of the Company. 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 exceed HK\$10,000,000, the Depository Services under the Financial Services Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements under Chapter 14A of

the Listing Rules. At the EGM convened for the purpose of approving the Depository Services (including the Annual Caps) contemplated under the Financial Services Framework Agreement, each of Harbin Electric and its associates (which holds an aggregate of 701,235,000 Shares as at the Latest Practicable Date) will abstain from voting.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the Company's five independent non-executive Directors, namely Mr. Sun Chang-ji, Mr. Jia Cheng-bing, Ms. Li He-jun, Mr. Yu Bo and Mr. Liu Deng-qing, has been formed to consider and advise the Independent Shareholders on whether (i) the terms (including the Annual Caps) of the Depository Services contemplated under the Financial Services Framework Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the entering into of the Financial Services Framework Agreement as regard the Depository Services is in the interests of the Company and the Independent Shareholders as a whole. We, China Merchants Securities (HK) Co., Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our advice and opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed to us, by the Company, its executive Directors and its management. We have assumed that all information, facts, statements of belief, opinions and intentions and representations made to us by the executive Directors or referred to in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have also assumed that all information, representations and opinions made or referred to in the Circular and provided to us by the Company, its executive Directors and its management, for which they were solely and wholly responsible, were true, accurate and complete at the time they were made and continued to be true, accurate and complete at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company, its executive Directors and its management and have been advised by the executive Directors that they have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular, and have confirmed that no material facts have been omitted from the information provided to us and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position and future prospects of the Harbin Electric Group (including the Group) and the Finance Company nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, the Harbin Electric Group, the Finance Company, and their respective executive directors and management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent advice to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for entering into the Financial Services Framework Agreement

(i) Background

On 9 April 2010, the Company and Harbin Electric entered into the Financial Services Framework Agreement pursuant to which (1) Harbin Electric will procure the Finance Company to provide the Group the Depository Services, Loan Services, Settlement Services and Other Financial Services; and (2) 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. Also, Harbin Electric will ensure the provision of the Financial Services to the Group at a fair and reasonable price and on normal commercial terms and 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).

(ii) Reasons for the Company to choose the Finance Company as the Group's financial services provider

We have discussed and are advised by the executive Directors that (i) the role of the Finance Company is similar to a cash pooling centre via which funds from different member companies within the Harbin Electric Group are concentrated into the accounts maintained by the Finance Company which in return, will pay interest on deposits received or charge interest on the loans provided; and (ii) the purpose of setting up the Finance Company is to, among other things, facilitate handling of the corporate funding and related financial activities of the Harbin Electric Group. Through the Finance Company (and thereby centralized fund management), the Group can enjoy the benefit of efficiency enhancement in fund deployment between members of its Group. Given that the Finance Company will only provide financial services to members of the Harbin Electric Group, the executive Directors are of the view that the following benefits of obtaining Financial Services from the Finance Company could be enjoyed by the Group: (i) reducing interest costs – given that the PRC laws do not permit companies established in the PRC to extend intra-group loans directly to its subsidiaries and affiliates, the function of the Finance Company helps those member companies with cash surpluses to cover cash-poor members within the Group, which can reduce or eliminate the need for external financing and thereby reducing interest cost; (ii) speeding up settlement processes – as the customer base of the Finance Company is limited to member companies within the Harbin Electric Group, its centralized cash management function would reduce the time of capital in transit and accelerate the turnover of cashflow and reduce transaction costs and expenses, thereby enhancing the quality and efficiency of capital utilization; (iii) intra-group financing costs can be set at rates below those

LETTER FROM CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

mandated by PBOC; (iv) improving visibility and control of cash – the Company would be in a better position to monitor and control cashflow and cash position of its member companies; and (v) the Finance Company will only provide financial services to members of the Harbin Electric Group which resulting in the Group's deposits being exposed to a lower level of potential risk than other PRC commercial banks dealing with customers of various credit ratings.

