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Harbin Electric Corporation Co., Ltd.
(哈爾濱電氣集團有限公司)

(A wholly state-owned company incorporated in the People's Republic of China)



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

Harbin Electric Company Limited
(哈爾濱電氣股份有限公司)

*(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1133)*

JOINT ANNOUNCEMENT

**(1) VOLUNTARY CONDITIONAL OFFER
BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF HEG
TO ACQUIRE ALL OF THE ISSUED H SHARES IN HEC**

AND

**(2) PROPOSED VOLUNTARY WITHDRAWAL
OF LISTING OF THE H SHARES OF HEC**

AND

**(3) PROPOSED MERGER BY ABSORPTION
OF HEC BY HEG**

AND

(4) RESUMPTION OF TRADING OF HEC

EXCLUSIVE FINANCIAL ADVISER TO HEG



Citigroup Global Markets Asia Limited

1. INTRODUCTION

On 24 December 2018, HEG Board and HEC Board jointly announced that the Exclusive Financial Adviser, on behalf of HEG, firmly intends to make a voluntary conditional cash offer to acquire all the issued H Shares.

The H Share Offer is subject to the fulfilment or waiver, as applicable, of a number of Conditions as set out in this joint announcement, including the approval of the voluntary withdrawal of the listing of the H Shares on the Stock Exchange by the Independent Shareholders at the H Share Class Meeting and the approval of the Merger Agreement and the Merger contemplated thereunder by the requisite votes of HEC Shareholders in the H Share Class Meeting and the Extraordinary General Meeting.

On 24 December 2018, HEG Board and HEC Board jointly announced that, HEG entered into the Merger Agreement with HEC. If the Merger is implemented and completed, HEC will be merged and absorbed by HEG in accordance with Article 172 of the PRC Company Law and other applicable PRC Laws.

The effectiveness of the Merger is subject to the fulfilment or waiver, as applicable, of a number of Merger Conditions as set out in the Merger Agreement, including the completion of the H Share Offer and the voluntary withdrawal of the listing of the H Shares on the Stock Exchange.

HEG considers that the H Share Offer and the Merger will be beneficial for HEG and its subsidiaries to optimise their corporate structure, enhance management effectiveness and promote business integration and future development of HEG and its subsidiaries.

2. CONSIDERATION FOR THE H SHARE OFFER

The H Share Offer will be made by the Exclusive Financial Adviser on behalf of HEG on the following basis:

For each H Share HK\$4.56 in cash

No increase in the H Share Offer Price

HEG will not increase the H Share Offer Price as set out above. Shareholders and potential investors of HEC should be aware that, following the making of this statement, HEG does not reserve the right to increase the H Share Offer Price.

3. INTENTION IN RELATION TO HEC

(i) *Voluntary Withdrawal of Listing of the H Shares*

Upon the H Share Offer becoming unconditional, HEC will make an application for the voluntary withdrawal of the listing of the H Shares on the Stock Exchange in accordance with Rule 6.12 and Rule 6.15 of the Listing Rules.

(ii) *Merger and Absorption of HEC*

Subject to the completion of the H Share Offer, the Delisting and fulfilment or waiver (if applicable) of other Merger Conditions, the Merger will be implemented and completed, pursuant to which, HEC will be merged and absorbed by HEG in accordance with the PRC Company Law and other applicable PRC Laws. HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions; and HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG.

4. MERGER BY ABSORPTION OF HEC

On 24 December 2018, HEG and HEC entered into the Merger Agreement, pursuant to which, HEC will be merged and absorbed into HEG in accordance with the PRC Company Law and other applicable PRC Laws. The Merger will be implemented and completed by going through the following major processes after the completion of the H Share Offer, the Delisting and the fulfilment or waiver (if applicable) of other Merger Conditions, namely (i) HEG will pay a Merger Price of HK\$4.56 per H Share (other than those owned by HEG) in cash to the then existing HEC H Shareholders as at the Merger Effective Date; and (ii) HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions.

Consequently, HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG. As a result of the Merger, the assets and liabilities (together with the rights and obligations attached to such assets), business, employees, contracts of HEC will be assumed by HEG as the surviving corporation.

Pursuant to the Merger Agreement, the payment to the HEC H Shareholders will be made within seven Business Days after the Merger Effective Date. After payment had been made to the HEC H Shareholders, the relevant rights attaching to such H Shares shall be deemed as cancelled.

The effectiveness of the Merger is conditional upon the fulfilment or waiver (if applicable) of a number of Merger Conditions, which shall be fulfilled or waived on or before 31 December 2019 (or such later date as HEG and HEC may agree), otherwise the Merger will lapse. Pursuant to the PRC Laws, the Merger Agreement will become effective upon its execution by the parties, and be legally binding on HEG and HEC.

HEC H Shareholders are reminded that, pursuant to Article 183 of HEC's Articles, any Dissenting HEC H Shareholder, who has opposed the Merger Agreement and the Merger contemplated thereunder, will have the right to request HEC or other HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire their H Shares at a "fair price". Under such circumstance, the Merger Agreement provides that HEG shall, at the request of HEC or such HEC Shareholders, assume the relevant obligations which HEC or such HEC Shareholders who have received such a request may have towards the Dissenting HEC H Shareholder(s) according to applicable PRC laws and regulations.

If a Dissenting HEC H Shareholder decides to exercise his right to request HEC or other HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire their H Shares at a "fair price", HEC/HEG will explain to such Dissenting HEC H Shareholder that the Merger Price, which was determined after taking into account the closing price of the H Shares for the last three years immediately prior to and including 17 December 2018 (being the Last Trading Day) and publicly available financial information of HEC, is fair. If the matter cannot be resolved, the Dissenting HEC H Shareholder may bring such dispute or claim arising from the determination of the "fair price" to the relevant arbitration body.

Pursuant to Articles 206 to 208 of the HEC's Articles, the "fair price" will be determined through arbitration at either the China International Economic or Trade Arbitration Commission or the Hong Kong International Arbitration Centre.

