

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D/A

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities [amend]

Filing Date: **2010-11-23**
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FILED BY

Yang Tianfu

CIK: **1315890**
Type: **SC 13D/A**

Mailing Address
NO.9 HA PING XI LU HA PING
LU JI ZHONG
HARBIN KAI FA QU
HARBIN F4 150001

SUBJECT COMPANY

Harbin Electric, Inc

CIK: **1266719** | IRS No.: **980403396** | Fiscal Year End: **1231**
Type: **SC 13D/A** | Act: **34** | File No.: **005-80112** | Film No.: **101210155**
SIC: **3621** Motors & generators

Mailing Address
NO. 9, HA PING XI LU
HA PING LU JI ZHONG QU
HARBIN KAI FA QU
HARBIN F4 150001

Business Address
NO. 9, HA PING XI LU
HA PING LU JI ZHONG QU
HARBIN KAI FA QU
HARBIN F4 150001
86 45182621768

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D/A
Under the Securities Exchange Act of 1934
(Amendment No. 4)*

Harbin Electric, Inc.

(Name of Company)

Common Stock, par value \$.00001

(Title of Class of Securities)

41145W 10 9

(CUSIP Number)

Tianfu Yang
Hero Wave Investments Limited
Xi Yuan 17-5, Wan Cheng Hua Fu,
Wan Liu Xi Lu, Hai Dian Qu,
Beijing, China 100089
(86) 45186116757

With copies to:

Michael V. Gisser

Peter X. Huang

Skadden, Arps, Slate, Meagher & Flom LLP

30th Floor, China World Office 2

No. 1, Jianguomenwai Avenue

Beijing 100004

China

(8610) 6535-5599

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications)

November 19, 2010

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.	41145W 10 9
-----------	-------------

1.	NAME OF REPORTING PERSON: Tianfu Yang	
	I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (ENTITIES ONLY): N/A	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	
	(a)	<input checked="" type="checkbox"/>
	(b)	<input type="checkbox"/>
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS	
	OO	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e): <input type="checkbox"/>	
6.	CITIZENSHIP OR PLACE OF ORGANIZATION	
	People's Republic of China	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER
		7,030,000
	8.	SHARED VOTING POWER
		2,633,354
	9.	SOLE DISPOSITIVE POWER
		7,030,000
	10.	SHARED DISPOSITIVE POWER
		2,633,354
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	9,663,354	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	
	<input type="checkbox"/>	
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	31.11%	
14.	TYPE OF REPORTING PERSON	
	IN	

1.	NAME OF REPORTING PERSON: Hero Wave Investments Limited	
	I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (ENTITIES ONLY): N/A (1)	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	
	(a)	<input checked="" type="checkbox"/>
	(b)	<input type="checkbox"/>
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS	
	OO	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e): <input type="checkbox"/>	
6.	CITIZENSHIP OR PLACE OF ORGANIZATION	
	The People's Republic of China	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER
		N/A
	8.	SHARED VOTING POWER
		2,633,354
	9.	SOLE DISPOSITIVE POWER
		N/A
	10.	SHARED DISPOSITIVE POWER
		2,633,354
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	2,633,354	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	
	<input type="checkbox"/>	
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	8.48%	
14.	TYPE OF REPORTING PERSON	
	CO	

Footnotes:

(1) Hero Wave Investments Limited is incorporated in the British Virgin Islands and does not have an I.R.S. Identification Number.

Introductory Note

This Amendment No. 4 (this “Amendment No. 4”) is filed with respect to the company, Harbin Electric, Inc. (the “Company”), by Tianfu Yang (“Mr. Yang”) and Hero Wave Investments Limited (“Hero”, and together with Mr. Yang, the “Reporting Persons”). This Amendment No. 4 amends and supplements the schedule, as amended and supplemented to date, with respect to the Company filed by the Reporting Persons with the Securities and Exchange Commission on Schedule 13D (as amended and supplemented, the “Schedule 13D”). Except as provided herein, this Schedule 13D does not modify any of the information previously reported on the Schedule 13D.

The Reporting Persons are participants in the proposal discussed in Item 4 below, and may be deemed to constitute a “group” within the meaning of Section 13(d)–5(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As a member of a group, each Reporting Person may be deemed to beneficially own any Common Stock, par value \$0.00001 per share, of the Company (“Common Stock”) that may be beneficially owned by the members of the group as a whole. This Schedule 13D may be amended, or one or more additional statements on Schedule 13D may be filed, as necessary and appropriate.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 is supplemented to state:

On November 22, 2010, the Company entered into a Term Loan Facility Agreement (the “Loan Agreement”) with China Development Bank Corporation, Hong Kong Branch (“CDB”), pursuant to which CDB will provide a \$35 million loan facility and an RMB100 million loan facility (the “Loans”) to the Company for working capital of the Company and its subsidiaries. Under the Loan Agreement, the Loans shall be made pursuant to one or more borrowings from time to time during the six-month period from the date of the Loan Agreement. The \$35 million loan carries interest at the London Interbank Offered Rate (LIBOR) plus 3% per annum, and the RMB100 million loan carries interest at the Shanghai Interbank Offered Rate (SHIBOR) plus 2.5% per annum. One half of the outstanding amount of each of the Loans will mature 24 months from the date of the first utilization of the loan facilities under the Loan Agreement and the remaining balance of these Loans will mature 36 months from the date of the first utilization of the loan facilities under the Loan Agreement. The references to the Loan Agreement in this Schedule 13D are qualified in their entirety by reference to the Loan Agreement itself, which is attached hereto as an Exhibit and incorporated by reference as if set forth in its entirety.

On November 22, 2010, Mr. Yang entered into a Security and Pledge Agreement (the “Pledge Agreement”) with CDB, pursuant to which, Mr. Yang has agreed to pledge 7,000,000 shares of Common Stock to CDB to secure the Loans. Under the Pledge Agreement, Mr. Yang may also be obliged to pledge to CDB, under certain circumstances, additional shares of Common Stock owned by him and, to the extent such additional shares are not sufficient, cash. The references to the Pledge Agreement in this Schedule 13D are qualified in their entirety by reference to the Pledge Agreement itself, which is attached hereto as an Exhibit and incorporated by reference as if set forth in its entirety.

Mr. Yang intends to finance the proposed acquisition described in Item 4 of this Schedule 13D through equity from the Reporting Persons as well as debt financing in amounts sufficient to finance the proposed consideration in the Acquisition (as defined below).

Item 4. Purpose of Transaction

Mr. Yang acquired all of the shares of Common Stock owned by him for investment purposes, and to ensure that his interests are aligned with the Company's. He intends to remain the largest holder of the Common Stock over the long term, whether or not the possible acquisition discussed below in this Item 4 is successful.

On October 10, 2010, Mr. Yang and Baring Private Equity Asia Group Limited ("Baring") signed a consortium agreement (the "Consortium Agreement") providing that they would work with each other on an exclusive basis to negotiate and consummate the acquisition of all of the outstanding Common Stock in a going-private transaction (the "Acquisition"). On November 19, 2010, Mr. Yang and Baring executed an agreement to amend and restate the Consortium Agreement in its entirety (the "Participation Agreement") to provide that Baring will not participate in the Acquisition, except that Baring, through an affiliated fund, will have the opportunity (but not the obligation) to provide up to 10% of the financing for the Acquisition (either through debt, equity or a combination of debt and equity) on terms mutually agreeable to the parties. The references to the Participation Agreement in this Schedule 13D are qualified in their entirety by reference to the Participation Agreement itself, which is attached hereto as an Exhibit and incorporated by reference as if set forth in its entirety.

On November 19, 2010, Mr. Yang submitted to the Company's Board of Directors (the "Board") a non-binding modification letter (the "Modification Letter") modifying the proposal presented to the Board on October 10, 2010. The Modification Letter states that Mr. Yang will no longer have an exclusive relationship with Baring, thereby allowing Mr. Yang to pursue alternative financing for the Acquisition; and that Baring will have the opportunity (but not the obligation) to provide up to 10% of the financing for the Acquisition. The Modification Letter contemplates that the alternative financing will be in place by the time the definitive transaction agreement has been executed. Goldman will remain financial advisor to Mr. Yang in connection with the Acquisition. The references to the Modification Letter in this Schedule 13D are qualified in their entirety by reference to the Modification Letter itself, which is attached hereto as an Exhibit and incorporated by reference as if set forth in its entirety.

If the Acquisition is consummated, the Common Stock will no longer be traded on the Nasdaq Global Select Market and the registration of the Common Stock under Section 12 of the Exchange Act will be terminated.

No assurances can be given that any agreement with the Company relating to the proposed Acquisition will be entered into or be consummated.

Except as described above and in connection with the transaction contemplated by the Loan Agreement and Pledge Agreement discussed in Item 3 above, the Reporting Persons do not have any present plan or proposal which relates to, or could result in the occurrence of, any of the events referred to in subparagraphs (a) through (j) of Item 4 of Schedule 13D (although they reserve the right to develop such plans).

The information set forth in this Item 4 shall be deemed to supplement Item 4 of the Schedule 13D filed by Mr. Yang and Hero on October 10, 2010.

Item 7. Material to Be Filed as Exhibits

The following is filed herewith as Exhibits to this Statement:

- Exhibit 7.01 Participation Agreement by and among Mr. Yang and Baring, dated November 19, 2010.
- Exhibit 7.02 Modification Letter to the Board of Directors of Harbin Electric, Inc., dated November 19, 2010, 2010.
- Exhibit 7.03 Term Loan Facility Agreement by and between the Company and China Development Bank Corporation, Hong Kong Branch, dated November 22, 2010.
- Exhibit 7.04 Security and Pledge Agreement by and between the Company and China Development Bank Corporation, Hong Kong Branch, dated November 22, 2010.

SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated: November 22, 2010

Tianfu Yang

/s/ Tianfu Yang

Name: **Tianfu Yang**

Hero Wave Investments Limited

By: /s/ Tianfu Yang

Name: **Tianfu Yang**

Title: **Director**

PARTICIPATION AGREEMENT

Baring Letterhead

November 19, 2010

Mr. Tianfu Yang
No. 9, Ha Ping Xi Lu
Ha Ping Lu Ji Zhong Qu
Harbin Kai Fa Qu
P.R. China 150060

Dear Mr. Yang:

You and we are parties to a letter agreement dated October 10, 2010 (the "Agreement"), pursuant to which you agreed to cooperate exclusively with Baring Private Equity Asia Group Limited ("Baring") to pursue a possible acquisition (the "Transaction") of Harbin Electric, Inc. ("Harbin"). Pursuant to the Agreement, you and Baring submitted a preliminary non-binding proposal for the Transaction to the board of directors of Harbin (the "Board") on October 10, 2010 (the "Proposal").

You have informed us that you now intend to seek alternative financing for the Transaction. Accordingly, we hereby agree that Baring will not participate in the Transaction, except as set forth below.

The parties hereby amend and restate the Agreement to read in its entirety as follows:

1. Modification of Proposal. Promptly after the execution of this letter agreement, Mr. Yang shall submit a letter, in the form of Exhibit A hereto, to the Board and the special committee formed by the Board to evaluate the Proposal.
 2. Baring's Future Participation. Baring (through an affiliated investment fund) shall have the opportunity (but not the obligation) to provide up to 10% of the financing for the Transaction (either through debt, equity or a combination of debt and equity) on terms mutually acceptable to the parties.
 3. Confidentiality. Each of Mr. Yang and Baring shall, and shall direct its employees, directors, officers, partners, members, affiliates, agents, advisors (including but not limited to legal counsel, accountants, consultants and financial advisors) to, keep this letter agreement, the Agreement and all discussions, negotiations and other information with respect to this letter agreement and the Agreement confidential, other than as mutually agreed in writing by you and Baring or as required by applicable laws, rules or regulations.
-

4. Governing Law; Arbitration. This letter agreement and all matters arising out of or relating to this letter agreement shall be governed by and construed in accordance with the laws of Hong Kong, without reference to conflict of laws principles. Any dispute, controversy or claim arising out of or relating to this letter agreement, including the validity, invalidity, breach or termination thereof, shall be settled by arbitration in Hong Kong under the Hong Kong International Arbitration Centre Administered Arbitration Rules (the “Rules”) in force when the notice of arbitration is submitted in accordance with these Rules. There shall be three arbitrators. The arbitration proceedings shall be conducted in English.

5. Counterparts; Entire Agreement. This letter agreement may be signed and delivered by facsimile or portable document format via electronic mail and in one or more counterparts, each of which shall be deemed an original but all of which shall be deemed to constitute a single instrument. This letter agreement sets forth the entire agreement and understanding among the parties and supersedes all prior agreements, discussions and documents relating thereto, including, but not limited to, the Agreement. No party hereto will be entitled to punitive, exemplary, special, unforeseen, incidental, indirect or other consequential damages.

Please confirm your agreement with the foregoing by having a duly authorized officer of your organization sign and return one copy of this letter to the undersigned, whereupon this letter agreement shall become a binding agreement among Mr. Yang and Baring.

Very truly yours,

BARING PRIVATE EQUITY ASIA
GROUP LIMITED

By: /s/ Tek Yok Hua
Name: Tek Yok Hua
Title: Director

CONFIRMED AND AGREED
as of the date written above:

By: /s/ Tianfu Yang
Tianfu Yang

Exhibit A

Letter to the Board

November __, 2010

Board of Directors
Harbin Electric, Inc.
No. 9 Ha Ping Xu Lu,
Ha Ping Lu Ji Zhong Qu
Harbin Kai Fa Qu, Harbin
P.R. China 150060

Dear Members of the Board:

On October 10, 2010, I and Baring Private Equity Asia Group Limited (“Baring”) submitted a Proposal Letter to the Board, setting forth our non-binding preliminary proposal to acquire Harbin Electric, Inc. (“Harbin”) in a going-private transaction (the “Transaction”). As you know, since the Proposal Letter constituted only our preliminary indication of interest, it did not constitute a binding commitment to consummate the Transaction.

I would like to notify the Board that Baring and I have decided to amend our agreement to jointly pursue the Transaction to allow me to obtain alternative financing sources to complete the Transaction. The amended agreement also provides that an investment fund advised by Baring will have the opportunity (but not the obligation) to provide up to 10% of the financing for the Transaction (either through debt, equity or a combination of debt and equity) on terms mutually acceptable to the parties. I intend to obtain alternative financing for the Transaction and anticipate that such financing will be in place by the time the definitive transaction agreement has been executed with Harbin. Accordingly, the Proposal Letter is modified to reflect the foregoing.

Going forward, all questions from the Board (including the special committee and its legal and financial advisors) regarding the Transaction should be directed to me, Mr. Richard Campbell-Breeden of Goldman at +852 2978 1887 or Mr. Michael Gisser of Skadden at +1 (213) 687-5213 or +8610 6535 5540, and not to Baring.

Sincerely,

Tianfu Yang

MODIFICATION LETTER

TIANFU YANG

November 19, 2010

Board of Directors
Harbin Electric, Inc.
No. 9 Ha Ping Xu Lu,
Ha Ping Lu Ji Zhong Qu
Harbin Kai Fa Qu, Harbin
P.R. China 150060

Dear Members of the Board:

On October 10, 2010, I and Baring Private Equity Asia Group Limited (“Baring”) submitted a Proposal Letter to the Board, setting forth our non-binding preliminary pro-posal to acquire Harbin Electric, Inc. (“Harbin”) in a going-private transaction (the “Transaction”). As you know, since the Proposal Letter constituted only our preliminary indication of interest, it did not constitute a binding commitment to consummate the Transaction.

I would like to notify the Board that Baring and I have decided to amend our agreement to jointly pursue the Transaction to allow me to obtain alternative financing sources to complete the Transaction. The amended agreement also provides that an investment fund advised by Baring will have the opportunity (but not the obligation) to provide up to 10% of the financing for the Transaction (either through debt, equity or a combination of debt and equity) on terms mutually acceptable to the parties. I intend to obtain alternative financing for the Transaction and anticipate that such financing will be in place by the time the definitive transaction agreement has been executed with Harbin. Accordingly, the Proposal Letter is modified to reflect the foregoing.

Going forward, all questions from the Board (including the special committee and its legal and financial advisors) regarding the Transaction should be directed to me, Mr.

