
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in the Company you should at once hand this circular to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

**(1) CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ISSUE OF NEW DOMESTIC SHARES UNDER
THE SPECIFIC MANDATE
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING AND
THE CLASS MEETING**

Sole Financial Adviser to the Company



**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 1 to 19 of this circular. A letter from Somerley Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 39 of this circular and a letter from the Independent Board Committee is set out on page 20 of this circular.

The notices dated 16 October 2017 convening the EGM and the Class Meeting of the Company to be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC on Friday, 1 December 2017 at 9:00 a.m. and 9:20 a.m. (or immediately after the EGM) respectively, are set out on page EGM-1 and HCM-1 of this circular.

Whether or not you intend to attend such meetings, you are reminded to complete the proxy form enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's Share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the holders of the H Shares only) or the Company's principal place of business at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding such meetings or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at the meetings or at any adjourned meetings if you so wish. Reply slips for such meetings are also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the meetings) and return the signed slip in accordance with the instructions printed thereon.

16 October 2017

CONTENTS

Definitions	ii
Letter from the Board	1
Letter from the Independent Board Committee	20
Letter from the Independent Financial Adviser	21
Appendix I – General Information	40
Notice of Extraordinary General Meeting	EGM-1
Notice of the Class Meeting	HCM-1

DEFINITIONS

Unless the context requires otherwise, capitalised terms used in this circular shall have the meanings as follow:

“Announcement”	the announcement of the Company dated 4 September 2017 in relation to the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles;
“Articles”	the articles of association of the Company as revised from time to time;
“Board”	the board of Directors of the Company;
“Class Meeting”	the class meeting of the H Shareholders to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription and the Specific Mandate;
“Closing Price”	the closing price of the H Shares of the Company on the Reference Date;
“Company”	Harbin Electric Company Limited, a company incorporated in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange;
“Completion”	the completion of the Domestic Share Subscription;
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Domestic Share Subscription”	the proposed subscription of new Domestic Shares by the Subscriber pursuant to the Domestic Share Subscription Agreement;
“Domestic Share Subscription Agreement”	the conditional share subscription agreement entered into between the Subscriber and the Company on 4 September 2017, under which, the Subscriber conditionally agrees to subscribe for, and the Company conditionally agrees to issue, new Domestic Shares at the total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion);
“Domestic Shareholder”	holder of the Domestic Shares;

DEFINITIONS

“Domestic Shares”	ordinary domestic share(s) with par value of RMB1.00 each in the share capital of the Company;
“EGM”	extraordinary general meeting of the Shareholders to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles;
“Final Subscription Price”	the final subscription price per new Domestic Share to be determined with reference to the Initial Subscription Price subject to adjustment;
“Group”	the Company and its subsidiaries;
“H Shareholder(s)”	holder(s) of the H Shares;
“H Shares”	overseas listed foreign share(s) with a par value of RMB1.00 each in the share capital of the Company, listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Board comprising all independent non-executive Directors of the Company;
“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Domestic Share Subscription and the Specific Mandate;
“Independent Shareholders”	Shareholders other than: (i) the Subscriber and (ii) all other persons (if any) who are involved or interested in the Domestic Share Subscription and the Domestic Share Subscription Agreement;
“Independent Third Party(ies)”	person(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, is a third party independent of the Company under the Listing Rules;

DEFINITIONS

“Initial Subscription Price”	the initial subscription price, being HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share;
“Latest Practicable Date”	11 October 2017, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time;
“Long Stop Date”	the expiry date of 2 calendar months from the date of the EGM and the Class Meeting;
“PRC”	the People’s Republic of China but excluding, for the purposes of this circular, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Reference Date”	the trading day immediately preceding the date of the EGM and the Class Meeting;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;
“Share(s)”	Domestic Share(s) and/or H Share(s);
“Shareholder(s)”	holder(s) of the Shares of the Company;
“Specific Mandate”	the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the EGM and Class Meeting to issue the new Domestic Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Harbin Electric Corporation;
“%”	per cent.

DEFINITIONS

In this circular, unless the context otherwise requires, the terms “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK\$1 to RMB0.84226. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Where appropriate, amounts set out in this circular have been rounded to the nearest second decimal place to facilitate easy reading. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

References to the singular number include references to the plural and vice versa and references to one gender include every gender.

LETTER FROM THE BOARD



哈尔滨电气股份有限公司
HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

Executive Directors:

Si Ze-fu
Wu Wei-zhang
Zhang Ying-jian
Song Shi-qi

Independent Non-executive Directors:

Liu Deng-qing
Yu Wen-xing
Hu Jian-min
Zhu Hong-jie

Registered address:

Block 3
Nangang District High Technology
Production Base
Harbin
Heilongjiang Province
the People's Republic of China

Office address of the Company:

1399 Chuangxinyi Road
Songbei District
Harbin
Heilongjiang Province
the People's Republic of China

Place of Business in Hong Kong:

Room 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

16 October 2017

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ISSUE OF NEW DOMESTIC SHARES UNDER
THE SPECIFIC MANDATE
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING AND
THE CLASS MEETING**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Announcement. On 4 September 2017, the Company entered into the Domestic Share Subscription Agreement with the Subscriber. According to the terms of the Domestic Share Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe in cash for new Domestic Shares at a total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion). The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment. In the event that the Closing Price is higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Closing Price subject to a maximum price of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share, being the Initial Subscription Price plus a premium of 5%. In the event that the Closing Price is not higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price. Net proceeds from the issue of the new Domestic Shares are expected to be RMB1.267 billion (equivalent to approximately HK\$1.504 billion) and are intended to be used (i) to invest in a joint venture project on gas turbine and a nuclear power technology upgrading project; and (ii) for general working capital of the Company. The new Domestic Shares will be issued under a Specific Mandate to be sought at the EGM and the Class Meeting. Details of use of proceeds are set out under section “Use of Proceeds” of this circular.

The purpose of this circular is to provide the Shareholders with (i) details of the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate; and (iii) a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate; and (iv) notices of the EGM and the Class Meeting.

A. PROPOSED ISSUE OF NEW DOMESTIC SHARES

1. Domestic Share Subscription Agreement

The major terms and conditions of the Domestic Share Subscription Agreement are set out as follows:

Date

4 September 2017

LETTER FROM THE BOARD

Parties

- (1) The Company as the issuer; and
- (2) Harbin Electric Corporation as the subscriber.

Subscription Price and principle for pricing

The total subscription price is approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion). The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed by the Final Subscription Price.

The Initial Subscription Price, being HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share, was determined after arm's length negotiations between the Company and the Subscriber at the average closing price of H Shares of the Company on the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement plus a premium of 10%, rounded down to two decimal places.

The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment. In the event that the Closing Price is higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Closing Price subject to a maximum price of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share, being the Initial Subscription Price plus a premium of 5%. In the event that the Closing Price is not higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.

As the Closing Price is denominated in Hong Kong dollars, for the purpose of the total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the average middle exchange rates between Renminbi and Hong Kong dollars published by the People's Bank of China on the Reference Date and the four trading days immediately preceding.

Number of new Domestic Shares to be subscribed for

The Subscriber intends to subscribe for new Domestic Shares at a total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion).

The number of new Domestic Shares to be subscribed is to be calculated by dividing RMB1.27 billion (equivalent to approximately HK\$1.51 billion), after being exchanged into Hong Kong dollars based on the agreed exchange rate, by the Final Subscription Price and rounded down to the nearest thousand.

LETTER FROM THE BOARD

Assuming the Final Subscription Price is the same as the Initial Subscription Price, 330,668,000 new Domestic Shares will be issued, which represents (i) approximately 47.16% of the existing issued Domestic Shares and approximately 24.02% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 32.04% of the enlarged total issued Domestic Shares and approximately 19.37% of the enlarged total issued share capital of the Company upon Completion.

Assuming the Final Subscription Price is HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share, being the maximum subscription price, 314,922,000 new Domestic Shares will be issued, which represents (i) approximately 44.91% of the existing issued Domestic Shares and approximately 22.87% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 30.99% of the enlarged total issued Domestic Shares and approximately 18.62% of the enlarged total issued share capital of the Company upon Completion.

Conditions precedent to the Domestic Share Subscription Agreement

Completion of the Domestic Share Subscription under the Domestic Share Subscription Agreement is conditional upon:

- (1) the obtaining of the approval by the Independent Shareholders approving the Domestic Share Subscription and the Specific Mandate by way of special resolutions by way of poll at the EGM and the Class Meeting and such approval being valid on the date of Completion;
- (2) the obtaining of the approval from the State-owned Assets Supervision and Administration Commission approving the Domestic Share Subscription and such approval being valid on the date of Completion;
- (3) no laws, regulations, rules, directives, orders or notices prohibiting the Completion of the Domestic Share Subscription Agreement and the transaction contemplated thereunder being issued, promulgated or enforced by relevant government authorities;
- (4) with respect to the obligations to be performed by the Company, the representations and warranties given by the Subscriber under the Domestic Share Subscription Agreement being true and accurate on and as at the date of Completion in all material respects; and
- (5) with respect to the obligations to be performed by the Subscriber, the representations and warranties given by the Company under the Domestic Share Subscription Agreement being true and accurate on and as at the date of Completion in all material respects.

LETTER FROM THE BOARD

If any of the conditions precedent to the Domestic Share Subscription Agreement as set out above in the section headed “Conditions precedent to the Domestic Share Subscription Agreement” is not satisfied or waived appropriately by both parties on or before the Long Stop Date, either party shall be entitled to terminate the Domestic Share Subscription Agreement with immediate effect.

Termination

At any time prior to the Completion, if (i) there is a material breach of any provision under the Domestic Share Subscription Agreement by either party and (ii) the defaulting party fails to remedy the breach within 30 days from the date the non-defaulting party gives a written notice to the defaulting party requesting it to take immediate action to remedy such breach, the non-defaulting party shall be entitled to elect to terminate the Domestic Share Subscription Agreement by giving a written notice to the defaulting party.