5. SHAREHOLDING IN HEC

As at the date of this joint announcement, HEG owned the entirety of 1,030,952,000 Domestic Shares, representing approximately 60.41% of the issued share capital of HEC and HEC H Shareholders were interested in 675,571,000 H Shares, representing approximately 39.59% of the issued share capital of HEC. None of HEG and the parties acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) legally or beneficially owns any H Share.

As at the date of this joint announcement, there were no outstanding options, warrants, derivatives or convertible securities issued by HEC.

6. CLOSING DATE OF THE H SHARE OFFER

The H Share Offer will initially be open for acceptances for at least 21 days from the date of the Composite Document. Once all of the Conditions have been either satisfied or waived (if applicable) by HEG, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period of at least 14 calendar days before the H Share Offer is closed in order to allow sufficient time for those HEC H Shareholders who have not initially accepted the H Share Offer to accept the H Share Offer or to process the transfer of their H Shares.

7. DESPATCH OF THE COMPOSITE DOCUMENT

The Composite Document for the H Share Offer containing, inter alia, further details of (a) the H Share Offer; (b) the expected timetable relating to the H Share Offer; (c) the Delisting; (d) the Merger Agreement; (e) the recommendation from the Independent Board Committee with respect to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder; (f) the advice of the Independent Financial Adviser to the Independent Board Committee; (g) a notice of the H Share Class Meeting to approve the Delisting, the Merger Agreement and the Merger contemplated thereunder; and (h) a notice of the Extraordinary General Meeting to approve the Merger Agreement and the Merger contemplated thereunder will be despatched to the HEC H Shareholders within 21 days from the date of this joint announcement or such later date to which the Executive may consent.

8. VOLUNTARY WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, HEC will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 and Rule 6.15 of the Listing Rules. The HEC Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the voluntary withdrawal of the listing of the H Shares on the Stock Exchange will become effective.

9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Mr. ZHU Hong-jie, Mr. YU Wen-xing, Mr. HU Jian-min and Mr. TIAN Min (each being an independent non-executive director of HEC) have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.

Pursuant to the Rule 2.1 of the Takeovers Code, HEC has appointed an independent financial adviser to advise the Independent Board Committee in respect of the H Share Offer and, in particular, as to whether the H Share Offer is fair and reasonable and as to its acceptance, whether the Delisting and the Merger are fair and reasonable and as to voting.

10. RESUMPTION OF TRADING IN THE H SHARES

At the request of HEC, trading in the H Shares on the Stock Exchange was halted from 9:00 a.m. on 18 December 2018 pending the issue of this joint announcement. Application has been made by HEC to the Stock Exchange for the resumption of trading in the H Shares with effect from 9:00 a.m. on 27 December 2018.

WARNING

The H Share Offer is conditional upon the satisfaction or (where applicable) waiver of the Conditions and the Merger is conditional upon the satisfaction or (where applicable) waiver of the Merger Conditions as described in this joint announcement in all aspects. Accordingly, the H Share Offer may or may not become unconditional and the issue of this joint announcement does not imply that the H Share Offer or the Delisting will be completed. As the Merger Conditions (in respect of the Merger) are different from the Conditions (in respect of the H Share Offer), shareholders and potential investors of HEC should be aware that even following the successful completion of the H Share Offer and the Delisting, there is no certainty that the Merger will proceed. Shareholders and/ or potential investors of HEC should therefore exercise caution when dealing in the securities of HEC (including the H Shares and any options or rights in respect of them). Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

A. INTRODUCTION

On 24 December 2018, HEG Board and HEC Board jointly announced that the Exclusive Financial Adviser, on behalf of HEG, firmly intends to make a voluntary conditional cash offer to acquire all the issued H Shares.

The H Share Offer is subject to the fulfilment or waiver, as applicable, of a number of Conditions as set out in this joint announcement, including the approval of the voluntary withdrawal of the listing of the H Shares on the Stock Exchange by the Independent Shareholders at the H Share Class Meeting and the approval of the Merger Agreement and the Merger contemplated thereunder by the requisite votes of HEC Shareholders in H Share Class Meeting and the Extraordinary General Meeting.

On 24 December 2018, HEG Board and HEC Board jointly announced that, HEG entered into the Merger Agreement with HEC. If the Merger is implemented and completed, HEC will be merged and absorbed by HEG in accordance with Article 172 of the PRC Company Law and other applicable PRC Laws.

The effectiveness of the Merger is subject to the fulfilment or waivers, as applicable, of a number of Merger Conditions as set out in the Merger Agreement, including the completion of the H Share Offer and the voluntary withdrawal of the listing of the H Shares on the Stock Exchange.

HEG considers that the H Share Offer and the Merger will be beneficial for HEG and its subsidiaries to optimise their corporate structure, enhance management effectiveness and promote business integration and future development of HEG and its subsidiaries.

B. THE H SHARE OFFER

1. Consideration for the H Share Offer

The H Share Offer will be made by the Exclusive Financial Adviser on behalf of HEG on the following basis:

For each H Share HK\$4.56 in cash

The H Share Offer Price was determined after taking into account the closing price of the H Shares for the last three years immediately prior to and including 17 December 2018 (being the Last Trading Day) and publicly available financial information of HEC.

HEG will not increase the H Share Offer Price for the H Share Offer as set out above. Shareholders and potential investors of HEC should be aware that, following the making of this statement, HEG does not reserve the right to increase the H Share Offer Price.

2. Comparisons of value

The H Share Offer Price offered under the H Share Offer represents:

- (a) a premium of approximately 82.40% over the closing price of HK\$2.50 per H Share as quoted on the Stock Exchange on 17 December 2018 (being the Last Trading Day);
- (b) a premium of approximately 80.52% over HK\$2.53 which is the average closing price per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 17 December 2018;
- (c) a premium of approximately 80.02% over HK\$2.53 which is the average closing price per H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 17 December 2018;
- (d) a premium of approximately 77.50% over HK\$2.57 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 17 December 2018;

- (e) a premium of approximately 85.64% over HK\$2.46 which is the average closing price per H Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including 17 December 2018;
- (f) a premium of approximately 84.96% over HK\$2.47 which is the average closing price per H Share as quoted on the Stock Exchange over the 180 consecutive trading days up to and including 17 December 2018; and
- (g) a discount of approximately 55.98% to the unaudited consolidated NAV of HEC of approximately RMB8.73 per H Share (equivalent to approximately HK\$10.36 per H Share based on the exchange rate of RMB1:HK\$1.1861) as at 30 June 2018.