Richard Campbell-Breeden of Goldman at +852 2978 1887 or Mr. Michael Gisser of Skadden at +1 (213) 687-5213 or +8610 6535 5540, and not to Baring.

Sincerely,

/s/ Tianfu Yang

Tianfu Yang

TERM LOAN FACILITY AGREEMENT

Dated 22 November 20 10

HARBIN ELECTRIC, INC.
as Borrower

and

CHINA DEVELOPMENT BANK CORPORATION HONG KONG BRANCH

as Lender

USD35,000,000 and RMB100,000,000
TERM LOAN FACILITY AGREEMENT

KING & WOOD

9/F., Hutchison House
Central, Hong Kong

Tel.: (852) 2848 4848

Fax: (852) 2845 2995

Ref.: 710110036/CR/JL

HRBN - Term Loan Facility Agreement

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THIS AGREEMENT is dated 22 November 2010 and made between:

1 **HARBIN ELECTRIC, INC.**, a limited liability company incorporated under the laws of the State of Nevada with its principal place
of business at No. 9 Ha Ping Xi Lu, Ha Ping Lu Ji Zhong Qu, Harbin Kai Fa Qu, Harbin, People's Republic of China 150060 as
borrower (the "**Borrower**"); and

2 **CHINA DEVELOPMENT BANK CORPORATION HONG KONG BRANCH** () of Suite 3307- 15, 33/F., One
International Finance Centre, No. 1 Harbour View Street, Central, Hong Kong as lender (the "**Lender**").

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"**Authorised Person**" means a person duly authorised to act on behalf of any of the Obligor, as the case may be, and any permitted attorney-in-fact or delegate of such person.

"**Availability Period**" means the period six (6) months from and including the date of this Agreement.

"**Available Facility**" means, in relation to a Facility, at any time the Lender's Commitment under that Facility *minus*:

- (a) the aggregate amount of any outstanding Loans under that Facility; and
- (b) in relation to any proposed Utilisation, the aggregate amount of any Loan that is due to be made under that Facility on or before the proposed Utilisation Date.

"**Baring Asia**" means Baring Private Equity Asia Group Limited.

"**Break Costs**" means the amount (if any) by which:

- (a) the interest which the Lender should have received pursuant to the terms of this Agreement for the period from the date of receipt of all or any part of the principal amount of a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount of interest which the Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the business day following receipt or recovery and ending on the last day of the current Interest Period.

"**Commitment**" means Facility A Commitment or Facility B Commitment; and "**Commitments**" means both of them.

"**Common Stock**" means any stock of any class of the Borrower which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Borrower and which is not subject to redemption by the Borrower.

"**Consortium Agreement**" means a consortium agreement dated 10 October 20 10 between Baring Asia and the Share Pledgor.

"Debt Service Account" has the meaning ascribed to it in Schedule 7 (*Debt Service Account*).

"Default Notice" means a notice issued in accordance with this Agreement by the Lender to the Borrower notifying the Borrower of the occurrence of an Event of Default.

"Event of Default" means any event or circumstance specified as such in Schedule 6 (*Events of Default*).

"Facility" means Facility A or Facility B; and **"Facilities"** means both of them.

"Facility A" means the US Dollar term loan facility made available under this Agreement as described in Clause 2 (*The Facility*).

"Facility A Commitment" means the amount under the heading "Facility A Commitment" in Schedule 1 (*Commitments*) to the extent not cancelled or reduced by the Lender under this Agreement.

"Facility A Margin" means three per cent. (3%) per annum.

"Facility A Loan" means, as the context requires, a loan made or to be made under Facility A or the principal amount outstanding at any time of that loan.

"Facility B" means the RMB term loan facility made available under this Agreement as described in Clause 2 (*The Facility*).

"Facility B Commitment" means the amount under the heading "Facility B Commitment" in Schedule 1 (*Commitments*) to the extent not cancelled or reduced by the Lender under this Agreement.

"Facility B Margin" means two and a half per cent. (2.5%) per annum.

"Facility B Loan" means, as the context requires, a loan made or to be made under Facility B or the principal amount outstanding at any time of that loan.

"Finance Documents" means the followings:-

- (a) this Agreement;
- (b) the Security Documents; and
- (c) any other document or agreement designated in writing as such by the Borrower and the Lender.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the general applicable accounting standards, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

"**Final Maturity Date**" means the date falling thirty-six (36) months after the first Utilisation Date.

"**GAAP**" means United States Generally Accepted Accounting Principles.

"**Group**" means the Borrower and its subsidiaries from time to time.

"**Group Companies**" means the members of the Group; and "**Group Company**" means each of them.

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China.

"**Interest Payment Date**" means the last day of each Interest Period.

"**Interest Period**" means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

"**LIBOR**" means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) if no Screen Rate is available for US Dollars for the Interest Period of that Loan, the arithmetic mean of the rates (rounded upwards to four decimal places) quoted by the Reference Banks to leading banks in the London interbank market (as supplied to the Lender at its request);

as of 11:00am (London time) on the Quotation Day for which an interest rate is to be determined for the offering of deposits in US Dollars and for a period of comparable to the Interest Period for that Loan.

"**Loan**" means a Facility A Loan or a Facility B Loan.

"**Margin**" means in relation to a Facility A Loan, Facility A Margin and in relation to a Facility B Loan, Facility B Margin.

"**Material Adverse Change**" means any event or circumstance that has or could reasonably be expected to have a material adverse effect.

"**Obligors**" means the Borrower, the Share Pledgor and any other person (other than the Lender) who is a party to a Finance Document; and "**Obligor**" means any of them.

"**Original Financial Statements**" means the audited and consolidated financial statements of the Group for the financial year ended 31 December 2009.

"**Party**" means a party to this Agreement.

"**Permitted Holders**" means the Share Pledgor and its estate, spouse, ancestors and lineal descendants, the legal representatives of any of the foregoing and the trustees of any bona fide trusts of which the foregoing are the sole beneficiaries or the grantors, or any entity of which the foregoing beneficially own, individually or collectively with any of the foregoing, at least 80% of the total voting power of the voting shares of such entity.

"Permitted Security Interest" means

- (i) the Security Interests created pursuant to the Security Documents;
- (ii) any Security Interest arising or constituted under any retention of title or similar provision in a supplier's or vendor's terms and conditions of supply or sale of goods or materials acquired by the Borrower in the ordinary course of business and provided no default exists in respect of the obligations which the Security Interest secures;
- (iii) any Security Interest for any Taxes which are not yet due or remain payable without penalty (other than those which are currently being contested in good faith by appropriate proceedings and in respect of which the Borrower has made adequate reserve (being not less than an amount which would be required to be reserved in accordance with GAAP)) provided always that no document has been filed, registered, recorded or lodged with any court, registry, office, or regional, provincial, governmental or other authority by any person for the purpose of perfecting or preserving such Security Interest or the priority thereof;
- (iv) any Security Interest arising or constituted by any lease, rental, hire, conditional sale or similar agreement entered into by the Borrower relating to the assets acquired by it in the ordinary course of business (and not for the primary purpose of raising finance) provided always that the entry into and performance of such arrangements does not contravene any provision of any of the Finance Documents;
- (v) any Security Interest on property acquired by the Borrower after the date hereof which existed on such property at the time of its acquisition (but which was not created in anticipation thereof) provided that the terms thereof and the acquisition of such property do not contravene any provision of any of the Finance Documents and the principal amount secured thereby has not been increased in contemplation of, or since the acquisition of that property by the Borrower;
- (vi) any netting or set-off arrangement entered into by the Borrower in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances.

"Potential Event of Default" means any event or circumstance specified in Schedule 6 (*Events of Defaults*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"PRC" means the People's Republic of China excluding, for the purpose of this Agreement, Hong Kong.

"Quotation Day" means, in relation to any currency for any period for which an interest rate is to be determined, the day as determined by the Lender in accordance with market practice in the Relevant Interbank Market (and if quotation would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"Reference Banks" means such banks as may be appointed by the Lender.

"Related Business" means any designing, developing, manufacturing, supplying, and servicing of electric motors including linear motors, specialty micro-motors, and industrial rotary motors.

"Release Date" means the date on which the Lender has certified that the Secured Indebtedness has been irrevocably and unconditionally paid and discharged in full.

"Relevant Interbank Market" means in relation to US Dollars, the London interbank market and, in relation to RMB, the Shanghai interbank market.

"Repayment Dates" means the dates falling twenty-four (24) and thirty-six (36) months respectively after the first Utilisation Date (irrespective of the Facility under which the first Utilisation is made); and **"Repayment Date"** means each of them.

"**Screen Rate**" means:

- (a) in relation to LIBOR, the British Bankers' Association Interest Settlement Rate for the relevant currency and period; and
- (b) in relation to SHIBOR, the Shanghai Interbank Offered Rate calculated by National Interbank Funding Center for the relevant currency and period'

displayed on the appropriate page of the (in relation to LIBOR) Reuters screen and (in relation to SHIBOR) the website www.shibor.org. If the agreed page is replaced or service ceases to be available, the Lender may specify another page or service displaying the appropriate rate after consultation with the Borrower.

"**Security Documents**" means

- (a) the Share Pledge Agreement; and
- (b) any other security documents for the time being or from time to time constituting security for the Secured Indebtedness and any other document which may be designated a Security Document with the consent of the Borrower

and shall include all notices, acknowledgements or other documents required pursuant thereto or in connection therewith and reference to "**Security Document**" includes reference to any one thereof.

"**Secured Indebtedness**" means all present and future indebtedness, obligations and liability (whether actual or contingent and whether owed on a joint and several basis, or in any capacity whatsoever) of the Obligors to the Lender under the Finance Documents.

"**Security Interest**" means (i) a mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person, (ii) any arrangement under which money or claims to, or for the benefit of, a bank or other account may be applied, set-off or made subject to a combination of accounts so as to effect payment of sums owed or payable to any person or (iii) any other type of preferential arrangement (including title transfer and retention arrangements) having a similar effect.

"**Share Pledge Agreement**" means a pledge and security agreement entered or to be entered into between the Share Pledgor as pledgor and the Lender as pledgee in respect of the Common Stock including all amendments attached thereto pursuant to the terms of the Share Pledge Agreement.

"**Share Pledgor**" means Mr. Yang Tianfu (杨天夫), holder of PRC passport No. G33266303.

"**Share Value**" has the meaning ascribed to it in the Share Pledge Agreement.

"**SHIBOR**" means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) if no Screen Rate is available for RMB for the Interest Period of that Loan, the arithmetic mean of the rates (rounded upwards to four decimal places) quoted by the Reference Banks to leading banks in the Shanghai interbank market (as supplied to the Lender at its request);

as of 11:30am (Beijing time) on the Quotation Day for which an interest rate is to be determined for the offering of deposits in RMB and for a period of comparable to the Interest Period for that Loan.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Deduction**" has the meaning given to such term in Clause 12.1 (*Tax definitions*).

"**Trading Day**" shall mean (a) if the Common Stock is listed or admitted for trading on the New York Stock Exchange, a day on which trades may be made on such exchange, (b) if the Common Stock is quoted on the Nasdaq Stock Market, a day on which trades may be made thereon or (c) if the Common Stock is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"**Trading Market**" has the meaning ascribed to it in the Share Pledge Agreement.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Borrower under this Agreement.

"**Utilisation**" means a utilisation of a Facility.

"**Utilisation Date**" means the date of a Utilisation, being the date on which the relevant Loan is to be made.

"**Utilisation Request**" means a notice substantially in the form set out in Schedule 3 (*Utilisation Request*).

1.2 Construction

(a) Unless a contrary indication appears, any reference in this Agreement to:

- (i) the "**Borrower**", the "**Lender**", any "**Obligor**" or any "**Party**" shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
- (ii) "**affiliate**" of any specified person means:
 - (a) any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person, or
 - (b) any other person who is a director or officer of:
 - (1) such specified person,
 - (2) any subsidiary of such specified person,
 - (3) any person described in (a) above, or
 - (c) any spouse, parent, child, brother or sister of any person described in (a) or (b) above;
- (iii) "**applicable law or regulation**" includes any law, regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (iv) a document is in "**agreed form**" if it is agreed and initialled for the purpose of identification as such by the Borrower and the Lender;
- (v) "**assets**" includes present and future properties, revenues and rights of every description;
- (vi) "**authorisation**" means:
 - (a) an authorization, consent, approval, resolution, licence, exemption, filing, notarization, lodgement or registration; or
 - (b) in relation to anything which will be fully or partly prohibited or restricted by law if a government agency intervenes or acts in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action;

- (vii) "**business day**" means a day (other than a Saturday or Sunday) on which banks are open for general business in New York, Hong Kong and (if such reference relates to a date for a payment in US Dollars) London or (if such reference relates to a date for a payment in RMB) Shanghai;
- (viii) "**contractual obligations**" means, as to any person, any provision of any security issued by such person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument or arrangement (whether in writing or otherwise) to which such person is a party or by which it or any of such person's property is bound;
- (ix) "**control**" means the power to direct the management and policies of a body corporate, whether through the ownership of voting capital, by contract or otherwise and "**controlled**" shall be construed accordingly;
- (x) a "**Finance Document**" or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
- (xi) "**governmental agency**" means any government or any governmental agency, semi-governmental or judicial entity or authority (including, without limitation, any stock exchange or any self-regulatory organisation established under statute);
- (xii) "**holding company**" means, in relation to a company or corporation, any other company or corporation in respect of which it is a subsidiary;
- (xiii) "**including**" shall be construed as "including without limitation" (and cognate expressions shall be construed similarly);
- (xiv) "**indebtedness**" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (xv) "**indirect tax**" means any goods and services tax, consumption tax, value added tax or any tax of a similar nature;
- (xvi) "**material adverse effect**" means a material adverse effect on (a) the property, business, operations, financial condition, liabilities or capitalization of the Group ' taken as a whole, (b) the ability of any Obligor to perform its payment obligations or any of its material obligations under any of the Finance Documents to which it is a party, (c) the validity or enforceability of any of the Finance Documents, (d) the material rights and remedies of the Lender under any of the Finance Documents or (e) the timely repayment of the Loan or payment of interest accrued or any other amount payable by the Borrower under this Agreement;
- (xvii) "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:
- (a) if the numerically corresponding day is not a business day, that period shall end on the next business day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding business day;
 - (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last business day in that calendar month; and
 - (c) if an Interest Period begins on the last business day of a calendar month, that Interest Period shall end on the last business day in the calendar in which that Interest Period is to end;

The above rules will apply only to the last month of any period.

- (xviii) "**subsidiary**" means in relation to any company or corporation, a company or corporation:
- (a) which is controlled, directly or indirectly, by the first mentioned company or corporation;
 - (b) more than half the issued equity share capital of which is beneficially owned, directly or indirectly, by the first mentioned company or corporation; or
 - (c) which is a subsidiary of another subsidiary of the first mentioned company or corporation,

and for this purpose, a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body;
- (xix) a "**person**" includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (xx) a provision of law is a reference to that provision as amended or re-enacted; and
- (xxi) unless a contrary indication appears, a time of day is a reference to Hong Kong time.
- (b) Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Potential Event of Default or an Event of Default is "**continuing**" if it has not been remedied or waived.

Where this Agreement specifies an amount in a given currency (the "**specified currency**") "**or its equivalent**", the "**equivalent**" is a reference to the amount of any other currency which, when converted into the specified currency utilising the Lender's spot rate of exchange for the purchase of the specified currency with that other currency at or about 11 a.m. on the relevant date, is equal to the relevant amount in the specified currency.

1.3 **Currency Symbols**

- (a) "**USD**" or "**US Dollars**" or "**Dollars**" denotes the lawful currency of the United States of America.
- (b) "**RMB**" denotes the lawful currency of the PRC.

2. **THE FACILITY**

2.1 **The Facility**

Subject to the terms of this Agreement, the Lender make available to the Borrower:

- (a) a US Dollar term loan facility in an aggregate amount equal to the Facility A Commitment; and
- (b) a RMB term loan facility in an aggregate amount equal to the Facility B Commitment.

2.2 Commitments

- (a) Subject to paragraph (b) below, on the date of this Agreement, the currency and amount of the Commitment of the Lender in respect of each Facility is the currency and amount set out in Schedule 1 (*Commitments*) in respect of that Facility.
- (b) The Commitments of the Lender are subject to any cancellation or reduction thereof in accordance with this Agreement.