We noted that the Group has substantial amounts of bank deposits (excluding restricted bank deposits and pledged bank deposits), cash and cash equivalents and interest-bearing borrowings. In this regard, we have discussed with the executive Directors and are advised that the major reason for having substantial balances of bank deposits, cash and cash equivalents and interest-bearing borrowings is because some members within the Group are rich in cash while some are in need of funding. Set out below is a summary of the Group's consolidated bank deposits (excluding restricted bank deposits and pledged 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	
	2009	2008	2007	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Bank deposits (excluding restricted bank deposits and pledged bank deposits)	3,553,595	3,079,921	940,000	4,470,428	574,594
Cash and cash equivalents	10,612,136	7,221,676	8,681,542	7,292,224	7,886,309
Interest-bearing bank borrowings (due within and after one-year)	3,995,678	4,405,818	4,763,279	4,380,026	4,083,702

Based on the above and given (i) the benefits of obtaining Financial Services from the Finance Company; and (ii) the Group is not under any obligation under the Financial Services Framework Agreement to obtain any or all of the Financial Services from the Finance Company and may obtain such Financial Services based on its business needs, the executive Directors are of the view that entering into of the Financial Services Framework Agreement provides the Group with an additional choice to obtain, among other things, Depository Services 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, therefore the executive Directors consider that, among other things, the Depository Services contemplated under the Financial Services Framework Agreement was entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and on terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole. We concur with the Directors view in this regard.

2. Information on the Finance Company

(i) Shareholding

According to the Announcement, the Finance Company is owned by six parties among which Harbin Electric is the controlling shareholder. Set out below is a table illustrating the equity interests among the shareholders of the Finance Company:

Company Name	Equity interests in the Finance Company
The Company	21%
Harbin Electric	51%
Harbin GeneratorsCo (Note 1)	8%
Harbin BoilersCo (Note 2)	8%
Harbin TurbinesCo (Note 3)	8%
Jiamusi ElectricCo (Note 4)	4%

Notes:

1. Harbin GeneratorsCo is principally engaged in the business of manufacture of steam turbine generator sets and hydro turbine generator sets. It is a non-wholly owned subsidiary of the Company and owned as to 89.63% by the Company and as to 10.37% by an Independent Third Party.
2. Harbin BoilersCo is principally engaged in the business of manufacture of boilers. It is a non-wholly owned subsidiary of the Company and owned as to 90.94% by the Company and collectively as to 9.06% by three Independent Third Parties.
3. Harbin TurbinesCo is principally engaged in the business of manufacture of steam turbines. It is a non-wholly owned subsidiary of the Company and owned as to 70.91% by the Company and collectively as to 29.09% by two Independent Third Parties.
4. Jiamusi ElectricCo is principally engaged in the business of manufacture of motors. It is 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 an Independent Third Party.

(ii) Background and business scope

According to the executive Directors, 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. On 10 February 2010, the approval from CBRC was obtained which resulting Harbin Electric has been approved to prepare for the incorporation of the Finance Company. The Finance Company is to be a limited liability company in perpetuity. The executive Directors, based on their best knowledge and understanding, confirmed that under the PRC laws, the Finance Company will be established on the date of issue of its business licence and it is currently expected that the Finance Company will be established in Harbin, the PRC, in the 3rd quarter of 2010.

The Finance Company is a non-bank financial institution within the Harbin Electric Group and the formation of which is to facilitate handling of the corporate funding and related finance activities of the Harbin Electric Group. It is 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 various 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%.

As advised by the executive Directors and as stated in the Announcement, the proposed business scope of the Finance Company comprises the following:

- (a) provision of financial services and financing consultancy services, credit verification and related consultancy and agency services to member companies;
- (b) provision of assistance to member companies in payment and receipt of transaction proceeds;
- (c) provision of approved insurance agency services;
- (d) provision of guarantees to member companies;
- (e) dealing with entrusted loans and entrusted investments among member companies;
- (f) provision of bill acceptance and bill discount services to member companies;
- (g) provision of intra-group transfer and settlement services to member companies, and liquidation planning;
- (h) provision of deposit services to member companies;
- (i) provision of loans and finance leasing services to member companies;

- (j) inter-bank borrowing and lending; and
 - (k) other business as may be approved by the CBRC.
- (iii) *Internal controls and risk management measures to safeguard the interests of the Group*

As stated in the Letter from the Board, the Financial Services Framework Agreement provides the following risk management measures in order to safeguard the interests of the Shareholders.

Undertaking/guarantee given by Harbin Electric to the Company

- 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;
- 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:
 - (i) Harbin Electric will immediately pay such amounts and perform such obligations on demand of the Company as if Harbin Electric is the primary obligor;
 - (ii) 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 member (other than the Group) to sign any document to effect such agreement in relation to such set-off; and
 - (iii) 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.