Completion

Completion of the Domestic Share Subscription will take place on the seventh business day after the fulfilment or appropriate waiver by both parties of the above conditions precedent or any other subsequent date as agreed by the parties.

The Subscriber shall, within seven business days after receiving a payment notice issued by the Company, make payment of the total subscription price in cash to the Company.

Specific Mandate

The new Domestic Shares will be issued under a specific mandate to be sought at the EGM and the Class Meeting.

Shareholders and potential investors should be aware that the proposed Domestic Share Subscription is subject to the satisfaction of the conditions precedent under the Domestic Share Subscription Agreement as set out in the section headed “Conditions precedent to the Domestic Share Subscription Agreement” in this circular, and accordingly, the proposed Domestic Share Subscription may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

2. Ranking of new Domestic Shares to be issued

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreement will rank, upon issue, *pari passu* in all respects with the existing Domestic Shares in issue at the time of allotment and issue of such new Domestic Shares.

LETTER FROM THE BOARD

3. Shareholding structure of the Company

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Completion (assuming no other changes to the issued share capital of the Company prior to Completion):

Name of Shareholder	Share Class	As at the date of the Latest Practicable Date		Immediately after the Completion (assuming the Final Subscription Price is the same as the Initial Subscription Price)		Immediately after the Completion (assuming the Final Subscription Price is at its maximum of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share)	
		No. of Shares held	Percentage of total issued Shares	No. of Shares held	Percentage of total issued Shares	No. of Shares held	Percentage of total issued Shares
Harbin Electric Corporation	Domestic	701,235,000	50.93%	1,031,903,000	60.43%	1,016,157,000	60.07%
H Shareholders	H Shares	675,571,000	49.07%	675,571,000	39.57%	675,571,000	39.93%
Total		1,376,806,000	100.00%	1,707,474,000	100.00%	1,691,728,000	100.00%

4. Proposed amendments to the Articles

The Board proposed to make the following amendments to the Articles, to take effect subject to and upon Completion, in order to, among other things, reflect the latest registered capital and shareholding structure of the Company as a result of the issue of the new Domestic Shares.

(1) *Registered capital and shareholding structure*

The amendments set out below are based on the assumption that the Final Subscription Price is the same as the Initial Subscription Price and 330,668,000 new Domestic Shares are issued. In the event that the Final Subscription Price is higher than the Initial Subscription Price, the number of Shares and the amount of the registered capital in the relevant articles set out below will be adjusted accordingly to reflect the number of new Domestic Shares that have actually been issued and the amount of the registered capital that has actually been increased.

LETTER FROM THE BOARD

Before amendment:

Article 15

Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,376,806,000 shares, the nominal value of each share being RMB1.00, of which:

- (I) when the company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company.
- (II) after the company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the company; in March 2007, it increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company.

The structure of the share capital of the Company is 1,376,806,000 ordinary shares of which the promoter holds 701,235,000 domestic shares and oversea listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

LETTER FROM THE BOARD

Article 16

The registered capital of the Company is RMB1,376,806,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (I) by offering new shares to unspecified investors;
- (II) by placing new shares to existing shareholders;
- (III) by bonus issue of shares to existing shareholders; or
- (IV) by any other method permitted by PRC laws and administrative regulations.

After amendment:

Article 16

Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,707,474,000 shares, the nominal value of each share being RMB1.00, of which:

- (I) when the company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company; in the share-increasing process in 2017, after the promoter increased the holding of 330,668,000 domestic shares, the quantity held by it was increased to 1,031,903,000 domestic shares, accounting for 60.43% of the total quantity of shares of the company.

LETTER FROM THE BOARD

- (II) after the company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the company; in March 2007, the company increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company.

The structure of the share capital of the Company is 1,707,474,000 ordinary shares of which the promoter holds 1,031,903,000 domestic shares and oversea listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

Article 17

The registered capital of the Company is RMB1,707,474,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (I) by offering new shares to unspecified investors;
- (II) by placing new shares to existing shareholders;
- (III) by bonus issue of shares to existing shareholders; or
- (IV) by any other method permitted by PRC laws and administrative regulations.

LETTER FROM THE BOARD

(2) *Renewal of Unified Social Credit Code*

Before amendment:

Article 3

The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994] 109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The business license number of the Company is: 230100100004252.

After amendment:

Article 3

The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994] 109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The unified social credit code of the Company is: 91230100127575573H.

(3) *Additional requirements for construction work of the Communist Party of China*

In accordance with the overall requirement of incorporating the construction work of the Communist Party of China into the articles of associations by the Central Committee of the Communist Party of China, and based on the actual circumstances of the Company, the Company proposed to amend the Articles as follows:

LETTER FROM THE BOARD

(i) *Addition in “Chapter 1 General”:*

Article 7

In accordance with the relevant provisions under the Constitution of the Communist Party of China, the Company established the Communist Party Committee of Harbin Electric Company Limited (the “**Party Committee**”). The Party Committee shall perform the core leading and political functions, provide the directions, manage the situation and ensure the implementation. Meanwhile, the Company shall set up a working agency for the Party, allocate sufficient personnel to handle Party affairs and guarantee working funds for the Party Committee.

The numbers of Article 7 and items thereafter in the existing Articles shall be adjusted accordingly.

(ii) *Addition in “Chapter 12 the Board”:*

Article 87

Prior to making decisions on material issues of the Company, the Board shall first hear the opinions of the Party Committee.

The numbers of Article 86 and items thereafter in the existing Articles shall be adjusted accordingly.

(iii) *Addition of a Chapter “Party Committee”:*

Chapter 14

Party Committee

Article 111

The Company shall set up the Party Committee, which shall consist of 1 secretary, 1 deputy secretary in charge of party construction works and several members of the Party Committee (standing committee). The Chairman and the party secretary shall be held by the same person in principle. At the same time, the Company shall establish the Commission for Discipline Inspection of the Communist Party of Harbin Electric Company Limited (the “**Discipline Committee**”).

LETTER FROM THE BOARD

Article 112

The Company shall adhere to and improve the leadership mechanism for cross appointment. Eligible Party members are allowed to serve as members of the Board, board of supervisors and management through legal procedures. The eligible Party Committee members in the Board, board of supervisors and management are allowed to join the Party Committee in accordance with relevant provisions and procedures.

Article 113

The Party Committee shall discharge its duties in accordance with the provisions under the Constitution of the Communist Party of China.

- (I) To guarantee and supervise the implementation of policies and guidelines of the Party and the state in the Company, implement material strategic decisions of the Party Central Committee and the State Council and make deployment for the relevant material works of the superior Party organisation.
- (II) To insist on the combination of the principles of management of cadres by the Party and the selection of operation managers by the Board according to laws and execution of the right of employment by the operation managers. The Party Committee shall consider and propose opinions and suggestions on the candidates as nominated by the Board or president, or nominate candidates to the Board or president, and, together with the Board, conduct investigation on the candidates to be appointed and collective research to raise opinions and suggestions.

LETTER FROM THE BOARD

- (III) To study and discuss reform, development and stability, material operation and management issues and other material issues involving staff's immediate interests of the Company, and propose opinions and suggestions thereon.
- (IV) To shoulder the main responsibility for the overall strictness in administering the party, lead the Company in terms of ideological and political work, united front work, spiritual civilization construction, enterprise cultural construction and the work of labour union, the Communist Youth League and other groups, and lead the construction of the Party conduct and of an honest and clean government and support the Discipline Committee in practical performance of oversight responsibility.
- (V) Other responsibilities that shall be performed by the Party Committee.

The numbers of “Chapter 14 President” and chapters and items thereafter in the existing Articles shall be adjusted accordingly.

5. Use of proceeds

The Company expects to raise gross proceeds of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion) from the Domestic Share Subscription. The net proceeds from the Domestic Share Subscription is expected to be approximately RMB1.267 billion (equivalent to approximately HK\$1.504 billion). It is the intention of the Company to use the net proceeds from the Domestic Share Subscription for the following purposes:

- (i) RMB820 million, approximately 65% of the net proceeds will be invested in a joint venture project on gas turbine and a nuclear power technology upgrading project; and
- (ii) RMB447 million, approximately 35% of the net proceeds will be used as general working capital of the Company.

LETTER FROM THE BOARD

The Company has entered into a joint venture contract in relation to the joint venture gas turbine project, pursuant to which the total investment amount is expected to be approximately RMB1 billion and the Company shall contribute approximately RMB334 million. It is expected that the total investment amount of the nuclear power technology upgrading project will be approximately RMB1.5 billion. As at 31 August 2017, the Company has invested approximately RMB800 million in the nuclear power technology upgrading project and expects to further invest approximately RMB486 million from the proceeds of the Domestic Share Subscription.

The working capital of the Company will be used for the following purposes: (i) RMB300 million will be used mainly for the purchase of raw materials for the production and operation of the Company's nuclear power business, and (ii) RMB147 million will be used mainly for the purchase of raw materials for the production and operation of the Company's gas turbine business.

6. Reasons for and benefits of the Domestic Share Subscription

The Company is a company incorporated in the PRC with limited liability, whose H Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1133).

The Group is among the largest manufacturers of power-generating equipment in the PRC, and the principal activities include the manufacturing of thermal power main equipment, hydropower main equipment, nuclear power main equipment, gas power equipment set and turnkey construction of power station projects, etc.