3. Highest and lowest prices

During the 180 calendar days up to and including 17 December 2018 (being the Last Trading Day), the highest closing price of the H Shares as quoted on the Stock Exchange was HK\$2.73 on 26 November 2018, and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK\$2.20 on 11 September 2018.

4. Consideration

Based on the H Share Offer Price of HK\$4.56 per H Share and 675,571,000 H Shares in issue as at the date of this joint announcement, the maximum value of the H Share Offer (assuming the H Share Offer is accepted in full and there is no change in the share capital of HEC) is approximately HK\$3,080.60 million. The consideration will be paid in cash.

5. Settlement of consideration

Settlement of consideration in respect of acceptance of the H Share Offer will be made as soon as possible but in any event within seven Business Days of the date of receipt of a complete and valid acceptance in respect of the H Share Offer or on the Unconditional Date, whichever is later.

6. Confirmation of financial resources in respect of the H Share Offer

HEG intends to satisfy the consideration required for the H Share Offer by a combination of cash from its internal resources and a loan facility obtained by it.

Citigroup Global Markets Asia Limited, the Exclusive Financial Adviser to HEG in respect of the H Share Offer, is satisfied that sufficient financial resources are available to HEG to satisfy full acceptance of the H Share Offer.

HEG and its concert parties (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) have not dealt in the H Shares, convertible securities, warrants, options or derivatives of HEC during the six month period immediately prior to the date of this joint announcement.

7. **Conditions of the H Share Offer**

The H Share Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the passing of resolutions by way of poll approving the voluntary withdrawal of the listing of the H Shares on the Stock Exchange at the H Share Class Meeting to be convened for this purpose by the Independent Shareholders, provided that:
 - (i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent Shareholders that are cast either in person or by proxy at the H Share Class Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolutions is not more than 10% of the votes attaching to all of the H Shares held by the Independent Shareholders;
- (b) minimum valid acceptances of the H Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as HEG may, subject to the Takeovers Code, decide) amounting to at least 90% of the H Shares in issue;
- (c) the approvals or filing procedures from the PRC government and/or regulatory bodies such as SASAC, NDRC and SAFE in relation to the H Share Offer having been obtained or completed and remaining in full force and effect pursuant to the provisions of relevant laws and regulations in the PRC;
- (d) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the H Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, the H Share Offer (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG to proceed with or consummate the H Share Offer);

- (e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having imposed any additional material conditions or obligations with respect to, the H Share Offer (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG to proceed with or consummate the H Share Offer);
- (f) the business licence of HEC remaining in full force and effect ; and
- (g) the obtaining of approval of the Merger Agreement and the Merger contemplated thereunder by the requisite votes of HEC Shareholders in the H Share Class Meeting and the Extraordinary General Meeting as described under the section headed “D. Merger By Absorption of HEC By HEG — 5. Merger Conditions”.

HEG reserves the right to waive the Conditions (e) and (f) above. HEC does not have the right to waive any of the Conditions to the H Share Offer. Apart from Conditions (e) and (f) above, the other Conditions to the H Share Offer cannot be waived.

As at the date of this joint announcement, HEG has obtained/completed the approvals or filings from/with SASAC, NDRC and SAFE in relation to the H Share Offer under Condition (c) above. Save as the above, no PRC government and/or regulatory approval is required for the making of the H Share Offer by HEG. Hence, Condition (c) above has been fulfilled.

In addition, the HEC Board confirms that as at the date of this joint announcement, no third party consent in relation to the H Share Offer is required pursuant to any agreement to which any member of the HEC Group is a party.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, HEG may only invoke any or all of the Conditions set out in the section headed “Conditions of the H Share Offer” as a basis for not proceeding with the H Share Offer only if the circumstances which give rise to the right to invoke such Condition are of material significance to HEG in the context of the H Share Offer.

In addition to the Conditions set out above, the H Share Offer is made on the basis that acceptance of the H Share Offer by any person will constitute a warranty by such person or persons to HEG that the H Shares acquired under the H Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the date of this joint announcement or subsequently becoming attached to them, and including the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of this joint announcement.

Pursuant to Rule 35.3 of the Takeovers Code, securities owned by an exempt principal trader connected with HEG shall not be assented to the H Share Offer until the H Share Offer becomes or is declared unconditional as to acceptances. In addition, pursuant to Rule 35.4 of the Takeovers Code, securities owned by an exempt principal trader connected with HEG or HEC shall not be voted at the Extraordinary General Meeting and the H Share Class Meeting.

The H Share Offer will be made in compliance with the Takeovers Code, which is administered by the Executive.

8. Further terms and general matters relating to the H Share Offer

H Shares

Under the terms of the H Share Offer, the H Shares will be acquired with all rights attached thereto as at the date of this joint announcement or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of this joint announcement, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Hong Kong stamp duty

Seller's ad valorem stamp duty for the H Shares which are registered with the H Shares registrar arising in connection with acceptance of the H Share Offer will be payable by each HEC H Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by HEG for such person's H Shares and will be deducted from the cash amount due to such HEC H Shareholder under the H Share Offer. HEG will pay the buyer's ad valorem stamp duty on its own behalf.

Closing date of the H Share Offer

The H Share Offer will initially be open for acceptances for at least 21 days from the date of the Composite Document. Once all of the Conditions have been either satisfied or, waived (if applicable) by HEG, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period of at least 14 calendar days before the H Share Offer is closed in order to allow sufficient time for those HEC H Shareholders who have not initially accepted the H Share Offer to accept the H Share Offer or to process the transfer of their H Shares.

Completion of the H Share Offer

If the Conditions are not satisfied (or not waived, where applicable) on or before the Unconditional Date, the H Share Offer will lapse.