Undertaking given by Harbin Electric to CBRC

- Harbin Electric has given an undertaking 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;

Measures to be adopted by the Finance Company

- 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;
- a copy of each internal control report to be submitted by the Finance Company to the CBRC shall also be provided to the Company;
- 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 minimize 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;
- 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; and
- 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.

As stated in the Letter from the Board, the Board understands that since the Finance Company has not been established as at the date of the signing of the Financial Services Framework Agreement and is not a contracting party under the Financial Services Framework Agreement, provisions in the Financial Services Framework Agreement which sought to impose certain obligations on the Finance Company may not be enforceable against the Finance Company in accordance with PRC laws. Nevertheless, the executive Directors are of the view that the Financial Services Framework Agreement remains a valid and binding agreement against Harbin Electric under PRC laws. Furthermore, the executive Directors consider that given (i) the Group, Harbin Electric and its subsidiary, namely Jiamusi ElectricCo, together holds 100% of the equity interest in, and the right to appoint all of the

directors of, the Finance Company; and (ii) the contractual obligations of Harbin Electric under the Financial Services Framework Agreement, the executive Directors consider that compliance by the Finance Company of the terms of the Financial Services Framework Agreement can as a matter of practical fact be ensured.

In order to assess the fairness and reasonableness of the internal control and risk management measures as mentioned above, we have (i) reviewed the respective undertaking letters given by Harbin Electric to the CBRC and the Company; (ii) reviewed the draft articles of association of the Finance Company; and (iii) confirmed with the executive Directors that the Group, Harbin Electric and its subsidiary, namely Jiamusi ElectricCo, together holds 100% of the equity interest in the Finance Company and have the right to appoint all of the directors of the Finance Company. Furthermore, we are advised by the executive Directors that given the undertakings and guarantee provided by Harbin Electric under the Financial Services Framework Agreement provide a reasonable assurance that the amount to be deposited by the Group to the Finance Company under the Financial Services Framework Agreement will be safeguarded, the executive Directors are of the view that the terms of the Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole. We concur with the executive Directors view in this regard.

3. Principal terms of the depository services under the Financial Services Framework Agreement

Pursuant to the Financial Services Framework Agreement, Harbin Electric will procure the Finance Company to provide the Depository Services, the Loan Services, the Settlement Services and Other Financial Services to the Group. As stated in the paragraph headed "Listing Rules Implications" contained in the Letter from the Board, the (i) Loan Services; (ii) Settlement Services; and (iii) Other Financial Services to be provided by the Finance Company to the Group are respectively exempt from, among other things, Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Accordingly, our analysis will cover only the Depository Services to be provided by the Finance Company under the Financial Services Framework Agreement.

LETTER FROM CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

Depository Services:

The principal terms of which are set out as follows:

- Date : 9th April 2010
- Parties : (i) The Company; and
(ii) Harbin Electric
- Term : 3 years from the satisfaction of all of the following conditions precedent:
- (i) Independent Shareholders 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 Financial Services Framework 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.

- Nature of Depository Services : The Group may from time to time deposit money with the Finance Company pursuant to the Financial Services Framework Agreement. 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 utilized 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.

Money raised by the Company from equity issues on public offerings will be dealt with in accordance with applicable PRC laws.

Pursuant to the Financial Services Framework Agreement, the Group is not under any obligation to obtain, among other things, Depository Services from the Finance Company and may obtain such services based on its business needs.

Basis for determining the interest rate : 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.

Pursuant to the Financial Services Framework Agreement, Harbin Electric will ensure the provision of, among other things, the Depository Services to the Group at a fair and reasonable price and on normal commercial terms. Furthermore, Harbin Electric undertakes under the Financial Services Framework Agreement that the terms of, among other things, the Depository 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).

Given that (1) the Group is not under any obligation to obtain, among other things, Depository Services from the Finance Company and may obtain such services based on its business needs; (2) in the event that the Group to obtain Depository Services from the Finance Company, the Finance Company shall accept deposit 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; (3) Harbin Electric will ensure the provision of, among other things, the Depository Services to the Group at a fair and reasonable price and on normal commercial terms; and (4) and the undertaking provided by Harbin Electric as mentioned above, we are of the view that the terms in relation to Depository Services are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

The Annual Caps and basis of determination

Set out below are the Annual Caps in relation to Depository Services under the Financial Services Framework Agreement for the three years ending 31 December 2012.