The Subscriber is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

The Company has cash and bank balance in the amount of RMB15.01 billion as at 30 June 2017. The Company considers that the proceeds of the Domestic Share Subscription is important for the Company given the current amount of cash and bank balance is expected to be used in ordinary production and operation as follows: (i) the repayment of principal and interest in the amount of approximately RMB3.147 billion due to the maturity of corporate bonds amounting to RMB3 billion in March 2018; (ii) the capital required for the purchase of raw materials in the ordinary course of business, which occupies a large amount of cash available; (iii) the increased capital demands for overseas projects as a result of the Group's strategy to develop in the overseas market; (iv) the large amount of capital required in the adjustment of the corporate development strategies of the Company and of the transformation, upgrading and restructuring; (v) the prepayment for raw materials remaining

LETTER FROM THE BOARD

at a high level and demonstrating an upward trend due to the decrease in suppliers and the rebound of the price of steel after the de-capacity of the steel and iron industry; and (vi) the potential repayment of notes payables which recorded a relatively substantial amount. The Company requires extra funds raised on top of the current cash and bank balance to carry out the fixed assets investment and provide operational funds to the gas turbine and nuclear power projects.

(i) *Increasing the overall strength and improving the position in the industry*

The revenue generated from the traditional thermal power market makes up a large portion of the total revenue of the Company. In order to enhance the overall business development, the Company plans to further strengthen the production and manufacturing capacity in emerging industries such as gas turbine and nuclear power in preparation for the future development in the energy industry and in order to strengthen the growth potential of the Company. The proceeds raised from the Domestic Share Subscription will provide the financial support for a joint venture project on gas turbine and a nuclear power technology upgrading project to implement the established development strategy of the Company, which will be significant to the reform, transformation and sustainable development of the Company and its competitiveness in the long term.

(ii) *Optimizing the capital structure and reducing the financial risk*

The proceeds from the Domestic Share Subscription will improve the capital structure of the Company, which can optimize the capital structure, lower the assets-liabilities ratio (total liabilities/total assets) and reduce the financial risk of the Company. As at 30 June 2017, the assets-liabilities ratio of the Company was 77.0% whereas the average assets-liabilities ratio of two major competitors listed on the Stock Exchange was 69.9%. Upon the Completion, the assets-liabilities ratio of the Company is expected to be reduced to approximately 75.5%.

(iii) *Further support from the Subscriber*

Upon Completion, the shareholding percentage of the Subscriber in the Company will increase from 50.93% to between 60.07% (assuming the Final Subscription Price is at its maximum of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Shares) and 60.43% (assuming the Final Subscription Price is the same as the Initial Subscription Price, being HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share). The interest of the Subscriber will be further connected with the performance of the Company. Therefore, the Subscriber will be more willing to provide further support to the Company, including insights on industry policy interpretation and opportunities for business development, which will bring long-term benefits to the Company.

LETTER FROM THE BOARD

Having considered all possible financing methods, the Board believes that the advantages of the Domestic Share Subscription are as follows:

- (1) The Initial Subscription Price carries a premium of 10% on the average closing price of H Shares of the Company for twenty trading days preceding the date of the Announcement and the Final Subscription Price is subject to an upward adjustment, which is more favorable than the terms that the Company may obtain from independent third-party investors; and
- (2) Compared with other financing methods, including (i) bank borrowings, which will incur extra financial charges and deteriorate the assets-liabilities ratio of the Company; and (ii) an open offer or rights issue, which will incur substantial costs such as underwriting fees and will take longer time, a subscription of new Domestic Shares by the Subscriber is a more efficient and economical approach to raise funds.

7. Recent fund raising activities

The Company has not conducted any fund raising activities through any issue of equity securities within the 12 months immediately prior to the Latest Practicable Date.

8. Implications under the Listing Rules

As at the date of this circular, the Subscriber directly holds 701,235,000 Domestic Shares in the Company, representing approximately 50.93% of the Company's total issued share capital. Pursuant to the Listing Rules, as a substantial shareholder, the Subscriber is a connected person of the Company. Accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

9. Directors' confirmation

The Directors (including the independent non-executive Directors, after considering the advice of the Independent Financial Adviser) are of the view that the terms of the Domestic Share Subscription Agreement (including the subscription price) are fair, reasonable and on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Four of the executive directors, Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi, who are also director or senior managers of the Subscriber respectively and thus, are materially interested in the Domestic Share Subscription, had abstained from voting on the relevant Board resolutions approving the aforesaid transactions. Save as disclosed above, none of the Directors has a material interest in the Domestic Share Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the Domestic Share Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles.

The Domestic Share Subscription and the Specific Mandate will be proposed by way of special resolutions at the EGM and the Class Meeting to be approved by the Independent Shareholders. The Subscriber will (and any other shareholder who is involved or interested in the Domestic Share Subscription and the Specific Mandate will be required to) abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription and the transaction contemplated thereunder and the Specific Mandate at the EGM and the Class Meeting.

B. INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate. The members of the Independent Board Committee are Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie. In this connection, Somerley Capital Limited has been approved and appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the Domestic Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole and make recommendation(s) on voting.

C. EGM AND CLASS MEETING

The EGM and the Class Meeting, will be held to consider and, if thought fit, pass resolutions to approve the (i) proposed Domestic Share Subscription; (ii) the grant of the Specific Mandate; and (iii) the proposed amendments to the Articles (as the case may be). The voting in relation to the Domestic Share Subscription, the Specific Mandate and proposed amendments to the Articles at the EGM and the Class Meeting (as the case may be) will be conducted by way of poll. The Domestic Share Subscription and the Specific Mandate will be proposed by way of special resolutions at the EGM and the Class Meeting to be approved by the Independent Shareholders. The amendments to the Articles will be proposed by way of special resolutions at the EGM to be approved by the Shareholders.

LETTER FROM THE BOARD

The Domestic Share Subscription and the Specific Mandate are subject to, among other things, the approval by the Independent Shareholders at the EGM and the Class Meeting to be taken by way of a poll. As mentioned above, the Subscriber will (and any other shareholder who is involved or interested in the Domestic Share Subscription and the Specific Mandate will be required to) abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription and the Specific Mandate at the EGM and the Class Meeting. As at the Latest Practicable Date, the Subscriber is entitled to voting rights of 701,235,000 Shares (representing approximately 50.93% of the total voting rights of the holders of the Shares). There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon the Subscriber; and (ii) no obligation or entitlement of the Subscriber as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Save as disclosed above, none of other Shareholders are required to abstain from voting at the EGM and Class Meeting.

The notices dated 16 October 2017 convening the EGM and the Class Meeting of the Company to be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC on Friday, 1 December 2017 at 9:00 a.m. and 9:20 a.m. (or immediately after the conclusion of the EGM) respectively, are set out on page EGM-1 and HCM-1 of this circular. Whether or not you intend to attend such meetings, you are reminded to complete the proxy form enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's Share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the holders of the H Shares only) or the Company's principal place of business at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding such meetings or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the meetings or at any adjourned meetings if you so wish. Reply slips for such meetings are also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the meetings) and return the signed slip in accordance with the instructions printed thereon.

D. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 20 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 21 to 39 of this circular, consider that the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolution(s) to be proposed at the EGM and the Class Meeting to approve the Domestic Share Subscription and the Specific Mandate.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the proposed amendments to the Articles as described in this circular are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the proposed amendments to the Articles.

E. ADDITIONAL INFORMATION

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

By Order of the Board
Harbin Electric Company Limited
Si Ze-fu
Chairman



哈尔滨电气股份有限公司
HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

16 October 2017

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ISSUE OF NEW DOMESTIC SHARES UNDER
THE SPECIFIC MANDATE
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING AND
THE CLASS MEETING**

We refer to the circular issued by the Company to the Shareholders dated 16 October 2017 (the “**Circular**”) which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Domestic Share Subscription and to advise the Independent Shareholders in respect of the Domestic Share Subscription and the Specific Mandate. Somerley Capital Limited has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of Somerley Capital Limited as set out in their letter of advice, we are of the opinion that (i) the Domestic Share Subscription, though not in the ordinary and usual course of business of the Group, is in line with the business strategy of the Group; (ii) the terms of the Domestic Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the special resolution approving the Domestic Share Subscription and the Specific Mandate at the EGM and the Class Meeting.

Yours faithfully,

Independent Board Committee

Liu Deng-qing, Yu Wen-xing, Hu Jian-min, Zhu Hong-jie

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor, China Building
29 Queen's Road Central
Hong Kong

16 October 2017

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ISSUE OF NEW DOMESTIC SHARES UNDER THE SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed issue of new Domestic Shares to the Subscriber. Details of the proposed issue of new Domestic Shares are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 16 October 2017 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise defined herein.

As at the Latest Practicable Date, the Subscriber directly holds 701,235,000 Domestic Shares in the Company, representing approximately 50.93% of the Company's total issued share capital. Accordingly, the Subscriber is a connected person of the Company under the Listing Rules. The Domestic Share Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements. In this connection, the Domestic Share Subscription and the Specific Mandate will be proposed by way of special resolutions at the EGM and the Class Meeting for consideration by the Independent Shareholders.

