Stock Code: 200771 Stock ID: Hangqilun B Announcement No. 2017-38

Announcement of the company with the controlling shareholder of Hangzhou Steam Turbine Power Group Co., Ltd. related party transaction

The members of the Board and the Company acknowledge being responsible for the truthfulness, accuracy, and completeness of the announcement. Not any false record, misleading statement or significant omission carried in this announcement.

I.Summary of related transaction

1. The company's wholly-owned subsidiary-Hangzhou Steam Turbine Heavy Industry Co., Ltd. made an application of special construction fund of RMB 208 million to China Development Bank Zhejiang Branch in respect of its project-Annual output of 450 units (sets) of industrial steam turbine, gas turbine and compressor and the matching engineering base construction. For the implementation of the relevant policies for special construction fund, CDB's wholly owned subsidiary-China Development Fund Limited funded RMB 208 million to Hangzhou Steam Turbine Heavy Industry Co., Ltd. by means of capital increase and becoming a shareholder, and China Development Bank required the company's controlling shareholder Hangzhou Steam Turbine Power Group Co.,Ltd to be the transferee for the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited beginning from December 2019 in batches, with the payment for the equity to be RMB 208 million. The four parties i.e. the company, China Development Fund, Hangzhou Steam Turbine Heavy Industry Co., Ltd. and Hangzhou Steam Turbine Group Co.,Ltd jointly signed the China Development Fund Investment Contract (hereinafter referred to as: Investment Contract).

According to the stipulation of the Investment Contract, China Development Fund Limited shall fund RMB 208 million to Hangzhou Steam Turbine Heavy Industry Co., Ltd., of which RMB 198.966865 million shall become registered capital and RMB 9.033135 million shall become capital reserve, and the term of such funds is 10 years with the return on investment is 1.2% per year. After the completion of such funding, the registered capital of Hangzhou Steam Turbine Heavy Industry Co., Ltd. changed to RMB 558.966865 million from RMB 360 million, and China Development Fund Limited holds 35.6% stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd . Hangzhou Steam Turbine Group Co.,Ltd. shall, in batches, accept the transfer of stake held by China Development Fund Limited from December 2019, and China Development Bank required the company and Hangzhou Steam Turbine Power Group Co., Ltd to respectively provide a guarantee on Hangzhou Steam Turbine Group's fulfillment of its obligation of being a transferee to the stake.

2. According to the stipulation of the Investment Contract, the purpose of accepting the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited in batches is for helping Hangzhou Steam Turbine Heavy Industry Co., Ltd. smoothly obtain the special construction funds of RMB 208 million. Hangzhou Steam Turbine

Group Co.,Ltd. required the company to accept the transfer of such stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. at the same price at the same time. Therefore, the company and Hangzhou Steam Turbine Group Co.,Ltd. signed the Equity Transfer Agreement of Hangzhou Steam Turbine Heavy Industry Co., Ltd's Equity (hereinafter referred to as the " Equity Transfer Agreement"). According to such Agreement, the company shall, at the same time, accept the transfer of the stake held by Hangzhou Steam Turbine Group Co.,Ltd, and the quantity and price of such stake of such transfer shall be the same with the stake transferred from China Development Fund Limited to Hangzhou Steam Turbine Group Co.,Ltd.

3. Hangzhou Steam Turbine Group Co.,Ltd is the company's controlling shareholder, and the company, China Development Fund, Hangzhou Steam Turbine Heavy Industry Co., Ltd. and Hangzhou Steam Turbine Group Co.,Ltd. jointly signed the Investment Contract, and the company singed the Equity Transfer Agreement with Hangzhou Steam Turbine Group Co.,Ltd, thus according to provisions of the Stock Listing Rules of the Shenzhen Stock Exchange, this transaction shall constitute a related transaction of the company.