3. PURPOSE

3.1 Purpose

The Borrower shall apply all amounts borrowed by it under the Facilities for working capital requirements of the Group.

3.2 Monitoring

The Lender shall not be bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS OF UTILISATION

4.1 The Borrower may not deliver the first Utilisation Request unless all conditions precedent set out in Part A of Schedule 2 (*Conditions Precedent*) have been satisfied in accordance with this Clause 4 (*Conditions of Utilisation*). The Lender shall notify the Borrower promptly upon being satisfied with the same.

4.2 The Borrower's right to submit a Utilisation Request (including the first Utilisation Request) is further subject to all conditions precedent set out in Part B of Schedule 2 (*Conditions Precedent*) having been satisfied in accordance with this Clause 4 (*Conditions of Utilisation*).

4.3 The Borrower shall be deemed to have satisfied the conditions precedent in this Clause 4 (*Conditions of Utilisation*) if:

- (i) the documents and other evidence referred to in Schedule 2 (*Conditions Precedent*) and any documentary evidence relating to the satisfaction of the conditions precedent set out in Schedule 2 (*Conditions Precedent*) are delivered to the Lender in form and substance satisfactory to it; and
- (ii) no Material Adverse Change has occurred and no change in applicable law or regulation or in the interpretation thereof shall be applicable that either restrains or prevents or imposes materially adverse conditions upon the transactions contemplated by or in connection with the Finance Documents.

4.4 All copies of documents delivered to the Lender as required under this Clause 4 (*Conditions of Utilisation*) shall be certified by an Authorised Person as being true and complete copies of the originals.

5. UTILISATION

5.1 Delivery of a Utilisation Request

The Borrower may utilise a Facility by delivery to the Lender of a duly completed Utilisation Request not later than 10:00am (Hong Kong time) on the third business day before the proposed Utilisation Date.

5.2 Completion of Utilisation Request

- (a) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:
 - (i) it identifies the Facility to be utilised;

- (ii) the proposed Utilisation Date is a business day within the Availability Period applicable to that Facility;
 - (iii) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*); and
 - (iv) the bank account specified in the Utilisation Request to which the proceeds of the Utilisation are to be credited is a bank account of the Borrower maintained with a bank acceptable to the Lender or such other account as is acceptable to the Lender.
- (b) Only one Loan may be requested in each Utilisation Request.

5.3 **Currency and amount**

- (a) The currency specified in each Utilisation Request utilising Facility A and Facility B must be US Dollars and RMB respectively.
- (b) The amount of the proposed Loan must be an amount which is not more than the Available Facility in respect of the corresponding Facility and which is a minimum of USD5,000,000 (in the case of Facility A) or RMB20,000,000 (in the case of Facility B) or, if less, the Available Facility in respect of that Facility.

5.4 **Advance**

If the conditions set out in Clause 4 (*Conditions of Utilisation*) and 5.1 (*Delivery of a Utilisation Request*) to 5.3 (*Currency and amount*) above have been met, the Lender shall make the Loan available to the Borrower on the Utilisation Date.

5.5 **Cancellation of Available Facility**

On the expiry of the Availability Period (in the principal financial centre of the country of the relevant currency):

- (a) the Available Facility (if any) in respect of each Facility shall be immediately and automatically reduced to zero; and
- (b) the Commitment under each Facility shall be immediately and automatically reduced by the amount (if any) of the Available Facility in respect of that Facility immediately before the reduction to zero of that Available Facility in accordance with paragraph (a) above.

6. **REPAYMENT**

6.1 **Repayment of Loans**

The Borrower shall repay the Facility A Loans in two (2) equal instalments on the Repayment Dates. The Borrower shall repay the Facility B Loans in two (2) equal instalments on the Repayment Dates.

6.2 **Reborrowing**

The Borrower may not reborrow any part of a Facility which is repaid.

7. **PREPAYMENT AND CANCELLATION**

7.1 **Illegality**

If, at any time, it is or will become unlawful in any applicable jurisdiction for the Lender to perform any of its obligations as contemplated by this Agreement or to make, fund or allow to remain outstanding any Loan:

- (a) upon the Lender notifying the Borrower of that event, the Commitments of the Lender will be immediately cancelled; and
- (b) the Borrower shall repay the Loans on the last day of the Interest Period of each Loan occurring after the Lender has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Borrower (being no earlier than the last day of any applicable grace period permitted by law).

7.2 Cancellation

The Facilities may not be cancelled except as otherwise provided in this Agreement.

7.3 Change of Control

- (a) Upon the occurrence of a Change of Control:
 - (i) the Borrower shall promptly notify the Lender upon becoming aware of that event; and
 - (ii) the Lender may, by not less than 30 days notice to the Borrower, cancel the Facilities and declare all outstanding Loans together with accrued interest, and all other amounts accrued under the Finance Documents immediately due and payable, whereupon the Facilities will be cancelled and all such outstanding amounts will become immediately due and payable.
- (b) For the purpose of this Clause 7.3 (*Change of Control*), a "**Change of Control**" means the occurrence of any of the following event:-

- (i) the Permitted Holders cease to be the beneficial owners, directly or indirectly, of a majority of the total voting power of the voting shares of the Borrower or of at least 30% of the total voting power of the voting shares of the Borrower or any person or persons, acting together, other than the Permitted Holders become the beneficial owner(s) of a higher percentage of the total voting power of the voting shares of the Borrower than that of which the Permitted Holders are beneficial owners, directly or indirectly, whether as a result of the issuance of securities of the Borrower, any merger, consolidation, liquidation or dissolution of the Borrower, any direct or indirect transfer of securities by the Permitted Holders or otherwise (for this purpose, the Permitted Holders will be deemed to beneficially own any voting shares of the specified company held by a parent company so long as the Permitted Holders beneficially own, directly or indirectly, in the aggregate a majority of the total voting power of the voting shares of such parent company); or

- (ii) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of the Borrower and its subsidiaries, considered as a whole (other than a disposition of such assets as an entirety or virtually as an entirety to a wholly owned subsidiary or one or more Permitted Holders), shall have occurred, or the Borrower merges consolidates or amalgamates with or into any other person (other than one or more Permitted Holders) or any other person (other than one or more Permitted Holders) merges, consolidates or amalgamates with or into the Borrower, in any such event pursuant to a transaction in which the outstanding voting shares of the Borrower is reclassified into or exchanged for cash, securities or other assets, other than such transaction where:

- (1) the outstanding voting shares of the Borrower is reclassified into or exchanged for other voting shares of the Borrower or for the voting shares of the surviving entity, and

- (2) the holders of the voting shares of the Borrower immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting shares of the Borrower or the surviving entity immediately after such transaction and in substantially the same proportion as before the transaction; or

- individuals who on the date of this Agreement constitute the board of directors (together with any new directors whose election or appointment by such board or whose nomination for election by the shareholders of the Borrower is approved by a vote of not less than three-fourths of the directors then still in office who are either directors on the date of this Agreement or whose election or nomination for election has been previously so approved) cease for any reason to constitute a majority of the board of directors then in office; or the shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.
- (iii)

7.4 Voluntary Prepayment

- (a) The Borrower may, if it gives the Lender not less than one (1) month's (or such shorter period as the Lender may agree) prior notice, prepay on an Interest Payment Date or a Repayment Date the whole or any part of any Loan (but, if in part, being an amount that is an integral multiple of USD500,000 (in the case of a Facility A Loan) or RMB2,000,000 (in the case of a Facility B Loan)).
- (b) A Loan may be prepaid only after the last day of the Availability Period (or, if earlier, the day on which the Available Facility is zero).

7.5 Restrictions

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 7 (*Prepayment and Cancellation*) shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) The Borrower may not reborrow any part of a Facility which is prepaid.
- (d) The Borrower shall not repay or prepay all or any part of any Loan or reduce any Commitment except at the times and in the manner expressly provided for in this Agreement.
- (e) If any Commitment is reduced in accordance with this Agreement, the amount of such reduction may not be subsequently reinstated.
- (f) Any prepayment under Clause 7.3 (*Change of Control*) or Clause 7.4 (*Voluntary Prepayment*) shall satisfy the obligations under Clause 6.1 (*Repayment of Loans*) in inverse chronological order.

8. INTEREST

8.1 Calculation of interest

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:

- (a) Margin; and
- (b) in relation to a Facility A Loan, LIBOR and in relation to a Facility B Loan, SHIBOR.

8.2 Payment of interest

The Borrower shall pay accrued interest on that Loan on each Interest Payment Date.

8.3 **Default interest**

If the Borrower fails to pay any amount payable by it under this Agreement on its due date, interest shall accrue on the Unpaid Sum from the due date to the date of actual payment (both before and after judgment) at a rate which is five per cent. (5%) higher than the rate which would have been payable if the Unpaid Sum had, during the period of non-payment, constituted a Loan for successive Interest Periods, each of a duration selected by the Lender (acting reasonably). Any interest accruing under this Clause 8.3 (*Default interest*) shall be immediately payable by the Borrower on demand by the Lender.

(a)

If any Unpaid Sum consists of all or part of a Loan which became due on a day which was not the last day of an Interest Period relating to that Loan the first Interest Period for that Unpaid Sum shall have a duration equal to the unexpired portion of the current Interest Period relating to that Loan.

(b)

Default interest (if unpaid) arising on an Unpaid Sum will be compounded with the Unpaid Sum at the end of each Interest Period applicable to that Unpaid Sum but will remain immediately due and payable.

(c)

8.4 **Notification of rates of interest**

The Lender shall promptly notify the Borrower of the determination of a rate of interest under this Agreement.

9. **INTEREST PERIODS**

9.1 **Interest Periods**

(a) Each Interest Period for a Loan shall be of a duration of six (6) months.

(b) Each Interest Period for a Loan shall start on the Utilisation Date or (if a Loan has already been made, whether or not in respect of the same Facility) on the last day of the preceding Interest Period of such Loan.

(c) An Interest Period shall not extend beyond the Final Maturity Date.

9.2 **Non-Business Days**

If an Interest Period would otherwise end on a day which is not a business day, that Interest Period will instead end on the next business day in that calendar month (if there is one) or the preceding business day (if there is not).

9.3 **Consolidation of Loans**

If the Interest Periods of two or more Loans end on the same date, those Loans will be consolidated into, and treated as, a single Loan on the last day of that Interest Period PROVIDED THAT a Facility A Loan and a Facility B Loan will not be consolidated into, nor be treated as, a single Loan.

10. **CHANGES TO THE CALCULATION OF INTEREST**

10.1 **Absence of quotations**

Subject to Clause 10.2 (*Market disruption*), if LIBOR or SHIBOR (as the case may be) is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by noon on the Quotation Day, the applicable LIBOR or SHIBOR (as the case may be) shall be determined on the basis of the quotations of the remaining Reference Banks.

10.2 Market disruption

- (a) Subject to any alternative basis agreed and consented to as contemplated by paragraphs (a) and (b) of Clause 10.3 (*Alternative basis of interest or funding*), if a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest on that Loan for the Interest Period shall be the rate per annum which is the sum of:
- (i) the Margin; and
 - (ii) the rate notified to the Borrower by the Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period to be that which expresses as a percentage rate per annum the cost to the Lender of making, funding or allowing to remain outstanding that Loan from whatever source it may reasonably select.
- (b) In this Agreement "**Market Disruption Event**" means:
- (i) at or about noon on the Quotation Day for the relevant Interest Period the Screen Rate is not available or the Screen Rate is zero or negative and none or only one of the Reference Banks supplies a rate to the Lender to determine LIBOR for US Dollars or SHIBOR for RMB (as the case may be) for the relevant Interest Period; or
 - (ii) before noon (Hong Kong time) on the business day immediately following the Quotation Day for the relevant Interest Period, the Lender (acting in good faith) notifies the Borrower that the cost to it of obtaining matching deposits in the Relevant Interbank Market would be in excess of LIBOR or SHIBOR (as the case may be).

10.3 Alternative basis of interest or funding

- (a) If a Market Disruption Event occurs and the Lender or the Borrower so requires, the Lender and the Borrower shall enter into negotiations (for a period of not more than thirty days) with a view to agreeing a substitute basis for determining the rate of interest.
- (b) Any alternative basis agreed pursuant to paragraph (a) above in writing by the Lender and the Borrower shall be binding on each of them.
- (c) For the avoidance of doubt, in the event that no substitute basis is agreed at the end of the thirty day period, the rate of interest shall continue to be determined in accordance with the terms of this Agreement.

10.4 Break Costs

The Borrower shall, within three business days of demand by the Lender, pay to the Lender its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.

11. FEES

The Borrower shall pay to the Lender an arrangement fee in the amount of five hundred thousand US Dollars (US\$500,000) within one (1) month of the date of this Agreement.

12. TAX GROSS UP AND INDEMNITIES

12.1 Tax definitions

- (a) In this Clause 12 (*Tax Gross Up and Indemnities*):

"**Tax Credit**" means a credit against, relief or remission for, or repayment of any Tax.

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

"Tax Payment" means an increased payment made by the Borrower to the Lender under Clause 12.2 (*Tax gross-up*) or a payment under Clause 12.3 (*Tax indemnity*).

- (b) Unless a contrary indication appears, in this Clause 12 (*Tax Gross Up and Indemnities*) a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

12.2 Tax gross-up

- (a) All payments to be made by the Borrower to the Lender under the Finance Documents shall be made free and clear of and without any Tax Deduction unless the Borrower is required to make a Tax Deduction, in which case the sum payable by the Borrower (in respect of which such Tax Deduction is required to be made) shall be increased to the extent necessary to ensure that the Lender receives a sum net of any deduction or withholding equal to the sum which it would have received had no such Tax Deduction been made or required to be made.
- (b) The Borrower shall promptly upon becoming aware that the Borrower must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Lender accordingly.
- (c) If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (d) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower shall deliver to the Lender evidence reasonably satisfactory to the Lender that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.3 Tax indemnity

- (a) Without prejudice to Clause 12.2 (*Tax gross-up*), if the Lender is required to make any payment of or on account of Tax on or in relation to any sum received or receivable under the Finance Documents (including any sum deemed for purposes of Tax to be received or receivable by the Lender whether or not actually received or receivable) or if any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, within three business days of demand of the Lender, promptly indemnify the Lender, together with any interest, penalties, costs and expenses payable or incurred in connection therewith, provided that this Clause 12.3 (*Tax indemnity*) shall not apply to:
- (i) any Tax imposed on and calculated by reference to the net income actually received or receivable by the Lender (but, for the avoidance of doubt, not including any sum deemed for purposes of Tax to be received or receivable by the Lender but not actually receivable) by the jurisdiction in which the Lender is incorporated; or
- (ii) any Tax imposed on and calculated by reference to the net income of the office or offices of the Lender through which the Lender will perform its obligations under this Agreement actually received or receivable by the Lender (but, for the avoidance of doubt, not including any sum deemed for purposes of Tax to be received or receivable by the Lender but not actually receivable) by the jurisdiction in which such office or offices the Lender is/are located.
- (b) The Lender intending to make a claim under paragraph (a) shall notify the Borrower of the event giving rise to the claim.

12.4 Tax credit

If the Borrower makes a Tax Payment and the Lender determines that:

- (a) a Tax Credit is attributable to that Tax Payment; and
- (b) the Lender has obtained, utilised and retained that Tax Credit,

the Lender shall pay an amount to the Borrower which the Lender determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.

12.5 Stamp taxes

The Borrower shall:

- (a) pay all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, and
- (b) within three business days of demand, indemnify the Lender against any cost, loss or liability the Lender incurs in relation to any stamp duty, registration or other similar Tax paid or payable in respect of any Finance Document.

12.6 Indirect tax

- (a) All consideration expressed to be payable under a Finance Document by any Obligor to the Lender shall be deemed to be exclusive of any indirect tax. If any indirect tax is chargeable on any supply made by the Lender to any Party in connection with a Finance Document, that Party shall pay to the Lender (in addition to and at the same time as paying the consideration) an amount equal to the amount of the indirect tax.

- (b) Where a Finance Document requires any Party to reimburse the Lender for any costs or expenses, that Party shall also at the same time pay and indemnify the Lender against all indirect tax incurred by the Lender in respect of the costs or expenses to the extent the Lender reasonably determines that it is not entitled to credit or repayment in respect of the indirect tax.