The Independent Board Committee, comprising all four independent non-executive Directors, namely Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie, has been formed to advise the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the past two years, there have been no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; (b) the Group; and (c) the Subscriber that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Domestic Share Subscription and the Specific Mandate as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the EGM and the Class Meeting. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Subscriber, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the terms of the Domestic Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Domestic Share Subscription

Information on the Group

The Group is among the largest manufacturers of power-generating equipment in the PRC. Its principal businesses are production and sales of power generators, including manufacturing thermal power main equipment, hydropower main equipment, nuclear power main equipment and gas power equipment sets, etc, and turnkey construction of power station projects.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of financial information of the Group for the two years ended 31 December 2016 and 2015 (both as extracted from the 2016 annual report of the Company) and for the six months ended 30 June 2017 and 2016 (both as extracted from the 2017 interim report of the Company):

Segment revenue:

	For the six months ended 30 June		For the year ended 31 December	
	2017	2016	2016	2015
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Operating revenue from external customers				
– Thermal power host equipment (which includes gas turbine)	6,873	5,978	12,169	9,332
– Water and electricity host equipment	609	1,452	2,484	2,706
– Plant engineering service	6,726	4,994	9,913	6,819
– Ancillary equipment for power stations	752	598	1,438	1,747
– Nuclear products	794	716	2,009	1,724
– Ac/Dc motors and others	1,024	1,056	2,916	2,769
	<u>16,778</u>	<u>14,794</u>	<u>30,929</u>	<u>25,097</u>

Key assets and liabilities:

	As at 30 June		As at 31 December	
	2017	2016	2016	2015
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Total assets	64,207	65,868	64,163	64,163
– Inventories	16,758	16,424	15,492	15,492
– Cash and bank	15,007	18,090	18,237	18,237
– Accounts receivable	10,785	10,060	10,988	10,988
– Advances paid	6,381	6,037	5,414	5,414
– Fixed assets	5,942	5,830	6,023	6,023
Total liabilities	(49,454)	(51,225)	(50,246)	(50,246)
– Advances from customers	(19,840)	(22,704)	(21,467)	(21,467)
– Accounts payable	(14,556)	(12,234)	(13,038)	(13,038)
– Notes payable	(5,460)	(6,093)	(5,053)	(5,053)
– Bonds payable	(2,999)	(2,998)	(2,996)	(2,996)
– Short-term borrowings	(2,918)	(2,089)	(3,178)	(3,178)
Net current assets	7,535	10,821	10,360	10,360
Net assets attributable to parent company	13,521	13,433	12,707	12,707

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2017, total assets of the Group amounted to approximately RMB64.2 billion, which mainly includes inventories of approximately RMB16.8 billion, cash and bank of approximately RMB15.0 billion, accounts receivable of approximately RMB10.8 billion, advances paid of approximately RMB6.4 billion and fixed assets of approximately RMB5.9 billion. The Group recorded total liabilities of approximately RMB49.5 billion as at 30 June 2017, which mainly includes advances from customers of approximately RMB19.8 billion, accounts payable of approximately RMB14.6 billion, notes payable of approximately RMB5.5 billion, bonds payable within one year of approximately RMB3.0 billion and short-term borrowings of approximately RMB2.9 billion.

As set out above, the Group recorded substantial amount of cash and bank of approximately RMB15.0 billion as at 30 June 2017 but also had substantial current liabilities. Net current assets of the Group decreased by approximately 30.4% from 31 December 2016 to 30 June 2017, mainly due to the reclassification of bonds payable (which will expire on 11 March 2018) to current liabilities as at 30 June 2017. Also, as noted from the 2017 interim report of the Company, the Group recorded negative cash flow of approximately RMB3.0 billion during the six months ended 30 June 2017.

Information on the Subscriber

As set out in the “Letter from the Board” contained in the Circular, the Subscriber, Harbin Electric Corporation, is the controlling shareholder of the Company and is a state-owned enterprise in the PRC. It is a pioneer in establishing the largest research and manufacturing base in the PRC for power-generating equipment and other related equipment.

Reasons for and benefits of the Domestic Share Subscription

Over recent years, manufacture of thermal power host equipment, mainly coal powered, has been the largest operating segment of the Group. As set out in the 2017 interim report of the Company, coal power segment contributed to approximately 41% and 64% respectively of the Group’s operating income and operating gross profit for the six months ended 30 June 2017. With the implementation of national policies to prevent over-capacity, the coal power market is expected to remain sluggish in the short-term, which in turn may have a material impact on the development of power generation equipment enterprises. In view of the expected decline in demand in coal power market, the executive Directors consider it beneficial for the Group to develop other segments.

As set out in the sub-section headed “Use of proceeds” in the “Letter from the Board” contained in the Circular, the net proceeds from the Domestic Share Subscription is intended to be used for, among others, investment in (i) a joint venture gas turbine project and (ii) a nuclear power technology upgrading project.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Gas turbine technology is a relatively new technology to support the fuel-fired generators in the PRC, which utilises natural gas to operate. This product segment contributed approximately RMB813.9 million of revenue of the Group during the six months ended 30 June 2017. With advantages in reducing air pollution and flexibility in meeting peaks in electricity demand, the executive Directors expect the demand for gas turbine equipment will increase and consider it to be an important element for the Group's future development. As the first step, the Company has entered into a joint venture agreement with General Electric (China) Co., Ltd. ("**GE China**"), a wholly-owned company of General Electric Company, in March 2017 to establish a joint venture company (the "**Joint Venture Company**") for further collaboration in gas-turbine technology.

In addition, the Group has been developing clean energy (including nuclear energy) and has achieved revenue of approximately RMB794.4 million from nuclear products division during the six months ended 30 June 2017. In view of the limit to the current production capacity, the executive Directors are of the view that further upgrade of the Group's nuclear power technology is important for the Group's further development of its nuclear products division.

It is expected that further funding will be required for the development of the projects (the "**Projects**") to develop gas turbine equipment by the Joint Venture Company and to upgrade the nuclear power technology of the Group. Further details of the Joint Venture Company and the Projects are set out in the sub-section headed "Use of proceeds and information of the Projects" of this letter below.

As noted above, cash and bank of the Group as at 30 June 2017 was approximately RMB15.0 billion but we are advised by the executive Directors that the cash of the Group is substantially committed to support its ordinary production and operation, further details of which are set out in the sub-section headed "Reasons for and benefits of the Domestic Share Subscription" in the "Letter from the Board" contained in the Circular. In addition, net current assets of the Group decreased by approximately 30.4% as at 30 June 2017 as compared to 31 December 2016 and the Group had a deteriorated negative cash flow position during the six months ended 30 June 2017 as compared to the same period in last year.

In view of the above, the executive Directors have explored different fund raising alternatives for the Projects. As advised by the executive Directors, having considered the cash needs to sustain the Group's existing daily production and operation, further development of the Projects will be more prudently financed by equity rather than debt to avoid additional finance costs for the Group and an increase in the gearing ratio. To show its support for the Group and in view of its long-term prospects, the Subscriber is willing to subscribe for new Domestic Shares at a premium to the recent market prices of the H Shares. The executive Directors consider that the Subscriber will be willing to provide further support to the Company upon Completion, including insights on industry policy interpretation and opportunities for business development, which will bring long-term benefits to the Company. They are of the view that since an issue of unlisted Domestic Shares is possible at

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

above recent H Share market prices, it is not in the interests of the Company and its Shareholders to incur underwriting costs and the other issuance costs of new Shares for an open offer or rights issue as a whole. The Company has therefore entered into the Domestic Share Subscription Agreement with the Subscriber. Based on the above, and given the pricing for an open offer or rights issue would normally be set at a discount to recent market prices of the H Shares in order to secure underwriting commitments and encourage existing Shareholders to participate, we concur with the executive Directors' view that the Domestic Share Subscription is the preferred way of financing for further development of the Projects.

The Subscriber will subscribe for the new Domestic Shares with a total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion), which is intended to be used to invest into the Projects and for general working capital of the Company. Further details of the use of proceeds from the Domestic Share Subscription are set out in the sub-section headed "Use of proceeds and information of the Projects" of this letter below.

Having considered the above, including, among other things, (a) the businesses of the Group and the expected industry development and the importance of the Projects in this context; (b) the reasons for using equity as the prudent method of raising capital in the circumstances; and (c) rationale for adopting the Domestic Share Subscription as the preferred fund raising method as discussed above, we concur with the executive Directors that raising funds through the Domestic Share Subscription to facilitate the Group's investments into the Projects is in line with the business development strategy of the Group and is in the interest of the Company.

2. Principal terms of the Domestic Share Subscription Agreement

Pursuant to the Domestic Share Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe in cash for new Domestic Shares at a total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion). The major terms and conditions of the Domestic Share Subscription Agreement are summarised below. Further details are set out under the section headed "Proposed issue of new Domestic Shares" in the "Letter from the Board" contained in the Circular.

Date:

4 September 2017

Parties:

- (1) The Company as the issuer; and
- (2) Harbin Electric Corporation as the subscriber.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subscription price:

The Initial Subscription Price is HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share which was determined after arm's length negotiations between the Company and the Subscriber based on the average closing price of H Shares of the Company for the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement plus a premium of 10%, rounded down to two decimal places.

In the event that the Closing Price is higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Closing Price subject to a maximum price of HK\$4.79 (rounded to the nearest second decimal place) (equivalent to approximately RMB4.03) per new Domestic Share, being the Initial Subscription Price plus a premium of 5%. In the event that the Closing Price is not higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price. The Final Subscription Price cannot be lower than the Initial Subscription Price.

Number of new Domestic Shares to be subscribed for:

The Subscriber intends to subscribe for new Domestic Shares at a total subscription price of approximately RMB1.27 billion (equivalent to approximately HK\$1.51 billion). The number of new Domestic Shares to be subscribed is to be calculated by dividing RMB1.27 billion (equivalent to approximately HK\$1.51 billion), calculated in Hong Kong dollars based on the agreed exchange rate, by the Final Subscription Price and rounded down to the nearest thousand.

As set out in the section headed "Proposed issue of new Domestic Shares" in the "Letter from the Board" contained in the Circular, assuming the Final Subscription Price is the same as the Initial Subscription Price, 330,668,000 new Domestic Shares will be issued, which represent (i) approximately 47.16% of the existing issued Domestic Shares and approximately 24.02% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 32.04% of the enlarged total issued Domestic Shares and approximately 19.37% of the enlarged total issued share capital of the Company upon Completion. Assuming the Final Subscription Price is HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share, being the maximum subscription price, 314,922,000 new Domestic Shares will be issued, which represent (i) approximately 44.91% of the existing issued Domestic Shares and approximately 22.87% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 30.99% of the enlarged total issued Domestic Shares and approximately 18.62% of the enlarged total issued share capital of the Company upon Completion.