4.The 10th meeting of the 7th term of Board was held on May 17, 2017. Director Nie Zhonghai, Yan Jianhua, Yang Yongming, Ye Zhong, and Zheng Bin waived from the voting. As the resolution, the proposal was passed with all 6 votes in favor, 0 objection and 0 waive. The meeting examined the Proposal of the company with the controlling shareholder of Hangzhou Steam Turbine Power Group Co., Ltd. related party transaction. The independent directors of the company made the prior approval and expressed the independent opinions in connection to such related transaction. The proposal does not need to be submitted to the company's shareholders' general meeting for deliberation.

5. The transaction neither constitutes a major asset restructuring nor constitutes a backdoor listing according to Measures for the Administration of Major Asset Restructuring of Listed Companies.

II. Introduction of related parties and relationship

1.Name: Hangzhou Steam Turbine Power Group Co., Ltd.

2. Date of incorporation: December 14, 1992

3. Registered address: No. 357 Shiqiao Road Hangzhou City

4. Office address: Block A, 68 Qingchun Road East, Hangzhou

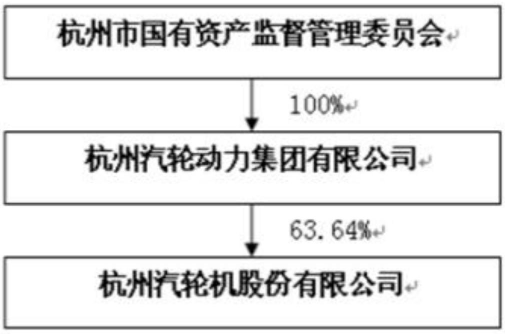
5. Legal representative: Mr. Nie Zhonghai

6. Registered capital: RMB 800 million

7. Business scope: Manufacturing and processing: textile machinery, paper-making machinery, pump, casting products, electrical tools, gear box, thermal transmitter, digital controlling device, and spare parts of the above (limited to the subsidiaries); Contracting of domestic and overseas machinery engineering projects, export of above equipments and materials, provide labor services for above overseas projects. Thermal power plant project and equipment engineering; wholesale and retail: products and spare parts manufactured by members of the

group, and technical research, consulting, and service of above products; Provide materials, equipments, and spare parts to members of the Group, water and power supply (other than installation and maintaining of power supply equipment); Including the business scope of subsidiaries.

8. Association with the company: holds 63.64% stake of the company, the associative relationship is shown as the below chart.



9. Credit rating: AA+ (Rating Agency: Dagong Global Credit Rating Co., Ltd.)

10. Recent financial information of Steam Turbine Group (on consolidated range)

In RMB

Periods	Turnover	Net profit	Gross assets	Net assets
2016	72,003,681,905.10	651,160,879.41	34,584,194,181.72	10,584,617,894.02
2015	57,011,318,873.16	356,172,459.98	28,676,683,075.59	8,062,853,737.67

III. Basic conditions of the subject of the related transaction

1. Subject: Equity of Hangzhou Steam Turbine Heavy Industry Co., Ltd.

2. Major shareholders and shareholding ratio: Hangzhou Steam Turbine Co.,Ltd, shareholding ratio of 64.4%; China Development Fund Limited, shareholding ratio of 35.6%.

3. Main business: Manufacturing: Industrial turbomachinery equipment; service: technology development and after-sales service of steam turbines, gas turbines, compressors, rotating machinery and auxiliary equipment; wholesale: steel, building materials.

4. Registered capital: RMB 558.966865 million

5. Establishment time: October 25, 2013

6. Registered address: 3rd Floor Building 3 No.503 Xingguo Road Qianjiang Economic Development Zone Hangzhou City

7. Recent financial information of Steam Turbine Heavy Industry (on consolidated range)

In RMB

Periods	Turnover	Net profit	Gross assets	Net assets
2016	2,749,091.31	2,020,112.55	588,830,924.78	581,926,085.50
2015	5,949,094.22	4,438,387.04	374,617,490.11	371,933,706.28

IV.The main content of the related transaction

1. Steam Turbine Group as the transferee to the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited

According to the Investment Contract, China Development Fund Limited funded RMB 208 million to Hangzhou Steam Turbine Heavy Industry Co., Ltd and the term of such funds is 10 years with the return on investment is 1.2% per year. China Development Fund Limited will not appoint directors, supervisors and senior executives to Hangzhou Steam Turbine Heavy Industry Co., Ltd. Hangzhou Steam Turbine Group shall, in batches, accept the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited from December 2019 to December 2026. The detailed plan is as follows:

No	Transfer Completion Date	Payment for the Transfer of the underlying equity
1	December 23,2019	RMB 26 million
2	December 23,2020	RMB 27 million
3	December 23,2021	RMB 27 million
4	December 23,2022	RMB 27 million
5	December 23,2023	RMB 27 million
6	December 23,2024	RMB 27 million
7	December 23,2025	RMB 27 million
8	December 23,2026	RMB 20 million
Total		RMB 208 million

2. The transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. from Hangzhou Steam Turbine Group to the company

According to the Equity Transfer Agreement, Steam Turbine Group shall transfer its holding stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. to the company, with the quantity and price of the stake of such transfer shall be the same with the stake transferred from China Development Fund Limited to Hangzhou Steam Turbine Group Co.,Ltd. The details are as follows:

No	Transfer Completion Date	Payment for the Transfer of the underlying equity
1	December 23,2019	RMB 26 million
2	December 23,2020	RMB 27 million
3	December 23,2021	RMB 27 million
4	December 23,2022	RMB 27 million
5	December 23,2023	RMB 27 million
6	December 23,2024	RMB 27 million
7	December 23,2025	RMB 27 million
8	December 23,2026	RMB 20 million
Total		RMB 208 million

V. Purpose and impact of the transaction

Hangzhou Steam Turbine Heavy Industry Co., Ltd.'s applying for special construction funds to CDB can broaden the financing channels and help alleviate the funds pressure on Hangzhou Steam Turbine Heavy Industry Co., Ltd.’s project construction. Steam Turbine Group to accept the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited and the company to accept the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by Hangzhou Steam Turbine Group at the same price at the same time are for helping Hangzhou Steam Turbine Heavy Industry Co., Ltd. smoothly obtain the low-costs special construction funds, thus to guarantee the smooth construction of Hangzhou Steam Turbine Heavy Industry Co., Ltd's project. The above-said transaction arrangement will be conducive to the company's development. This related transaction is in line with the Company Law, Articles of Association of the Company and the relevant laws and regulations, and the deliberation procedure is standard, with no situation jeopardizing the interests of the company and its shareholders.

VI.The total amount of all kinds of related transactions occurred with the related party from the beginning of the year to the disclosure date

The total amount of all kinds of related transactions occurred with the related party from the beginning of the year to the disclosure date is RMB 215.026707 million(Including the amount of RMB 208 million of this related transaction).

VII. Consent of independent directors in advance and their opinions

The related transaction has got the prior approval from the company’s independent directors, and the company’s independent directors agreed to submit the proposal to the board for deliberation.

The company's independent directors reckoned that the purpose of Hangzhou Steam Turbine Group to accept the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by China Development Fund Limited and the company to accept the transfer of the stake of Hangzhou Steam Turbine Heavy Industry Co., Ltd. held by Hangzhou Steam Turbine Group at the same price at the same time is for helping Hangzhou Steam Turbine Heavy Industry Co., Ltd. smoothly obtain the low-costs special construction funds, thus to guarantee the smooth construction of Hangzhou Steam Turbine Heavy Industry Co., Ltd's project. The above-said transaction arrangement is conducive to the company's development. This related transaction is in line with the Company Law, Articles of Association of the Company and the relevant laws and regulations, and the deliberation procedure is standard. The content of the transaction is in line with the company's business development and normal operation needs, and there is no situation jeopardizing the interests of the company and the small and medium shareholders of the company.

VIII. Documents for reference

1. Resolutions of the 10th meeting of the 7th Term of Board;
2. Investment Contract signed by the company, China Development Fund, Hangzhou Steam Turbine Heavy Industry Co., Ltd. and Hangzhou Steam Turbine Group Co.,Ltd.
3. Equity Transfer Agreement signed by the company and Hangzhou Steam Turbine Group.

Hangzhou Steam Turbine Co., Ltd.

May 18, 2017