HEG and HEC will issue an announcement in relation to the extension or lapse of the H Share Offer or the fulfilment (or, if permissible, waiver) of the Conditions in accordance with the Takeovers Code and the Listing Rules. The latest time on which HEG can declare the H Share Offer unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

C. INTENTION IN RELATION TO HEC

1. Voluntary Withdrawal of Listing of the H Shares

Upon the H Share Offer becoming unconditional, HEC will make an application for the voluntary withdrawal of the listing of the H Shares on the Stock Exchange in accordance with Rule 6.12 and Rule 6.15 of the Listing Rules.

Accordingly, the Independent Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent Shareholders holding securities that are not listed on the Stock Exchange. In addition, HEC may or may not continue to be subject to the Takeovers Code after the completion of the H Share Offer depending on whether HEC remains as a public company thereafter.

Once all of the Conditions have been either satisfied or, waived (if applicable) by HEG, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period of at least 14 calendar days in order to allow sufficient time for those HEC H Shareholders who have not initially accepted the H Share Offer to accept the H Share Offer.

2. MERGER BY ABSORPTION OF HEC

Subject to the completion of the H Share Offer, the Delisting and the fulfilment or waiver (if applicable) of other Merger Conditions, the Merger will be implemented and completed, pursuant to which, HEC will be merged and absorbed into HEG in accordance with the PRC Company Law and other applicable PRC Laws. HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions; and HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG. As a

result of the Merger, the assets and liabilities (together with the rights and obligations attached to such assets), business, employees, contracts of HEC will be assumed by HEG as the surviving corporation. The further details of the Merger Agreement can be referred to in the section headed “D. Merger by Absorption HEC by HEG” below.

D. MERGER BY ABSORPTION OF HEC BY HEG

1. Merger Agreement

On 24 December 2018, HEG and HEC entered into the Merger Agreement, pursuant to which, HEC will be merged and absorbed into HEG in accordance with the PRC Company Law and other applicable PRC Laws. The Merger will be implemented and completed by going through the following major processes after the completion of the H Share Offer and the Delisting and the fulfilment or waiver (if applicable) of other Merger Conditions, namely (i) HEG will pay a Merger Price of HK\$4.56 per H Shares (other than those owned by HEG) in cash to the then existing HEC H Shareholders as at the Merger Effective Date; and (ii) HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions.

Consequently, HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG. As a result of the Merger, the assets and liabilities (together with the rights and obligations attached to such assets), business, employees, contracts of HEC will be assumed by HEG as the surviving corporation.

2. Deregistration of HEC

Pursuant to the Merger Agreement, the payment to the HEC H Shareholders will be made within seven Business Days after the Merger Effective Date. After payment had been made to the HEC H Shareholders, the relevant rights attaching to such H Shares shall be deemed as cancelled.

The effectiveness of the Merger is conditional upon the fulfilment or waiver (if applicable) of a number of Merger Conditions, which shall be fulfilled (or waived, if applicable) on or before 31 December 2019 (or such later date as HEG and HEC may agree), otherwise the Merger will lapse. Pursuant to the PRC Laws, the Merger Agreement will become effective upon its execution by the parties and be legally binding on HEC and HEG. The transactions under the

Merger Agreement will be completed upon the completion of the deregistration of HEC. HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions.

3. Right of the Dissenting HEC H Shareholders

According to Article 183 of HEC's Articles, any Dissenting HEC H Shareholder, who has opposed the Merger Agreement and the Merger contemplated thereunder, will have the right to request HEC or other HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire their H Shares at a "fair price". Under such circumstance, the Merger Agreement provides that HEG shall, at the request of HEC or such HEC Shareholders, assume the relevant obligations which HEC or such HEC Shareholders who have received such a request may have towards the Dissenting HEC H Shareholder(s) according to applicable PRC laws and regulations.

The provisions regarding the right of Dissenting HEC H Shareholder to demand HEC or the HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire its HEC H Shares at a "fair price" are contained only in the articles of association of PRC companies with shares listed on overseas market and are not otherwise stipulated in any PRC laws or regulations.

There is no administrative guidance on the substantive as well as procedural rules as to how the "fair price" will be determined under the PRC Laws. Thus, no assurance can be given as to (i) the time required for the process to take; (ii) any favourable results to be granted to the Dissenting HEC H Shareholders; and (iii) the cost may be incurred by the Dissenting HEC H Shareholders in such process for determining the "fair price".

If a Dissenting HEC H Shareholder decides to exercise his right to request HEC or other HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire their H Shares at a "fair price", HEC/HEG will explain to such Dissenting HEC H Shareholder that the Merger Price, which was determined after taking into account the closing price of the H Shares for the last three years immediately prior to and including 17 December 2018 (being the Last Trading Day) and publicly available financial information of HEC, is fair. If the matter cannot be resolved, the Dissenting HEC H Shareholder may bring such dispute or claim arising from the determination of the "fair price" to the relevant arbitration body.

Pursuant to Articles 206 to 208 of HEC's Articles, disputes or claims (including the determination of the "fair price") arise from the rights and obligations set forth in the HEC's Articles, PRC Company Law and other PRC Laws among HEC Shareholders, directors, supervisors, general manager, or senior officers of HEC should be resolved through arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Centre. Except otherwise required by the applicable laws or regulations, the applicable laws to such disputes or claims should be the laws of the PRC.

For the avoidance of doubt, if the Merger does not proceed as a result of the Merger Conditions not being fulfilled in full or waived (if applicable) or the Merger Agreement being terminated, the Dissenting HEC H Shareholders (if any) shall not be entitled to exercise their right as described above.

4. Notification to Creditors

Under the Merger Agreement, HEC and HEG agreed that once it has obtained the shareholders' approvals, it will notify its creditors of the Merger by way of notifications and announcements pursuant to the PRC legal requirements. If any creditor requests repayment of the indebtedness or requests for any guarantee in relation to such indebtedness, such request will have to be made within a statutory period. HEC or HEG (as the case may be) shall, upon request of its creditors, pay off its indebtedness or provide a satisfactory guarantee to its creditors for such indebtedness. Upon the expiry of the relevant period specified in the aforesaid announcements, such creditor's right to claim against HEG or HEC (as the case may be) with respect to such transactions contemplated under the Merger Agreement shall lapse under the PRC Laws.