Conditions precedent:

The Domestic Share Subscription is conditional upon the fulfilment (or waiver, if applicable) of the conditions precedent as set out in the sub-section headed "Conditions precedent to the Domestic Share Subscription Agreement" in the "Letter from the Board" contained in the Circular,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

including but not limited to (a) the obtaining of the approval of the Independent Shareholders for the Domestic Share Subscription and the Specific Mandate by way of special resolutions by way of poll at the EGM and the Class Meeting and such approval being valid on the date of Completion; and (b) the obtaining of the approval from the State-owned Assets Supervision and Administration Commission approving the Domestic Share Subscription and such approval being valid on the date of Completion.

If any of the conditions precedent to the Domestic Share Subscription Agreement is not satisfied or waived appropriately by both parties on or before the Long Stop Date (i.e. the expiry date of 2 calendar months from the date of the EGM and the Class Meeting), either party shall be entitled to terminate the Domestic Share Subscription Agreement with immediate effect. As at the Latest Practicable Date, none of the conditions precedent has been fulfilled or waived.

Completion:

Completion of the Domestic Share Subscription will take place on the seventh business day after the fulfilment or appropriate waiver by both parties of the conditions precedent to the Domestic Share Subscription Agreement or any other subsequent date as agreed by the parties.

The Subscriber shall, within seven business days after receiving a payment notice issued by the Company, make payment of the total subscription price in cash to the Company.

Ranking of new Domestic Shares to be issued under the Specific Mandate:

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreement will rank, upon issue, pari passu in all respects with the existing Domestic Shares in issue at the time of allotment and issue of such new Domestic Shares.

3. Analysis of the subscription price

(a) Comparison of the subscription price to market price

The subscription price of the new Domestic Shares will be set in a range from the Initial Subscription Price of HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share to the maximum Final Subscription Price of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share. We compare the above prices to the closing prices of the H Shares as set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Initial Subscription Price of HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share represents:

- (i) a premium of approximately 15.15% over the closing price of HK\$3.960 per H Share on the last trading day immediately preceding the date of the Domestic Share Subscription Agreement (the “**Last Trading Day**”);
- (ii) a premium of approximately 13.01% over the average closing price of HK\$4.035 per H Share for the last ten consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 9.88% over the average closing price of HK\$4.150 per H Share for the last twenty consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 21.60% over the closing price of HK\$3.750 per H Share on the Latest Practicable Date.

The maximum Final Subscription Price of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share represents:

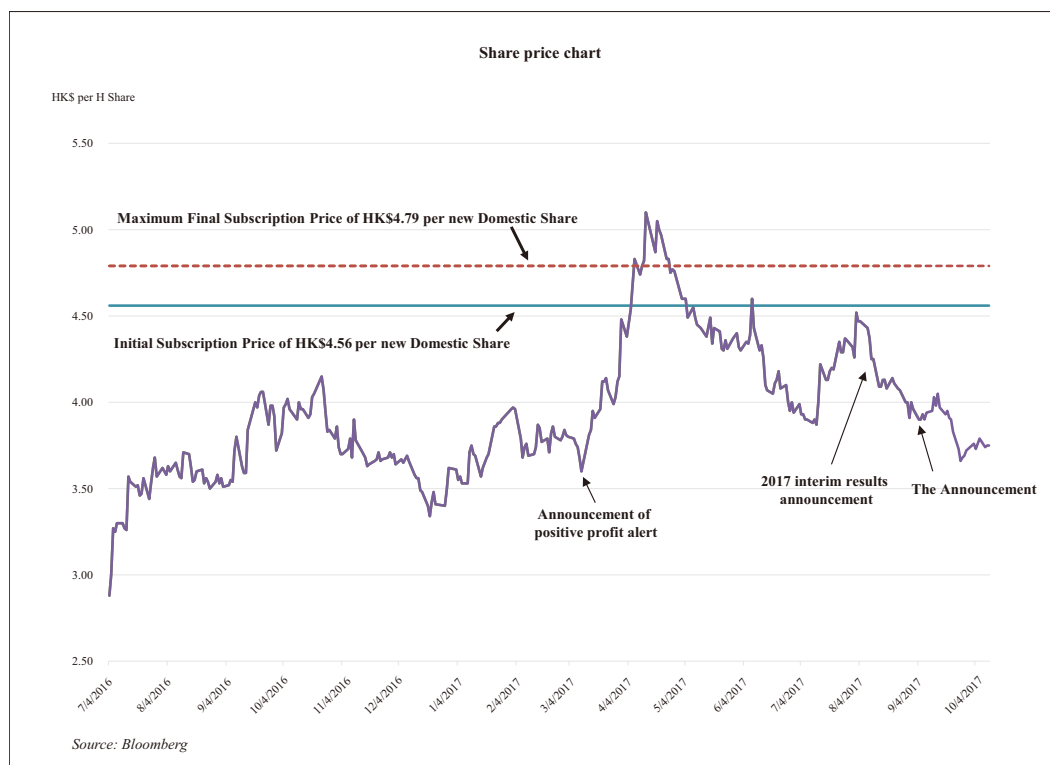
- (i) a premium of approximately 20.96% over the closing price of HK\$3.960 per H Share on the Last Trading Day;
- (ii) a premium of approximately 18.71% over the average closing price of HK\$4.035 per H Share for the last ten consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 15.42% over the average closing price of HK\$4.150 per H Share for the last twenty consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 27.73% over the closing price of HK\$3.750 per H Share on the Latest Practicable Date.

These premiums are compared to the market range of the Comparable Issues set out in the sub-section headed “Comparable issues” of this letter below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Share price performance

The chart below illustrates the daily closing share price per H Share for the period from 1 July 2016 up to and including the Latest Practicable Date (the “Review Period”).



During the period from 1 July to 24 October 2016, the closing prices fluctuated between HK\$2.88 per H Share and HK\$4.15 per H Share, and showed an upward trend in general. On 5 July 2016 (after trading hours), the Company published a voluntary announcement in relation to a subsidiary of the Company having entered into a contract for a power plant project in Dubai with total sum of the contract amounted to USD2.35 billion. The H Share price closed at HK\$3.27 per H Share on 6 July 2016, representing an increase of approximately 9.0% as compared to the closing price of HK\$3.00 per H Share on 5 July 2016. From 25 October 2016 to 10 March 2017, the closing H Share prices fluctuated in a range of between HK\$3.34 per H Share to HK\$4.07 per H Share.

After trading hours on 10 March 2017, the Company published an announcement in relation to a positive profit alert. The closing H Share price increased to HK\$3.76 per H Share on 13 March 2017 (next business day after 10 March 2017), representing an increase of approximately 4.4% as compared to that on 10 March 2017 of HK\$3.60 per H Share. After that the H Share closing prices continued to increase and closed at a high of HK\$5.10 per H Share on 13 April 2017, and showed a general decline from the 13 April high afterwards.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the chart above, from 1 January to 3 September 2017, the closing H Share prices fluctuated between HK\$3.53 per H Share and HK\$5.10 per H Share. On 4 September 2017 (after trading hours), the Company published the Announcement. On that date, the closing H Share price was HK\$3.90 per H Share.

The H Shares closed at a price of HK\$3.75 per H Share as at the Latest Practicable Date. The Initial Subscription Price and the maximum Final Subscription Price represent a premium of approximately 21.60% and 27.73% over the closing price of the H Share as at the Latest Practicable Date respectively. During the Review Period, the H Shares were traded significantly below the net asset value per Share of the Group.

(c) *Comparable issues*

We have searched the website of the Stock Exchange on a best efforts basis to identify issues of new domestic shares for cash by companies listed on the Stock Exchange (the “**Comparable Issues**”), which constituted connected transactions, with circulars published since the beginning of this year, i.e. for the period from 1 January 2017 and up to the date immediately prior to the Latest Practicable Date, which we consider a reasonable period for sufficient number of Comparable Issues to be identified for our analysis.

It should be noted that the subject companies involved in the Comparable Issues have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. The circumstances surrounding such subscriptions may also be different from those relating to the Company, and therefore the table below is provided for illustrative purposes only and does not form a material basis in our assessment of the fairness of the subscription price.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Comparable Issues represent an exhaustive list of subscriptions meeting the criteria set out above. The table below illustrates the details of the Comparable Issues:

Circular date	Company name	Premium/(discount) of the subscription price over/(to) closing price per share on the last trading day prior to/on the date of announcement/ agreement in relation to the respective subscription of shares % <i>(approximate)</i>
30 September 2017	Guangdong Join-Share Financing Guarantee Investment Co., Ltd. ("Guangdong Join-Share") (stock code: 1543)	5.00 <i>(Note)</i>
23 June 2017	Biosino Bio-Technology and Science Incorporation (stock code: 8247)	(1.42)
8 June 2017	Beijing Jingneng Clean Energy Co., Limited (stock code: 579)	9.87
12 May 2017	Launch Tech Company Limited (stock code: 2488)	(24.75)
28 April 2017	HNA Infrastructure Company Limited ("HNA") (stock code: 357)	35.30
20 January 2017	YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (stock code: 1558)	28.01
	Mean (simple average)	8.67
	Median	7.44
	Maximum	35.30
	Minimum	(24.75)
	Domestic Share Subscription	
	– Initial Subscription Price	15.15
	– Maximum Final Subscription Price	20.96

Source: relevant circulars of the companies relating to the Comparable Issues

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note: As set out in the circular of Guangdong Join-Share dated 30 September 2017, the price of issue of new domestic shares of Guangdong Join-Share to connected persons was determined with reference to the price for subscription of domestic shares by another subscriber, which in turn was fixed pursuant to a price determination agreement dated 29 June 2017. The above premium of approximately 5.00% was calculated based on the price of issue of new domestic shares to connected persons and the closing price per share of Guangdong Join-Share on 28 June 2017, being the last trading day immediately prior to the date of the price determination agreement.

As set out in the table above, the subscription prices of the Comparable Issues ranged from a discount of approximately 24.75% to a premium of approximately 35.30% to the respective closing prices of their shares on the last trading day prior to/on the date of announcement/agreement in relation to the respective subscription of shares, with an average of a premium of approximately 8.67%. The premium as represented by both the Initial Subscription Price and the maximum Final Subscription Price are within the market range and above the average and median of the Comparable Issues.