	For the year ending 31 December		
	2010	2011	2012
	<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 stated in the Letter from the Board, the Annual Caps under the Financial Services Framework Agreement were determined with reference to the following factors:

- (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.

In order to assess the fairness and reasonableness of the Annual Caps, we have discussed with the executive Directors on the basis and underlying assumptions for determining the Annual Caps. Based on our discussion with the executive Directors, we are given to understand that the following factors were also taken into account in arriving the Annual Caps (i) the Group will be able to enjoy the benefits of utilizing the Financial Services of the Finance Company as mentioned above; (ii) the Group may be not able to enjoy the aforesaid benefits if the Annual Caps are set too low; (iii) it will be in the interests of the Company and its Shareholders that the Annual Caps not to be set too high and too aggressive; (iv) the Group is not under any obligation to place deposits with the Finance Company; and (v) the Group can benefit from the flexibility in the allocation of funds should the interest rate offered by the Finance Company be attractive to the Company. Based on the above and given there has no prior similar transaction between the Harbin Electric Group and the Group, the executive Directors took reference of the Group's audited average unrestricted and unpledged bank and cash balances over the past three years ended

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31 December 2009 and are of the view that to determine the Annual Caps in between mid-point (i.e. 50% or approximately RMB5,681,478,333) and maximum-point (i.e. 100% or approximately RMB11,362,956,667) of the Group's audited average unrestricted and unpledged cash balances as at 31 December 2007, 31 December 2008 and 31 December 2009 is reasonable and in the interests of the Company and its Shareholders as a whole. The Annual Caps (of RMB7,000,000,000) for each of the three years ending 31 December 2012 have been set by reference to approximately 61.6% of the average unrestricted and unpledged bank and cash balances of the Group over the last three years ended 31 December 2009.

We noted from the Group's audited consolidated balance sheets as at 31 December 2007, 31 December 2008 and 31 December 2009 that the respective accumulated balances for bank deposits (excluding restricted bank deposits and pledged bank deposits), cash and cash equivalents as at 31 December 2007, 2008 and 2009 amounted to approximately RMB9,621,542,000, RMB10,301,597,000 and RMB14,165,731,000 respectively. Based on the aforesaid factors that have been taken into account by the executive Directors, we consider the basis in determining the Annual Caps was fair and reasonable and the amount of Annual Caps of RMB7,000,000,000 for each of the three years ending 31 December 2012 represents slightly higher than the mid-point (i.e.50% or RMB5,681,478,000) of the Group's average unrestricted and unpledged bank and cash balances over the last three years ended 31 December 2009 to be acceptable to the Company and its Shareholders as a whole.

RECOMMENDATION

Having taking into account the above principal factors and reasons, we consider that (i) the Depository Services are in the ordinary and usual course of business of the Company; (ii) the terms of Depository Services contemplated under the Financial Services Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iii) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Depository Services contemplated under the Financial Services Framework Agreement and the Annual Caps.

Yours faithfully
For and on behalf of
China Merchants Securities (HK) Co., Limited
Tony Wu
*Managing Director &
Head of Investment Banking Department*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS**I. Interests of Directors**

As at the Latest Practicable Date, so far as the Directors or supervisor of the Company are aware, none of the Directors or supervisor of the Company has interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

II. Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors or supervisor of the Company and based on the Company's register required to be maintained pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the following persons (other than a Director or supervisor of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of

share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group are as follows:

(a) *Interests in the Shares*

Name of Shareholder	Number of Shares held (Class of Shares)		Nature of Interest	% of the Company's issued total domestic share capital	% of the Company's total issued H share capital	% of the Company's total issued share capital
	Long position	Short position				
Harbin Electric	701,235,000 (Domestic Shares)	-	Beneficial owner	100%	-	50.93%
Deutsche Bank Aktiengesellschaft	19,503,292 (H Shares)	466,639 (H Shares)	Beneficial owner	-	2.96%	1.45%
	14,100,000 (H Shares)	-	Investment manager	-	2.09%	1.02%
	6,683,257 (H Shares)	2,964,000 (H Shares)	Person having a security interest in shares	-	1.43%	0.70%
Bank of America Corporation	34,174,597 (H Shares)	-	Controlled Corporation	-	5.06%	2.48%

(b) *Substantial Shareholders of other members of the Group*

As at the Latest Practicable Date, save as disclosed below and so far as is known to the Directors or supervisor of the Company, no person (not being a Director or supervisor of the Company) was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Group.