13. INCREASED COSTS

13.1 Increased costs

- (a) Subject to Clause 13.3 (*Exceptions*) the Borrower shall, within three business days of a demand by the Lender, pay the Lender the amount of any Increased Costs incurred by the Lender or any of its affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation or (ii) compliance with any applicable law or regulation made after the date of this Agreement. The term "applicable law or regulation" in this paragraph (a) shall include, without limitation, any law or regulation concerning capital adequacy, prudential limits, liquidity, reserve assets or Tax.

- (b) In this Agreement "**Increased Costs**" means:
 - (i) a reduction in the rate of return from a Facility or on the Lender's (or its affiliate's) overall capital (including, without limitation, as a result of any reduction in the rate of return on capital brought about by more capital being required to be allocated by the Lender);
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by the Lender or any of its affiliates to the extent that it is attributable to the undertaking, funding or performance by the Lender of any of its obligations under any Finance Document or the making, funding or allowing to remain outstanding any Loan or Unpaid Sum.

13.2 **Increased cost claims**

- (a) The Lender intending to make a claim pursuant to Clause 13.1 (*Increased costs*) shall notify the Borrower of the event giving rise to the claim.

13.3 **Exceptions**

Clause 13.1 (*Increased costs*) does not apply to the extent any Increased Cost is:

- (a) attributable to a Tax Deduction required by law to be made by the Borrower;
- (b) compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because the exclusion in paragraph (a) of Clause 12.3 (*Tax indemnity*) applied); or
- (c) attributable to the wilful breach by the Lender or its affiliates of any applicable law or regulation.

14. **MITIGATION BY THE LENDER**

14.1 **Mitigation**

- (a) The Lender shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 7.1 (*Illegality*), Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*), including (but not limited to):
 - (i) providing such information as the Borrower may reasonably request in order to permit the Borrower to determine its entitlement to claim any exemption or other relief (whether pursuant to a double taxation treaty or otherwise) from any obligation to make a Tax Deduction; and
 - (ii) in relation to any circumstances which arise following the date of this Agreement, transferring its rights and obligations under the Finance Documents to another affiliate or another office.
- (b) Paragraph (a) above does not in any way limit the obligations of any Obligor under the Finance Documents.

14.2 **Limitation of liability**

- (a) The Borrower shall indemnify the Lender for all costs and expenses reasonably incurred by the Lender as a result of steps taken by it under Clause 14.1 (*Mitigation*).
- (b) The Lender is not obliged to take any steps under Clause 14.1 (*Mitigation*) if, in the opinion of the Lender (acting reasonably), to do so might be prejudicial to it.

14.3 **Conduct of business by the Lender**

No provision of this Agreement will:

- (a) interfere with the right of the Lender to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;

- (b) oblige the Lender to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige the Lender to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

15. OTHER INDEMNITIES

15.1 Currency indemnity

- (a) If any sum due from the Borrower under the Finance Documents (a "**Sum**"), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the "**First Currency**") in which that Sum is payable into another currency (the "**Second Currency**") for the purpose of:

- (i) making or filing a claim or proof against the Borrower; or
- (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

The Borrower shall as an independent obligation, within three business days of demand, indemnify the Lender against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

- (b) The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

15.2 Other indemnities

The Borrower shall, within three business days of demand, indemnify the Lender against any cost, loss or liability incurred by the Lender as a result of:

- (a) the occurrence of any Event of Default;
- (b) investigating any event which it reasonably believes is an Event of Default or Potential Event of Default;
- (c) the information produced or approved by any Obligor being or being alleged to be misleading and/or deceptive in any respect;
- (d) any enquiry, investigation, subpoena (or similar order) or litigation with respect to any Obligor or with respect to the transactions contemplated or financed under this Agreement;
- (e) a failure by an Obligor to pay any amount due under a Finance Document on its due date or in the relevant currency;
- (f) funding, or making arrangements to fund, a Loan requested by the Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by the Lender alone);
- (g) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- (h) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

16. COSTS AND EXPENSES

16.1 Transaction expenses

The Borrower shall, within three business days of demand, pay the Lender the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing and execution of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents.

16.2 Amendment costs

If an Obligor requests an amendment, waiver or consent, the Borrower shall, within three business days of demand, reimburse the Lender for the amount of all costs and expenses (including legal fees) reasonably incurred by the Lender in responding to, evaluating, negotiating or complying with that request or requirement.

16.3 Enforcement costs

The Borrower shall, within three business days of demand, pay to the Lender the amount of all costs and expenses (including legal fees) incurred by the Lender in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

17. REPRESENTATIONS AND WARRANTIES

17.1 Matters represented

The Borrower makes the representations and warranties set out in Schedule 4 (*Representations and Warranties*) to the Lender.

17.2 Reliance

The Borrower acknowledges the reliance by the Lender on the representations and warranties in entering into this Agreement and each other Finance Document to which it is a party.

17.3 Repetition

The representations and warranties set out in Schedule 4 (*Representations and Warranties*) shall be deemed to be repeated in the manner and at this provided for in Clause 2 (*Repetition*) of Schedule 4 (*Representations and Warranties*).

18. UNDERTAKINGS

18.1 Content

The Borrower undertakes to the Lender that it shall comply with the undertakings contained in Schedule 5 (*Undertakings*).

18.2 Duration

The undertakings in Schedule 5 (*Undertakings*) shall, save as otherwise provided herein, remain in force from the date of this Agreement until the Release Date.

18.3 "Know your customer" checks

The Borrower shall promptly upon the request of the Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Lender for conducting any "know you customer" or other similar procedures under applicable laws and regulations.

19. EVENTS OF DEFAULT

19.1 Events of Default

Each of the events set out in Schedule 6 (*Events of Defaults*) shall constitute an Event of Default (howsoever caused and resulting).

19.2 Acceleration

On and at any time after the occurrence of an Event of Default which is continuing the Lender may by notice to the Borrower:

- (a) without prejudice to any Loans then outstanding:
 - (i) cancel the Commitments (and reduce them to zero), whereupon they shall immediately be cancelled (and reduced to zero); or
 - (ii) cancel any part of any Commitment (and reduce such Commitment accordingly), whereupon the relevant part shall immediately be cancelled (and the relevant Commitment shall be immediately reduced accordingly); and/or
- (b) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (c) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Lender.

20. CHANGES TO THE PARTIES

20.1 Successors and assigns

This Agreement shall be binding upon and enure to the benefit of each Party and its or any subsequent successors, transferees and assigns.

20.2 No assignments and transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder without the prior written consent of the Lender.

20.3 Assignments and transfers by Obligors

An Obligor may not assign or transfer any of its rights or obligations under any Finance Document, except with the prior written consent of the Lender.

20.4 Assignments and transfers by Lender

The Lender may, subject to Clause 20.5 (*Restrictions*), at any time, assign all or any of its rights and benefits hereunder and under any Finance Documents to which it is a party or transfer all or any of its rights, benefits and obligations hereunder and under any Finance Documents to which it is a party.

20.5 Restrictions

The Borrower shall not become liable as a result of any assignment or transfer as contemplated by Clause 20.4 (*Assignments and transfers by Lender*) above to pay an amount or amounts pursuant to Clause 12 (*Tax Gross Up and Indemnities*) and Clause 13 (*Increased Costs*) in excess of the amount, if any, which at the time of such assignment or transfer would have been payable had no such assignment or transfer occurred, unless:

- 20.5.1 such assignment or transfer was made to avoid the occurrence of any illegality;
- 20.5.2 any assignment or transfer was made following an Event of Default which had occurred and not been remedied; or
- 20.5.3 such assignment or transfer was requested by or otherwise made at the instigation of the Borrower.

21. DISCLOSURE OF INFORMATION

The Lender may deliver copies of the Finance Documents and/or disclose any information received by it under or pursuant to any Finance Document or any other information about any Obligor or the Finance Documents as the Lender shall consider appropriate (if, in relation to paragraphs (i)(i) and (i)(ii) below, the person to whom the copies and/or information are to be delivered or disclosed has undertaken to keep such information confidential on terms set out in this Clause 21 (*Disclosure of Information*) to:

- (a) any of its affiliates;
- (b) its head office and any other branch;
- (c) any of its professional advisers and any other person providing services to it (provided that such person is under a duty of confidentiality, contractual or otherwise, to the Lender);
- (d) any Obligor;
- (e) any person permitted by any Obligor;
- (f) any person to the extent required for the purpose of any litigation, arbitration or regulatory proceedings or procedure;
- (g) any person to whom, and to the extent that, information is required to be disclosed by any applicable law or regulation; and
- (h) any other person:
 - (i) to (or through) whom the Lender assigns or transfers (or may potentially assign or transfer) all or any of its rights and obligations under this Agreement; or
 - (ii) with (or through) whom the Lender enters into (or may potentially enter into) any sub-participation in relation to, or any other transaction under which payments are to be made by reference to, a Facility, this Agreement or any Obligor;

This Clause 21 (*Disclosure of Information*) supersedes any previous agreement relating to the confidentiality of such information.

22. PAYMENT MECHANICS

22.1 Payments by the Borrower

- (a) On each date on which the Borrower is required to make a payment under a Finance Document, the Borrower shall make the same available to the Lender (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Lender as being customary at the time for settlement of transactions in the relevant currency in the place of payment.

- (b) Payment shall be made to such account with such bank as the Lender specifies.

22.2 **Payment by the Lender**

Subject to any requirement in Clause 5.2 (*Completion of Utilisation Request*), any amounts payable to the Borrower under this Agreement shall be paid into the bank account specified by the Borrower and acceptable to the Lender or in such manner as the Lender and the Borrower shall from time to time agree.

22.3 **Partial payments**

- (a) If the Lender receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under this Agreement, the Lender shall, save only as expressly provided in paragraph (b) below, apply that payment towards the obligations of the Borrower under this Agreement in the following order:
- (i) **first**, in or towards payment of any unpaid fees, costs and expenses of the Lender under the Finance Documents;
 - (ii) **secondly**, in or towards payment of any accrued interest or commitment fees due but unpaid under this Agreement;
 - (iii) **thirdly**, in or towards payment of any principal due but unpaid under this Agreement; and
 - (iv) **fourthly**, in or towards payment of any other sum due but unpaid under the Finance Documents.
- (b) The Lender may vary the order set out in sub-paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by the Borrower.

22.4 **No set-off by the Borrower**

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

22.5 **Business Days**

- (a) Any payment which is due to be made on a day that is not a business day shall be made on the next business day in the same calendar month (if there is one) or the preceding business day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under paragraph (a) above, interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

22.6 **Currency of account**

- (a) Subject to paragraphs (b), (c) and (d) below, US Dollars is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- (b) Any repayment or prepayment of a Loan or payment of interest (including default interest) in respect of Facility B shall be made in RMB.
- (c) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.

(d) Any amount expressed to be payable in a currency other than US Dollars shall be paid in that other currency.

23. SET-OFF

The Lender may set off any matured obligation due from the Borrower under the Finance Documents against any matured obligation owed by the Lender to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Lender may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off. If either obligation is unliquidated or unascertained, the Lender may set off in an amount estimated by it in good faith to be the amount of that obligation without prejudice to the duty of the Lender to account for any surplus upon the amount becoming liquidated or ascertained.

24. NOTICES

24.1 Communications in writing

Any communication to be made under or in connection with this Agreement shall be made in writing and, unless otherwise stated, may be made by fax or letter.

24.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with this Agreement is that identified with its name below or any substitute address, fax number or department or officer as the Parties may notify each other by not less than five business days' notice.

24.3 Delivery

(a) Any communication or document made or delivered by one person to another under or in connection with this Agreement will be effective:

(i) if by way of fax, only when received in legible form; or

(ii) if by way of letter, only when it has been left at the relevant address or five business days after being deposited in the post postage prepaid in an envelope addressed to it at that address; and, if a particular department or officer is specified as part of its address details provided under Clause 24.2 (*Addresses*), if addressed to that department or officer.

(b) Any communication or document to be made or delivered to the Lender will be effective only when actually received by the Lender and then only if it is expressly marked for the attention of the department or officer identified with the Lender's signature below (or any substitute department or officer as the Lender shall specify for this purpose).

24.4 English language

(a) Any notice given under or in connection with any Finance Document must be in English.

(b) All other documents provided under or in connection with this Agreement must be:

(i) in English; or

(ii) if not in English, and if so required by the Lender, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

25. CALCULATIONS AND CERTIFICATES

25.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by the Lender are *prima facie* evidence of the matters to which they relate.

25.2 Certificates and determinations

Any certification or determination by the Lender of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

25.3 Day count convention

Any interest accruing under this Agreement will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days (or as may be customary in the relevant market).

26. PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

27. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of the Lender, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

28. AMENDMENTS AND WAIVERS

Any term of the Finance Documents may be only amended or waived with the written consent of the Party against whom the amendment or waiver is claimed to be binding.

29. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

30. GOVERNING LAW

This Agreement, and all non-contractual obligations arising from or in connection with this Agreement, are governed by Hong Kong law.

31. ENFORCEMENT

31.1 Jurisdiction of Hong Kong courts

- (a) The courts of Hong Kong have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including any dispute relating to any non-contractual obligation arising from or in connection with this Agreement and any dispute regarding the existence, validity or termination of this Agreement) (a "**Dispute**").
- (b) The Parties agree that the courts of Hong Kong are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.

- (c) This Clause 31.1 (*Jurisdiction of Hong Kong courts*) is for the benefit of the Lender only. As a result, the Lender shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent proceedings in any number of jurisdictions.

31.2 **Service of process**

Without prejudice to any other mode of service allowed under any relevant law, the Borrower:

- (a) irrevocably agrees to appoint in Hong Kong an agent for service of process in relation to any proceedings before the Hong Kong courts in connection with any Finance Document prior to the first Utilisation Date; and
- (b) agrees that failure by a process agent to notify the Borrower of the process will not invalidate the proceedings concerned.

31.3 **Waiver of immunities**

The Borrower irrevocably waives, to the extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from:

- (a) suit;
- (b) jurisdiction of any court;
- (c) relief by way of injunction or order for specific performance or recovery of property;
- (d) attachment of its assets (whether before or after judgment); and
- (e) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any proceedings in the courts of any jurisdiction (and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any immunity in any such proceedings).

SCHEDULE 1

COMMITMENTS

Facility A Commitment

USD35,000,000

Facility B Commitment

RMB 100,000,000

SCHEDULE 2

CONDITIONS PRECEDENT

PART A — Conditions Precedent to the First Utilisation

1. Constitutive and Registration Documents

- 1.1 Receipt of copies of constitutive and organisational documents and all documents vouching the registration of the corporate Obligors with the appropriate authorities and their qualification to conduct their business as follows, each as certified by such Obligor's Secretary or Assistant Secretary:
- 1.1.1 the certificate of incorporation or certificates of formation, including restatements and amendments thereof, and the certificate on change of registered office or registered agent if applicable;
 - 1.1.2 the bylaws or limited liability company agreement or limited partnership agreement or other equivalent governing documents, including amendments and supplements thereof;
 - 1.1.3 other certificates, agreements or merger or consolidation, plans of reorganization, or other instruments which are filed with Nevada Secretary of State under Chapter 78 (*Private Companies*) of the Nevada Revised Statutes with the effect of amending or supplementing the certificate of incorporation; and
 - 1.1.4 the certificate of good standing in such Obligor's jurisdiction of formation or incorporation and any other jurisdiction in which it conducts business where a qualification to conduct business as a foreign entity is required.
- 1.2 Receipt of copies of passport or other identification documents of the Share Pledgor.

2. Corporate Documents

- 2.1 **Corporate approvals:** Evidence (in the form of copies of resolutions in agreed forms and/or certified extracts from the commercial register) that all corporate or constitutional action required by any relevant law, regulation or constitutional document to be taken by the corporate Obligors to authorise:
- 2.1.1 the entry into the Finance Documents to which it is a party;
 - 2.1.2 the execution by it of the Finance Documents to which it is a party; and
 - 2.1.3 an Authorised Person to sign on behalf of it all other documents, notices and communications required to be given by or on its behalf, under or for the purposes of the Finance Documents,
- has been duly taken.
- 2.2 **Specimen signatures:** Receipt of original specimen signatures of the Authorised Person or Authorised Persons referred to in Clause 2.1.3 of this Schedule.

3. Finance Documents

- 3.1 **Finance Documents:** Execution and receipt of originals of:
- 3.1.1 each Finance Document; and

- 3.1.2 each document to be delivered to the Lender pursuant to the Finance Documents prior to the Utilisation.
- 3.2 **Security Documents:** Receipt of written confirmation from the Borrower's counsel, confirming that the Security Documents have been registered or otherwise perfected under applicable laws and regulations.
- 3.3 **Notices:** Receipt of copies of each of the notices for the time being required to be given pursuant to the terms of the Finance Documents, together with acknowledgements from each person to whom notice was given, in the form required by each such document.
- 3.4 **Stamp duties, etc.:** Evidence that all stamp, registration and similar taxes and other fees payable in connection with the Finance Documents have been paid.
- 3.5 **Fees:** Payment of all fees which, under the terms of this Agreement, are due prior to the Utilisation Date.
4. **Legal Issues**
- 4.1 **Legal opinions:** Receipt of legal opinions in agreed form from:
- 4.1.1 King & Wood, the Hong Kong legal counsel to the Lender, relating to matters of Hong Kong law relevant to the Finance Documents; and
- 4.1.2 Loeb & Loeb, the Nevada and New York legal counsel to the Borrower relating to matters of the United States federal laws, the laws of the State of Nevada and the laws of the State of New York.
5. **Others**
- 5.1 **Process agents:** Evidence of the acceptance by the process agents named in the Finance Documents of their appointment pursuant to the provisions of the Finance Documents.
- 5.2 **Debt Service Account:** Evidence of the Debt Service Account having been opened and maintained in accordance with Clause 1 (*Opening and maintenance of Debt Service Account*) of Schedule 7 (*Debt Service Account*).
- 5.3 **Audited Reports:** Receipt of copies of the Original Financial Statements.
- 5.4 **Consortium Agreement:** Evidence of any necessary consent and/or waiver of Baring Asia having been obtained for the transactions contemplated in the Finance Documents in connection with the obligations of the Share Pledgor under the Consortium Agreement.

PART B — Conditions Precedent to each Utilisation

6. Utilisation Request

The Utilisation Request, duly completed and duly executed by an Authorised Person.

7. Additional Share Pledge

7.1 (Except for the first Utilisation) Execution and receipt of the original amendment to the Share Pledge Agreement in the form set out in Schedule II to the Share Pledge Agreement in respect of additional shares of the Common Stock of the Borrower having a Share Value not less than (a) (in the case where the Common Stock of the Borrower is listed or quoted on a Trading Market) 200% or (b) (in any other case) 143% of the aggregate of the proposed Utilisation and an amount determined by the Lender to be an approximation of the expected interest payments in respect of the Loan so made within the twelve (12) month period following the proposed Utilisation Date.

7.2 Receipt of any other document required to be delivered and/or evidence of any step required to be taken having been so taken under Section 14(c) of the Share Pledge Agreement in respect of such amendment.

7.3 Receipt of the items referred to Clauses 3.2, 3.3 and 3.4 of this Schedule in respect of such amendment.

8. Representations and Warranties

All representations and warranties in the Finance Documents are true in all material respects on and as of the Utilisation Date, before and after giving effect to the Utilisation and to the application of the proceeds therefrom, as though made on and as of such date (save for those representations and warranties which, by their terms, are made as of a specified date, which representations and warranties shall be true in all material respects as of such specified date only and save also as otherwise provided in Clause 2 (*Repetition*) of Schedule 4 (*Representations and Warranties*)).

9. No Events of Default

No Event of Default or Potential Event of Default has occurred and is continuing, or would result from the Utilisation.

SCHEDULE 3

UTILISATION REQUEST

From: Harbin Electric, Inc.

To: China Development Bank Corporation Hong Kong Branch

Dated:

Dear Sirs

**Harbin Electric, Inc. — USD35,000,000 and RMB10,000,000 Term Loan Facility Agreement
Dated 22 November 2010 (the " Facility Agreement")**

1. We refer to the Facility Agreement. This is a Utilisation Request. Terms defined in the Facility Agreement shall have the same meaning in this Utilisation Request.
2. We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [•] 20 10 (or, if that is not a business day, the next business day)
Facility to be utilised: [Facility A] / [Facility B]
Amount: USD [•] / RMB [•*]
3. We confirm that each condition specified in Clause 4 (*Conditions of Utilisation*) and Schedule 2 (*Conditions precedent*) is satisfied on the date of this Utilisation Request.
4. The proceeds of this Loan shall be credited to the following account:-

Account Holder: [•]
Bank: [•]
Branch: [•]
Account No.: [•]
5. This Utilisation Request is irrevocable.

Yours faithfully

.....
authorised signatory for
Harbin Electric, Inc.

SCHEDULE 4

REPRESENTATIONS AND WARRANTIES

1. The Borrower represents and warrants to the Lender that as at the date hereof:

(a) **Status and Due Authorisation**

(i) Each corporate Obligor is a company with limited liability duly incorporated and validly existing under the laws of its place of incorporation with power to enter into each Finance Document to which it is a party and to exercise its rights and perform its obligations thereunder and all corporate and other action required to authorise its execution of each Finance Document to which it is a party and the performance of its obligations thereunder have been duly taken. It has the power to own its assets and carry on its business as it is being conducted.

(ii) The Share Pledgor has the capacity and power to enter into each Finance Document to which he is a party and to exercise his rights and perform his obligations thereunder and all action required to authorise his execution of each Finance Document to which he is a party and the performance of his obligations thereunder have been duly taken.

(b) **Execution, Delivery and Performance**

The execution, delivery and performance by each of the Obligors of the Finance Documents to which it is a party and its exercise of its rights and performance of its obligations thereunder does not and will not:

(i) conflict with any existing agreement or other instrument to which it is a party or which is binding upon it or any of its assets other than any such conflict which has been effectively waived by the relevant counterparty prior to the date of this Agreement;

(ii) (in the case of a corporate Obligor) conflict with its memorandum and articles of association or constitutional documents;

(iii) conflict with any applicable law, regulation or official or judicial order currently in effect; or

(iv) result in the existence of, or oblige it to create any security interest over all or any of its present or future revenues or assets save as expressly contemplated by the Security Documents.

(c) **Authorisations**

All authorisations and necessary approvals from any governmental or regulatory body and all material third party consents required in connection with the entry into, performance, validity, enforceability or admissibility in evidence of, and the transactions contemplated by, the Finance Documents to which the Borrower or any other Obligor is a party and to enable the Borrower or any other Obligor or any other Group Company to conduct its business and perform its obligations as contemplated in the Finance Documents, which are then required to have been obtained or effected in accordance with such Finance Documents or applicable law or regulation including all applicable securities laws and regulations in the United States are in full force and effect and with respect to any authorisations and necessary approvals which are not required to be obtained or effected until a later date, the Borrower has reasonable grounds to believe that such authorisations and necessary approvals will be obtained and will be in full force and effect when so required.

(d) **Binding Obligations**

The obligations expressed to be assumed by each of the Borrower and the other Obligor in each Finance Document to which it is a party are legal and valid obligations binding on the Borrower or such Obligor, as the case may be, and enforceable in accordance with the terms of such Finance Document.

(e) **No Proceedings**

No litigation, arbitration or administrative proceeding of or before any court, arbitral body or agency has been started or threatened against the Borrower or any other Group Company or any other Obligor or any of their respective affiliates which could reasonably be expected to have a material adverse effect or otherwise affect the legality, validity, binding effect or enforceability of any Finance Document.

(f) **No Event of Default**

No Event of Default or Potential Event of Default has occurred and is continuing or would result from the making of the Utilisation.

(g) **Law and Jurisdiction**

The choice of Hong Kong law or the laws of the State of New York (as the case may be) as the governing law in the Finance Documents will be recognised and upheld in the jurisdictions in which the relevant Obligor are incorporated or reside. Any judgment obtained in Hong Kong or in the State of New York (as the case may be) in relation to a Finance Document will be recognised and enforced in the jurisdictions in which the relevant Obligor are incorporated or reside.

(h) **Deduction of Tax**

Neither the Borrower nor any other Obligor is required under any applicable law to make any deduction for or on account of Tax from any payment it may make under any Finance Document, save for any withholding tax which may arise in respect of any interest payable by the Borrower hereunder under the applicable federal laws of the United States or the laws of the State of Nevada.

(i) **Full Disclosure**

Any written information provided by the Borrower was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated and any financial projections have been prepared on the basis of recent information and on the basis of reasonable assumptions. Nothing has occurred or been omitted and no information has been given or withheld that results in the information provided taken as a whole being untrue or misleading in any material respect.

(j) **Financial Statements**

The Original Financial Statements were prepared in accordance with GAAP consistently applied and give a true and fair view and represent the financial condition and operations of the Group during the financial year save to the extent expressly disclosed in such financial statements.

(k) **Security**

Each Security Document confers the Security Interests purported to be conveyed thereby over the assets referred to in such Security Document and such assets are not subject to any prior Security Interests.

(l) **Claims Pari Passu**

The claims of the Lender against each of the Borrower and the other Obligors under the Finance Documents will rank at least *paid passu* as to priority of payments with the claims of all its other unsecured, unsubordinated creditors save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application.

(m) **Immunity**

Neither the Borrower, any other Obligor nor any of its assets are entitled to immunity from suit, execution, attachment or other legal process.

(n) **Taxes, Returns and Payments**

Each of the Borrower and the other Group Companies has filed or caused to be filed all tax returns which are required to be filed by it and has paid or caused to be paid all taxes shown to be due or payable on such returns or on any assessment received by it, to the extent such taxes have become due and payable in a timely manner, except those taxes the validity, application or amount of which is being contested by it in good faith (and for the payment of which adequate reserves have been provided, being not less than an amount which would be required to be reserved in accordance with the applicable accounting standards) by appropriate proceedings being diligently pursued.

(o) **No Winding-up**

No corporate action nor any other steps have been taken or legal proceedings have been started or (to the best of the Borrower's knowledge and belief) threatened for the bankruptcy, winding-up, dissolution, administration or insolvent re-organisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of any Obligor or any Group Company or to any or all of its assets or revenues.

(p) **Nevada**

The Lender is not and will not be deemed to be resident, domiciled or carrying on business in the State of Nevada or the United States by reason only of the execution, delivery, performance or enforcement of the Finance Documents to which any of them is party. It is not necessary under the laws of the State of Nevada or the federal laws of the United States (i) in order to enable the Lender to enforce its rights under the Finance Documents or (ii) by reason of the execution, delivery and performance of the Finance Execution Documents by the Lender that it be licensed, qualified or otherwise entitled to carry on business in the State of Nevada or the United States.

2. REPETITION

The Borrower shall be deemed to have repeated each of the representations and warranties set out in Clause 1 (*Representations and Warranties*) of this Schedule 4 on the date on which a Utilisation Request is issued and on each Utilisation Date with reference to the facts and circumstances then subsisting.

SCHEDULE 5

UNDERTAKINGS

PART A — INFORMATION UNDERTAKINGS

1. INFORMATION COVENANTS

1.1 Financial Statements

The Borrower shall:

1.1.1 within 90 days of the end of each of its financial years, deliver to the Lender, in sufficient copies, its audited consolidated financial statements for such financial year.

1.1.2 within 45 days of the end of each quarter of its financial year, deliver to the Lender, in sufficient copies, its unaudited consolidated financial statements for such quarter of the financial year.

1.2 Requirements as to Financial Statements

The Borrower shall ensure that each set of financial statements delivered by it pursuant to Clause 1.1 (*Financial Statements*) of this Schedule 5 (*Undertakings*) is certified by a director of the Borrower as having been prepared in accordance with GAAP.

1.3 Compliance Certificate

1.3.1 The Borrower shall deliver to the Lender, within 90 days after the end of each financial year of the Borrower, a compliance certificate stating that a review of the activities of the Borrower during the preceding financial year has been made with a view to determining whether the Borrower and its subsidiaries have kept, observed, performed and fulfilled their obligations under this Agreement, and further stating, as to the person signing such certificate ' that to the best of his or her knowledge the Borrower has kept, observed, performed and fulfilled each and every covenant contained in this Agreement and there is no default in the performance or observance of any of the terms, provisions and conditions of this Agreement (or, if a Potential Event of Default or Event of Default shall have occurred, (subject to Clause 1.5 (*Insider Information*) of this Schedule) describing all such Potential Event of Default or Events of Default of which he or she may have knowledge and what action the Borrower is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which repayment of the Loan(s) and payment of any interest accrued and any other amount payable under this Agreement is prohibited or if such event has occurred, a description of the event and what action the Borrower is taking or proposes to take with respect thereto.

1.3.2 Each compliance certificate delivered pursuant to Clause 1.3.1 of this Schedule shall be signed by a director of the Borrower.

1.4 Other Information

The Borrower shall supply to the Lender (in sufficient copies):

1.4.1 all documents dispatched by the Borrower to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;

1.4.2 promptly, any announcement, notice or other document relating specifically to the Borrower posted onto any electronic website maintained by any stock exchange on which shares in or other securities of the Borrower are listed or any electronic website required by any such stock exchange to be maintained by or on behalf of the Borrower;

- 1.4.3 (subject to Clause 1.5 (*Insider Information*) of this Schedule) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against the Borrower or any other Group Company, and which might, if adversely determined, have a material adverse effect;
- 1.4.4 (subject to Clause 1.5 (*Insider Information*) of this Schedule) promptly, such further information regarding the financial condition, business and operations of the Borrower or any other Group Company as the Lender may reasonably request; and
- 1.4.5 promptly, notice of any change in any Authorised Person of any corporate Obligor signed by a director or company secretary of such corporate Obligor accompanied by the specimen signature of any new Authorised Person.

1.5 **Insider Information**

The Borrower hereby acknowledges that the Lender does not wish to receive material non-public information with respect to the Borrower or its securities for the purpose of United States federal and state securities laws ("**Insider Information**"). The Borrower hereby agrees that it will use commercially reasonable efforts to omit any Insider Information from any notice, document or information required to be provided to the Lender under Clauses 1.3 (*Compliance Certificate*), 1.4 (*Other Information*) and 2.1 (*Notification and Default*) of this Schedule and that by delivering such notice, document or information to the Lender, the Borrower shall be deemed to have authorized the Lender to treat such notice, document or information as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States federal and state securities laws.

PART B - POSITIVE UNDERTAKINGS

2. **POSITIVE UNDERTAKINGS**

The Borrower shall comply with the following positive covenants:

2.1 **Notification of Default.**

Subject to Clause 1.5 (*Insider Information*) of this Schedule, the Borrower shall promptly inform the Lender of the occurrence of any Event of Default or Potential Event of Default of which it becomes aware and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has, to the best of its knowledge, occurred.

2.2 **Corporate Existence**

The Borrower shall and shall procure each corporate Obligor and each other Group Company maintain its corporate existence and its right to carry on operations.

2.3 **Authorisations**

The Borrower shall obtain, maintain in full force and effect and comply with the terms of and if requested, supply certified copies to the Lender of each authorisation, approval and registration required under any applicable law or regulation including all applicable securities laws and regulations in the United States to enable it to perform its obligations under, or for the validity, enforceability or admissibility of, any Finance Document.

2.4 **Ranking**

The Borrower shall ensure that at all times the claims of Event of Default or Potential Event of Default against each of the Borrower and the other Obligors under the Finance Documents will rank at least *pari passu* with the claims of its other unsecured creditors other than those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.

2.5 **Compliance with Law and Taxes**

The Borrower shall and shall procure each other Group Company to comply in all material respects with all applicable laws and regulations to which it is subject and to file all relevant tax returns and pay all taxes promptly upon the same becoming due except to the extent taxes are being contested in good faith (and adequate reserves have been provided in relation thereto in an amount not less than that which would be required to be reserved in accordance with GAAP).

2.6 **Accounting Records**

The Borrower shall and shall procure each other Group Company at all times maintain proper and accurate books and records prepared in accordance with GAAP.