5. Merger Conditions

The Merger will become effective upon the fulfilment (or waiver, as applicable) of the following Merger Conditions:

- (a) the approval of the Merger Agreement and the Merger contemplated thereunder by more than two-thirds of the votes attaching to the HEC Shares held by HEC Shareholders that are cast either in person or by proxy at the Extraordinary General Meeting having been obtained pursuant to the Articles of HEC;

- (b) the passing of resolutions by way of poll approving the Merger Agreement and the Merger contemplated thereunder at the H Share Class Meeting to be convened for this purpose by the Independent Shareholders, provided that:
 - (i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent Shareholders that are cast either in person or by proxy at the H Share Class Meeting; and
 - (ii) the number of votes cast against the resolutions is no more than 10% of the votes attaching to all H Shares held by the Independent Shareholders;
- (c) the approvals or filings from the PRC authorities, Hong Kong or other government and regulatory agencies, as applicable, in relation to the Merger have been obtained and remaining in full force and effect, including but not limited to the approvals or filings of SASAC, NDRC and SAFE;
- (d) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Merger void, unenforceable or illegal, or restrict or prohibit the implementation of the Merger (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG or HEC to proceed with or consummate the Merger);
- (e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having imposed any additional material conditions or obligations with respect to, the Merger (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG or HEC to proceed with or consummate the Merger); and
- (f) the completion of the H Share Offer, and HEC has submitted the Delisting application to the Stock Exchange and such Delisting has become effective pursuant to the Listing Rules.

HEG reserves the right to waive the Merger Condition (e) above. HEC does not have the right to waive any of the Merger Conditions to the Merger. Apart from Condition (e) above, the other Merger Conditions to the Merger cannot be waived.

The Merger Agreement will become effective upon its execution by the parties, and the parties thereof will be bound by the Merger Agreement and are obligated to perform obligations under the Merger Agreement.

The approvals or filings from/with SASAC, NDRC and SAFE under the Merger Condition (c) have been obtained and/or completed as at the date of this joint announcement. The other Merger Conditions shall be fulfilled or waived on or before 31 December 2019 (or such later date as HEG and HEC may agree), otherwise the Merger will lapse.

The Merger will be implemented under the Merger Agreement upon the fulfilment or waiver (as applicable) of the following conditions on or before 31 December 2019 (or such later date as HEG and HEC may agree). Any part or all of the following conditions may be partially or fully waived to the extent permitted by the relevant laws:

- (a) as at the Merger Effective Date, representations and warranties made by HEG and HEC shall not contain mistakes or omissions which will have a material adverse effect to the Merger; and
- (b) as at the Merger Effective Date, HEG and HEC shall have been complied in all material respects with their respective representations and warranties made under the Merger Agreement, and to the extent that there is failure to comply, such non-compliance does not cause a material impact on the Merger.

HEG intends to satisfy the consideration required for the Merger by cash from its internal resources and a loan facility obtained by it. HEG undertakes that such internal resources and loan facility obtained by it shall be used for the purposes of the Merger, and guarantees that such amount shall not be subject to any third party claim.

E. INFORMATION AND PRINCIPAL BUSINESS OF HEC

HEC was incorporated as a joint stock company with limited liability by way of promotion method in accordance with the PRC Company Law on 29 September 1994, and was registered with the Harbin Municipality Administration of Industry and Commerce Bureau and has obtained a business license on 6 October 1994. HEC became listed on the Main Board of the Stock Exchange on 16 December 1994. HEC is one of the largest manufacturers of power-generating equipment in the PRC, and is principally engaged in 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.

Shareholding in HEC

As at the date of this joint announcement, HEC had 1,706,523,000 HEC Shares in issue, with 1,030,952,000 Domestic Shares and 675,571,000 H Shares. HEG owned the entirety of 1,030,952,000 Domestic Shares, representing approximately 60.41% of the issued share capital of HEC, and HEC H Shareholders were interested in 675,571,000 H Shares, representing approximately 39.59% of the issued share capital of HEC. None of HEG or the parties acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) legally or beneficially owns any H Share. The rights of the holders of Domestic Shares and H Shares rank pari passu to each other, including voting rights and the right to receive dividend payment, except that payment of dividend will be made in RMB to the holders of the Domestic Shares and in Hong Kong dollars to HEC H Shareholders. As at the date of this joint announcement, there were no outstanding options, warrants, derivatives or convertible securities issued by HEC.

The table below sets out the shareholding structure of HEC as at the date of this joint announcement and immediately after the completion of the H Share Offer (assuming that the H Share Offer is fully accepted by the HEC H Shareholders):

	As at the date of this joint announcement		Immediately after the completion of the H Share Offer (assuming the H Share Offer is fully accepted by HEC H Shareholders)	
	Number of Shares	Percentage over the entire issued share capital of HEC (%)	Number of Shares	Percentage over the entire issued share capital of HEC (%)
Domestic Shares/H Shares held by HEG	1,030,952,000 Domestic Shares	60.41%	1,030,952,000 Domestic Shares and 675,571,000 H Shares	100.00%
Independent Shareholders	675,571,000	39.59%	—	—
Total share capital of HEC	1,706,523,000	100.00%	1,706,523,000	100.00%

Other arrangement

As at the date of this joint announcement:

- (1) save for the existing direct and indirect shareholder of HEG in HEC as set out in the paragraph headed “Shareholding in HEC”, neither HEG nor parties acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) owned or had control or direction over any voting rights or rights over the shares, options, derivatives, warrants, other securities convertible into shares, or other relevant securities of HEC (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (2) neither HEG nor parties acting in concert with it had received any irrevocable voting commitment in respect of the H Share Class Meeting and/or any irrevocable commitment to tender into the H Share Offer from any Independent Shareholder;
- (3) there are no convertible securities, warrants or options in respect of HEC Shares held, controlled or directed by HEG or parties acting in concert with it;
- (4) neither HEG nor parties acting in concert with it has entered into any outstanding derivative in respect of HEC Shares;
- (5) save for the proposal made by the Exclusive Financial Adviser on behalf of HEG in relation to the H Share Offer, there was no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and HEG or any person acting in concert with it in relation to shares of HEG or HEC which might be material to the H Share Offer and the Merger;
- (6) there was no agreement or arrangement to which HEG is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the H Share Offer and the Merger; and
- (7) neither HEG nor parties acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC.

There have been no dealings in the HEC Shares, options, derivatives, warrants, other securities convertible into HEC Shares, or other relevant securities (as

defined in Note 4 to Rule 22 of the Takeovers Code) by HEG and parties who are acting in concert with HEG (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) during the six months prior to the date of this joint announcement.

F. INFORMATION AND PRINCIPAL BUSINESS OF HEG

HEG is a wholly state-owned company established on 6 October 1994, under the PRC Laws with approval from SASAC. HEG is the controlling shareholder of HEC, 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.

G. REASONS FOR AND BENEFITS ON THE H SHARE OFFER, THE DELISTING AND THE MERGER

Despite the continued growth of energy demand nationally and globally, the operating environment for power-generating equipment manufacturing and construction companies has become increasingly challenging, due to a combination of fierce market competition and an increasing focus on clean and renewable forms of generation at the expense of thermal generation. In PRC, the share of total generation capacity additions by thermal power continues to decline, while hydropower has maintained moderate growth and other forms of mainstream renewable generation such as wind power and solar power are expected to continue to gain market share. HEC, being primarily engaged in the manufacturing of thermal power and hydropower main equipment, has therefore faced increasing pressure over its sales and profitability in the prevailing market environment. For the six months ended 30 June 2018, HEC recorded an operating revenue of RMB12,731.94 million, representing a decrease of 24.12% as compared with the same period in 2017 and a net profit attributable to Shareholders of RMB30.77 million, representing a decrease of 75.30% as compared with the same period in 2017. For the year ended 31 December 2017, HEC recorded operating revenue was RMB31,540.32 million, representing a slight increase of 1.98% as compared with the same period in 2016 and net profit attributable to the Shareholders was RMB194.23 million, representing a decrease of 53.00% over the same period in 2016.

The H Share Offer, the Delisting and the Merger, if successful, will reduce the costs through the simplification of the corporate structure and dispensation of costs associated with compliance and maintaining the listing status of HEC. The

Merger of HEC by HEG, if successful, can fully integrate the underlying assets and liabilities of HEC by HEG, so as to optimise their corporate structure, enhance management effectiveness, and promote business integration and future development of HEG and its subsidiaries.

HEG also believes that the H Share Offer, the Delisting and the Merger provide a compelling opportunity for Independent Shareholders to dispose of their H Shares, for the following reasons:

- (a) **Attractive premium:** the H Share Offer Price of HK\$4.56 per share represents a premium of approximately 82.40% over the closing price on 17 December 2018, being the Last Trading Day. The H Share Offer Price also represents a premium of approximately 77.50% and 85.64% over the average closing price of approximately HK\$2.57 and approximately HK\$2.46 per H Share on the Stock Exchange for 30 and 60 consecutive trading days up to and including 17 December 2018. In addition, the Offer Price commands a premium of approximately 67.03% over the highest closing price during the 180 calendar days period preceding and including 17 December 2018, being the Last Trading Day while it represents a discount of approximately 55.98% to the unaudited consolidated NAV of HEC as at 30 June 2018. Please refer to the sub-section headed “B. The H Share Offer -2. Comparisons of value” for further details.
- (b) **Certain and immediate value for the H Shares with limited liquidity:** the H Share Offer provides an attractive opportunity for the HEC H Shareholders to dispose of their H Shares expeditiously and receive cash at a price significantly above the prevailing market price, particularly in light of the persistent and significant underperformance of the share price for the past three years. Given the limited liquidity of the H Shares, not only it will limit or even eliminate HEC’s ability to raise funds in the equity capital markets for future development and growth, it is also extremely challenging for the HEC H Shareholders to monetize their H Shares in the stock market without adversely affecting the market price of the H Shares. The H Share Offer also offers the HEC H Shareholders an opportunity, if they so wish, to realise their investments in HEC and invest the monies received in alternative investments with higher liquidity.
- (c) **Avoid holding unlisted shares:** assuming the H Share Offer becomes unconditional, HEC will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. If the H Shares are delisted from the Stock Exchange, the H Shares will become securities that are not listed or quoted on any stock exchange and the liquidity of the H Shares may be severely reduced.

I. MEETINGS AND DESPATCH OF THE COMPOSITE DOCUMENT

The H Share Class Meeting will be convened for the purpose of passing resolutions by way of poll to approve the voluntary withdrawal of the listing of the H Shares from the Stock Exchange by the Independent Shareholders, and such approval must be given by at least 75% of the votes attaching to the H Shares held by the Independent Shareholders that are cast either in person or by proxy at the H Share Class Meeting; and the number of votes cast (by way of poll) against the resolutions should not be more than 10% of the votes attaching to all of the H Shares held by the Independent Shareholders.

In addition, pursuant to the Articles of HEC, the Extraordinary General Meeting will be convened for the purpose of passing resolutions by way of poll to approve the Merger Agreement and the Merger contemplated thereunder, and such approval must be given by more than two-thirds of the votes attaching to the HEC Shares held by HEC Shareholders that are cast either in person or by proxy at the Extraordinary General Meeting.

Furthermore, Rule 2.10 of the Takeovers Code is applicable to the Merger. Pursuant to Rule 2.10 of the Takeovers Code, approval of the Merger Agreement and the Merger contemplated thereunder must be given by at least 75% of the votes attaching to H Shares held by the Independent Shareholders that are cast either in person or by proxy in the H Share Class Meeting, and the number of votes cast against the resolutions in relation to the Merger Agreement and the Merger contemplated thereunder shall be no more than 10% of the votes attaching to all H Shares held by the Independent Shareholders in the H Share Class Meeting.

In addition, pursuant to Rule 35.4 of the Takeovers Code, securities owned by an exempt principal trader connected with HEG or HEC shall not be voted at the Extraordinary General Meeting and the H Share Class Meeting.

Notices of the H Share Class Meeting and the Extraordinary General Meeting will be sent to the HEC H Shareholders together with the Composite Document.

The Composite Document for the H Share Offer containing, inter alia, further details of (a) the H Share Offer; (b) the expected timetable relating to the H Share Offer; (c) the Delisting; (d) the Merger Agreement; (e) the recommendation from the Independent Board Committee with respect to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder; (f) the advice of the Independent Financial Adviser to the Independent Board Committee; (g) a notice of the H Share Class Meeting to approve the Delisting, the Merger Agreement and the Merger contemplated

thereunder; and (h) a notice of the Extraordinary General Meeting to approve the Merger Agreement and the Merger contemplated thereunder will be despatched to the HEC H Shareholders within 21 days from the date of this joint announcement or such later date to which the Executive may consent.

J. OVERSEAS HEC SHAREHOLDERS

The making of the H Share Offer to the Overseas HEC H Shareholders may be subject to the laws of the relevant jurisdictions. Overseas HEC H Shareholders should observe any applicable legal or regulatory requirements. It is the responsibility of the Overseas HEC H Shareholders wishing to accept the H Share Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. HEC will make necessary enquiries to determine whether or not it would be unduly burdensome to send the Composite Document to any of the Overseas HEC Shareholders. HEC/HEG will apply for a waiver from the Executive (if applicable) pursuant to Note 3 to Rule 8 of the Takeovers Code from the requirement to send the Composite Document to such Overseas HEC Shareholders. The Executive may or may not grant such a waiver.

Based on the register of members of HEC as at 3 December 2018, none of the HEC H Shareholders registered as a shareholder on the register of members of HEC is an Overseas HEC H Shareholder.

K. NOTICE TO H SHAREHOLDERS IN THE UNITED STATES

The H Share Offer is subject to Hong Kong disclosure and procedural requirements, including with respect to offer timetable, settlement procedures, timing of payments and withdrawal rights, which are different from those applicable to tender offers carried out in the United States. Persons in the United States are urged, before accepting the H Share Offer, to consult their own professional advisers regarding the tax consequences of acceptance of the H Share Offer, whether in relation to United States federal income tax or taxes under applicable state and local tax laws, or foreign tax laws.

HEC is incorporated under the laws of the PRC. It may be difficult for the HEC H Shareholders in the United States (if any) to enforce their rights and claims arising out of United States federal securities laws, since HEC is located in a country other than the United States, some or all of its officers and directors may be residents of a country other than the United States and the assets of the

Company may be located outside the United States. The HEC H Shareholders in the United States (if any) may not be able to sue a non-United States company or its officers or directors in a non-United States court for violations of United States securities laws. It may be difficult for such HEC H Shareholders to effect service of process within the United States upon HEC or its officers or directors or to enforce against them any judgment of a United States court predicated upon the federal or state securities laws of the United States. In particular, the HEC H Shareholders in the United States (if any) should note that HEG reserves the right or through affiliates or nominees or its brokers acting as agents from time to time making purchases of, or arrangements to purchase H Shares outside of the United States whether in open market or by private transaction during the offer period of the H Share Offer other than pursuant to the H Share Offer to the extent permitted by and in accordance with the requirements of the Takeovers Code. Information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and will be available on the website of the SFC at <http://www.sfc.hk/>.

L. VOLUNTARY WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, HEC will make an application for the voluntary withdrawal of the listing of the H Shares on the Stock Exchange in accordance with Rule 6.12 and Rule 6.15 of the Listing Rules. The HEC Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the voluntary withdrawal of the listing of the H Shares on the Stock Exchange will become effective.

M. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Mr. ZHU Hong-jie, Mr. YU Wen-xing, Mr. HU Jian-min and Mr. TIAN Min (each being an independent non-executive director of HEC) have been appointed as members of the Independent Board Committee in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder. The Independent Board Committee has appointed the Independent Financial Adviser to advise the Independent Board Committee in connection with the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.

Pursuant to the Rule 2.1 of the Takeovers Code, HEC has appointed an independent financial adviser to advise the Independent Board Committee in respect of the H Share Offer and, in particular, as to whether the H Share Offer is fair and reasonable and as to its acceptance, whether the Delisting and the Merger are fair and reasonable and as to voting.

N. GENERAL

There have been no dealings in the H Shares by HEG and parties who are acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code), during the six months prior to the date of this joint announcement. Save for the 1,030,952,000 Domestic Shares owned by HEG, neither HEG nor any parties acting in concert with it (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) have any holdings in the HEC Shares.

O. RESPONSIBILITIES OF STOCKBROKERS, BANKS AND OTHER INTERMEDIARIES

In accordance with Rule 3.8 of the Takeovers Code, associates (having the meaning given to it under the Takeovers Code, including persons holding 5% or more of a class of relevant securities of HEC) of HEG and HEC are hereby reminded to disclose their dealings in any shares in HEC pursuant to the requirements of the Takeovers Code.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of an offeror or the offeree company and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

P. RESUMPTION OF TRADING OF H SHARES

At the request of HEC, trading in the H Shares on the Stock Exchange was halted from 9:00 a.m. on 18 December 2018 pending the issue of this joint announcement. Application has been made by HEC to the Stock Exchange for the resumption of trading in the H Shares with effect from 9:00 a.m. on 27 December 2018.

WARNING

The H Share Offer is conditional upon the satisfaction or (where applicable) waiver of the Conditions and the Merger is conditional upon the satisfaction or (where applicable) waiver of the Merger Conditions as described in this joint announcement in all aspects. Accordingly, the H Share Offer may or may not become unconditional and the issue of this joint announcement does not imply that the H Share Offer or the Delisting will be completed. As the Merger Conditions (in respect of the Merger) are different from the Conditions (in respect of the H Share Offer), shareholders and potential investors of HEC should be aware that even following the successful completion of the H Share Offer and the Delisting, there is no certainty that the Merger will proceed. Shareholders and/ or potential investors of HEC should therefore exercise caution when dealing in the securities of HEC (including the H Shares and any options or rights in respect of them). Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

In this joint announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“acting in concert”	has the meaning given to it in the Takeovers Code, and “parties acting in concert” shall be construed accordingly
“Articles”	the existing articles of association of a company
“associates”	has the meaning given to it in the Takeovers Code
“Business Day”	a day on which the Stock Exchange is open for the transaction of business

“Closing Date”	the date to be stated in the Composite Document as the first closing date of the H Share Offer or any subsequent closing date as may be announced by HEG and in compliance with the Takeovers Code
“Composite Document”	the composite document to be issued jointly by HEG and HEC to the HEC Shareholders in accordance with the Takeovers Code and the Listing Rules
“Conditions”	the conditions of the H Share Offer, as set out under the section headed “Conditions of the H Share Offer” of this joint announcement and “Condition” means any of them
“Delisting”	the voluntary withdrawal of the listing of the H Shares on the Stock Exchange
“Dissenting HEC H Shareholder(s)”	any HEC H Shareholder, who has opposed the Merger Agreement and the Merger as contemplated thereunder and requested HEC and/or other HEC Shareholders who have voted for the Merger Agreement and the Merger as contemplated thereunder to purchase their H Shares pursuant to Article 183 of HEC’s Articles
“Domestic Share(s)”	ordinary unlisted domestic shares with a nominal value of RMB1.00 each in the issued share capital of HEC
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Exclusive Financial Adviser”	Citigroup Global Markets Asia Limited, a company incorporated in Hong Kong with limited liability and licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the exclusive financial adviser to HEG

“Extraordinary General Meeting”	the extraordinary general meeting of the HEC Shareholders proposed to be convened and held in respect of the approval of the Merger Agreement and the Merger as contemplated thereunder
“HEC”	Harbin Electric Company Limited (哈爾濱電氣股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange
“HEC Board”	the board of directors of HEC
“HEC Group”	HEC and its subsidiaries
“HEC H Shareholder(s)”	registered holder(s) of H Shares, and, after Delisting, the registered holder(s) of the then H Shares after the Delisting (as the case may be)
“HEC Shareholders”	the HEC H Shareholders and HEG
“HEC Shares”	Domestic Shares, H Shares and such H Shares after the Delisting becomes effective (as the case may be) in the issued share capital of HEC
“HEG”	Harbin Electric Corporation Co., Ltd. (哈爾濱電氣集團有限公司), a wholly state-owned company incorporated in the PRC under the PRC Laws
“HEG Board”	the board of directors of HEG
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the issued share capital of HEC which are listed on the Main Board of the Stock Exchange
“H Share Class Meeting”	the extraordinary general meeting of the HEC H Shareholders to be convened, and any adjournment thereof for the purpose of approving the Delisting and the Merger Agreement and the Merger contemplated thereunder

“H Share Offer”	the voluntary conditional offer to be made by the Exclusive Financial Adviser on behalf of HEG to acquire all of the H Shares
“H Share Offer Price”	the cash offer price of the H Share Offer, being HK\$4.56 per H Share
“Independent Board Committee”	the independent committee of the HEC Board comprising all of the independent non-executive directors of HEC, being Mr. YU Wen-xing, Mr. ZHU Hong-jie, Mr. HU Jian-min and Mr. TIAN Min, which is formed to advise Independent Shareholders in relation to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder
“Independent Financial Adviser”	Somerley Capital Limited, the independent financial adviser to the Independent Board Committee retained by HEC to advise the Independent Board Committee in connection with the H Share Offer pursuant to Rule 2.1 of the Takeovers Code, the Delisting and the Merger Agreement and the Merger contemplated thereunder, which is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 Laws of Hong Kong)
“Independent Shareholders”	the HEC H Shareholders (excluding HEC H Shareholders who are exempt principal traders connected with HEG or HEC, if any)
“Last Trading Day”	17 December 2018, being the last full trading day in the H Shares immediately before the trading in the H Shares was halted pending publication of this joint announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Merger Agreement”	the agreement entered into between HEG and HEC on 24 December 2018 in relation to the Merger
“Merger Effective Date”	the date of which all the Merger Conditions are fulfilled or waived (if applicable)

“Merger”	the proposed Merger by absorption of HEC by HEG pursuant to the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement
“Merger Conditions”	the conditions in the Merger Agreement as set out in the section headed “Merger Conditions” in this joint announcement, subject to which the Merger will become effective
“Merger Price”	the Merger Price of HK\$4.56 per H Share (which is equivalent to the H Share Offer Price) payable in cash by HEG to the then existing HEC H Shareholders as at the Merger Effective Date
“NAV”	the unaudited consolidated net asset value of HEC as set out in the published interim financial statements of HEC for the six months ended 30 June 2018
“NDRC”	National Development and Reform Commission of the PRC
“Overseas HEC H Shareholders”	HEC H Shareholders who are not residents in Hong Kong
“PRC”	the People’s Republic of China, excluding for the purposes of this joint announcement, Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the PRC as amended, supplemented or otherwise modified from time to time
“PRC Laws”	any and all laws, regulations, statutes, rules, decrees, notices, and supreme court’s judicial interpretations as may be in force and publicly available in the PRC from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange Heilongjiang Branch
“SASAC”	Stated-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Merger published by the SFC
“Unconditional Date”	the date on which the H Share Offer becomes or is declared unconditional in all respects, which being the date of the H Share Class Meeting and the Extraordinary General Meeting

On behalf of the board of
Harbin Electric Corporation Co., Ltd.
 (哈爾濱電氣集團有限公司)

On behalf of the board of
Harbin Electric Company Limited
 (哈爾濱電氣股份有限公司)

Si Ze-fu
Chairman

Zhang Ying-jian
Executive Director

Harbin, the PRC, 24 December 2018

As at the date of this joint announcement, the HEG Board comprises: Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Chi Ming.

The directors of HEG jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than that relating to HEC) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than that expressed by the HEC Board) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

As at the date hereof, the HEC Board comprises: Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi as the executive directors; and Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min as the independent non-executive directors.

The directors of HEC jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than that relating to HEG) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than that expressed by the HEG Board) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.