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
Hua Rong	10.37%	Harbin GeneratorsCo
	26.96%	Harbin TurbinesCo
哈爾濱香坊區黎明鄉辦事處 (Harbin Xiangfang District Limingxiang Office*)	22.00%	哈爾濱電站設備製造廠 (Harbin Power Plant Equipment Manufacturing Factory*)

Save as disclosed above, the Directors of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interests in any assets which have since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group;
- (ii) none of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

III. Directors' interests in competing business

As at the Latest Practicable Date, so far as is known to the Directors or supervisor of the Company, no other Directors or any of their respective associates had any interests in a business, which competes or may compete with the business of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date up to which the latest published audited financial statements of the Group were made up.

5. EXPERT

The following is the qualification of IFA, which has given its opinion or advice which is contained in this circular:

Name	Qualification
China Merchants Securities (HK) Co., Limited	a licensed corporation under the SFO authorised to carry out 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) regulated activities under the SFO

As at the Latest Practicable Date, the IFA did not have:

- (a) any direct or indirect interest in any assets which have since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The IFA has given and has not withdrawn its consent to the issue of this circular with the inclusion of its reports or letters, as the case may be, and reference to its name in the form and context in which they respectively appear.

6. MISCELLANEOUS

In any event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Richards Butler in association with Reed Smith LLP at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong from the date of this circular, for a period of 14 days:

- (a) the Capital Contribution Agreement; and
- (b) the Financial Services Framework Agreement.

NOTICE OF EGM



哈爾濱動力設備股份有限公司 Harbin Power Equipment Company Limited

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1133)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Harbin Power Equipment Company Limited (the "Company") will be held at 17th Floor Meeting Room, Block B, 39 Sandadongli Road, Xiangfang District, Harbin, Heilongjiang Province, the People's Republic of China on Thursday, 3 June 2010 at 10:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day at 9:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

1. "THAT:

- (A) the transactions contemplated under the financial services framework agreement entered into between the Company and 哈爾濱電氣集團公司 (Harbin Electric Corporation*) on 9 April 2010 (the "Financial Services Framework Agreement", a copy of which is produced to the meeting marked "A" and initialled by the chairman for the purpose of identification) and the annual caps for each of the three years ending 31 December 2010, 2011 and 2012 in respect of the receipt of depository services by the Company and its subsidiaries from 哈電集團財務有限責任公司 (HE Finance Company Limited*) in accordance with the terms of the Financial Services Framework Agreement be and are hereby approved; and
- (B) the directors of the Company be and are hereby authorised to take all actions and execute all documents which they deem necessary, desirable or appropriate in order to implement or give effect to the Financial Services Framework Agreement and transactions contemplated thereunder."

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

19 April 2010

* For identification purpose only

NOTICE OF EGM

Registered Office of the Company:

Block 3, Nangang High Technology Produce Base Harbin
Heilongjiang Province
People's Republic of China

Office Address of the Company:

Block B, No 39 Sandadongli Road
Xiangfang District, Harbin
Heilongjiang Province
People's Republic of China

Notes:

1. For the purpose of determining the list of shareholders entitled to attend and vote at the EGM, the Company shall temporarily suspend changes to the register of shareholders from 3 May 2010 to 2 June 2010 (both days inclusive). Shareholders whose names appear on the register at the time of the suspension of registration shall be entitled to attend and vote at the EGM. Person who purchased shares of the Company during the period of suspension of registration shall not be entitled to attend the EGM. In order to qualify the attendance at the EGM, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, namely, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m., 30 April 2009.
2. Shareholders intending to attend the EGM shall give written notice of the same to the Company, which shall be lodged at the office address of the Company before 5:00 p.m. on 2 May 2010.
3. A Shareholder entitled to attend and vote at the EGM is entitled to appoint one or more persons (whether or not a shareholder of the Company) as his proxy to attend and vote on behalf of him.
4. To be valid, the form of proxy, together with a duly notarized power of attorney or other document of authority, if any, under which the form is signed must be deposited at the office address of the Company not less than 24 hours before the time appointed for holding the EGM.

At the date of this notice, 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.