2.7 **Security - General Covenants**

- (i) The Borrower shall duly make all such filings and registrations with the relevant authorities as may be necessary in connection with the creation, perfection or protection of any security interest which it may, or may be required to, create in connection with the Security Documents (including, without limitation, any mortgage amendment registration formalities and foreign security amendment registration formalities in connection with a change in the particulars of any of the Security Documents);
- (ii) The Borrower shall promptly make payment of all relevant fees, charges and taxes payable in relation to any Security Documents and all notarisation and registration fees in relation to the Security Documents from time to time and produce to the Lender copies of receipts or other evidence of such payments duly certified by an Authorised Person;
- (iii) The Borrower shall procure that no person shall be or become entitled to assert any proprietary or other like right or interest which might affect the value of the subject matter under any of the Security Documents without the prior written consent of the Lender;
- (iv) The Borrower shall at all times keep the Lender indemnified against all actions, suits, claims, costs and expenses which may be incurred or sustained on account of the non-payment of any sum pursuant to this Clause 2.7 (*Security - General Covenants*) or any other provision of a Security Document or the breach or non-performance of the covenants, obligations and agreements herein contained;
- (v) The Borrower shall provide the Lender with copies of all notices to or from all relevant government authorities or otherwise relating to the Security Documents within fourteen (14) days of the service of such notices and comply with all governmental or other legal requirements and notices in respect of the Security Documents; and
- (vi) The Borrower shall take and procure to be taken all such action as is reasonably available to it to register, perfect and protect the security intended to be conferred on the Lender by or pursuant to the terms of the Security Documents.

2.8 **Access**

The Borrower shall and shall procure each other Group Company to allow the Lender, its representatives or the auditors or consultants engaged by the Lender to have reasonable access to any premises of the Borrower or any other Group Company so as to carry out inspection or conduct financial review or audit on them upon prior reasonable notice to the Borrower. The Borrower shall, and shall procure each other Group Company to, fully cooperate with the Lender and its auditors and consultants and provide such information as requested for the purpose of the review or audit.

2.9 **Application of Facility Amount**

The Borrower shall utilise the proceeds of the Facility for the purposes set out in Clause 3.1 (*Purpose*).

2.10 **Debt Service Account**

The Borrower shall at all times maintain and operate the Debt Service Account strictly in accordance with the provisions in Schedule 7 (*Debt Service Account*) notwithstanding any other terms upon which monies have been deposited in the Debt Service Account.

2.11 **Additional Collateral**

Within five (5) business days after the occurrence of a Triggering Event (as defined in the Share Pledge Agreement), the Borrower shall notify the Lender and provide such additional security as is required pursuant to the Share Pledge Agreement.

PART C - NEGATIVE UNDERTAKINGS

3. **NEGATIVE UNDERTAKINGS**

Save as otherwise agreed by the Lender, the Borrower shall comply with the following negative covenants.

3.1 **Financing and Guarantees**

The Borrower shall not and shall procure each other Group Company not to make any financing, grant any credit (save in the ordinary course of business) or give any guarantee or indemnity (save as contemplated in any Finance Document) to or for the benefit of any person, or otherwise voluntarily assume any liability, whether actual or contingent, in respect of any obligation of any other person.

3.2 **Negative Pledge**

The Borrower shall not and shall procure each other Group Company not to create or permit to subsist any Security Interest over all or any of its present or future revenues or assets other than Permitted Security Interests.

3.3 **No Amendments**

The Borrower shall not and shall procure each other Group Company not to cause or agree to the amendment, modification or variation of the terms of its memorandum and articles of association or articles of association (or such equivalent constitutional documents), in any material respect and shall not terminate, amend, vary or grant any waivers under any of the Finance Documents save as otherwise specifically provided for herein.

3.4 **Disposals**

The Borrower shall not and shall procure each other Group Company not to sell, lease, transfer or otherwise dispose of any asset by one or more transactions or series of transactions (whether related or not) other than in the ordinary course of the Related Business. The Borrower shall not and shall procure each other Group Company not to directly or indirectly dispose of a substantial part of its assets or undertaking related to the Related Business without the consent of the Lender in writing.

3.5 **Merger**

The Borrower shall not and shall procure each other Group Company not to merge or consolidate with any other person or participate in any other type of corporate reconstruction without the consent of the Lender in writing.

3.6 **Financial Year**

The Borrower shall not and shall procure each other Group Company not to permit any change to its financial year end without the consent of the Lender.

3.7 **Shareholder Loan**

Where the Borrower applies any of the proceeds of the Facilities to fund any shareholder loan to any Group Company, the Borrower shall not assign, transfer or otherwise deal with any interest in such shareholder loan or the relevant shareholder loan agreement or any part thereof or create or permit to subsist any Security Interest thereon or agree or purport to do any of the foregoing without the prior written consent of the Lender.

SCHEDULE 6

EVENTS OF DEFAULT

Each of the following events or circumstances set out below shall constitute an Event of Default.

1. **Failure to Pay**

Any Obligor fails to pay any amount payable under any Finance Document when due.

2. **Misrepresentation**

Any representation or warranty made by any Obligor in any Finance Document or in any notice or certificate delivered by it pursuant thereto or in connection therewith is or proves to have been incorrect or misleading when made or deemed to be made.

3. **Obligations**

3.1 Any Obligor fails duly to perform or comply with any obligation expressed to be assumed by it in Clause 2.1 (*Notification of Default*), Clause 2.2 (*Corporate Existence*), Clause 2.4 (*Ranking*), Clause 3.1 (*Financing and Guarantees*) and Clause 3.2 (*Negative Pledge*) of Schedule 5 (*Undertakings*) or any of the covenants in Schedule 7 (*Debt Service Account*).

3.2 Any Obligor fails duly to perform or comply with any other obligation expressed to be assumed by it in any Finance Document to which it is a party and, if capable of remedy, such failure is not remedied within fifteen (15) days after the Lender has given notice to the Borrower or such Obligor or the Borrower or such Obligor becomes aware of the failure to perform or comply.

4. **Cross default**

4.1 Any Financial Indebtedness of the Borrower or any other Group Company in an aggregate amount in excess of USD5,000,000 or its equivalent is not paid when due nor within any originally applicable grace period.

4.2 Any Financial Indebtedness of the Borrower or any other Group Company in an aggregate amount in excess of USD5,000,000 or its equivalent is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

4.3 Any commitment for any Financial Indebtedness of the Borrower or any other Group Company in an aggregate amount in excess of USD5,000,000 or its equivalent is cancelled or suspended by a creditor of the Borrower or the Borrower or any of its subsidiaries as a result of an event of default (however described).

4.4 Any creditor of the Borrower or any other Group Company becomes entitled to declare any Financial Indebtedness of the Borrower or any other Group Company in an aggregate amount in excess of USD5,000,000 or its equivalent due and payable prior to its specified maturity as a result of an event of default (however described).

5. **Insolvency Events**

5.1 The Borrower, or any other Group Company:

(a) files a petition in bankruptcy or takes any action for its rehabilitation, liquidation, winding-up or dissolution;

- (b) commences a voluntary case or gives notice of intention to make a proposal under any Bankruptcy Law;
- (c) consents to the entry of an order for relief against it in an involuntary case or consents to its dissolution or winding up;
- (d) consents to the appointment of a receiver, interim receiver, receiver and manager, liquidator, trustee or custodian of it or for all or substantially all of its property;
- (e) makes a general assignment for the benefit of its creditors;
- (f) is unable or admits in writing its inability to pay its debts as they become due otherwise admits its insolvency; or
- (g) stops, suspends or threatens to stop or suspend payment of all or a material part of its indebtedness, by reason of actual or anticipated financial difficulties, or commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.

5.2 Any bankruptcy or insolvency proceedings or other proceedings under any Bankruptcy Law are commenced against the Borrower, the Borrower or any of its subsidiaries.

5.3 A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (a) is for relief against the Borrower or any other Group Company;
- (b) appoints a receiver, interim receiver, receiver and manager, liquidator, trustee or custodian of the Borrower or any other Group Company; or
- (c) orders the liquidation of the Borrower or any other Group Company.

5.4 For the purpose of this Clause 5 (*Insolvency Event*), "**Bankruptcy Law**" means any law in any jurisdiction relating to bankruptcy, insolvency, winding up, liquidation, reorganisation or relief of the debtors.

6. **Judgment**

Any legal proceedings, judgment or arbitration award (when aggregated with any outstanding unstayed or unsatisfied proceedings judgement or award against the Borrower, the Borrower or any of the subsidiaries) in excess of US\$5,000,000 or its equivalent aggregate is rendered against the Borrower or any other Group Company, and remains unstayed or unsatisfied for 30 consecutive days.

7. **Expropriation**

The confiscation, expropriation or nationalization by any governmental agency of any assets of the Borrower or any other Group Company if such confiscation, expropriation or nationalization would have a material adverse effect; or if such revocation or repudiation could reasonably be expected to have a material adverse effect, the revocation or repudiation by any government agency of any previously granted authorisation that is material to the operation of the Related Business; or the imposition or introduction of material and discriminatory taxes, tariffs, royalties, customs or excise duties imposed on the Borrower or other Group Company, or the material and discriminatory withdrawal or suspension of material privileges or specifically granted material rights of a fiscal nature.

8. **Repudiation**

Any Obligor repudiates any Finance Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Finance Document to which it is a party.

9. **Illegality**

- (a) At any time it is or becomes unlawful for any of the Obligors to perform or comply with any or all of its material obligations under any Finance Document to which it is a party.
- (b) At any time any of the material obligations of any of the Obligors under any Finance Document to which it is a party are not or cease to be legal, valid and binding.
- (c) Any authorisation or necessary approval referred to in Clause 2.3 (*Authorisations*) of Schedule 5 (*Undertakings*) is revoked, terminated or withdrawn and such has or is likely to have a material adverse effect.

10. **Security Documents**

The security purported to be created by any of the Security Documents shall cease to constitute a valid, first ranking, security interest in the assets expressed to be subject thereto or is or becomes subject to any other security interest (other than a Security Interest permitted under the Finance Documents); or any Security Document shall (i) cease to be in full force and effect or (ii) cease to give the Lender all of the material rights, powers and privileges purported to be created thereby.

11. **Constitutive Documents**

The Borrower or any other Group Company amends or modifies their respective constitutive documents in such a manner that would have a material adverse effect.

12. **Other Business**

The Borrower shall, or shall permit or any other Group Company to, directly or indirectly, engage in or carry on any business other than in the ordinary course of business presently engaged in by it (including with respect to an arrangements with respect to the business) as consistent with the past custom and practice of the Group and permitted under all necessary licenses, consents, authorizations, approvals orders, certificates and permits duly obtained by the Borrower or any other Group Company.

13. **Disposal of Related Business**

The Borrower shall, or shall permit or any other Group Company, directly or indirectly, dispose of or agree to dispose of a substantial part of its assets or undertaking relating to the Related Business, without the prior written consent of the Lender.

14. **Listing Status of the Borrower**

The Borrower fails to maintain the trading of its Common Stock on the New York Stock Exchange or the Nasdaq Global Select Market or the Nasdaq Global Market without the prior written consent of the Lender.

15. **Material Adverse Change**

There has occurred a Material Adverse Change.

SCHEDULE 7

DEBT SERVICE ACCOUNT

1. **Opening and maintenance of Debt Service Account**

The Borrower shall open and maintain a bank account (the "**Debt Service Account**") with the Lender for the purpose set out in this Schedule.

2. **Operation of Debt Service Account**

2.1 The Borrower undertakes, until the Release Date, not to make or authorise any withdrawals from the Debt Service Account except in accordance with the following provisions of this Clause 2 (*Operation of Debt Service Account*) and this Schedule.

2.2 At any time during the period of thirty (30) days prior to any Interest Payment Date or Repayment Date, the Borrower shall ensure that the credit balance of the Debt Service Account is not less than the scheduled repayment of the Loan(s) and payment of interest accrued and any other amount payable under the Finance Documents for that Interest Payment Date or Repayment Date.

2.3 The Borrower may make or authorise withdrawals and transfers from Debt Service Account only with the Lender's consent and for the purposes of repayment of the Loan(s) outstanding or any part thereof or in payment of any interest accrued and any other amounts due and payable by the Borrower under the Finance Documents.

2.4 The Lender is authorised to make withdrawals and transfers from the Debt Service Account in such amount and at such time as it shall determine for the purposes set out in this Schedule.

EXECUTION

IN WITNESS WHEREOF the parties have executed this Agreement on the date first mentioned above.

BORROWER

HARBIN ELECTIC, INC

By : YANG TIANFU
/s/ Tianfu Yang

Address : No. 9 Ha Ping Xi Lu, Ha Ping Lu Ji Zhong Qu Harbin Kai Fa Qu,
Harbin, People's Republic of China 150060

Fax : 86-451-8611-6799

LENDER

CHINA DEVELOPMENT BANK CORPORATION HONG KONG BRANCH

By : /s/ Wang Wu Ping(王武平)

Address : Suite 3307-15, 33/F., One International Finance Centre, No. 1 Harbour
View Street, Central, Hong Kong

Fax : +852 2530 4083

Attention : Mr. Meng Zhongwen

SECURITY AND PLEDGE AGREEMENT

PLEDGE AND SECURITY AGREEMENT

This **PLEDGE AND SECURITY AGREEMENT**, dated 22 November 2010 (as amended, supplemented or otherwise modified from time to time, this "**Agreement**"), by and among Yang Tianfu (杨天夫), holder of the People's Republic of China passport No. G33266303 (together with his successors and permitted assigns, the "**Pledgor**") as pledgor, and China Development Bank Corporation Hong Kong Branch (the "**Lender**") as pledgee.

WITNESSETH:

WHEREAS, by a term loan facility agreement dated 22 November 2010 between Harbin Electric, Inc., a Nevada corporation, as borrower (the "**Borrower**") and the Lender as lender (the "**Loan Agreement**"), the Lender has agreed to make available to the Borrower a US Dollar term loan facility and a RMB term loan facility in an aggregate principal amount of up to USD35,000,000 and RMB100,000,000 respectively (collectively, the "**Facilities**") subject to the terms and conditions of the Loan Agreement;

WHEREAS, in consideration of, and as a condition to the availability of the Facilities, the Pledgor has agreed to enter into this Agreement with the Lender;

WHEREAS, the Pledgor is the legal and beneficial owner of 9,663,354 shares of common stock par value USD0.00001 of the Borrower (the "**Common Stock**"), of which 7,000,000 shares are initially pledged to the Lender (the "**Initial Pledged Shares**"); and

WHEREAS, capitalized terms used herein but not defined herein shall have the respective meanings ascribed thereto in the Loan Agreement;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Pledge. The Pledgor hereby pledges to the Lender, and grants to the Lender a security interest in, the following (the "**Pledged Collateral**"):

- (a) all of the Initial Pledged Shares;
- (b) all additional Pledged Shares (together with the Initial Pledged Shares, the "**Pledged Shares**") and Pledged Cash from time to time pledged pursuant to Section 14;
- (c) all dividends, cash, instruments and other property, from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing and in all profits and other distributions to which the Pledgor shall at any time be entitled in respect of all of the foregoing;
- (d) all other payments due or to become due to the Pledgor in respect of any of the foregoing, whether under any partnership agreement, limited liability company agreement, other agreement or otherwise, whether as contractual obligations, damages, insurance proceeds or otherwise;

- (e) all of the Pledgor's claims, rights, powers, privileges, authority, puts, calls, options, security interests, liens and remedies, if any, under any partnership agreement, limited liability company agreement, other agreement or at law or otherwise in respect of any of the foregoing;
- (f) all of the Pledgor's rights under any partnership agreement, limited liability company agreement, other agreement or at law to exercise and enforce every right, power, remedy, authority, option and privilege of the Pledgor relating to any of the foregoing;
- (g) all other property hereafter delivered in substitution for or in addition to any of the foregoing;
- (h) all certificates and instruments representing or evidencing any of the foregoing; and
- (i) all proceeds, including cash, securities, interest, distributions, dividends, rights and other property at any time and from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all the foregoing.

Section 2. Security for Obligations. This Agreement secures and the Pledged Collateral is security for the following obligations (the "**Secured Obligations**"):

- (a) the due and punctual payment by the Borrower of (i) the unpaid principal of and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the loans made to the Borrower under the Loan Agreement, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise and (ii) all other monetary obligations of the Borrower to the Lender under the Loan Agreement and each other Finance Documents to which it is a party, including obligations to pay fees, expense and indemnification obligations, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding);
- (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Borrower under or pursuant to this Agreement and each other Finance Documents to which it is a party; and
- (c) the due and punctual payment and performance of all the covenants, agreements, obligations and liabilities of any guarantor or pledgor (including the Pledgor under or pursuant to this Agreement) under or pursuant to the Loan Agreement and each other Finance Documents to which it is a party (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding).

Section 3. Delivery of Pledged Collateral. All certificates or instruments representing or evidencing the Pledged Collateral shall be delivered to an agent in New York appointed by the Lender (the “**Agent**”) and held by the Agent on behalf of the Lender pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form to be provided by the Pledgor. Upon the occurrence and during the continuance of a Potential Event of Default or an Event of Default, the Lender shall have the right but no obligation, at any time in its discretion and without notice to the Pledgor, to transfer to or to register in its name or in the name of any of its nominees any or all of the Pledged Collateral. In addition, the Lender shall have the right but no obligation at any time to exchange certificates or instruments representing or evidencing any of the Pledged Collateral for certificates or instruments of smaller or larger denominations.

Section 4. Representations and Warranties. The Pledgor represents and warrants that each of the following representations is true on the date of this Agreement and shall be true on each Utilisation Date and on each date on which an amendment to this Agreement is delivered pursuant to Section 14:

- (a) (i) The Pledged Shares have been duly authorized and validly issued and are fully paid and non-assessable.
 - (ii) The Pledgor holds no options, warrants or other agreements with respect to any equity interests in the Borrower and there are no outstanding options, warrants or other agreements with respect to any equity interests in the Borrower, except as disclosed in the Borrower’s Annual Report on Form 10-K for its fiscal year ended 31 December 2009, as filed with the United States Securities and Exchange Commission.
 - (iii) The Pledgor is not in default in the payment of any portion of any mandatory capital contribution, cash call, or other funding, if any, required to be made under any governing document relating to any of the Pledged Collateral.
 - (iv) The Pledgor is not in violation or default of any other material provisions of any such governing document.
 - (v) No Pledged Collateral is subject to any defense, offset or counterclaim, nor, to the Pledgor’s knowledge, have any of the foregoing been asserted or alleged against the Pledgor by any person or entity.
- (b) The Pledgor is the legal and beneficial owner of the Pledged Collateral pledged by it hereunder free and clear of any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any finance or capital lease, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing or any sale and leaseback transaction) (“**Lien**”), except for the Lien and security interest created by this Agreement.
- (c) The pledge of the Pledged Shares pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Collateral, securing the payment of all of the Secured Obligations.

(d) No consent, authorization, approval, or other action by, and no notice to or filing with, any governmental agency or any other person is required either (i) for the pledge by the Pledgor of the Pledged Collateral pursuant to this Agreement or for the due execution, delivery or performance of this Agreement by the Pledgor, or (ii) for the exercise by the Lender of the voting or other rights provided for in this Agreement or of the remedies in respect of the Pledged Collateral pursuant to this Agreement, except as may be required in connection with the disposition of the Pledged Collateral by laws affecting the offering and sale of securities generally.

(e) The Pledgor's obligations under this Agreement are binding and are enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar legal requirement relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

(f) No litigation is pending or, to the Pledgor's knowledge, threatened against the Pledgor's interest in the Pledged Collateral.

(g) No consent by any person is required for the transfer of the Pledged Collateral.

(h) There are no agreements among shareholders or between shareholders and the Borrower which affect the Pledged Collateral.

(i) The Pledgor is not acting, and has not agreed to act, in any plan to sell or dispose of any Pledged Shares in a manner intended to circumvent the registration requirements of the Securities Act of 1933, as amended, or any applicable state law.

(j) The Pledgor has been advised by counsel of the elements of a bona-fide pledge for the purpose of Rule 144(d)(3)(iv) under the Securities Act of 1933, as amended, including the relevant interpretations by the Securities and Exchange Commission, and affirms that the pledge of the Pledged Collateral by the Pledgor pursuant to this Agreement will constitute a bona-fide pledge for the purpose of such Rule.

(k) Perfection of Security Interest under U.C.C.

(i) All notifications and other actions, including (A) all deposits of certificates and instruments evidencing any Pledged Collateral (duly endorsed or accompanied by appropriate instruments of transfer), (B) all notices to and acknowledgments of any bailee or other Person, (C) all acknowledgments and agreements respecting the right of the Lender to obtain control (within the meaning of Article 8 of the U.C.C.) with respect to any Pledged Collateral, and (D) all filings, registrations and recordings, which are (x) required by the terms of this Agreement to have been given, made, obtained, done and accomplished, and (y) necessary to create, preserve, protect and perfect the security interest granted by the Pledgor to the Lender hereby in respect of the Pledged Collateral (including all actions that are necessary under the laws of the People's Republic of China therefor), have been given, made, obtained, done and accomplished.

(ii) After giving effect to all such actions, the security interest granted by the Pledgor to the Lender pursuant to this Agreement in and to the Pledged Collateral will be perfected to the maximum extent a security interest in the Pledgor's portion of the Pledged Collateral can be perfected under the laws of any applicable jurisdiction.

(l) The representations set out in Sections 4(a), (b), (d), (g) and (h) above are subject to the arrangements set out in the Consortium Agreement (as defined in the Loan Agreement). Notwithstanding the aforesaid, all necessary consent and/or waiver to enable the Pledgor to enter into and perform the obligations under this Agreement has been obtained from Baring Asia (as defined in the Loan Agreement) and such consent and/or waiver remain valid, enforceable and effective and, having given effect to such consent and/or waiver, nothing in the Consortium Agreement shall conflict with or operate to restrict or limit any rights, interest and powers of, or remedies available to, the Lender conferred by this Agreement.

Section 5. Further Assurances, Authorization of Financing Statements, Etc.

(a) The Pledgor agrees that at any time and from time to time, at its cost and expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Lender may reasonably request, in order to perfect and protect the Lien and security interest granted or purported to be granted hereby or to enable the Lender to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral.

(b) The Pledgor agrees to defend the title to the Pledged Collateral and the Lien thereon and security interest therein of the Lender against the claim of any other person and to maintain and preserve such Lien and security interest until indefeasible payment in full of all of the Secured Obligations.

(c) The Pledgor agrees, by itself or through its affiliates, counsel and other representatives, at any time and from time to time as reasonably requested by the Lender and at the expense payable by the Pledgor, to (or, if so requested by the Lender, to authorize the Lender to) file or record financing statements, amendments to financing statements, and other filing or recording documents or instruments with respect to the Pledged Collateral in such form and in such offices to perfect the security interests of the Lender under this Agreement. The Pledgor hereby also agrees, by itself or through its affiliates, counsel and other representatives, at any time and from time to time, as reasonably requested by the Lender and at the expense payable by the Pledgor, to (or, if so requested by the Lender, to authorize the Lender to) file continuation statements with respect to previously filed financing statements. The Pledgor agrees to promptly complete such filings and furnish the Lender with documents evidencing such filings.

(d) The Pledgor hereby agrees, by itself or through its affiliates, counsel and other representatives, at any time and from time to time and at the expense payable by the Pledgor, to cause the Borrower to timely file all periodic reports required to be filed by the Borrower under the Securities Exchange Act of 1934, as amended.

(e) Unless otherwise provided in this Agreement, the Pledgor agrees not to give any direction to the Borrower or any register or transfer agent with respect to the transfer of the Pledged Shares.

(f) The Pledgor agrees to deliver to the Lender any documents in its possession that relate to the Pledged Collateral or the Lender's security interest therein.

(g) The Pledgor agrees to notify the Lender if a Triggering Event or an Event of Default occurs.

Section 6. Voting Rights, Dividends, Etc.

(a) As long as no Potential Event of Default or Event of Default shall have occurred and be continuing (or, in the case of subsection (a)(i) of this Section 6, as long as no notice thereof shall have been given by the Lender to the Pledgor):

(i) The Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to its Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement, the Loan Agreement or any other Finance Document; *provided, however*, that the Pledgor shall not exercise or shall refrain from exercising any such right if such action would have a material adverse effect on the value of the Pledged Collateral or any part thereof.

(ii) The Pledgor shall be entitled to receive and retain any and all dividends paid in respect of its Pledged Collateral, other than any and all:

(1) instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any of its Pledged Collateral,

(2) dividends and other distributions paid or payable in cash in respect of any of its Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(3) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any of its Pledged Collateral,

all of which shall be forthwith delivered to the Lender to hold as Pledged Collateral and shall, if received by the Pledgor, be received in trust for the benefit of the Lender, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Lender as Pledged Collateral in the same form as so received (with any necessary endorsement).

(iii) The Lender shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments in the form to be provided by the Pledgor as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the voting and other rights which it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends which it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuance of a Potential Event of Default or an Event of Default:

(i) Upon the Pledgor's receipt of written notice from the Lender, all rights of the Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 6(a)(i) above shall cease, and all such rights shall thereupon become vested in the Lender who shall thereupon have the sole right to exercise such voting and other consensual rights.

(ii) All rights of the Pledgor to receive the dividends which it would otherwise be authorized to receive and retain pursuant to Section 6(a)(ii) above shall cease, and all such rights shall thereupon become vested in the Lender who shall thereupon have the sole right to receive and hold as Pledged Collateral such dividends.

(iii) All dividends which are received by the Pledgor contrary to the provisions of paragraph (ii) of this Section 6(b) shall be received in trust for the benefit of the Lender, shall be segregated from other funds of the Pledgor and shall be forthwith paid over to the Lender as Pledged Collateral in the same form as so received (with any necessary endorsement).

(iv) The Pledgor shall, if necessary to permit the Lender to exercise the voting and other rights which it may be entitled to exercise pursuant to Section 6(b)(i) above and to receive all dividends and distributions which it may be entitled to receive under Section 6(b)(ii) above, execute and deliver to the Lender, from time to time and upon written notice of the Lender, appropriate proxies, dividend payment orders and other instruments as the Lender may reasonably request. The foregoing shall not in any way limit the Lender's power and authority granted pursuant to Section 8 hereof.

Section 7. Transfers and Other Liens. The Pledgor agrees that it will not, directly or indirectly, (i) transfer, sell or otherwise dispose of, or grant any option or warrant with respect to, any of the Pledged Collateral, without the prior written consent of the Lender, or (ii) create, suffer or permit to exist any Lien upon or with respect to any of the Pledged Collateral, except for the Lien and security interest created pursuant to this Agreement.

Section 8. Lender Appointed Attorney-in-Fact and Proxy. The Pledgor hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact and proxy with full irrevocable power and authority in the place and stead of the Pledgor and in the name of the Pledgor or in its own name, from time to time in the Lender's discretion, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute and deliver any and all documents and instruments which the Lender may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, endorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution or payment in respect of the Pledged Collateral or any part thereof and to give full discharge for the same and to vote or grant any consent in respect of the Pledged Shares authorized by Section 6(b) hereof. The Pledgor hereby ratifies, to the extent permitted by law, all that any said attorney shall lawfully do or cause to be done by virtue hereof. This power, being coupled with an interest, is irrevocable until the Secured Obligations are paid in full. The power of attorney granted by the Pledgor to the Lender hereunder shall only be exercised by the Lender following the occurrence and during the continuance of a Potential Event of Default or an Event of Default.

Section 9. Lender May Perform. If the Pledgor fails to perform any agreement contained herein, the Lender may itself perform, or cause performance of, such agreement, and the expenses of the Lender incurred in connection therewith shall be payable by the Pledgor under Section 12 hereof and constitute Secured Obligations secured hereby.

Section 10. Reasonable Care. The Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Lender acts or omits to act in accordance with any instruction, direction or request delivered to them in writing. The Lender may rely upon and shall not be liable for acting or refraining from acting upon any written notice, instruction or request furnished to it under this Agreement which it believes to be genuine and to have been signed or presented by the proper party or parties. The Lender shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. It being understood that the Lender shall not have responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Pledged Collateral, whether or not the Lender has or is deemed to have knowledge of any such matter, or (ii) taking any necessary steps to preserve rights against any person with respect to any Pledged Collateral.

Section 11. Remedies upon Default. If any Event of Default shall have occurred and be continuing:

(a) The Lender may exercise in respect of the Pledged Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party after default under the Uniform Commercial Code (the "**Code**") in effect in the State of New York at that time, and the Lender may also, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any office of the Lender or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Lender may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Lender shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Lender may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives (i) any claims against the Lender arising by reason of the fact that the price at which any Pledged Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if the Lender accepts the first offer received and does not offer such Pledged Collateral to more than one offeree and (ii) any and all claims against the Lender in respect of the selection of any part of the Pledged Collateral, which selection shall be at the sole and absolute discretion of the Lender.

(b) If the Lender shall determine to exercise its right to sell all or any of the Pledged Collateral pursuant to this Section 11, the Pledgor agrees that, upon request of the Lender, the Pledgor will, at its own cost and expense:

(i) (for so long as the Common Stock is listed or quoted on a Trading Market (as defined in Section 14)) execute and deliver, and use its best efforts to cause the issuer of the Pledged Shares and its directors and officers to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts and things, as may be necessary or, in the opinion of the Lender, necessary or advisable to register such Pledged Shares under the provisions of the Securities Act of 1933, as from time to time amended (the "**Securities Act**"), and to cause the registration statement relating thereto to become effective and to remain effective for such period as prospectuses are required by law to be furnished, and to make all amendments and supplements thereto and to the related prospectus which, in the opinion of the Lender, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission ("**SEC**") applicable thereto;

(ii) (for so long as the Common Stock is listed or quoted on a Trading Market (as defined in Section 14)) use its best efforts to qualify the Pledged Collateral under the state securities or “Blue Sky” laws and to obtain all necessary governmental approvals for the sale of the Pledged Collateral, as requested by the Lender; and

(iii) do or cause to be done all such other acts and things as may be necessary to make such sale of the Pledged Collateral or any part thereof valid and binding and in compliance with applicable law.

The Pledgor further acknowledges the impossibility of ascertaining the amount of damages which would be suffered by the Lender by reason of the failure by the Pledgor to perform any of the covenants contained in this Section 11 and, consequently, agrees that, if the Pledgor shall fail to perform any of such covenants, the Pledgor shall be liable to pay, as liquidated damages and not as a penalty, an aggregate amount equal to the value of the Pledged Collateral on the date the Lender shall demand compliance with this Section.

(c) The Pledgor recognizes that, by reason of prohibitions contained in the Securities Act and applicable state securities laws, the Lender may, at its option, elect not to require the Pledgor to register all or any part of the Pledged Collateral and may therefore be compelled, with respect to any sale of all or any part of the Pledged Collateral, to limit purchasers to those who will agree, among other things, to acquire such securities for their own account, for investment, and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such sale may result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions and, notwithstanding such circumstances, agrees that any such sale shall be deemed to have been made in a commercially reasonable manner. The Lender shall be under no obligation to delay the sale of any of the Pledged Collateral for the period of time necessary to permit the Pledgor to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Pledgor would agree to do so.

(d) If the Lender determines to exercise its right to sell any or all of the Pledged Collateral, upon written request, the Pledgor shall, from time to time, furnish to the Lender all such information as the Lender may reasonably request in order to determine the number of shares and other instruments included in the Pledged Collateral which may be sold by the Lender as exempt transactions under the Securities Act and rules of the SEC thereunder, as the same are from time to time in effect.

(e) Any cash held by the Lender as Pledged Collateral and all cash proceeds received by the Lender in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral shall be applied by the Lender:

First, to the payment of the costs and expenses of such sale, including, without limitation, expenses of the Lender and its agents including the reasonable fees and expenses of its counsel, and all expenses, liabilities and advances made or incurred by the Lender in connection therewith or pursuant to Section 9 hereof;

Next, to the payment of the Secured Obligations, in such order as the Loan Agreement shall prescribe; and

Finally, after payment in full of all of the Secured Obligations, to the payment to the Pledgor, or his successors or assigns, or to whomsoever may be lawfully entitled to receive the same as a court of competent jurisdiction may direct.

Section 12. Expenses. The Pledgor will upon demand be liable to pay to the Lender the amount of any and all Lender's commissions and expenses, including, without limitation, the reasonable fees and expenses of the Lender's counsel and of any experts and agents, which the Lender may reasonably incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, sale of, collection from, or other realization upon, any of the Pledged Collateral, (iii) the exercise or enforcement of any of the rights and remedies hereunder of the Lender, or (iv) the failure by the Pledgor to perform or observe any of the provisions hereof.