HNA announced on 30 December 2016 a subscription of domestic shares at a price of not less than RMB7.98 per share. As set out in the announcement of HNA dated 30 December 2016, the minimum subscription price of RMB7.98 per domestic share represents a premium of approximately 15.86% over the closing price per share as quoted on the Stock Exchange on the last trading day (i.e. 29 December 2016). On 27 April 2017, HNA entered into a supplemental agreement regarding the aforesaid subscription of domestic shares, pursuant to which the subscription price was fixed at RMB8.00 per share. The premium of approximately 35.30% for HNA as set out in the table above was based on the subscription price of RMB8.00 per share and closing share price prior to the supplemental agreement. If the premium of approximately 15.86% (i.e. premium over closing price prior to the first announcement dated 30 December 2016) is adopted in our analysis instead, the subscription prices of the Comparable Issues would range from a discount of approximately 24.75% to a premium of approximately 28.01% to the respective closing prices of their shares on the last trading day prior to/on the date of announcement/agreement in relation to the respective subscription of shares, with an average of a premium of approximately 5.43%.

Bearing in mind the above factors, and in particular that (a) the Subscription Price is set at premium to recent market prices and the H Shares were traded significantly below the net asset value per Share of the Group during the Review Period; and (b) the premium as represented by both the Initial Subscription Price and the maximum Final Subscription Price are within the market range and above the average and median of the Comparable Issues, we consider the Subscription Price is fair and reasonable to the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Use of proceeds and information of the Projects

As set out in the sub-section headed “Use of proceeds” in the “Letter from the Board” contained in the Circular, the net proceeds from the Domestic Share Subscription is expected to be approximately RMB1.267 billion (equivalent to approximately HK\$1.504 billion), which is intended to be used for the following purposes:

- (i) RMB820 million, approximately 65% of the net proceeds, will be invested in a joint venture project on gas turbine and a nuclear power technology upgrading project (i.e. the Projects); and
- (ii) RMB447 million, approximately 35% of the net proceeds, will be used as general working capital of the Company.

Further details of the use of proceeds are set out in the aforesaid sub-section in the “Letter from the Board” contained in the Circular and further details of the Projects (based on the information provided by the Company) are set out below:

(a) *Joint venture project on gas turbine*

As set out in the sub-section headed “Background to and reasons for the Domestic Share Subscription” of this letter above, the Company has set up the Joint Venture Company with GE China for further collaboration in gas-turbine technology development. GE China is a company controlled by General Electric Company of the United States and its scope of business covers both industrial manufacturing and financial services. The subsidiaries of GE China are engaged in, among other things, aircraft engines, gas turbines, power generation, power distribution and transmission and oil and gas. Further details of the Joint Venture Company are set out in the Company’s announcement dated 14 March 2017. The executive Directors expect that, with the advanced technology of GE China in gas turbines, the Joint Venture Company will be able to manufacture both F-class gas turbines (with improved technology) and H-class gas turbines (latest class of gas turbines which are new to the Group). It is expected that the total investment amount of the gas turbine project in the Joint Venture Company will be approximately RMB1.0 billion.

As advised by the executive Directors, the investment into the Joint Venture Company will enable the Group to gain access to advanced technology in gas turbine and to further strengthen the production capacity of the Group and to enhance its competitiveness in the gas turbine segment.

(b) Nuclear power technology upgrading project

We understand from the executive Directors that, in order to enhance the Group's capacity and maintain its competitiveness in nuclear products segment, the Group has been investing into different projects to improve/upgrade its nuclear products production capacity. It is stated in the 2016 annual report and 2017 interim report of the Company that the Group has made investments into, among other things, constructing technology upgrading project for nuclear turbine core capacity, manufacturing base improvement project for main nuclear pump motor units, manufacturing capacity enhancement project for key nuclear pump and technology upgrading project for nuclear pump motor units. The executive Directors advised us that the Group is planning to continue further upgrading of its nuclear production capacity, which includes, among other things, building new production plant, acquiring advanced production equipment, upgrading production systems and enhancing research and development ability. It is expected that the total investment amount of the nuclear power technology upgrading project will be approximately RMB1.5 billion, of which approximately RMB0.8 billion has been invested in the project up to 31 August 2017. The executive Directors expect that the Group will be able to enhance its nuclear products production capacity and achieve automated production process, which will in turn enhance the Group's business development in the long-term.

5. Financial effects of the Domestic Share Subscription

(i) Net asset value

As set out in the Company's 2017 interim report, the Group's equity attributable to parent company was approximately RMB13,521,471,813 as at 30 June 2017, representing approximately RMB9.82 per Share (equivalent to approximately HK\$11.66 per Share) based on a total of 1,376,806,000 Shares in issue as at 30 June 2017. The closing H Share price on the Last Trading Day and the Latest Practicable Date of HK\$3.96 per H Share and HK\$3.75 per H Share represent a discount to net asset value per Share of approximately 66.0% and 67.8% respectively. The Initial Subscription Price (i.e. HK\$4.56 per new Domestic Share) and the maximum Final Subscription Price (i.e. HK\$4.79 per new Domestic Share) represent a discount to net asset value per Share of approximately 60.9% and 58.9% respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the section headed “Proposed issue of new Domestic Shares” in the “Letter from the Board” contained in the Circular, upon Completion, assuming the Final Subscription Price is the same as the Initial Subscription Price, 330,668,000 new Shares will be issued by the Company as the new Domestic Shares (i.e. Scenario 1). In the event that the Closing Price is higher than the Initial Subscription Price and assuming the Final Subscription Price is the maximum subscription price (i.e. HK\$4.79), 314,922,000 new Shares will be issued by the Company as the new Domestic Shares (i.e. Scenario 2). In either case, the Company shall receive the total subscription price in cash. The table below sets out, for illustration purpose, the effect on the Group’s net asset value per Share:

	<i>RMB’000</i> <i>(approximate)</i>	
Equity attributable to shareholders of the Company as at 30 June 2017		13,521,472
	<i>Scenario 1</i>	<i>Scenario 2</i>
Add: Estimated net proceeds from the Domestic Share Subscription	1,267,000	1,267,000
Net assets upon Completion	14,788,472	14,788,472
	<i>Number of Shares</i>	
Number of Shares in issue as at 30 June 2017		1,376,806,000
	<i>Scenario 1</i>	<i>Scenario 2</i>
Add: Number of new Domestic Shares to be issued	330,668,000	314,922,000
Number of Shares upon Completion	1,707,474,000	1,691,728,000
Net asset value per Share immediately after Completion	RMB8.66	RMB8.74
Change in net asset value per Share	(11.8%)	(11.0%)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above, upon Completion, the net asset value per Share will be reduced by approximately 11.8% to RMB8.66 under Scenario 1, and by approximately 11.0% to RMB8.74 under Scenario 2. The Company has however consistently traded significantly below its net asset value in recent year and the nature of its assets are highly specialised for power generating equipment. In circumstances where an issue of further equity is desirable and prudent, some dilution in net asset value is inevitable. Consequently, we consider a decrease in net assets value per Share of approximately 11–12% is acceptable in light of the increase in total net assets and the other benefits of the Domestic Share Subscription set out in this letter.

(ii) Total liabilities to assets ratio

As set out in the Company's 2017 interim report, as at 30 June 2017, the Group had total liabilities and total assets of approximately RMB49,454.3 million and RMB64,206.5 million, respectively. The ratio of total liabilities over total assets of the Group was approximately 77.0%. Upon Completion, the total assets of the Group will increase and hence the ratio of total liabilities over total assets of the Group will decrease to approximately 75.5%.

(iii) Debt to net assets ratio

The Group recorded debts (including borrowings and bonds payable) of approximately RMB5.9 billion as at 30 June 2017, with a debt to net assets ratio of approximately 40.1%. Upon Completion, net assets of the Group will increase by approximately RMB1.267 billion and the debt to net assets ratio will decrease to approximately 36.9%.

6. Dilution effect on the shareholding interests of the existing public Shareholders

The following table summarises the effect of the Domestic Share Subscription on the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after Completion assuming the Final Subscription Price is the same as the Initial Subscription Price (i.e. Scenario 1); and (c) immediately after Completion assuming the Final Subscription Price is the maximum subscription price (i.e. HK\$4.79) (i.e. Scenario 2).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholder	Share Class	As at the Latest Practicable Date		Scenario 1		Scenario 2	
		Number of Shares	%	Number of Shares	%	Number of Shares	%
Harbin Electric Corporation	Domestic	701,235,000	50.93%	1,031,903,000	60.43%	1,016,157,000	60.07%
H Shareholders	H Shares	<u>675,571,000</u>	<u>49.07%</u>	<u>675,571,000</u>	<u>39.57%</u>	<u>675,571,000</u>	<u>39.93%</u>
Total		<u><u>1,376,806,000</u></u>	<u><u>100.00%</u></u>	<u><u>1,707,474,000</u></u>	<u><u>100.00%</u></u>	<u><u>1,691,728,000</u></u>	<u><u>100.00%</u></u>

As illustrated above, upon Completion of the Domestic Share Subscription, the shareholding of the existing public Shareholders would be reduced from approximately 49% as at the Latest Practicable Date to approximately 40% under both scenarios. However, taking into account (i) the benefits to be derived by the Group from the Domestic Share Subscription as set out in the sub-section headed “Background to and reasons for the Domestic Share Subscription” of this letter above; (ii) the Domestic Share Subscription being an appropriate fund raising method currently available to the Group due to the reasons as set out in the same sub-section above; and (iii) the subscription price is considered to be fair and reasonable as set out in the sub-section headed “Analysis of the subscription price” of this letter above, we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Domestic Share Subscription from approximately 49% to approximately 40% is acceptable.