Section 13. Security Interest Absolute. All rights of the Lender and security interests hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of any provision of or any Finance Document or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, or any increase in the amount of, all or any of the Secured Obligations, or any other amendment or waiver of any term of, or any consent to any departure from any requirement of, any Finance Document;

(c) any exchange, release or non-perfection of any Lien on any other collateral, or any release or amendment or waiver of any term of any guaranty of, or consent to departure from any requirement of any guaranty of, all or any of the Secured Obligations.

Section 14. Additional Pledged Shares and Pledged Cash.

(a) The Pledgor agrees that if, at any time, the Share Value (as defined below) of the Pledged Shares is less than the Top-up Threshold, the Pledgor shall upon five (5) business days' written notice of such an event (a "**Triggering Event**") from the Lender in the form set forth in Schedule I attached hereto, pledge and perfect a first priority security interest in, in favor of the Lender, such additional shares of the Borrower owned by the Pledgor ("**Additional Pledged Shares**"), and to the extent such additional shares of are not sufficient, cash ("**Pledged Cash**"), as may be necessary such that the Share Value of the Pledged Collateral is increased to the Target Collateral Level. The Pledgor shall perfect a first priority security interest in such Pledged Cash by placing the Pledged Cash into an interest bearing cash collateral account maintained by the Lender over which the Pledgor shall not have any right of withdrawal. For the avoidance of doubt, the Initial Pledged Shares are not part of the Additional Pledged Shares.

For purposes of this Section 14 and Section 15, the following definitions shall apply:

“**Market Value**” of the Pledged Shares shall mean the number of Pledged Shares multiplied by the VWAP of the Common Stock for the preceding 15 Trading Days; *provided, however*, that for the purpose of this Agreement, the VWAP on or before the first Utilisation Date (as defined in the Loan Agreement) shall in no event be deemed to be higher than US\$17.58 per share (as proportionately adjusted hereafter for any stock split, combination, recapitalization and the like).

“**NAV**” means at any time, the value being either of the following, at the election of the Lender:-

(a) by reference to the latest audited consolidated financial statements of the Borrower, the aggregate of the amounts paid up or credited as paid up on the issued shares of the Common Stock of the Borrower and the amount standing to the credit of the reserves of the Group, including retained earnings and any amount credited to the share premium account,

but deducting:

- (i) any debit balance on the profit and loss account of the Group;
- (ii) any amount in respect of interests of non-Group members in Group Companies;
- (iii) (to the extent included) any provision for deferred taxation of the Group; and

(iv) any amount in respect of any dividend or distribution declared, recommended or made by any Group Companies to the extent payable to a person who is not a Group Company and to the extent such distribution is not provided for in the most recent financial statements,

and so that no amount shall be included or excluded more than once; or

(b) the net asset value of the Borrower as shown in its latest audited financial statements.

“**Relevant Exposure**” means, at any time, the aggregate of the amount of the outstanding Loans and an amount determined by the Lender to be an approximation of the expected interest payments in respect of the Loans for the following twelve (12) month period provided that, on each day prior to the first Utilisation Date, the “**Relevant Exposure**” shall be the amount which would have been the Relevant Exposure had a Utilisation in the amount of, in aggregate, USD35,000,000 and the USD equivalent of RMB100,000,000 been made on the date of this Agreement in accordance with the Loan Agreement.

“**Share Value**” of the Pledged Shares shall mean, at any time (x) if the Common Stock is then listed or quoted on a Trading Market, the Market Value or (y) if not, the NAV multiplied by a fraction of which the numerator is the number of shares in the Common Stock comprised in the Pledged Shares and the denominator is the total number of shares of the Common Stock in issue.

“**Target Collateral Level**” shall mean, at any time (x) if the Common Stock is then listed or quoted on a Trading Market, 200% of the Relevant Exposure, or (y) if not, 143% of the Relevant Exposure.

“**Top-up Threshold**” shall mean, at any time (x) if the Common Stock is then listed or quoted on a Trading Market, 167% of the Relevant Exposure, or (y) if not, such percentage of the Relevant Exposure to be mutually agreed between the Lender and the Pledgor in writing.

“**Trading Day**” shall mean (x) if the Common Stock is listed or admitted for trading on the New York Stock Exchange, a day on which trades may be made on such exchange, (y) if the Common Stock is quoted on the Nasdaq National Market, a day on which trades may be made thereon or (z) if the Common Stock is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

“**Trading Market**” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Nasdaq Capital Market, the New York Stock Exchange, the Nasdaq Global Market, the Nasdaq Global Select Market or the OTC Bulletin Board.

“**VWAP**” means, for any date, the price determined by the first of the following clauses that applies: (x) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted for trading as reported by Bloomberg Financial L.P. through its “Volume at Price” functions (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)); (y) if the OTC Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; or (z) if the Common Stock is not then quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the “Pink Sheets” published by Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the average of the highest closing bid price and lowest closing ask price of any of the market makers for such security as reported, and in each of the foregoing clauses ignoring any block trade (which for purposes of this definition means any transfer of more than 100,000 shares); If the VWAP cannot be calculated for such security on such date basis, the VWAP of such security on such date shall be the fair market value as mutually determined by the Pledgor and the Lender.

(c) The Pledgor shall deliver to the Lender an amendment to this Agreement within five (5) business days following the Pledgor's receipt of the notice issued pursuant to Section 14(a), duly executed by the Pledgor and in the form set forth in Schedule II attached hereto, in respect of such Additional Pledged Shares and Pledged Cash, pursuant to which the Pledgor shall pledge to the Lender such Additional Pledged Shares and Pledged Cash. Pursuant to such amendment, the Pledgor shall within the aforesaid period of time (i) deliver the certificates representing such Additional Pledged Shares to the Lender in the manner described in Section 3, (ii) deliver to the Lender stock power(s) with respect to the Additional Pledged Shares, (iii) make the necessary Uniform Commercial Code filings to perfect the Lender first priority security interest in such Additional Pledged Shares or Pledged Cash in the manner described in Section 5, and (iv) place the Pledged Cash, if any, into a cash collateral account maintained by the Lender over which the Pledgor shall not have any right of withdrawal. The Pledgor hereby authorizes the Lender to attach such amendment to this Agreement and agree that all Additional Pledged Shares and Pledged Cash listed on any such amendment delivered to the Lender shall for all purposes hereunder be considered Pledged Collateral.

(d) In the event that the Pledgor is required to pledge additional shares of the Borrower under Clause 4.2 (*Conditions of Utilisation*) of and Part B of Schedule 2 (*Conditions Precedent*) to the Loan Agreement, the Pledgor shall, within the time required by the Loan Agreement, deliver to the Lender an amendment to this Agreement duly executed by the Pledgor and in the form set forth in Schedule II attached hereto, in respect of such additional shares, pursuant to which the Pledgor shall pledge to the Lender on behalf of the Lender such additional shares. Pursuant to such amendment, the Pledgor shall within the time required by the Loan Agreement (i) deliver the certificates representing such additional shares to the Lender in the manner described in Section 3, (ii) deliver to the Lender stock power(s) with respect to the additional shares, and (iii) make the necessary Uniform Commercial Code filings to perfect the Lender first priority security interest in such additional shares in the manner described in Section 5. The Pledgor hereby authorizes the Lender to attach such amendment to this Agreement and agree that all the additional shares listed on any such amendment delivered to the Lender shall for all purposes hereunder be considered Pledged Collateral.

Section 15. Partial Release. If, at any time, the Share Value of the Pledged Shares exceeds (a) (if the Common Stock is then listed or quoted on a Trading Market) 250% of the Relevant Exposure or (b) (if not) such percentage of the Relevant Exposure to be mutually agreed by the Pledgor and the Lender in writing, and no Event of Default has occurred and is continuing, the Lender shall, at the cost of the Pledgor and within fourteen (14) business days following the Lender's receipt of the Pledgor's request for such release, release and discharge such part of the Pledged Collateral as the Lender in its absolute discretion determines provided the Value of the Pledged Collateral shall not be less than the Target Collateral Level after such release and discharge.

Section 16. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by the Pledgor herefrom shall in any event be effective unless the same shall be in writing, approved and signed by the Lender and the Pledgor, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 17. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and mailed, telecopied or delivered by hand, if to the Pledgor or the Lender, addressed to the Pledgor or the Lender at the following address:

the Lender

China Development Bank Corporation Hong Kong Branch
Address: Suite 3307-15, 33/F, One International Finance Centre,
No. 1 Harbour View Street, Central, Hong Kong
Fax No.: +852 2530 4083
Attention: Mr. Meng Zhongwen

the Pledgor

Yang Tianfu
Address: No. 9 Ha Ping Xi Lu, Ha Ping Lu Ji Zhong Qu,
Harbin Kai Fa Qu, Harbin, China 150060
Fax No.: 86-451-8611-6799

or at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. All such notices and other communications shall, when mailed, telecopied or delivered, be effective when deposited in the mails, telecopied with confirmation of receipt, or delivered by hand to the addressee or its agent, respectively.

Section 18. Continuing Security Interest; Transfer of Loan or Obligations. This Pledge Agreement shall create a continuing security interest in the Pledged Collateral and shall (i) remain in full force and effect until indefeasible payment in full of the Secured Obligations, (ii) be binding upon the Pledgor, its successors and assigns, and (iii) inure, together with the rights and remedies of the Lender hereunder, to the benefit of and be enforceable by the Lender and its successors, transferees and assigns. Upon the payment in full of the Secured Obligations, the Pledgor shall be entitled to the return, within fourteen (14) business days following the Pledgor's request and at its expense, of such of its Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

Section 19. Indemnity. The Pledgor shall indemnify each of the Lender and the officers, directors, employees and agents of the Lender and their respective affiliates and subsidiaries (an "**Indemnified Party**") against any and all losses, claims, damages, penalties, fines, liabilities or expenses, including reasonable and documented incidental and out-of-pocket expenses and reasonable and documented attorneys fees (for purposes of this Section, "**losses**") incurred by it arising out of or in connection with the acceptance or administration of its duties under this Agreement, including the costs and expenses of enforcing this Agreement and the Pledged Collateral hereunder against the Pledgor (including this Section) and defending itself against any claim (whether asserted by the Pledgor or the Lender or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent such losses may be attributable to its gross negligence or willful misconduct. Each Indemnified Party shall notify the Pledgor promptly of any claim for which it may seek indemnity. Failure by the Indemnified Party to so notify the Pledgor shall not relieve the Pledgor of its obligations under this Section, to the extent the Pledgor has been prejudiced thereby. The Pledgor shall defend the claim, and the Indemnified Party shall cooperate in the defense. The Pledgor need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld. The Pledgor need not reimburse any expense or indemnify against any loss incurred by an Indemnified Party through its own willful misconduct or gross negligence.

The obligations of the Pledgor under this Section shall survive the satisfaction and discharge of this Agreement, the resignation or removal of the Lender and payment in full of the Secured Obligations through the expiration of the applicable statute of limitations.

Section 20. Not Liable for Actions. The Lender and the officers, directors, employees and agents of the Lender and their respective affiliates and subsidiaries (the “**Lender Parties**”) shall not be liable for any action taken or omitted by them except to the extent that a court of competent jurisdiction determines that the gross negligence or willful misconduct of the Lender Parties was the primary cause of any loss to the Pledgor. Notwithstanding any other term or provision of this Agreement to the contrary, the Lender and the officers, directors, employees and agents of the Lender and their respective affiliates and subsidiaries shall not be liable under any circumstances for special, punitive, indirect or consequential loss or damage of any kind whatsoever including but not limited to loss of profits, regardless of whether the claim for such loss or damage is made in negligence, for breach of contract, breach of trust, breach of fiduciary obligation or otherwise. The provisions of this Section shall survive the termination or expiration of this Agreement or the resignation or removal of the Lender.

Section 21. Delegation and Expert Advice. The Lender may execute any of its powers and perform any of its duties hereunder directly or through delegates or attorneys and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Lender shall not be liable for the acts of such delegates or attorneys, or for anything done, suffered or omitted by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons. The Lender may engage and consult, at the reasonable expense of the Pledgor with any legal adviser and professional adviser selected by it and rely upon any advice so obtained and each of the Lender and its directors, officers, employees and duly appointed agents shall be protected and shall not be liable in respect of any action taken, or omitted to be done or suffered to be taken, in accordance with such advice.

Section 22. Successor. Any corporation into which the Lender may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Lender shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Lender, shall be the successor to the Lender hereunder without the execution or filing of any papers or any further act on the part of any of the parties hereto.

Section 23. Assignment. The Pledgor shall not assign or transfer any of its rights or obligations hereunder. The Lender shall have the full and unfettered right to assign the whole or any part of the benefit of this Agreement in accordance with the Finance Documents, and any assignee shall be entitled to enforce and proceed upon this Agreement in the same manner as if named herein.

Section 24. Governing Law; Severability Terms; Waiver of Immunities. This Agreement shall be governed by, and be construed and interpreted in accordance with, the law of the State of New York. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity and without invalidating the remaining provisions of this Agreement. Unless otherwise defined herein or in the Loan Agreement, terms defined in Article 9 of the Uniform Commercial Code as in effect in the State of New York are used herein as therein defined. The Pledgor hereby irrevocably agrees to appoint prior to the first Utilisation Date in the State of New York an authorized agent upon whom process may be served in any suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated herein until the Release Date. The Pledgor irrevocably waives any objection that it may have to the venue of any suit, action or proceeding with respect to this Agreement or the transactions contemplated hereby in the courts of the State of New York or the courts of the United States of America, in each case, located in the Borough of Manhattan, City and State of New York, or that such suit, action or proceeding brought in the courts of the State of New York or the United States of America, in each case, located in the Borough of Manhattan, City and State of New York was brought in an inconvenient court and agrees not to plead or claim the same. To the extent that the Pledgor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution or otherwise) with respect to itself or its property, the Pledgor hereby irrevocably waives such immunity in respect of its Secured Obligations under this Agreement and the Loan Agreement, to the extent permitted by law.

Section 25. Waiver of Jury Trial. The Pledgor waives any right it may have to a trial by jury in respect of any litigation based on, or arising out of, under or in connection with, this Agreement, or any other Finance Document, or any course of conduct, course of dealing, verbal or written statement or other action of any loan party or any secured party.

Section 26. Section Titles. The Section titles contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not part of this Agreement.

[Remainder of This Page Intentionally Left Blank]

Accepted and Agreed:

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its duly authorized officer on the date first above written.

/s/ Tiangu Yan

Name: Yang Tianfu (杨天夫)

CHINA DEVELOPMENT BANK CORPORATION HONG KONG BRANCH

(as pledgee)

By: /s/ Wang Wu Ping(王武平)

Title: Alternate Chief Executive

[SIGNATURE PAGE TO PLEDGE AND SECURITY AGREEMENT]

SCHEDULE I

NOTICE

Yang Tianfu (杨天夫) (the "**Pledgor**")

No. 9 Ha Ping Xi Lu, Ha Ping Lu Ji Zhong Qu, Harbin Kai Fa Qu, Harbin, China 150060

Dear Pledgor:

In accordance with Section 14 of that certain Pledge and Security Agreement, dated 22 November 2010 (the "**Pledge Agreement**"), since the Value of the Pledged Shares is less than the Top-Up Threshold, we hereby notify you that additional Pledged Collateral at least in the aggregate amount of US\$ _____, either in the form of Additional Pledged Shares or Pledged Cash or the combination of both, must be delivered to the Lender by _____.

Terms used in this Notice but not otherwise defined herein shall have the same meaning as in the Pledge Agreement.

China Development Bank Corporation Hong Kong Branch

By: _____

Name: _____

Title: _____

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SCHEDULE II

PLEDGE AMENDMENT

This Pledge Amendment, dated _____, is delivered pursuant to [Section 14(b)/Section 14(c)] * of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Pledge Agreement, dated 22 November 2010, by the undersigned in favor of China Development Bank Corporation Hong Kong Branch as pledgee referred to therein and that the additional shares listed on this Pledge Amendment shall be and become part of the Pledged Collateral referred to in the Pledge Agreement and shall secure all the Pledgor's obligations under the Loan Agreement. The terms defined in the Pledge Agreement or Loan Agreement are being used herein as therein defined.

Yang Tianfu (杨天夫)

STOCK

Stock Company	Class of Stock	Certificate Nos.	Par Value	Number of Shares	Pledged By
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* please delete as appropriate

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