DISCUSSION

The Group is a leading manufacturer of power-generating equipment in the PRC. The major portion of the Group’s revenue is generated from coal power segment. However, in view of the expected sluggish coal power market, the executive Directors have wish to prioritise other segments.

Gas turbine and nuclear power, both of which would reduce air pollution compared with the traditional coal power, are two areas that the executive Directors have identified for further development. The Group had cash and bank of approximately RMB15.0 billion as at 30 June 2017 but also had substantial current liabilities. The Directors consider the cash balances are required to support the Group’s base-load production and daily operations and consider it prudent to raise funds for the Projects (i.e. the gas turbine project of the Joint Venture Company and the nuclear power technology upgrading project) through equity. Having considered other options and in view of the attractive subscription price and lesser costs and procedures, the executive Directors have decided to proceed by way of the Domestic Share Subscription by the Subscriber. The net proceeds from the Domestic Share Subscription of approximately RMB1.267 billion (equivalent to approximately HK\$1.504 billion) will be used, among other things, to finance the two Projects, which are expected to help enhance the Group’s competitiveness and business development in the long-term.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The subscription price for the Domestic Share Subscription will be set in a range between the Initial Subscription Price of HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share and the maximum subscription price of HK\$4.79 (equivalent to approximately RMB4.03) per new Domestic Share. These two prices represent premium to the closing H Share prices before the Last Trading Day, which we consider advantageous to the Independent Shareholders. Such premium is within the range of the Comparable Issues. The Domestic Share Subscription will reduce the Group's total liabilities to assets ratio and debt to net assets ratio and strengthen its net current assets and net assets positions. There will be a decrease in net asset value per Share and some dilution to the shareholding of the existing public Shareholders. However we consider these to be acceptable in light of, among others, (i) the potential benefits to be derived by the Group from the Domestic Share Subscription; and (ii) the subscription price being considered fair and reasonable, as set out in this letter above.

OPINION

Having taken into account the above principal factors and reasons which are summarised in the section above headed "Discussion" of this letter, we consider that (1) the Domestic Share Subscription, though not in the ordinary and usual course of business of the Group, is in line with the business strategy of the Group; (2) the terms of the Domestic Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the special resolutions to be proposed at the EGM and the Class Meeting to approve the Domestic Share Subscription and the Specific Mandate.

Yours faithfully,

for and on behalf of

SOMERLEY CAPITAL LIMITED

Stephanie Chow

Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over nine years' experience in the corporate finance industry.

For the purpose of illustration only, any amount denominated in RMB in this letter is translated into HK\$ at the rate of RMB0.84226 = HK\$1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility for the information contained herein, includes particulars given in compliance with the Listing Rules for the purpose of giving information relating to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), that was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date and to the best knowledge of the Directors and the chief executive of the Company, persons having interests and short positions in 5% or more in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long Positions:

Type of shareholding	Name of Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of such shareholding in the same type of issued share capital	Percentage of total issued share capital
Domestic Shares	the Subscriber	Directly and Beneficially owned	701,235,000	100.00%	50.93%

Save as disclosed above, as at the Latest Practicable Date, there were no other parties who had interests or short positions in the Shares or underlying shares of the Company which would fall to be recorded in the register required to be kept under section 336 of the SFO.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation).

5. MATERIAL CHANGE

The Directors confirm that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up, up to the Latest Practicable Date.

6. COMPETING BUSINESS

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors or supervisors of the Company nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS AND SUPERVISORS INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors or Supervisors was materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or supervisors of the Company nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

9. EXPERT

The following sets out the qualifications of the expert who has given its opinions or advice as contained in this circular:

Name	Qualification
Somerley Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, the above expert: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter or opinion and the references to its name included herein in the form and context in which they are respectively included; (ii) has no direct or indirect shareholding in the Company any other member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in the Company or any other member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to the Company or any other member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection (i) during normal business hours on any weekday (except for public holidays) at Room 1601, 16th Floor, LHT Tower, 31 Queen's Road Central, Hong Kong; (ii) on the Company's website (<http://www.hpec.com/>), from the date of this circular up to and including the date of the EGM:

- (a) the Articles;
- (b) the audited consolidated accounts of the Company for the three years ended 31 December 2014, 2015 and 2016;
- (c) the Domestic Subscription Agreement;

- (d) the written consent referred to in the paragraph headed “Qualification of the Expert and consent” in this appendix;
- (e) the letter from the Board, the text of which is set out in this circular;
- (f) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (g) the letter of advice from the Independent Financial Adviser, the text of which is set out in this circular; and
- (h) this circular.

11. MISCELLANEOUS

- (a) The registered address of the Company is at Block 3, Nangang District High Technology Production Base, Harbin, Heilongjiang Province, the PRC;
- (b) The company secretary of the Company is Mr. Ai Li-song. The current joint company secretary of the Company, Mr. Tung Tat Chiu, who is a practicing solicitor in Hong Kong and the senior partner in Tung & Co., is assisting Mr. Ai Li-song to allow him acquire relevant experience (pursuant to Note 2 to Rule 3.28 of the Listing Rules) and perform duties of a company secretary;
- (c) The principal place of business of the Company in the PRC is at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC;
- (d) The principal place of business of the Company in Hong Kong is at Room 1601, 16th Floor, LHT Tower, 31 Queen’s Road Central, Hong Kong;
- (e) The Hong Kong share registrar of the Company is Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.

NOTICE OF EXTRAORDINARY GENERAL MEETING



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting (“**EGM**”) of Harbin Electric Company Limited (the “**Company**”) will be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC on Friday, 1 December 2017 at 9:00 a.m. to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 16 October 2017 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

SPECIAL RESOLUTIONS

1. THAT:

the Company be and is hereby approved to conditionally issue the Domestic Share to the Subscriber pursuant to the terms and conditions set out in the Domestic Share Subscription Agreement entered into between the Company and the Subscriber. The terms and conditions of the Domestic Share Subscription and the transaction contemplated thereunder are as follows:

(1) Type of new Domestic Shares to be issued

The shares to be issued are unlisted domestic ordinary shares, denominated in RMB, the nominal value of which is RMB1.00.

(2) Price of new Domestic Shares to be issued

- (i) The Initial Subscription Price is denominated in Hong Kong dollars, being HK\$4.56 per new Domestic Share.
- (ii) The Final Subscription Price is to be determined with reference to the Closing Price. In the event that the Closing Price is higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Closing Price subject to a maximum price of HK\$4.79 per new Domestic Share, being the Initial Subscription Price plus a premium of 5%. In the event that the Closing Price is not higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(3) Number of new Domestic Shares to be issued and total amount to be raised from the Domestic Share Subscription

The Subscriber has agreed to subscribe in cash for new Domestic Shares at a total subscription price of approximately RMB1.27 billion. The number of new Domestic Shares to be subscribed is to be calculated by dividing RMB1.27 billion, after being exchanged into Hong Kong dollars based on the agreed exchange rate, by the Final Subscription Price and rounded down to the nearest thousand. The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed by the Final Subscription Price.

For the purpose of calculating the number of new Domestic Shares to be subscribed and the exact total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the average middle exchange rates between Renminbi and Hong Kong dollars published by the People's Bank of China on the Reference Date and the four trading days immediately preceding.

2. THAT:

the proposed amendments to the Articles of the Company set out below be and are hereby confirmed and approved, including:

(1) Renewal of Unified Social Credit Code

Before amendment:

Article 3

The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994] 109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The business license number of the Company is: 230100100004252.

NOTICE OF EXTRAORDINARY GENERAL MEETING

After amendment:

Article 3 The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994] 109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The unified social credit code of the Company is: 91230100127575573H.

(2) Additional requirements for construction work of the Communist Party of China

(i) Addition in “Chapter 1 General”:

Article 7 In accordance with the relevant provisions under the Constitution of the Communist Party of China, the Company established the Communist Party Committee of Harbin Electric Company Limited (the “**Party Committee**”). The Party Committee shall perform the core leading and political functions, provide the directions, manage the situation and ensure the implementation. Meanwhile, the Company shall set up a working agency for the Party, allocate sufficient personnel to handle Party affairs and guarantee working funds for the Party Committee.

The numbers of Article 7 and items thereafter in the existing Articles shall be adjusted accordingly.

(ii) Addition in “Chapter 12 the Board”:

Article 87 Prior to making decisions on material issues of the Company, the Board shall first hear the opinions of the Party Committee.

The numbers of Article 86 and items thereafter in the existing Articles shall be adjusted accordingly.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(iii) *Addition of a Chapter “Party Committee”:*

Chapter 14

Party Committee

Article 111

The Company shall set up the Party Committee, which shall consist of 1 secretary, 1 deputy secretary in charge of party construction works and several members of the Party Committee (standing committee). The Chairman and the party secretary shall be held by the same person in principle. At the same time, the Company shall establish the Commission for Discipline Inspection of the Communist Party of Harbin Electric Company Limited (the “**Discipline Committee**”).

Article 112

The Company shall adhere to and improve the leadership mechanism for cross appointment. Eligible Party members are allowed to serve as members of the Board, board of supervisors and management through legal procedures. The eligible Party Committee members in the Board, board of supervisors and management are allowed to join the Party Committee in accordance with relevant provisions and procedures.

Article 113

The Party Committee shall discharge its duties in accordance with the provisions under the Constitution of the Communist Party of China.

- (I) To guarantee and supervise the implementation of policies and guidelines of the Party and the state in the Company, implement material strategic decisions of the Party Central Committee and the State Council and make deployment for the relevant material works of the superior Party organisation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (II) To insist on the combination of the principles of management of cadres by the Party and the selection of operation managers by the Board according to laws and execution of the right of employment by the operation managers. The Party Committee shall consider and propose opinions and suggestions on the candidates as nominated by the Board or president, or nominate candidates to the Board or president, and, together with the Board, conduct investigation on the candidates to be appointed and collective research to raise opinions and suggestions.
- (III) To study and discuss reform, development and stability, material operation and management issues and other material issues involving staff's immediate interests of the Company, and propose opinions and suggestions thereon.
- (IV) To shoulder the main responsibility for the overall strictness in administering the party, lead the Company in terms of ideological and political work, united front work, spiritual civilization construction, enterprise cultural construction and the work of labour union, the Communist Youth League and other groups, and lead the construction of the Party conduct and of an honest and clean government and support the Discipline Committee in practical performance of oversight responsibility.
- (V) Other responsibilities that shall be performed by the Party Committee.

The numbers of "Chapter 14 President" and chapters and items thereafter in the existing Articles shall be adjusted accordingly.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(3) Registered capital and shareholding structure

The Board has agreed that Articles 15 and 16 shall be renumbered as Articles 16 and 17 and shall be revised in accordance with the actual circumstances of the Domestic Share Subscription.

The amendments set out below are based on the assumption that the Final Subscription Price is the same as the Initial Subscription Price and 330,668,000 new Domestic Shares are issued. In the event that the Final Subscription Price is higher than the Initial Subscription Price, the number of Shares and the amount of the registered capital in the relevant articles set out below will be adjusted accordingly to reflect the number of new Domestic Shares that have actually been issued and the amount of the registered capital that has actually been increased.

Before amendment:

Article 15

Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,376,806,000 shares, the nominal value of each share being RMB1.00, of which:

- (I) when the company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company.

- (II) after the company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the company; in March 2007, it increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

The structure of the share capital of the Company is 1,376,806,000 ordinary shares of which the promoter holds 701,235,000 domestic shares and overseas listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

Article 16

The registered capital of the Company is RMB1,376,806,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (I) by offering new shares to unspecified investors;
- (II) by placing new shares to existing shareholders;
- (III) by bonus issue of shares to existing shareholders; or
- (IV) by any other method permitted by PRC laws and administrative regulations.

After amendment:

Article 16

Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,707,474,000 shares, the nominal value of each share being RMB1.00, of which:

- (I) when the company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company; in the share-increasing process in 2017, after the promoter increased the holding of 330,668,000 domestic shares, the quantity held by it was increased to 1,031,903,000 domestic shares, accounting for 60.43% of the total quantity of shares of the company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (II) after the company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the company; in March 2007, the company increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company.

The structure of the share capital of the Company is 1,707,474,000 ordinary shares of which the promoter holds 1,031,903,000 domestic shares and overseas listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

Article 17

The registered capital of the Company is RMB1,707,474,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (I) by offering new shares to unspecified investors;
- (II) by placing new shares to existing shareholders;
- (III) by bonus issue of shares to existing shareholders; or
- (IV) by any other method permitted by PRC laws and administrative regulations.

3. THAT:

in order to complete the issue of new Domestic Shares and the proposed amendments to the Articles efficiently and orderly, in accordance with the requirements of relevant laws and the Articles, the Board be and is hereby confirmed, approved and authorized to, and/or unless otherwise decided by the Board, any two of the Directors be and are hereby confirmed, approved and authorized to, handle all matters in relation to the issue of new Domestic Shares and the proposed amendments to the Articles, including but not limited to:

- (i) to formulate and implement a specific proposal on the issue of new Domestic Shares in accordance with the specific circumstances, including but not limited to the timing of issuance and issuance period;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (ii) to conduct all work in relation to the issue of new Domestic Shares and the proposed amendments to the Articles on behalf of the Company and to make, prepare, amend, sign, deliver and perform all agreements, announcements, circulars and other documents in relation to the issue of new Domestic Shares and make disclosures as appropriate;
- (iii) to select and appoint qualified professional institutions, including but not limited to financial advisers, legal advisers and any institutions involved in the issue of new Domestic Shares;
- (iv) to handle the proposed amendments to the Articles, capital verification formalities and change of business registration in respect of the changes in the share capital structure and registered capital of the Company in accordance with the actual situation after completion of the issue of new Domestic Shares (including but not limited to adjusting and completing relevant articles of the Articles with the exact number of the share capital structure, registered capital of the Company and the issue time);
- (v) to handle the relevant share registration after completion of the issue of new Domestic Shares; and
- (vi) to take all necessary actions as permitted under relevant laws to determine and handle all other specific matters in relation to the issue of new Domestic Shares.

By Order of the Board
Harbin Electric Company Limited
Si Ze-fu
Chairman

Harbin, PRC, 16 October 2017

Notes:

(1) Voting arrangements

The Subscriber will or will be required to abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription and the Specific Mandate at the EGM.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(2) Registration procedures for the EGM

- i. Shareholders of the Company shall note that pursuant to Article 44 of the Articles, the share register of the Company will be closed during the period from Wednesday, 1 November 2017 to Friday, 1 December 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all transfer documents, together with the relevant share certificates, should be lodged to the Company's H share share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H shares), or to the Company's principal place of business in the PRC (for holders of Domestic shares), no later than 4:30 p.m. on Tuesday, 31 October 2017. Shareholders whose names appear on the register of shareholders of the Company on Tuesday, 31 October 2017 shall be entitled to attend the EGM to vote thereat.
- ii. Shareholders who intend to attend the EGM are required to return the reply slip to the Company on or before Saturday, 11 November 2017. Please refer to the reply slip and the instruction thereon for details.

(3) Proxy

- i. Any Shareholders entitled to attend and to vote at the EGM shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more shares may appoint more than one proxy.
- ii. To be valid, the proxy forms for the use of Shareholders and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the EGM or its adjourned meetings of the Company.
- iii. Holders of domestic shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's principal place of business in the PRC.
- iv. Holders of H Shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's H share share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- v. Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the EGM in person. In such event, the form of proxy will be deemed to have been revoked.
- vi. Shareholders or their proxies shall produce their identification documents (and form of proxy in case of proxies) when attending the EGM.

(4) Miscellaneous

The EGM is expected to last for 20 minutes. Shareholders and their proxies attending the EGM shall be responsible for the transportation and accommodation expenses on their own.

As at the date of this notice, the executive Directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi; and the independent non-executive Directors of the Company are Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie.

NOTICE OF THE CLASS MEETING



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

NOTICE OF THE CLASS MEETING

NOTICE IS HEREBY GIVEN that the Class Meeting (the “**Class Meeting**”) of Harbin Electric Company Limited (the “**Company**”) will be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, PRC on Friday, 1 December 2017 at 9:20 a.m. (or immediately after the conclusion of the extraordinary general meeting (the “**EGM**”) to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 16 October 2017 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

SPECIAL RESOLUTIONS

1. THAT:

the Company be and is hereby approved to conditionally issue the Domestic Share to the Subscriber pursuant to the terms and conditions set out in the Domestic Share Subscription Agreement entered into between the Company and the Subscriber. The terms and conditions of the Domestic Share Subscription and the transaction contemplated thereunder are as follows:

(1) Type of new Domestic Shares to be issued

The shares to be issued are unlisted domestic ordinary shares, denominated in RMB, the nominal value of which is RMB1.00.

(2) Price of new Domestic Shares to be issued

- (i) The Initial Subscription Price is denominated in Hong Kong dollars, being HK\$4.56 per new Domestic Share.
- (ii) The Final Subscription Price is to be determined with reference to the Closing Price. In the event that the Closing Price is higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Closing Price subject to a maximum price of HK\$4.79 per new Domestic Share, being the Initial Subscription Price plus a premium of 5%. In the event that the Closing Price is not higher than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.

NOTICE OF THE CLASS MEETING

(3) Number of new Domestic Shares to be issued and total amount to be raised from the Domestic Share Subscription

The Subscriber has agreed to subscribe in cash for new Domestic Shares at a total subscription price of approximately RMB1.27 billion. The number of new Domestic Shares to be subscribed is to be calculated by dividing RMB1.27 billion, after being exchanged into Hong Kong dollars based on the agreed exchange rate, by the Final Subscription Price and rounded down to the nearest thousand. The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed by the Final Subscription Price.

For the purpose of calculating the number of new Domestic Shares to be subscribed and the exact total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the average middle exchange rates between Renminbi and Hong Kong dollars published by the People's Bank of China on the Reference Date and the four trading days immediately preceding.

By Order of the Board
Harbin Electric Company Limited
Si Ze-fu
Chairman

Harbin, PRC, 16 October 2017

Notes:

(1) Voting arrangements

The Subscriber will or will be required to abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription and the Specific Mandate at the EGM.

(2) Registration procedures for the Class Meeting

- i. H Shareholders of the Company shall note that pursuant to Article 44 of the Articles, the share register of the Company will be closed during the period from Wednesday, 1 November 2017 to Friday, 1 December 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the Class Meeting, all transfer documents, together with the relevant share certificates, should be lodged to the Company's H share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Tuesday, 31 October 2017. Shareholders whose names appear on the register of H shareholders of the Company on Tuesday, 31 October 2017 shall be entitled to attend the Class Meeting to vote thereat.

NOTICE OF THE CLASS MEETING

- ii. Shareholders who intend to attend the Class Meeting are required to return the reply slip to the Company on or before Saturday, 11 November 2017. Please refer to the reply slip and the instruction thereon for details.

(3) Proxy

- i. Any H Shareholders entitled to attend and to vote at the Class Meeting shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more shares may appoint more than one proxy.
- ii. To be valid, the proxy forms for the use of Shareholders and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the Class Meeting or its adjourned meetings of the Company.
- iii. Holders of H Shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's H share share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- iv. Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the Class Meeting in person. In such event, the form of proxy will be deemed to have been revoked.
- v. Shareholders or their proxies shall produce their identification documents (and form of proxy in case of proxies) when attending the Class Meeting.

(4) Miscellaneous

The Class Meeting is expected to last for 20 minutes. Shareholders and their proxies attending the Class Meeting shall be responsible for the transportation and accommodation expenses on their own.

As at the date of this notice, the executive Directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi; and the independent non-executive Directors of the Company are Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie.