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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the H Share Offer, the Delisting and the Merger, this Composite Document or the accompanying Form of Acceptance 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 shares in HEC, you should at once hand this Composite Document and the accompanying Form of Acceptance, forms of proxy and reply slips to the purchaser or transferee or to the 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 Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.

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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)*

### COMPOSITE DOCUMENT

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

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

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

**(4) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

**AND**

**(5) NOTICE OF THE H SHARE CLASS MEETING**

**EXCLUSIVE FINANCIAL ADVISER TO HEG**



**Citigroup Global Markets Asia Limited**

**INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE**



**SOMERLEY CAPITAL LIMITED**

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Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

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## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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This Composite Document is jointly issued by HEC and HEG to the HEC H Shareholders. A letter from the Exclusive Financial Adviser containing, among other things, the terms of the H Share Offer and the Merger Agreement is set out on pages 6 to 16 of this Composite Document. A letter from the HEC Board is set out on pages 17 to 24 of this Composite Document. A summary of the H Share Offer and the Merger is set out on pages I-1 to II-13 of this Composite Document. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in relation to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder is set out on pages 25 to 26 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder is set out on pages 27 to 59 of this Composite Document.

The procedures for acceptance and settlement of the H Share Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the H Share Offer should be received by the Registrar, Hong Kong Registrars Limited at Shops 1712 - 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00p.m. on Monday, 20 May 2019, being the Closing Date, or such later date and time as HEG may decide and announce and the Executive may approve.

The summary of the terms and important information of the Merger Agreement is set out in Appendix II to this Composite Document.

The H Share Class Meeting convened to approve the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, the Merger Agreement and the Merger contemplated thereunder will be held at 10:00 a.m. on Tuesday, 7 May 2019 and the Extraordinary General Meeting convened to approve the Merger Agreement and the Merger contemplated thereunder will be held at 9:30 a.m. on Tuesday, 7 May 2019.

A notice of the Extraordinary General Meeting is set out in Appendix V to this Composite Document and a notice of the H Share Class Meeting is set out in Appendix VI to this Composite Document. A proxy form for each of the Extraordinary General Meeting and the H Share Class Meeting is enclosed with this Composite Document.

Whether or not you are able to attend the Extraordinary General Meeting and/or the H Share Class Meeting or any adjournment thereof in person, you are requested to complete and return the enclosed proxy forms in accordance with the instructions printed thereon to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than twenty-four (24) hours before the time appointed for the Extraordinary General Meeting and the H Share Class Meeting.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting and the H Share Class Meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the Extraordinary General Meeting and the H Share Class Meeting or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

A reply slip for each of the Extraordinary General Meeting and the H Share Class Meeting is also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the Extraordinary General Meeting and/or the H Share Class Meeting) and return the signed reply slips to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before Wednesday, 17 April 2019 in accordance with the instructions printed thereon.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form of Acceptance to any jurisdiction outside of Hong Kong should read the section headed "8. Overseas HEC H Shareholders" in Appendix I to this Composite Document before taking any action. It is the responsibility of each Overseas HEC H Shareholder wishing to accept the H Share Offer to satisfy himself, herself or itself as to full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas HEC H Shareholders are advised to seek professional advice on deciding whether to accept the H Share Offer.

20 March 2019

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by HEC and HEG by way of announcement(s) as soon as possible. Unless otherwise expressly stated, all references to dates and times contained in this Composite Document refer to Hong Kong dates and times.*

Despatch date of this Composite Document and  
commencement of the H Share Offer (*Note 1*) . . . . . Wednesday, 20 March 2019

Latest time for lodging transfers of the H Shares in order to  
be entitled to attend and vote at the Annual General  
Meeting, Extraordinary General Meeting and/or  
the H Share Class Meeting . . . . . 4:30 p.m. on Thursday, 4 April 2019

Closure of the Registers for the determination of entitlements  
of the HEC Shareholders to attend and vote at the Annual  
General Meeting, the Extraordinary General Meeting and/or  
the H Share Class Meeting (*Note 2*) . . . . . Friday, 5 April 2019 to Tuesday, 7 May 2019  
(both dates inclusive)

Last Day for return of reply slip for the Annual General  
Meeting, the Extraordinary General Meeting and/or the H  
Share Class Meeting (*Note 3*) . . . . . Wednesday, 17 April 2019

Latest time for lodging proxy form(s) in respect  
of the Annual General Meeting . . . . . 9:00 a.m. on Monday, 6 May 2019

Latest time for lodging proxy form(s) in respect of the  
Extraordinary General Meeting (*Note 3*) . . . . . 9:30 a.m. on Monday, 6 May 2019

Latest time for lodging proxy form(s) in respect of the H  
Share Class Meeting (*Note 3*) . . . . . 10:00 a.m. on Monday, 6 May 2019

Annual General Meeting . . . . . 9:00 a.m. on Tuesday, 7 May 2019

Extraordinary General Meeting . . . . . 9:30 a.m. on Tuesday, 7 May 2019  
or immediately after the conclusion or adjournment of the  
Annual General Meeting

H Share Class Meeting . . . . . 10:00 a.m. on, Tuesday, 7 May 2019  
or immediately after the conclusion or adjournment of the  
Extraordinary General Meeting

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## EXPECTED TIMETABLE

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Announcement of the results of the Annual General Meeting, the Extraordinary General Meeting and the H Share Class Meeting .....	Tuesday, 7 May 2019
Re-opening of the Registers .....	Wednesday, 8 May 2019
Each of HEC and HEG notifies their respective creditors of the Merger, assuming the Merger is approved.....	Tuesday, 14 May 2019
Latest time for acceptance of the H Share Offer on the Closing Date ( <i>Note 4</i> ) .....	4:00 p.m. on Monday, 20 May 2019
Closing Date ( <i>Note 5</i> ) .....	Monday, 20 May 2019
Announcement of the results of the H Share Offer on the Closing Date ( <i>Note 6</i> ) .....	by 7:00 p.m. on Monday, 20 May 2019
Latest time for the H Share Offer to become or be declared unconditional as to acceptances (if not already unconditional) ( <i>Note 7</i> ) .....	7:00 p.m. on Monday, 20 May 2019
Last day of trading in the H Shares on the Stock Exchange, assuming the Delisting is approved.....	Monday, 27 May 2019
Latest date for posting of remittances for the amounts due under the H Share Offer in respect of valid acceptances received at or before the latest time for acceptance of the H Share Offer on Monday, 20 May 2019, being the Closing Date (assuming the H Share Offer becomes or is declared unconditional in all respects on the Closing Date) ( <i>Note 8</i> ) .....	Wednesday, 29 May 2019
Latest time and date for the H Share Offer remaining open for acceptance (assuming the H Share Offer becomes or is declared unconditional in all respects on Monday, 20 May 2019, being the Closing Date) and closing of the H Share Offer ( <i>Note 9</i> ) .....	4:00 p.m. on Monday, 17 June 2019
Announcement of the results of the H Share Offer as at the final Closing Date .....	by 7:00 p.m. on Monday, 17 June 2019
Latest time for lodging transfers of the H Shares in order to qualify for the Merger Price ( <i>Note 11</i> ) .....	4:30 p.m. on Tuesday, 18 June 2019
Closure of Registers for the determination of entitlements of the HEC H Shareholders to receive the Merger Price .....	from Wednesday, 19 June 2019 onwards

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## EXPECTED TIMETABLE

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Voluntary withdrawal of the listing of the H Shares  
from the Stock Exchange (*Note 10*) . . . . . 9:00 a.m. on Wednesday, 19 June 2019

Latest date for posting of remittances for the amounts due  
under the H Share Offer in respect of valid acceptances  
received at or before the latest time for acceptance of the H  
Share Offer on Monday, 17 June 2019 (being the latest date  
which the H Share Offer remains open for acceptance  
assuming the H Share Offer becomes or is declared  
unconditional in all respects on the Closing Date) (*Note 8*) . . . . . Wednesday, 26 June 2019

End of the period during which creditors may request HEC  
and HEG to pay off their respective indebtedness . . . . . Friday, 28 June 2019

Expected date for all Merger Conditions to be fulfilled (or  
waived, as applicable) and the Merger Effective Date  
(*Note 11*) . . . . . on or before Tuesday, 31 December 2019

Latest date for posting of remittances for the amounts due  
under the Merger Agreement to the existing HEC H  
Shareholders as at the Merger Effective Date . . . . . within seven Business Days of the  
Merger Effective Date

*Notes:*

1. The H Share Offer is made on Wednesday, 20 March 2019, being the date of posting of this Composite Document, and is capable of acceptance from and on that date.
2. Reference is made to the announcement of HEC dated 18 March 2019 in relation to, among others, the change of book closure period and postponement of the Annual General Meeting. As disclosed therein, the book closure period has been rescheduled and will not commence from Saturday, 23 March 2019. For the avoidance of doubt, the Registers will remain open during the period from Saturday, 23 March 2019 to Thursday, 4 April 2019 (both days inclusive).
3. Reply slip(s) should be duly completed and returned to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before Wednesday, 17 April 2019 in accordance with the instructions printed thereon. Failure to return the reply slip(s) will not affect a HEC Shareholder's right to attend the Extraordinary General Meeting and/or the H Share Class Meeting (as applicable). Proxy form(s) should be duly completed and returned to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than twenty-four (24) hours before the time appointed for the Extraordinary General Meeting and the H Share Class Meeting, or any adjournment thereof, and return of the proxy form(s) will not preclude a HEC Shareholder from attending and voting in person at the Extraordinary General Meeting, or the H Share Class

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## EXPECTED TIMETABLE

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Meeting, or any adjournment thereof, should they so wish. In the event that a HEC Shareholder attends and votes at the Extraordinary General Meeting and/or the H Share Class Meeting (as applicable) after having deposited the relevant proxy form, that proxy form will be deemed to have been revoked.

4. In order to accept the H Share Offer, the HEC H Shareholders are required to submit the duly completed Form of Acceptance to the Registrar on or before 4:00 p.m. on Monday, 20 May 2019, being the Closing Date, unless HEG extends the H Share Offer in accordance with the Takeovers Code. In compliance with the note to Rule 2.2 and Rule 15.3 of the Takeovers Code, where a conditional offer becomes or is declared unconditional in all respects, it should remain open for acceptance for not less than 28 days thereafter. Beneficial owners of H Shares who hold their H Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures. Please refer to Appendix I to this Composite Document for additional information on how to accept the H Share Offer.
5. HEG reserves the right to extend the H Share Offer. If HEG decides to extend the H Share Offer, an announcement will be made specifying the next Closing Date or stating that the H Share Offer will remain open until further notice, in which case at least 14 days' notice in writing will be given to those HEC H Shareholders who have not yet accepted the H Share Offer before the final Closing Date.
6. The announcement of the results of the H Share Offer will be jointly issued by HEG and HEC and posted on the Stock Exchange's website by 7:00 p.m. on the first Closing Date and the final Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 of the Takeovers Code and will include, among other things, the results of the H Share Offer.
7. HEG may further apply to extend the Closing Date beyond Monday, 20 May 2019 pursuant to Rule 15.5 of the Takeovers Code. The Executive may or may not grant such consent.
8. Remittances in respect of the H Shares tendered for acceptance and taken up by HEG under the H Share Offer (after, if applicable, deducting the seller's ad valorem stamp duty arising therefrom and, if applicable, the fees payable to the Registrar in respect of lost or unavailable H Share certificates) will be posted to the HEC H Shareholders by ordinary post at their own risk as soon as possible, but in any event within seven business days (as defined in the Takeovers Code) following the later of (i) the Unconditional Date and (ii) the date of receipt of a duly completed Form of Acceptance by the Registrar in respect of the H Share Offer.
9. In compliance with the note to Rule 2.2 and Rule 15.3 of the Takeovers Code, where the H Share Offer becomes or is declared unconditional in all respects, it should remain open for acceptance for not less than 28 days thereafter. At least 14 days' notice in writing must be given before the H Share Offer is closed to the Independent Shareholders who have not accepted the H Share Offer if the announcement to extend the H Share Offer does not state the next closing date. HEG reserves the right to extend the H Share Offer beyond this 28-day period.

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## **EXPECTED TIMETABLE**

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10. It is expected that the voluntary withdrawal of listing of the H Shares from the Stock Exchange would happen at 9:00a.m. on Wednesday, 19 June 2019, subject to the satisfaction of any conditions for the Delisting from the Stock Exchange, and receipt of any regulatory approvals required for such Delisting.
  
11. HEC H Shareholders whose names appear on the Registers on the Merger Effective Date shall be entitled to receive the Merger Price under the Merger Agreement. In order to be qualified for receiving the Merger Price under the Merger Agreement, all registration of transfer of HEC Shares shall be recorded on the Registers not later than 4:30 p.m. on Tuesday, 18 June 2019.



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## IMPORTANT NOTICES

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### 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.

The financial information of HEC has been extracted from the audited financial statements of the HEC Group for the three years ended 31 December 2018, which have been prepared in accordance with the China Accounting Standards, which may not be wholly comparable to financial information of United States companies or companies whose financial statements are solely prepared in accordance with generally accepted accounting principles in the United States.

HEC is incorporated under the laws of the PRC. It may be difficult for 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 HEC 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 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/>.

### NOTICE TO 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 and regulations 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/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 this Composite Document to such Overseas HEC Shareholders. The Executive may or may not grant such a waiver.

Based on the Registers as at the Latest Practicable Date, none of the HEC H Shareholders registered as a shareholder on the Registers is an Overseas HEC H Shareholder.

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## DEFINITIONS

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*In this Composite Document, 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
“Announcement”	the joint announcement dated 24 December 2018 jointly issued by HEC and HEG
“Articles”	the existing articles of association of a company
“associate(s)”	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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	20 May 2019, the first closing date of the H Share Offer as set out in the section headed “Expected Timetable” in this Composite Document, or any subsequent closing date as may be announced by HEG and in compliance with the Takeovers Code
“Composite Document”	this composite document jointly issued by HEG and HEC to the HEC Shareholders in accordance with the Takeovers Code and the Listing Rules
“concert parties”	in respect of a person, persons acting in concert with such a person
“Conditions”	the conditions of the H Share Offer, as set out under the paragraph headed “Conditions of the H Share Offer” in the Letter from Citigroup and “Condition” means any of them
“Delisting”	the voluntary withdrawal of the listing of the H Shares on the Stock Exchange
“Disclosure Period”	the period beginning six months prior to the date of the Announcement and ending with the Latest Practicable Date, both dates inclusive
“Dissenting HEC H Shareholder(s)”	any HEC H Shareholder, who has voted against the Merger Agreement and the Merger as contemplated thereunder at both the Extraordinary General Meeting and the H Share Class Meeting 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

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## DEFINITIONS

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“Domestic Share(s)”	ordinary unlisted domestic shares with a nominal value of RMB1.00 each in the issued share capital of HEC
“Exclusive Financial Adviser” or “Citigroup”	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 SFO, and the exclusive financial adviser to HEG
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Extraordinary General Meeting”	the extraordinary general meeting of the HEC Shareholders proposed to be convened and held, and any adjournment thereof, in respect of the approval of the Merger Agreement and the Merger as contemplated thereunder
“Form of Acceptance”	the form of acceptance and transfer in respect of the H Share Offer accompanying this Composite Document
“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

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“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, 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 the Independent Shareholders in relation to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder
“Independent Financial Adviser” or “Somerley”	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, 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 SFO
“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 the Announcement

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## DEFINITIONS

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“Latest Practicable Date”	15 March 2019, being the latest practicable date prior to the issue of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
“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 on 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 paragraph headed “CERTAIN PROVISIONS OF THE MERGER AGREEMENT — 5. Merger Conditions” in Appendix II to this Composite Document, 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 recorded on the Registers 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
“Offer Period”	has the meaning ascribed thereto in the Takeovers Code and beginning on 24 December 2018, being the date of the Announcement, until 4:00 p.m. on the Closing Date, or such other time and/or date to which HEG may decide to extend the H Share Offer in accordance with the Takeovers Code
“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 Composite Document, Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the PRC as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“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
“Registers”	the registers of members of HEC
“Registrar”	Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, the H Share registrar and transfer office of HEC
“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
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs published by the SFC
“Unconditional Date”	the date on which the H Share Offer becomes or is declared unconditional in all respects
“%”	per cent.

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## LETTER FROM CITIGROUP

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20 March 2019

To the Independent Shareholders

Dear Sir or Madam

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

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

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

### INTRODUCTION

On 24 December 2018, HEG Board and HEC Board jointly announced that the Exclusive Financial Adviser, on behalf of HEG, firmly intended 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 Composite Document, 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 into 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.

This letter forms part of this Composite Document and sets out certain background information on HEG, explains why HEG is making the H Share Offer and entering into the Merger Agreement and the intention in relation to the HEC Group.

The details of (a) the terms of the H Share Offer are set out in the “Letter from Citigroup” in this Composite Document, (b) the procedures for acceptance of the H Share Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance; (c) the

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## LETTER FROM CITIGROUP

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summary of the terms and important information of the Merger Agreement are set out in Appendix II to this Composite Document; and (d) the meetings to be convened for approving the Delisting (if applicable) and the Merger Agreement and the Merger contemplated thereunder are set out in the section headed “The Extraordinary General Meeting and the H Share Class Meeting” in the “Letter from the HEC Board” in this Composite Document.

Terms defined in this Composite Document have the same meaning when used in this letter.

### 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 10.68% over the closing price of HK\$4.12 per H Share as quoted on the Stock Exchange on 15 March 2019 (being the Latest Practicable Date);
- (b) 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);
- (c) 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;
- (d) 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;
- (e) 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;



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## LETTER FROM CITIGROUP

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- (f) 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;
- (g) 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
- (h) 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 Disclosure Period, the highest and lowest closing prices per H Share recorded on the Stock Exchange were HK\$4.24 on 24 January 2019 and HK\$2.20 on 11 September 2018, respectively.

### 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 Composite Document, 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 (i) the date of receipt of a complete and valid acceptance in respect of the H Share Offer; or (ii) the Unconditional Date, whichever is later.

## CONDITIONS OF THE H SHARE OFFER

### 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

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## LETTER FROM CITIGROUP

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- (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 “Merger By Absorption of HEC By HEG — 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 the Announcement, HEG had already 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 Latest Practicable Date, 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.

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## LETTER FROM CITIGROUP

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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 the 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 Composite Document.

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.

### **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).

### **MERGER BY ABSORPTION OF HEC BY HEG**

#### **The 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, 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 recorded on the Registers 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.

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## LETTER FROM CITIGROUP

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For details in relation to the arrangement by which the Dissenting HEC H Shareholders could request for acquisition of their delisted H Shares at a “fair price”, please refer to the section headed “CERTAIN PROVISIONS OF THE MERGER AGREEMENT — 3. Right of the Dissenting HEC H Shareholder(s)” as set out in Appendix II to this Composite Document.

For details of the Merger Agreement, including but not limited to the major terms of the Merger Agreement, the Merger Conditions, the completion of the Merger Agreement, the payment of Merger Price, the compulsory deregistration and right of the Dissenting HEC H Shareholders, please refer to the summary of the terms and important information of the Merger Agreement as set out in Appendix II to this Composite Document.

### **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);

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## LETTER FROM CITIGROUP

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- (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 already been obtained and/or completed as at the date of the 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 have a material impact on the Merger.

### WARNING

**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.**

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## LETTER FROM CITIGROUP

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**If the Merger is implemented under the Merger Agreement, HEG will pay a Merger Price of HK\$4.56 per H Share in cash to the then existing HEC H Shareholders recorded on the Registers as at the Merger Effective Date, within seven Business Days after the Merger Effective Date. After payment of the Merger Price had been made, the relevant rights attaching to such H Shares shall be deemed as cancelled.**

**If the Merger is not implemented under the Merger Agreement, HEG will not be obliged to pay the Merger Price to then existing HEC H Shareholders. Under the circumstance that the H Share Offer has become unconditional in all respects and the H Shares have been delisted from the Stock Exchange, the then Independent Shareholders will be holding securities that are not listed on the Stock Exchange.**

### **REASONS FOR AND BENEFITS OF 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 the 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 year ended 31 December 2018, HEC recorded operating revenue of RMB25,879.46 million, representing a decrease of 17.95% as compared with the same period in 2017 and net profit attributable to the HEC Shareholders of RMB71.32 million, representing a decrease of 63.28% over the same period in 2017.

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 and a premium of approximately 10.68% over the closing price on 15 March 2019, being the Latest Practicable Date. 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

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## LETTER FROM CITIGROUP

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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.

- (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.

### INTENTION IN RELATION TO HEC AND HEG

It is the intention of HEG that it will continue to carry on its current business. HEG 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.

While HEG does not intend to introduce any major changes to the existing business of HEC (including any redeployment of the fixed assets of HEC) after the completion of the H Share Offer and the Merger, HEG does not rule out the possibility of any changes in the future if and when it thinks needed in order to benefit HEC.

HEG does not intend to make any significant changes to the continued employment of the employees of HEC. Following completion of the Merger, the employment contracts of all employees of HEC will continue with HEG as the surviving corporation. HEG and all of its rights, privileges, exemptions and permits will not be affected by the Merger.

#### 1. Voluntary Withdrawal of Listing of the H Shares

HEG has no right under the laws of the PRC and the HEC's Articles to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. HEG has applied to the

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## LETTER FROM CITIGROUP

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Executive for, and the Executive has granted, a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory requirements.

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 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, and assuming the Merger does not proceed, 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.**

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.

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 not less than 28 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.

### 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.



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## LETTER FROM CITIGROUP

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Citigroup, 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.

### INFORMATION 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 owned approximately 60.41% of the issued capital of HEC as at the Latest Practicable Date, 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.

### ADDITIONAL INFORMATION

In considering what action to take in connection with the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder, you should consider your own tax position and, if you are in any doubt, you should consult your professional advisers.

In making your decision, the Independent Shareholders must rely on their own examination of the terms of the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder, including the merits and risks involved. Independent Shareholders should consult their own professional advisers for professional advice.

You are also urged to read carefully (a) the letter from the HEC Board from pages 17 to 24 of this Composite Document; (b) the letter from the Independent Board Committee from pages 25 to 26 of this Composite Document; (c) the letter from the Independent Financial Adviser from pages 27 to 59 of this Composite Document; (d) the procedures for acceptance of the H Share Offer as set out in Appendix I to this Composite Document from pages I-1 to I-3 and in the accompanying Form of Acceptance; (e) the details for meetings to be convened for approving the Delisting (if applicable) and the Merger Agreement as set out in the section headed “THE EXTRAORDINARY GENERAL MEETING AND THE H SHARE CLASS MEETING” in the “Letter from the HEC Board” in this Composite Document; and (f) other information as set out in the appendices to this Composite Document which form part of this Composite Document.

Yours faithfully  
For and on behalf of  
**Citigroup Global Markets Asia Limited**

**Colin Banfield**  
*Managing Director*

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LETTER FROM THE HEC BOARD

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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)

*Executive Directors:*

Mr. SI Ze-fu  
Mr. WU Wei-zhang  
Mr. ZHANG Ying-jian  
Mr. SONG Shi-qi

*Principal Place of Business in the PRC:*

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

*Independent Non-executive Directors:*

Mr. ZHU Hong-jie  
Mr. YU Wen-xing  
Mr. HU Jian-min  
Mr. TIAN Min

*Principal Place of Business in Hong Kong:*

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

20 March 2019

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) VOLUNTARY CONDITIONAL OFFER BY CITIGROUP ON BEHALF OF  
HEG TO ACQUIRE ALL OF THE ISSUED H SHARES IN HEC**  
**(2) PROPOSED VOLUNTARY WITHDRAWAL OF LISTING OF THE H  
SHARES OF HEC**  
**AND**  
**(3) PROPOSED MERGER BY ABSORPTION OF HEC BY HEG**

**INTRODUCTION**

Reference is made to the Announcement jointly issued by HEC and HEG in relation to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things: (i) further information relating to the HEC Group, HEG, the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder; (ii) the "Letter from Citigroup" containing details of the H Share Offer, the Delisting, the Merger Agreement and the

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## LETTER FROM THE HEC BOARD

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Merger contemplated thereunder; (iii) the “Letter from the Independent Board Committee” containing its recommendations to the Independent Shareholders in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder; and (iv) the “Letter from the Independent Financial Adviser” containing its advice to the Independent Board Committee in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Under Rule 2.1 of the Takeovers Code, a board which receives an offer, or is approached with a view to an offer being made, must, in the interests of shareholders, establish an independent committee of the board to make a recommendation (i) as to whether the offer is, or is not, fair and reasonable and (ii) as to acceptance or voting.

The Independent Board Committee comprising all independent non-executive directors of HEC, namely, Mr. ZHU Hong-jie, Mr. YU Wen-xing, Mr. HU Jian-min and Mr. TIAN Min, has been formed for the purpose of making recommendations to the Independent Shareholders in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.

As disclosed in the Announcement, Somerley has been appointed as the independent financial adviser to 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, and whether the Delisting and the Merger Agreement and the Merger contemplated thereunder are fair and reasonable and as to voting. Such appointment has been approved by the Independent Board Committee.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee and the Independent Shareholders are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder.**

### THE H SHARE OFFER

Citigroup is making the H Share Offer on behalf of HEG on the following basis:

**For each H Share** **HK\$4.56 in cash**

Further details of the H Share Offer are set out in the “Letter from Citigroup”, the additional information contained in appendices to this Composite Document and the accompanying Form of Acceptance.

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## LETTER FROM THE HEC BOARD

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### 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 Delisting 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 in the paragraph headed “CERTAIN PROVISIONS OF THE MERGER AGREEMENT — 5. Merger Conditions” in Appendix II to this Composite Document.

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## LETTER FROM THE HEC BOARD

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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 the Announcement, HEG had already 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 Latest Practicable Date, 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. As at the Latest Practicable Date, none of the Conditions has been waived.

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.

### 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 this Composite Document (or such later date to which the Executive may consent).

**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 Composite Document in all aspects. Accordingly, the H Share Offer may or may not become unconditional and the issue of this Composite Document 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.**

### INFORMATION OF THE HEC GROUP

#### Principal activities

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

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## LETTER FROM THE HEC BOARD

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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.

### Financial information

A summary of the financial information of the HEC Group extracted from the annual reports of HEC for the years ended 31 December 2016 and 31 December 2017 and the annual results announcement of HEC dated 7 March 2019 for the year ended 31 December 2018 (the “**2018 Annual Results Announcement**”) is set out in Appendix III to this Composite Document.

### Shareholding in HEC

As at the Latest Practicable Date, 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 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) 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 Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities issued by HEC.

Set out below is the shareholding structure of HEC as at the Latest Practicable Date:

	<b>Number of HEC Shares</b>	<b>Percentage over the entire issued share capital of HEC (%)</b>
HEG	1,030,952,000 Domestic Shares	60.41
Independent Shareholders	675,571,000 H Shares	39.59
Total	<u>1,706,523,000</u>	<u>100</u>

Your attention is drawn to Appendices III and IV to this Composite Document which contain further financial and general information of the HEC Group.

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## LETTER FROM THE HEC BOARD

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### INFORMATION OF HEG

Your attention is drawn to the section headed “Information of HEG” in the “Letter from Citigroup” as set out in this Composite Document.

### HEG’S INTENTION IN RELATION TO HEC

Please refer to the section headed “Intention in relation to HEC and HEG” in the “Letter from Citigroup” as set out in this Composite Document for detailed information on HEG’s intention on the business and management of the HEC Group. The HEC Board noted such intention.

#### 1. Voluntary Withdrawal of Listing of the H Shares

HEG has no right under the laws of the PRC and the HEC’s Articles to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. HEG has applied to the Executive for, and the Executive has granted, a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory requirements.

Upon the H Share Offer becoming unconditional, HEC will make an application for the Delisting in accordance with Rule 6.12 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, and assuming the Merger does not proceed, 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.**

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.

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 not less than 28 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

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. For details, please refer to Appendix II to this Composite Document setting out the summary of the terms and important information of the Merger Agreement.

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## LETTER FROM THE HEC BOARD

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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.

### CONFLICT OF INTEREST

Mr. SI Ze-fu and Mr. WU Wei-zhang, both executive directors of HEC, are also directors of HEG. Save for their directorship in HEG, they were not interested in any shares in HEC or any convertible securities, warrants, options or derivatives in respect of the shares in HEC. Accordingly, they were not considered to have any conflict of interest in respect of the H Share Offer and the Merger.

### THE EXTRAORDINARY GENERAL MEETING AND THE H SHARE CLASS MEETING

The Extraordinary General Meeting will be convened to approve the Merger Agreement and the Merger contemplated thereunder at 9:30 a.m. on Tuesday, 7 May 2019 and the H Share Class Meeting will be convened to approve the Delisting, the Merger Agreement and the Merger contemplated thereunder at 10:00 a.m. on Tuesday, 7 May 2019, respectively. A notice of the Extraordinary General Meeting is set out in Appendix V to this Composite Document. A notice of the H Share Class Meeting is set out in Appendix VI to this Composite Document. HEG and the parties acting in concert with HEG will abstain from voting in respect of all such HEC Shares in the H Share Class Meeting in accordance with Rule 2.2 of the Takeovers Code.

**Whether or not you are able to attend the Extraordinary General Meeting and/or the H Share Class Meeting or any adjournment thereof, you are strongly urged to complete the accompanying proxy form(s) in accordance with the instructions printed thereon and return the same to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than twenty-four (24) hours before the time appointed for the Extraordinary General Meeting and the H Share Class Meeting.**

Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting and the H Share Class Meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the Extraordinary General Meeting and the H Share Class Meeting or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.



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## LETTER FROM THE HEC BOARD

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You are requested to complete the accompanying reply slip in accordance with the instructions printed thereon and return the same to the office address of HEC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or the Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before Wednesday, 17 April 2019. Voting at the H Share Class Meeting and the Extraordinary General Meeting will be taken by way of poll as required under the Listing Rules and the Takeovers Code.

### RECOMMENDATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out from pages 25 to 26 of this Composite Document, which contains the recommendations of the Independent Board Committee to the Independent Shareholders in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder, and (ii) the "Letter from the Independent Financial Adviser" as set out from pages 27 to 59 of this Composite Document, which contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder and the principal factors considered by it before arriving at its advice and recommendation.

### ADDITIONAL INFORMATION

The Independent Shareholders are urged to read the aforesaid letters, this Composite Document together with the accompanying Form of Acceptance carefully before taking any action in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder. Your attention is also drawn to the additional information contained in the appendices to this Composite Document. Finally, in considering what action to take in response to the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,  
By order of the HEC Board  
**Harbin Electric Company Limited**  
**Zhang Ying-jian**  
*Executive Director*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

20 March 2019

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) VOLUNTARY CONDITIONAL OFFER BY CITIGROUP ON BEHALF OF  
HEG TO ACQUIRE ALL OF THE ISSUED H SHARES IN HEC  
(2) PROPOSED VOLUNTARY WITHDRAWAL OF LISTING OF  
THE H SHARES OF HEC  
AND  
(3) PROPOSED MERGER BY ABSORPTION OF HEC BY HEG**

**INTRODUCTION**

We refer to the Composite Document dated 20 March 2019 jointly issued by HEC and HEG of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder and to make a recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and as to the acceptance of the H Share Offer and the voting of the Delisting, the Merger Agreement and the Merger contemplated thereunder. Somerley has been appointed as the Independent Financial Adviser to advise us in this respect. Details of Somerley's advice and the principal factors and reasons taken into consideration in arriving at its advice and recommendations are set out in the "Letter from the Independent Financial Adviser" from pages 27 to 59 of the Composite Document.

We also wish to draw your attention to the "Letter from the HEC Board", the "Letter from Citigroup" and the additional information set out in the appendices to the Composite Document.

We, being the members of the Independent Board Committee, have declared that, as disclosed in Appendix IV to the Composite Document, we are independent and do not have any conflict of

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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interest in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder or any direct or indirect interest therein and are therefore able to consider the terms of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder and to make recommendations to the Independent Shareholders.

### RECOMMENDATIONS

Having taken into account the terms of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder, together with the advice and recommendations from Somerley, we are of the opinion that the terms of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and therefore we recommend the Independent Shareholders to (i) accept the H Share Offer and (ii) vote in favour of the resolutions approving the Delisting (if applicable), the Merger Agreement and the Merger contemplated thereunder at the Extraordinary General Meeting and the H Share Class Meeting.

Notwithstanding our recommendation, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice.

Furthermore, the Independent Shareholders who wish to accept the H Share Offer are recommended to read carefully the procedures for accepting the H Share Offer as detailed in the Composite Document and the accompanying Form of Acceptance.

Yours faithfully,

For and on behalf of

*Independent Board Committee*

<b>Mr. ZHU Hong-jie</b>	<b>Mr. YU Wen-xing</b>	<b>Mr. HU Jian-min</b>	<b>Mr. TIAN Min</b>
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

20 March 2019

*To: the Independent Board Committee*

Dear Sirs,

**(1) VOLUNTARY CONDITIONAL OFFER  
BY CITIGROUP ON BEHALF OF HEG  
TO ACQUIRE ALL OF THE ISSUED H SHARES IN HEC;  
(2) PROPOSED VOLUNTARY WITHDRAWAL  
OF LISTING OF THE H SHARES OF HEC; AND  
(3) PROPOSED MERGER BY ABSORPTION  
OF HEC BY HEG**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder. Details of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder are set out in the Composite Document dated 20 March 2019, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As set out in the “Letter from Citigroup” contained in the Composite Document, the Exclusive Financial Adviser, on behalf of HEG, will make a voluntary conditional cash offer (i.e. the H Share 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, including, among other things, the approval of the voluntary withdrawal of the listing of the H Shares on the Stock Exchange (i.e. the Delisting) by the Independent Shareholders at the H Share Class Meeting and the approval of the Merger Agreement and the Merger contemplated thereunder by the HEC Shareholders in the H Share Class Meeting and the Extraordinary General Meeting. The Merger Agreement has been entered into between HEG and HEC on 24 December 2018. 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising all the independent non-executive directors of HEC, namely Mr. YU Wen-xing, Mr. ZHU Hong-jie, Mr. HU Jian-min and Mr. TIAN Min, has been established to advise the Independent Shareholders in respect of the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder, including (i) whether the terms of the H Share Offer are fair and reasonable and as to its acceptance; and (ii) whether the Delisting and the Merger are fair and reasonable and as to voting. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in these regards.

We are not associated with HEC, HEG or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from HEC, HEG, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the Merger Agreement; (iii) the annual results announcement of HEC dated 7 March 2019 for the year ended 31 December 2018 (the “**2018 Annual Results Announcement**”); (iv) the interim report of HEC for the six months ended 30 June 2018; (v) the annual reports of HEC for the five years ended 31 December 2013, 2014, 2015, 2016 and 2017; and (vi) the material change statement set out in Appendix III to the Composite Document, together with the future prospects of the HEC Group, which we have discussed with the management of the HEC Group.

We have relied on the information and facts supplied by HEC and the opinions expressed by the directors of HEC, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document were true at the time they were made and at the date of the Composite Document. Shareholders will be informed by HEG and HEC as soon as possible if there is any material change to such representations after the date of the Composite Document until the end of the Offer Period. We have sought and received confirmation from the directors of HEC that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. 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 HEC Group, HEG or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the H Share Offer, as the case may be, since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL TERMS OF THE H SHARE OFFER AND THE MERGER

#### (I) THE H SHARE OFFER

Set out below is a summary of the terms of the H Share Offer which are set out in the “Letter from Citigroup” and Appendix I contained in the Composite Document. Independent Shareholders are encouraged to read the Composite Document and the appendices in full.

#### 1. H Share Offer Price

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.

**As set out in the “Letter from Citigroup” contained in the Composite Document, HEG will not increase the H Share Offer Price for the H Share Offer and HEG does not reserve the right to increase the H Share Offer Price.**

#### 2. Conditions of the H Share Offer

The H Share Offer is subject to the fulfilment or waiver, as applicable, of a number of Conditions as set out in the section headed “Conditions of the H Share Offer” in the “Letter from Citigroup” contained in the Composite Document. The principal conditions are as follows:

- (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 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;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (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; and
- (d) 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 at the Latest Practicable Date, 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 and Condition (c) has been fulfilled.

### **3. Closing date and completion**

As set out in the Composite Document, the Closing Date is 20 May 2019. If all of the Conditions have been either satisfied or, waived (if applicable) by HEG, the H Share Offer will be declared unconditional. The H Share Offer will be extended for a subsequent period of not less than 28 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. If the Conditions are not satisfied (or not waived, where applicable) on or before the Unconditional Date, the H Share Offer will lapse. 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).

### **4. Other terms**

Under the terms of the H Share Offer, the H Shares will be acquired with all rights attached thereto as at the date of the 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 the Announcement, and free from all options, liens, claims, equities, charges, encumbrances, rights of pre-emption and any other third party rights of any nature.

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (II) THE MERGER

Set out below is a summary of the terms of the Merger, further details of which are set out in the section headed “Merger by absorption of HEC by HEG” in the “Letter from Citigroup” and Appendix II contained in the Composite Document.

On 24 December 2018, HEG and HEC entered into the Merger Agreement, pursuant to which HEC will be merged and absorbed into HEG after the completion of the H Share Offer and the Delisting in accordance with the PRC Company Law and other applicable PRC Laws through the following major processes including (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 recorded on the Registers 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 of the Merger Price is made to the HEC H Shareholders, the relevant rights attaching to such H Shares shall be deemed as cancelled.

#### **Rights of the Dissenting HEC H Shareholders**

Any Dissenting HEC H Shareholder, who has voted against the Merger Agreement and the Merger contemplated thereunder at both the Extraordinary General Meeting and the H Share Class Meeting, 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 Independent Shareholders should note that 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”. Further details of the rights of the Dissenting HEC H Shareholders are set out in Appendix II to the Composite Document.

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.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Merger Conditions

The Merger is subject to the fulfilment or waiver, as applicable, of a number of Merger Conditions as set out in the section headed “Merger Conditions” in the “Letter from Citigroup” contained in the Composite Document. The principal conditions are as follows:

- (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 having been obtained and remaining in full force and effect, including but not limited to the approvals or filings of or with SASAC, NDRC and SAFE; and
- (d) the completion of the H Share Offer, and HEC having submitted the Delisting application to the Stock Exchange and such Delisting having become effective pursuant to the Listing Rules.

As at the Latest Practicable Date, the approvals and filings from/with SASAC, NDRC and SAFE under the Merger Condition (c) have been obtained and/or completed. As at the Latest Practicable Date, condition (c) has been fulfilled. 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.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### 1. Background to and reasons for the H Share Offer, the Delisting and the Merger

As set out in the section headed “Reasons for and benefits of the H Share Offer, the Delisting and the Merger” in the “Letter from Citigroup” contained in the Composite Document, there is a combination of fierce market competition and an increasing focus on clean and renewable forms of power generation at the expense of thermal generation, and the share of total generation capacity additions by thermal power continues to decline while other forms of mainstream renewable

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generation are expected to continue to gain market share. As a result, the HEC Group has been facing increasing pressure on its sales and profitability in the prevailing market environment given that it is primarily engaged in the manufacturing of thermal power main equipment, as demonstrated by the deteriorating performance of the HEC Group in recent year. Further details of the financial performance and prospects of the HEC Group are set out in the section headed “2. Information and prospects of the HEC Group” of this letter below. The H Share Offer, the Delisting and the Merger will reduce administrative costs through the simplification of the corporate structure and avoidance of costs associated with compliance and maintaining the listing status of HEC.

The H Share Offer, the Delisting and the Merger provide Independent Shareholders with the opportunity to realise their investment in HEC for cash at a substantial premium over the prevailing H Share price. The H Share Offer Price of HK\$4.56 per H Share represents premia in a range of approximately 77.5% to 85.6% over the closing H Share prices for different periods before the suspension of trading in the H Shares pending publication of the Announcement. In addition, the trading liquidity of the H Shares has been limited over a period of time. It would be challenging for the HEC H Shareholders as a body to monetize their H Shares in the stock market without adversely affecting the market price of the H Shares. Further details of our analysis on the H Share Offer Price compared to historical H Share price performance, the liquidity of the H Shares and the premia represented by the H Share Offer Price are set out in the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter below.

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. In this case, if the Merger contemplated under the Merger Agreement is implemented (subject to certain conditions, including but not limited to the Independent Shareholders’ approval), 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 recorded on the Registers as at the Merger Effective Date. Further discussion and analysis of the Merger Agreement and the Merger contemplated thereunder are set out in the section headed “7. Analysis on the Delisting and the Merger” of this letter below.

## **2. Information and prospects of the HEC Group**

### ***(i) Information on the background of the HEC Group***

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 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.

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*(ii) Financial information of the HEC Group*

Details of the financial information of the HEC Group are set out in Appendix III to the Composite Document. We have reviewed such financial information and other financial reports and the 2018 Annual Results Announcement of HEC and details of the financial information of the HEC Group are set out below.

*(a) Financial performance*

The following is a summary of the financial results of the HEC Group for the six years ended 31 December 2013, 2014, 2015, 2016, 2017 and 2018 (extracted from HEC's 2014, 2015, 2016 and 2017 annual reports and the 2018 Annual Results Announcement respectively).

	<b>For the year ended 31 December</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
						<i>(Note 1)</i>
Revenue <i>(Note 2)</i>	26,302,310	31,980,647	31,293,016	25,412,387	24,258,001	20,500,705
Gross profit	3,191,930	4,272,370	4,302,545	3,326,631	3,163,007	4,320,882
Profit for the year	102,688	260,969	491,594	83,288	134,165	625,606
Profit attributable to owners of HEC	71,317	194,227	413,283	196,212	566,409	705,813

*Notes:*

1. *Financial information for the year ended 31 December 2013 was prepared in accordance with the Hong Kong Financial Reporting Standards, while financial information for the years ended 31 December 2014 to 2018 was prepared in accordance with China Accounting Standards for Business Enterprises.*
2. *Revenue includes operating revenue, interest income, premium earned and fees and commissions income (except for the year ended 31 December 2013).*

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The following tables set out the breakdown of operating income (representing revenue less non-operating revenue) by business segment of the HEC Group extracted from the HEC's 2014, 2015, 2016 and 2017 annual reports and the 2018 Annual Results Announcement respectively.

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Operating income <i>(Note 1)</i>					
Manufacturing of power generation and ancillary equipment					
- Main thermal power equipment	11,877,254	13,871,644	12,169,546	9,331,656	10,943,146
- Main hydro power equipment	1,704,635	1,146,213	2,484,169	2,705,715	2,906,874
- Power station auxiliary equipment and ancillary products	899,959	1,339,076	1,437,706	1,747,544	1,556,343
- AC and DC motors and other operation <i>(Note 2)</i>	2,648,002	2,445,975	2,915,731	2,769,129	3,358,779
- Nuclear power equipment	1,338,543	2,032,576	2,009,616	1,723,865	1,367,023
	18,468,393	20,835,484	21,016,768	18,277,909	20,132,165
Engineering services for power stations	7,411,068	10,704,840	9,912,653	6,819,315	3,894,369
Total operating income	25,879,461	31,540,324	30,929,421	25,097,224	24,026,534

*Notes:*

1. *Excluding non-operating revenue such as interest income, premium earned and fees and commissions income.*
2. *Revenue from other operation includes revenue derived from selling materials, technical service fees and others.*
3. *2013 comparative figures are not included in the table considering the different segmental classification of operating income presented in the 2013 annual report.*

*(i) Revenue and operating income*

As demonstrated in the table above, the main thermal power equipment segment has been the main source of income for the HEC Group, contributing a range of approximately RMB9,331.7 million to RMB13,871.6 million, or approximately 37.2% to 45.9% of total operating income during the years ended 31 December 2014 to 2018. The operating income contributed by the engineering services for turnkey construction of the power stations segment (the “**Engineering Services Segment**”) continued to increase from approximately RMB3,894.4 million, or 16.2% of total operating income in 2014, to approximately RMB10,704.8 million or 33.9% of total operating income for the year ended

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31 December 2017 and dropped to approximately RMB7,411.1 million or 28.6% of total operating income in 2018. It becomes the second largest operating income contributor since 2015. We understand from the management of HEC that the engineering services for turnkey construction of the power stations are mainly related to thermal power stations, with a relatively insignificant amount attributable to those related to hydro power equipment. Other operating segments contributed less than 11% of operating income each for the year ended 31 December 2016, 2017 and 2018.

Revenue for the year ended 31 December 2014 increased approximately 18.3% to RMB24,258.0 million from approximately RMB20,500.7 million for the year ended 31 December 2013 (the amount of which was prepared in accordance with the Hong Kong Financial Reporting Standards), mainly driven by the increase in operating income from the Engineering Services Segment and power station auxiliary equipment and ancillary products segment (the “**Ancillary Products Segment**”). Revenue growth slowed down to approximately 4.8% and reached approximately RMB25,412.4 million for the year ended 31 December 2015, mainly caused by the decrease in operating income of approximately 14.7% and 17.6% from the main thermal power equipment segment (the “**Thermal Power Segment**”) and the AC and DC motors and other operation segment respectively. Revenue saw a significant increase for the year ended 31 December 2016 to approximately RMB31,293.0 million, mainly driven by the approximately 30.4% and 45.4% increase in operating income from the Thermal Power Segment and the Engineering Service Segment. However, revenue growth slowed down to approximately 2.2% with approximately RMB31,980.6 million of revenue for the year ended 31 December 2017. Revenue dropped approximately 17.8% from approximately RMB31,980.6 million for the year ended 31 December 2017 to approximately RMB26,302.3 million for the year ended 31 December 2018, which is caused by the decrease in operating income from the two largest segments in terms of revenue, the Thermal Power Segment and the Engineering Service Segment, being approximately 14.4% and 30.8% respectively.

*(ii) Profit attributable to owners of HEC*

For the year ended 31 December 2014, net profit attributable to owners of HEC was approximately RMB566.4 million, a decrease of approximately 19.8% over the previous year, which was mainly attributable to the significant drop in gross profit in all operating segments (other than the Ancillary Products Segment) and the increase in provisions.

For the year ended 31 December 2015, the HEC Group’s net profit attributable to owners of HEC further dropped to approximately RMB196.2 million, representing a decrease of approximately 65.4% over the previous year. Although operating income from the Thermal Power Segment decreased approximately 14.7% over the previous year, overall operating results have improved slightly partly brought by the approximately 75.1% year-on-year increase in operating income from the Engineering Services Segment. The reduction in the HEC Group’s profit compared to that in 2014 was mainly due to the lack of significant amount of realised gain from trading securities in 2014.

For the year ended 31 December 2016, net profit attributable to owners of HEC increased approximately 110.6% to approximately RMB413.3 million, partly due to (i) the increase in operating

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income from the Thermal Power Segment, amounting to approximately RMB12,169.5 million, representing a year-on-year increase of approximately 30.4%; and (ii) the increase in operating income from the Engineering Services Segment, amounting to approximately RMB9,912.7 million, representing a year-on-year increase of approximately 45.4%.

Net profit attributable to owners of HEC for the year ended 31 December 2017 dropped to approximately RMB194.2 million, representing a decrease of approximately 53.0% over the previous year. The decrease in the HEC Group's profit was mainly attributable to the extended period of the accounts receivable, giving rise to a significant amount of bad debt expense, coupled with an increase in suspended and deferred projects, which delayed the recognition of revenue and increase in provisions in view of potential inventory write-offs; RMB appreciation and increased exchange losses; and a year-on-year increase in labor costs. We also noted that the drop in net profit was partly attributable to the slowdown of growth in operating income from the Thermal Power Segment and the Engineering Services Segment to approximately 14.0% and 8.0% respectively.

For the year ended 31 December 2018, the HEC Group recorded a net profit attributable to owners of HEC of approximately RMB71.3 million, representing a decrease of approximately 63.3% as compared with last year. The decrease in the profit of the HEC Group during the year was mainly due to the decrease in revenue in 2018 with most of the international engineering projects of the HEC Group either at their initial or final phases and the reduction in the production volume of power generating equipment during the year.

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### (b) Financial position

Set out below is a summary of the financial position of the HEC Group as at 31 December 2013, 2014, 2015, 2016, 2017 and 2018 (as extracted from HEC's 2014, 2015, 2016 and 2017 annual reports and the 2018 Annual Results Announcement respectively).

	As at 31 December					
	2018	2017	2016	2015	2014	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
						<i>(Note)</i>
Non-current assets	9,229,287	8,819,305	8,249,271	8,033,882	8,216,316	8,002,205
Current assets	47,312,696	56,018,788	57,618,237	56,129,364	53,945,166	52,358,927
<b>Total assets</b>	<b>56,541,983</b>	<b>64,838,093</b>	<b>65,867,508</b>	<b>64,163,246</b>	<b>62,161,482</b>	<b>60,361,132</b>
Non-current liabilities	1,857,260	1,620,389	4,428,049	4,476,622	4,564,420	10,632,344
Current liabilities	38,375,692	47,075,552	46,797,044	45,769,742	43,592,011	35,434,539
<b>Total liabilities</b>	<b>40,232,952</b>	<b>48,695,941</b>	<b>51,225,093</b>	<b>50,246,364</b>	<b>48,156,431</b>	<b>46,066,883</b>
<b>Net current assets</b>	<b>8,937,004</b>	<b>8,943,236</b>	<b>10,821,193</b>	<b>10,359,622</b>	<b>10,353,155</b>	<b>16,924,388</b>
<b>Equity attributable to owners of HEC</b>	<b>15,026,282</b>	<b>14,870,751</b>	<b>13,433,093</b>	<b>12,707,391</b>	<b>12,675,872</b>	<b>12,527,083</b>
<b>Debt ratio (total liabilities divided by total assets)</b>	<b>71%</b>	<b>75%</b>	<b>78%</b>	<b>78%</b>	<b>77%</b>	<b>76%</b>

*Note: Financial information as at 31 December 2013 was prepared in accordance with the Hong Kong Financial Reporting Standards, while financial information as at 31 December 2014 to 2018 was prepared in accordance with China Accounting Standards for Business Enterprises.*

The total equity attributable to owners of HEC has shown a gradual upward trend during the six financial years ended 31 December 2018. As at 31 December 2015, the total equity attributable to owners of HEC amounted to approximately RMB12,707.4 million, representing an increase of approximately RMB31.5 million or 0.25% as compared to the beginning of the year. As at 31 December 2016, the total equity attributable to owners of HEC increased approximately RMB725.7 million or 5.71% to approximately RMB13,433.1 million. As at 31 December 2017, the total equity attributable to owners of HEC further increased approximately RMB1,437.7 million or 10.70% to approximately RMB14,870.8 million.

As at 31 December 2018, the total equity attributable to owners of HEC reached approximately RMB15,026.3 million and net current assets of the HEC Group amounted to approximately RMB8,937.0 million. Major assets included notes receivable and accounts receivable of approximately RMB9,787.0 million, inventory of approximately RMB10,454.9 million, cash and cash equivalents of approximately RMB12,543.3 million, contract assets of approximately RMB8,233.5 million and fixed assets (including mainly specialised production facilities) of approximately RMB5,868.7 million. Major liabilities included notes payable and accounts payable of approximately RMB19,051.8 million and contractual liabilities of approximately RMB14,596.7 million. The HEC Group recorded significant liabilities and had a high debt ratio (calculated as total liabilities divided by total assets) of above 70% in the period we have reviewed.

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(c) *Cash flow*

Set out below is a summary of the consolidated statement of cash flow of the HEC Group for the years ended 31 December 2013 to 2018 (as extracted from HEC's 2014, 2015, 2016 and 2017 annual reports and the 2018 Annual Results Announcement respectively):

	For the year ended 31 December					
	2018	2017	2016	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
						<i>(Note)</i>
Opening balance	15,206,291	17,204,140	17,178,497	13,563,037	11,888,284	8,488,162
Cash inflow/(outflow) from:						
Operating activities	(676,000)	(2,692,249)	1,587,775	4,410,622	1,508,141	1,395,830
Investing activities	1,681,663	(1,509,117)	(290,085)	(694,708)	485,408	(1,866,361)
Financing activities	(4,537,013)	2,293,831	(1,328,839)	(116,555)	(314,201)	2,563,143
Net increase/(decrease) in cash	(3,531,350)	(1,907,535)	(31,149)	3,599,359	1,679,348	2,092,612
Effect of foreign exchange rate changes on cash	30,740	(90,314)	56,792	16,101	(4,596)	(42,603)
Closing balance	<u>11,705,681</u>	<u>15,206,291</u>	<u>17,204,140</u>	<u>17,178,497</u>	<u>13,563,037</u>	<u>10,538,171</u>

*Note: Financial information for the year ended 31 December 2013 was prepared in accordance with the Hong Kong Financial Reporting Standards, while financial information for the year ended 31 December 2014 to 2018 was prepared in accordance with China Accounting Standards for Business Enterprises.*

Closing cash balances of the HEC Group has seen a gradual increasing trend from 31 December 2013 to 31 December 2016. It then decreased from approximately RMB17,204.1 million as at 31 December 2016 to approximately RMB15,206.3 million as at 31 December 2017, representing a year on year decrease of approximately 11.6%. It further decreased approximately 23.0% to approximately RMB11,705.7 million as at 31 December 2018. The HEC Group recorded net cash outflow of approximately RMB1,907.5 million and RMB3,531.4 million for the years ended 31 December 2017 and 2018, respectively. During the year ended 31 December 2018, the cash outflow from operating activities of the HEC Group was approximately RMB676.0 million, while investing activities generated a cash inflow of approximately RMB1,681.7 million and financing activities recorded a cash outflow of approximately RMB4,537.0 million, which was primarily attributable to (i) the repayment of corporate bonds of RMB3 billion; and (ii) the reduction in contract liabilities (previously advance receipts from customers). The deteriorating cash position in recent years was mainly attributable to (i) the significant amount of purchases made by the HEC Group to maintain operation; and (ii) bad debts owed by customers as their financials were generally adversely affected by the change in government policies in relation to the power generation industry.



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(d) *Dividends*

	For the year ended 31 December					
	2018	2017	2016	2015	2014	2013
Total dividend per H share (HK\$)	Nil	0.0186	0.0338	0.0179	0.0504	0.1012
Total dividend per HEC Share (RMB)	Nil	0.015	0.03	0.015	0.04	0.08
Earnings per share (RMB)	0.04	0.141	0.300	0.143	0.411	0.513
Dividend payout ratio	N/A	10.6%	10.0%	10.5%	9.7%	15.6%

The range of total dividend per HEC Share for the financial years ended 31 December 2013 to 2017 was between RMB0.015 to RMB0.08, with dividend payout ratio ranging from approximately 9.7% to 15.6%. HEC's implied dividend yield based on the H Share Offer Price of HK\$4.56 per H Share and the total dividend of HEC of HK\$0.0186 per H Share for the year ended 31 December 2017 is approximately 0.4%. No dividend was declared for the year ended 31 December 2018.

As at the Latest Practicable Date, the dividend yield of the Hang Seng Index was approximately 3.77%, which is significantly higher than the implied dividend yield of approximately 0.4% for 2017 (and nil dividend paid for 2018) based on the H Share Offer Price as mentioned above. On this basis, Independent Shareholders who accept the H Share Offer could, if they wished, reinvest the proceeds from the H Share Offer in other listed Hong Kong companies to achieve a higher yield.

**(iii) Prospects of the HEC Group**

According to the 2018 Annual Results Announcement, the HEC Group actively carried out research on new technologies involving renewable energy power generation and expanded into new areas. The power generation equipment manufacturing market encountered both challenges and opportunities with the continued development in the green and low-carbon sector and declining demand in the coal-fired power market. For the year ended 31 December 2018, the HEC Group recorded revenue of approximately RMB26,302.3 million, representing a decrease of approximately 17.8% as compared with last year. The HEC Group's net profit attributable to owners of HEC amounted to approximately RMB71.3 million, representing a decrease of approximately 63.3% as compared with last year.

The Thermal Power Segment, which is closely related to the coal-fired equipment manufacturing industry, continues to be the HEC Group's main source of operating income, contributing approximately 45.9% of the HEC Group's total operating income for the year ended 31 December 2018. In addition, as advised by the management of HEC, a majority of income from the Engineering Services Segment, being the second largest contributor of the HEC Group's total operating income contributing approximately 28.6% of the HEC Group's total operating income for the year ended 31 December 2018, is mainly related to thermal power projects. Therefore, the HEC Group's prospects are directly impacted by the thermal power sector the most.

According to the 13th five-year plan for 2016 to 2020 issued by the State Council of the People's Republic of China, the demand for coal (a fossil fuel) is declining and supply is excessive, affected

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by factors such as slowing economic growth and the change in energy consumption structure in the PRC. The central government aims to cut new coal-fired power generation and promote the use of clean energy to reduce air pollution. The central government's target is for non-fossil fuel energy consumption to represent 15% of total energy consumption of the PRC by 2020 and 20% by 2030, as opposed to 12% in 2015. According to HEC's 2018 Annual Results Announcement, total installed capacity of renewable energy power generation made up approximately 38.32% of the total installed capacity in the PRC market as at the end of 2018, up approximately 1.7% as compared with last year.

The overall demand for power generation equipment has also declined. According to the national electricity industry statistics issued by the National Energy Administration of China, nationwide newly installed power generating capacity in 2018 reached approximately 124,390 megawatts, down year-on-year by approximately 4.6%. Nationwide power generating infrastructure investment in 2018 reached approximately RMB272.1 billion, down year-on-year by approximately 6.2%. In 2018, the year-on-year change in thermal, hydro and nuclear power investment in 2018 was approximately -9.4%, 8.4% and -3.8%, respectively.

The management of HEC is of the view, and we concur, that, despite the HEC Group's effort to transform and shift its focus to capture opportunities in new markets, the HEC Group's business has been relying on the thermal power market as indicated by the level of revenue generated in thermal power equipment and power stations engineering segments in 2018 as mentioned above. As the business transformation is still at an early stage, longer period of time is required for the HEC Group to realise such results to enhance its revenue contribution. In view of the above, in the short to medium term, the HEC Group's performance will continue to be affected by overcapacity in the coal industry in the PRC and structural reform as directed by government policies. Accordingly, the business outlook of the HEC Group is highly dependent on overall market conditions, economy of principal markets and its ability to adapt to technological changes in the energy sector. There are significant uncertainties in regard to the HEC Group's successful transformation and financial performance in the short to medium term.

### **3. Information on HEG and its intention regarding HEC**

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, holding 100% of the Domestic Shares (representing approximately 60.41% of all the issued HEC Shares as at the Latest Practicable Date). 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. HEG 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 intentions of HEG in relation to HEC are set out in the "Letter from Citigroup" contained in the Composite Document, which are summarised below.

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*(a) Voluntary withdrawal of listing of the H Shares*

HEG has no right under the laws of the PRC and the HEC's Articles to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. HEG has applied to the Executive for, and the Executive has granted, a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution of the independent shareholders to approve a delisting to be made subject to the offeror(s) being entitled to exercise, and exercising, its/their rights of compulsory requirements.

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 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, and assuming the Merger does not proceed, this will result in the Independent Shareholders holding securities that are not listed on the Stock Exchange.

If the Merger is implemented under the Merger Agreement which is subject to certain conditions, including but not limited to the Independent Shareholders' approval, HEG will pay a Merger Price of HK\$4.56 per H Share in cash to the then existing HEC H Shareholders recorded on the Registers as at the Merger Effective Date, including non-accepting shareholders provided that they have not sold or transferred their H Shares before the Merger Effective Date, within seven Business Days after the Merger Effective Date. After payment of the Merger Price is made, the relevant rights attaching to such H Shares shall be deemed as cancelled.

If the Merger is not implemented under the Merger Agreement, HEG will not be obliged to pay the Merger Price to the then existing HEC H Shareholders, including non-accepting shareholders provided that they have not sold or transferred their H Shares before the Delisting becoming effective. In such circumstances, the then Independent Shareholders will be 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 remain open for acceptance for not less than 28 days thereafter 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.

*(b) 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, including but not limited to the Independent Shareholders' approval, 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

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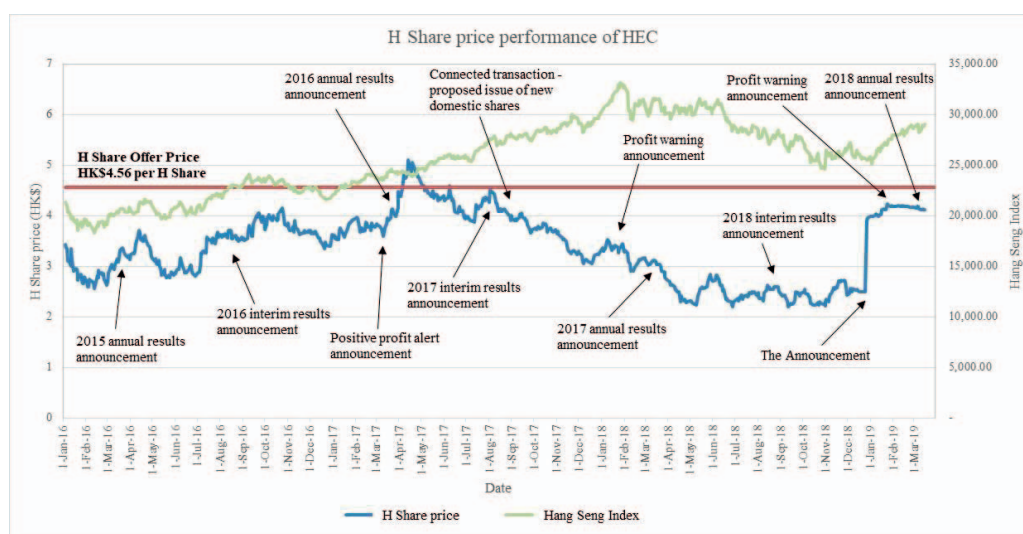
PRC Governing the Company Registration and relevant legal provisions; and HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG. As a result of the Merger, the assets and liabilities (together with the rights and obligations attached to such assets), business,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

As stated in the section headed “Intention in relation to HEC and HEG” in the “Letter from Citigroup” contained in the Composite Document, it is the intention of HEG that it will continue to carry on its current business. While HEG does not intend to introduce any major changes to the existing business of HEC (including any redeployment of the fixed assets of HEC) after the completion of the H Share Offer and the Merger, HEG does not rule out the possibility of any changes in the future if and when it thinks needed in order to benefit HEC. In addition, HEG does not intend to make any significant changes to the continued employment of the employees of HEC. Following completion of the Merger, the employment contracts of all employees of HEC will continue with HEG as the surviving corporation. HEG and all of its rights, privileges, exemptions and permits will not be affected by the Merger.

#### 4. Analysis of price performance and trading liquidity of the H Shares

##### (i) Historical price performance of the H Shares

As discussed in the sub-section headed “(ii) Financial information of the HEC Group” under the section headed “2. Information and prospects of the HEC Group” of this letter above, the HEC Group’s performance in 2017 and 2018 experienced downward pressure despite a recovery in 2016. In view of the recent fluctuation in the HEC Group’s performance over the past three years, we consider a review period commencing from 1 January 2016 to the Latest Practicable Date would be useful for the Independent Shareholders in considering the H Share Offer. The H Share price chart below illustrates the daily closing price per H Share from 1 January 2016 up to and including the Latest Practicable Date (the “**Review Period**”), and the comparison of the H Share price performance with Hang Seng Index and the H Share Offer Price.



Source: Bloomberg

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Over 97% of the trading days during the Review Period saw a closing H Share price below the H Share Offer Price of HK\$4.56 per H Share.

From January 2016 to February 2017, the H Shares closed between HK\$2.56 to HK\$4.15 per H Share. The fluctuation is generally in line with that of the Hang Seng Index. The H Share price closed at HK\$3.6 per H Share on 10 March 2017 and increased to HK\$3.76 per H Share on 13 March 2017, the first trading day after the positive profit alert announcement issued by HEC after trading hours on 10 March 2017, stating that a significant increase in net profit was expected for year 2016. Following this, the closing H Share price demonstrated a general upward trend and reached a high of HK\$5.1 per H Share on 13 April 2017.

From late-April 2017 onwards, the H Share price showed a general downward trend for the remaining period in 2017 and closed at HK\$3.27 per H Share on 29 December 2017. As illustrated in the H Share price chart above, such downward trend of the H Share price for the remaining period in 2017 has underperformed the Hang Seng Index.

In the first half of 2018, there was a general decrease in the H Share Price with the lowest closed at HK\$2.2 per H Share on 28 June 2018. During the first half of 2018, HEC released a profit warning announcement on 23 January 2018 and the 2017 annual results announcement on 23 March 2018, indicating a drop in profit attributable to HEC Shareholders of over 50% in 2017 as compared to 2016. The H Shares fluctuated between HK\$2.2 to HK\$2.73 per H Share in the second half of 2018 before the suspension of the H Shares on 18 December 2018. Throughout 2018 and prior to the release of the Announcement, the overall movement of the closing price of the H Shares was generally in line with that of the Hang Seng Index, other than the slight underperformance around March to May 2018.

The H Shares closed at HK\$2.50 per H Share on 17 December 2018 (i.e. the Last Trading Day) and trading in the H Shares was suspended from 9:00 a.m. on 18 December 2018 to 24 December 2018. The Announcement was subsequently published and trading in H Shares resumed on 27 December 2018. The H Shares closed at HK\$3.90 per H Share on 27 December 2018 (the first trading day after the release of the Announcement), representing an increase of approximately 56% compared to the closing H Share price of HK\$2.50 per H Share on the Last Trading Day.

Following the Announcement, we consider the price of the H Shares has been largely affected by the H Share Offer with a H Share Offer Price of HK\$4.56 per H Share. The H Share price closed between HK\$3.9 and HK\$4.24 per H Share subsequent to the publication of the Announcement, while the Hang Seng Index fluctuated between 25,064.36 points and 29,037.60 points during the same period. The H Shares closed at HK\$4.12 per H Share as at the Latest Practicable Date. The H Share Offer Price of HK\$4.56 per H Share represents a premium of approximately 10.68% over the closing H Share price on the Latest Practicable Date.

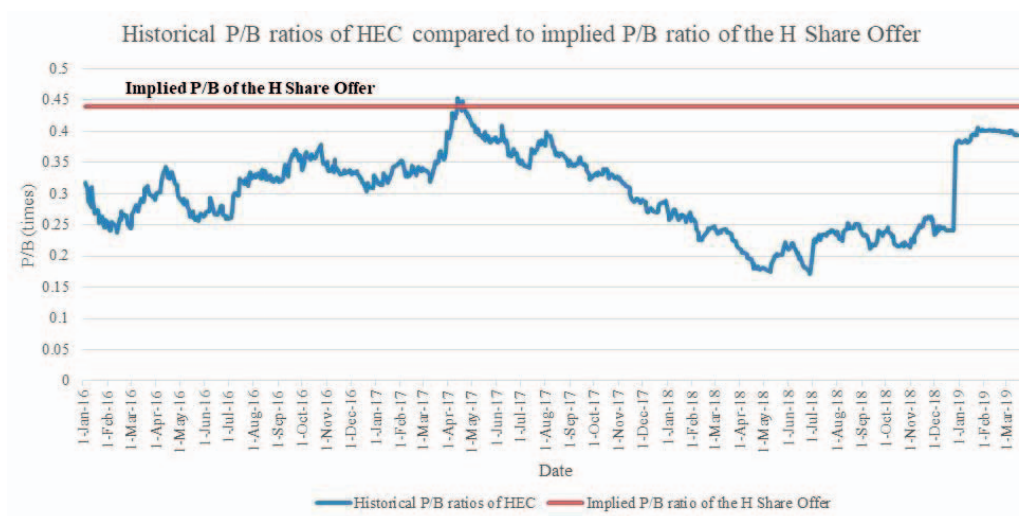
In view of the performance of the H Share price in 2018, Independent Shareholders should be aware that the current H Share price may not be sustained if the H Share Offer lapses.

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(ii) *Historical price-to-book (“P/B”) ratios of HEC*



*Notes:*

1. The historical P/B ratios of HEC were calculated based on HEC’s consolidated net asset value per share attributable to HEC Shareholders as at the preceding year/period end and the closing H Share price on the respective days.
2. The closing H Share prices were extracted from Bloomberg.

The implied P/B ratio of the H Share Offer of approximately 0.44 times is calculated based on the H Share Offer Price of HK\$4.56 per H Share, the issued share capital of HEC of 1,706,523,000 HEC Shares and the consolidated net asset value attributable to the HEC Shareholders of approximately RMB15,026.3 million as at 31 December 2018 (equivalent to approximately HK\$17,822.7 million based on the exchange rate of RMB1:HK\$1.1861 for illustrative purposes). The historical P/B ratios of HEC ranged from approximately 0.17 times to approximately 0.45 times during the Review Period. As shown in the chart above, the historical P/B ratios of HEC during the Review Period were lower than the implied P/B ratio of the H Share Offer of approximately 0.44 times, except for the P/B ratios on 13 April 2017 and 19 to 21 April 2017 (where the P/B ratios were slightly above the implied P/B ratio of the H Share Offer). The P/B ratio of HEC was approximately 0.24 times on the Last Trading Day. The recent increase in P/B ratio is largely due to the increase in the H Share price following the publication of the Announcement as shown in the H Share price chart in the sub-section above.

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*(iii) Trading liquidity*

Set out in the table below are the monthly total trading volumes of the H Shares and the percentages of such monthly total trading volumes to the total issued H Share capital during the Review Period:

	<b>Monthly total trading volume of the H Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares in public float</b> <i>(Note 2)</i>
<b>2016</b>		
January	99,536,205	14.7%
February	44,315,043	6.6%
March	57,225,143	8.5%
April	37,878,971	5.6%
May	42,519,361	6.3%
June	40,805,768	6.0%
July	82,544,721	12.2%
August	40,563,738	6.0%
September	73,807,953	10.9%
October	30,186,202	4.5%
November	22,552,190	3.3%
December	19,692,171	2.9%
<b>2017</b>		
January	33,937,090	5.0%
February	126,601,806	18.7%
March	123,049,617	18.2%
April	104,741,562	15.5%
May	54,683,358	8.1%
June	59,533,029	8.8%
July	61,861,379	9.2%
August	71,782,312	10.6%
September	56,454,941	8.4%
October	37,164,851	5.5%
November	35,500,044	5.3%
December	23,262,220	3.4%

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	<b>Monthly total trading volume of the H Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares in public float</b> <i>(Note 2)</i>
<b>2018</b>		
January	63,021,675	9.3%
February	38,314,816	5.7%
March	27,556,968	4.1%
April	81,035,085	12.0%
May	60,098,886	8.9%
June	52,035,000	7.7%
July	31,276,000	4.6%
August	41,552,000	6.2%
September	27,257,331	4.0%
October	23,221,548	3.4%
November	34,283,000	5.1%
December <i>(Note 3)</i>	102,419,790	15.2%
<b>2019</b>		
January	184,720,355	27.3%
February	76,534,518	11.3%
From 1 March up to and including the Latest Practicable Date	44,314,975	6.6%

*Notes:*

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the H Shares divided by the total issued H Share capital of HEC at the end of each month (or at the Latest Practicable Date for March 2019). As 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) does not legally or beneficially own any H Share, the total issued H Share capital represents the total number of H Shares in public float.
3. Trading of the H Shares was suspended from 18 December 2018 to 24 December 2018 pending the publication of the Announcement.



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From the table above, we note that the monthly total trading volume of the H Shares (as a percentage to the total issued H Shares in public float) has not been consistently active during the Review Period prior to the publication of the Announcement. The percentages of monthly total trading volumes of the H Shares to the total issued H Shares were within the range of approximately 2.9% to 18.7% during the Review Period prior to the publication of the Announcement.

In general, the trading was relatively more active before 2018, with approximately three to four months in each of 2016 and 2017 recording a percentage of the monthly total trading volumes of the H Shares to the total issued H Shares over 10%. In 2018, before the publication of the Announcement, only one month (April 2018) has recorded a percentage of monthly total trading volume of the H Shares to the total issued H Shares over 10%. In our view, the publication of the Announcement on 24 December 2018 heightened the trading activity in December 2018, with the total monthly trading volume of H Shares increasing to 102,419,790 H Shares in December 2018 (representing approximately 15.2% of the total issued H Shares in public float), where 90,431,790 H Shares were traded during the period after the release of the Announcement.

Given the relatively thin trading volume in the H Shares since 2018, if the HEC H Shareholders wish to sell a significant number of H Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the H Shares. The higher level of trading volume subsequent to the Announcement may not, in our view, be sustained if the H Share Offer lapses. Therefore, the H Share Offer provides an opportunity for the HEC H Shareholders, especially those holding a large block of H Shares, to dispose of their holdings at a fixed cash price if they so wish.

### *(iv) H Share Offer Price comparisons*

The H Share Offer Price of HK\$4.56 per H Share in cash 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 the Last Trading Day;
- (b) a premium of approximately 80.52% over the average closing price of approximately HK\$2.53 per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 80.02% over the average closing price of approximately HK\$2.53 per H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 77.50% over the average closing price of approximately HK\$2.57 per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (e) a premium of approximately 85.64% over the average closing price of approximately HK\$2.46 per H Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;

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- (f) a premium of approximately 84.96% over the average closing price of approximately HK\$2.47 per H Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day;
- (g) a premium of approximately 10.68% over the closing price of HK\$4.12 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (h) a discount of approximately 56.34% to the audited consolidated net asset value attributable to the HEC Shareholders per HEC Share of approximately RMB8.81 as at 31 December 2018 (equivalent to approximately HK\$10.44 per HEC Share based on the exchange rate of RMB1:HK\$1.1861 for illustrative purposes).

In summary, the H Share Offer Price of HK\$4.56 per H Share represents premia in a range of approximately 77.50% to 85.64% over the closing H Share prices for different periods before the Last Trading Day, which is considered favourable to the Independent Shareholders.

The H Share Offer Price also represents a discount of approximately 56.34% to the audited consolidated net asset value attributable to the HEC Shareholders per HEC Share as at 31 December 2018. As discussed in the sub-section headed “(ii) Historical price-to-book ratios of HEC” under the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter above, it is noted that the H Share price has consistently closed at a very substantial discount to net asset value per HEC Share during the Review Period.

### 5. Peer company analysis

As mentioned in the section headed “2. Information and prospects of the HEC Group” of this letter above, the HEC Group is principally engaged in manufacturing of power-generating equipment in the PRC and provision of engineering services for power stations, with substantial amounts of revenue generating from thermal power related businesses. Accordingly, we have conducted a search on Bloomberg for companies listed on the Main Board of the Stock Exchange (the “**Comparable Companies**”) which, based on their latest published annual reports available as at the date immediately before the Latest Practicable Date, are principally engaged in both manufacturing and distribution of power generation equipment (with thermal power equipment included) and engineering services for power station projects. The Comparable Companies set out in the table below represent an exhaustive list of companies comparable to HEC based on the above criteria. The comparison of

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the price-to-earnings (“P/E”) ratio and the P/B ratio of the H Share Offer with the Comparable Companies are set out below.

<b>Comparable Companies</b>	<b>Principal activities</b>	<b>Historical P/E ratio</b> <i>(Approximate times)</i> <i>(Note 1)</i>	<b>Historical P/B ratio</b> <i>(Approximate times)</i> <i>(Note 1)</i>
Shanghai Electric Group Company Limited (stock code: 2727)	Design, manufacture and sale of electric power and industrial equipment and provision of integrated engineering services for power station projects and other industries	12.41	0.67
Dongfang Electric Corporation Limited (stock code: 1072)	Manufacture and distribution of power generation equipment and provision of construction contracting services	13.17	0.62
	<b>Mean (simple average)</b>	12.79	0.65
	<b>Maximum</b>	13.17	0.67
	<b>Minimum</b>	12.41	0.62
	<b>H Share Offer</b>	92.0 <i>(Note 2)</i>	0.44 <i>(Note 3)</i>

*Notes:*

1. The historical P/E ratios and P/B ratios of the Comparable Companies are extracted from Bloomberg as at the Latest Practicable Date.
2. The implied P/E ratio of HEC is calculated based on the H Share Offer Price of HK\$4.56 per H Share and the earnings per share of HEC (including H Share) of approximately RMB0.042 for the year ended 31 December 2018 (equivalent to approximately HK\$0.0496 based on the exchange rate of RMB1:HK\$1.1861 for illustrative purposes).
3. The implied P/B ratio of HEC is calculated based on the H Share Offer Price of HK\$4.56 per H Share and the consolidated net asset value attributable to the HEC H Shareholders per share of approximately RMB8.81 as at 31 December 2018 (equivalent to approximately HK\$10.44 based on the exchange rate of RMB1:HK\$1.1861 for illustrative purposes).

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### *P/E ratio*

As set out in the table above, the implied P/E ratio of HEC at the H Share Offer Price of approximately 92.0 times is significantly above the historical P/E ratios of the two Comparable Companies, which we consider favourable to the Independent Shareholders. In addition, as at the Last Trading Day, the P/E ratio of HEC was approximately 18.5 times (based on the H Share price as at the Last Trading Day and earnings per HEC Share for the year ended 31 December 2017), which was also above the historical P/E ratios of the two Comparable Companies. The implied P/E ratio of HEC at the H Share Offer Price (which is approximately four times higher than that on the Last Trading Day), which is only available in the context of the H Share Offer, implies that the H Share Offer Price is even more attractive compared to the Comparable Companies. Based on the above analysis, we consider the H Share Offer Price to be attractive as compared to the Comparable Companies.

### *P/B ratio*

As set out in the table above, the historical P/B ratios of the two Comparable Companies were approximately 0.62 times and 0.67 times respectively, with a mean of approximately 0.65 times. The implied P/B ratio of the H Share Offer Price as discussed above of approximately 0.44 times is below the historical P/B ratios of the two Comparable Companies.

As discussed in the sub-section headed “(ii) Historical price-to-book ratios of HEC” under the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter above, the H Share price has been trading substantially below the net asset value per H Share during the Review Period. Despite a relatively low implied P/B ratio of the H Share Offer Price, which represents a discount of approximately 56.3% to the net asset value per H Share as at 31 December 2018, such implied P/B ratio is higher than the historical P/B ratios of HEC for majority of time during the Review Period and it is approximately 83.3% higher than that of the Last Trading Day. The P/B ratio of HEC on the Last Trading Day was also outside the range of those of the two Comparable Companies identified as shown in the table above. In view of the above, based on (i) historical P/B ratios of HEC during the Review Period; and (ii) the comparison of the P/B ratio of HEC on the Last Trading Day of approximately 0.24 times with those of the Comparable Companies, it is considered that the H Share price may not be reflecting the performance of the net assets position of the HEC Group and hence we have placed less weight on the P/B ratio analysis as compared to the P/E ratio analysis.

## 6. **Privatisation precedents**

We have compared the H Share Offer to privatisation proposals of other companies listed on the Stock Exchange announced since 1 January 2017 and up to the Latest Practicable Date, excluding privatisation proposals which were not/yet to be approved or were not successful (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. The table below illustrates the premia/discounts represented by the cancellation consideration/offer price over/to the respective last trading day and respective last 5 days, 10 days, 30 days, 60 days and 180 days average share prices in respect of such privatisation proposals:

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Date of the announcement	Company name and stock code	Cancellation consideration/ offer price HK\$	closing price per share on the last trading day (%)	Premium/(discount) of the cancellation consideration/offer price over/(to)				
				average closing price per share for the last 5 trading days up to and including the last trading day (%)	average closing price per share for the last 10 trading days up to and including the last trading day (%)	average closing price per share for the last 30 trading days up to and including the last trading day (%)	average closing price per share for the last 60 trading days up to and including the last trading day (%)	average closing price per share for the last 180 trading days up to and including the last trading day (%)
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (stock code: 3355)	1.50	66.7	85.6	97.4	99.3	93.4	84.2
27-Sept-18	Sinotrans Shipping Limited (stock code: 368)	2.70	50.0	54.8	54.6	43.1	37.4	27.9
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (stock code: 0044)	71.81	63.2	63.2	65.1	62.4	60.2	50.0
7-Jun-18	Portico International Holdings Limited (stock code: 0589)	4.10	50.2	51.6	53.2	49.2	45.2	49.9
10-Nov-17	Welling Holding Limited (stock code: 0382)	2.06	30.4	30.4	30.6	34.2	35.8	22.8
8-Sept-17	China National Materials Company Limited ("Sinoma") (stock code: 1893) (Note 2)	4.267	19.2	21.6	24.7	31.2	44.9	67.5
3-Jul-17	China Assets (Holdings) Limited (stock code: 0170)	6.80	61.5	70.3	74.1	76.6	77.1	74.0
19-Jun-17	Bloomage BioTechnology Corporation Limited (stock code: 0963)	16.30	16.8	23.4	24.8	24.8	30.8	32.6

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Premium/(discount) of the cancellation consideration/offer price over/(to)									
Date of the announcement	Company name and stock code	Cancellation consideration/offer price HK\$	closing price per share on the last trading day (%)	average closing price per share for the last 5 trading days up to and including the last trading day (%)	average closing price per share for the last 10 trading days up to and including the last trading day (%)	average closing price per share for the last 30 trading days up to and including the last trading day (%)	average closing price per share for the last 60 trading days up to and including the last trading day (%)	average closing price per share for the last 180 trading days up to and including the last trading day (%)	
29-May-17	China Metal International Holdings Inc. (stock code: 0319)	3.01	27.5	26.7	26.5	25.9	22.9	18.3	
28-Apr-17	Belle International Holdings Limited (stock code: 1880)	6.30	19.5	23.3	23.6	21.5	22.9	26.4	
20-Apr-17	TCC International Holdings Limited (stock code: 1136) <i>(Note 3)</i>	3.60	38.5	42.3	43.1	51.0	66.9	88.8	
29-Mar-17	Goldin Properties Holdings Limited (stock code: 0283)	9.00	14.2	26.5	32.9	32.9	30.5	46.7	
13-Mar-17	Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (stock code: 8058)	17.00	31.8	30.4	33.5	39.6	48.5	50.4	
7-Mar-17	Yingde Gases Group Company Limited (stock code: 2168)	6.00	(3.5)	1.8	8.8	21.2	47.1	77.9	
10-Jan-17	Intime Retail (Group) Company Limited (stock code: 1833)	10.00	42.3	47.5	47.9	51.8	53.6	53.7	

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Date of the announcement	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)				
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 180 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)	(%)
		<i>Mean (simple average)</i>	35.2	40.0	42.7	44.3	47.8	51.4
		<i>Median</i>	31.8	30.4	33.5	39.6	45.2	50.0
		<i>Maximum</i>	66.7	85.6	97.4	99.3	93.4	88.8
		<i>Minimum</i>	(3.5)	1.8	8.8	21.2	22.9	18.3
<b>24-Dec-18</b>	<b>HEC</b>	<b>4.56</b>	82.4	80.5	80.0	77.5	85.6	85.0

Source: Bloomberg and website of the Stock Exchange

Notes:

- The premia/discounts of the cancellation consideration/offer price over/(to) the share price averages for the respective periods were calculated based on (i) the cancellation consideration/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatisation proposal; and (ii) the historical share prices of the companies extracted from Bloomberg.
- The cancellation price for privatisation proposal for Sinoma is calculated based on the consideration of 0.85 China National Building Material Company Limited ("CNBM") H share for 1 Sinoma share and the closing price of each CNBM H share on the last trading day.
- The cash alternative of HK\$3.60 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative for eligible investors based on the ratio of 0.42 and the closing price on the applicable last trading date was HK\$3.93.
- For the purpose of this table, last trading day represents the last full trading day in the respective shares immediately before the publication of the respective announcement.

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The terms of the Privatisation Precedents set out above provide, in our view, a general guide to the premium over market prices needed in Hong Kong to secure a successful privatisation. Based on the table above, the average premia of the Privatisation Precedents over the last trading day share price, 5 days, 10 days, 30 days, 60 days and 180 days share price averages were approximately 35.2%, 40.0%, 42.7%, 44.3%, 47.8% and 51.4% respectively, and the premia represented by the H Share Offer Price over the average closing prices of the H Shares for the respective periods of approximately 77.5% to 85.6% are higher than the average premia and close to the high end of the range of premia of the Privatisation Precedents. Overall, we consider the premia represents by the H Share Offer Price is favourable compared with market practice.

### **7. Analysis on the Delisting and the Merger**

As mentioned in the sections above, HEC will make an application for the Delisting upon the H Share Offer becoming unconditional and subject to the obtaining of the relevant shareholders' approval of the Delisting, while the Merger will proceed subject to the completion of the H Share Offer, the Delisting becoming effective and the fulfilment or waiver (as applicable) of the Merger Conditions, including but not limited to the Independent Shareholders' approval.

As discussed in the section headed "1. Background to and reasons for the H Share Offer, the Delisting and the Merger" of this letter above, considering a number of factors such as (a) the increasing pressure over the HEC Group's sales and profitability in the prevailing market environment with the focus on clean and renewable forms of generation at the expense of thermal generation; (b) the benefits to carry out the H Share Offer given the significant premium represented by the H Share Offer Price over the H Share prices prior to the Announcement; and (c) the opportunity to realise the investments in HEC in light of the limited liquidity of the H Shares, we consider the Delisting and Merger (together with the H Share Offer) are measures with an overall objective to facilitate business integration amongst HEG and HEC as well as to optimise their corporate structure, enhance management effectiveness, promote future development of HEG and its subsidiaries and the elimination of overlap of resources and the enhancement of interest alignment and resources integration between HEC and HEG. If the H Share Offer becomes unconditional and the H Shares are delisted from the Stock Exchange, and assuming the Merger does not proceed, shareholders will be holding unlisted securities. The Merger, if implemented, will avoid the Independent Shareholders holding unlisted shares as a result of the Delisting.

As part of the Merger and pursuant to the Merger Agreement, 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 recorded on the Registers as at the Merger Effective Date and 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. Given that the Merger Price is equal to the H Share Offer Price of HK\$4.56 per H Share, it is considered to be reasonable.

Having considered the above, we consider the Delisting and the Merger, coupled with the H Share Offer, can provide a valuable opportunity for the Independent Shareholders to realise their investments in HEC, and are fair and reasonable and in the interests of the Independent Shareholders.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Shareholders should also be aware that as the Merger Conditions (in respect of the Merger) are different from the Conditions (in respect of the H Share Offer), even following the successful completion of the H Share Offer and the Delisting, there is no certainty that the Merger will proceed.

Independent Shareholders are encouraged to read in details the terms and conditions of the Merger contained in the “Letter from the Board”, the “Letter from Citigroup” and Appendix II contained in the Composite Document.

### DISCUSSION

Independent Shareholders should consider the H Share Offer, the Delisting and the Merger Agreement and the Merger contemplated thereunder based on the principal factors and reasons set out in details above and summarised below.

#### (i) Thermal power sector under pressure

Thermal power generating equipment and engineering services mainly for thermal power projects are the major product segments of the HEC Group. The prospects for the HEC Group’s thermal power related segments are affected not only by overcapacity problems in the industry but also by the PRC government policies, especially the emphasis on promoting clean and renewable forms of power generation. The management of HEC has been carrying out measures to increase the HEC Group’s participation in renewable energy sectors, but it will take time for such measures to take effect.

#### (ii) Recent poor results

Reflecting these headwinds, the performance of the HEC Group has tended to deteriorate in the past six years (except for 2016). The consolidated profits attributable to owners of HEC decreased in 2018 by approximately 63.3% compared to 2017. Bearing in mind the uncertainties as regards the HEC Group’s product changes and the effect of PRC government policies, it seems to us likely that the HEC Group will continue to face challenges and uncertainties regarding its financial performance in the short to medium term.

#### (iii) Reasons for the H Share Offer

In view of the changes in market conditions for thermal power and the deterioration in recent financial performance of the HEC Group, HEG, the controlling shareholder of HEC, is making the H Share Offer which, together with the Merger, will simplify the overall group corporate structure and promote business integration between HEC and HEG.

#### (iv) H Share Offer Price

The H Share Offer will be made at the H Share Offer Price of HK\$4.56 per H Share in cash. **HEG has stated that it will not increase the H Share Offer Price and does not reserve the right to do so.** If the H Share Offer fails, HEG cannot in normal circumstances put forward another such proposal for at least twelve months.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **(v) Premium over market price of H Shares**

We have reviewed a number of factors when assessing the fairness of the H Share Offer Price. One of the most important factors has been the premium of the H Share Offer Price over the H Share market prices prior to the Announcement, which is high. The H Share Offer Price has been above the closing H Share prices, mostly quite significantly, during our Review Period and before the Announcement, except for a short period around April and early May 2017. The H Share Offer Price represents a range of premia of approximately 78% to 86% over the closing H Share prices for periods up to 180 trading days prior to the publication of the Announcement.

### **(vi) Trading generally not active**

Trading of the H Shares has not been consistently active during the Review Period and has become relatively thin since 2018. Although trading liquidity increased after publication of the Announcement, that level may not be sustained if the H Share Offer lapses. The H Share Offer provides an opportunity for the HEC H Shareholders, especially those holding a large block of H Shares, to dispose of their holdings at a fixed cash H Share Offer Price without affecting market prices.

### **(vii) P/E ratio**

The H Share Offer Price also compares favourably in terms of P/E ratio of the Comparable Companies. The implied P/E ratio of HEC at the H Share Offer Price is approximately six times higher than the P/E ratios of the Comparable Companies.

### **(viii) Dividend yield**

No dividend was declared by HEC for 2018. Dividend yield of the Hang Seng Index as at the Latest Practicable Date is also significantly higher than the implied dividend yield of approximately 0.4% for 2017 based on the H Share Offer Price. Independent Shareholders who accept the H Share Offer could, if they wished, reinvest the proceeds from the H Share Offer in other listed Hong Kong companies to achieve a higher yield.

### **(ix) Privatisation Precedents**

We have compared the premium of the H Share Offer Price over the historical trading prices of the Privatisation Precedents. The premia for the H Share Offer over various recent periods are at the high end of the range of premia of the Privatisation Precedents, which suggests the basis of the H Share Offer Price is favourable compared with market practice.

### **(x) P/B ratio**

A comparatively weaker aspect of the H Share Offer is the relatively low P/B ratio of approximately 0.44 times (representing the H Share Offer Price divided by the audited consolidated net assets of the HEC Group per HEC Share as at 31 December 2018). The H Share Offer Price represents an implied P/B ratio lower than those of the Comparable Companies. However, the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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H Shares have been trading at a heavy discount to net asset value of the HEC Group throughout the Review Period. The closing H Share price on the Last Trading Day represented a very low P/B ratio of approximately 0.24 times (equivalent to a discount of approximately 76% to the net asset value).

It is not entirely clear why the prevailing P/B ratio of the HEC Group has been so low, but factors such as the capital intensive nature of the business with a high debt ratio may be relevant. In any event, it is apparent that the H Share price has historically not reflected the net asset value of the HEC Group and hence we have placed less weight on the P/B ratio as compared to the premium of the H Share Offer Price over market, the P/E ratio it represents and the comparison with the Privatisation Precedents.

### (xi) Listed status

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, and assuming the Merger does not proceed, such Independent Shareholders will hold securities that are not listed on the Stock Exchange or any other exchange. In addition, HEC may or may not continue to be subject to the protections to minority shareholders under the Takeovers Code after the completion of the H Share Offer. The Merger contemplated under the Merger Agreement (subject to certain conditions, including but not limited to the Independent Shareholders' approval) allows the then existing HEC H Shareholders recorded on the Registers on the Merger Effective Date to receive a Merger Price of HK\$4.56 per H Share in cash for cancellation of relevant rights attaching to such H Shares if the Merger is approved and implemented. Independent Shareholders should note that HEG will not be obliged to pay the Merger Price should the Merger not be implemented and therefore the then Independent Shareholders will be holding securities that are not listed on the Stock Exchange in such circumstances.

### OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the H Share Offer, the Delisting and the Merger are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to (i) vote in favour of the resolutions to approve the Delisting and the Merger Agreement and the Merger contemplated thereunder at the H Share Class Meeting; and (ii) vote in favour of the resolution to approve the Merger Agreement and the Merger as contemplated thereunder at the Extraordinary General Meeting.

We also advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to accept the H Share Offer.

Independent Shareholders are advised to monitor the H Share price performance and liquidity of the H Shares during the period of the H Share Offer. Since the Announcement, the market price of the H Shares has been chiefly governed, in our view, by the H Share Offer. Independent Shareholders are

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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reminded of the risk, in our view, of a fall in the H Share price towards its previous level before the Announcement of around HK\$2.2 to HK\$2.88 per H Share, at least in the short term, if the H Share Offer, the Delisting and the Merger are not approved. Independent Shareholders who are sensitive to this risk may consider selling in the market prior to the H Share Class Meeting and the Extraordinary General Meeting.

There is also a possibility that the H Share price may exceed the H Share Offer Price during the Offer Period, although based on recent price movements we consider this unlikely. In the event that the market price of the H Shares exceeds the H Share Offer Price so that the sale proceeds, net of all transaction costs, exceeds the amount receivable under the H Share Offer, the Independent Shareholders should consider selling their H Shares in the market instead of accepting the H Share Offer.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**M. N. Sabine**  
*Chairman*

*Mr. M. N. Sabine is a licensed person registered with the SFC 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. He has over thirty years' experience in the corporate finance industry.*

## 1. PROCEDURES FOR ACCEPTANCE OF THE H SHARE OFFER

### 1.1 The H Share Offer

- (a) To accept the H Share Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the H Share Offer.
- (b) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the H Share Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by post or by hand, marked "**HEC — H Share Offer**" on the envelope, as soon as possible and in any event reach the Registrar no later than 4:00 p.m. on Monday, 20 May 2019, being the Closing Date, or such later time and/or date as HEG may determine and announce in compliance with the requirements of the Takeovers Code.
- (c) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Share(s) is/are in the name of a nominee company or a name other than your own, and you wish to accept the H Share Offer, you must either:
  - (i) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the H Share Offer on your behalf and requesting it to deliver the accompanying Form of Acceptance duly completed together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of H Shares in respect of which you intend to accept the H Share Offer to the Registrar in an envelope marked "**HEC — H Share Offer**";
  - (ii) arrange for the H Share(s) to be registered in your name through the Registrar and send the accompanying Form of Acceptance duly completed together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in an envelope marked "**HEC — H Share Offer**";
  - (iii) if your H Share(s) have been lodged with your licensed securities dealer (or other registered dealer in securities or custodian bank) through CCASS, instruct your licensed securities dealer (or other registered dealer in securities or custodian bank) to authorise HKSCC Nominees Limited to accept the H Share Offer on your behalf on

or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities or custodian bank) for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer (or other registered dealer in securities or custodian bank) as required by them; or

- (iv) if your H Share(s) has/have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
  
- (d) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Share(s) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the H Share Offer, the Form of Acceptance should nevertheless be completed and delivered in an envelope marked "**HEC — H Share Offer**" to the Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s), you should also write to the Registrar for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to the Registrar. HEG shall have the absolute discretion to decide whether any H Shares in respect of which the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by HEG.
  
- (e) If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s) and you wish to accept the H Share Offer, you should nevertheless complete and sign the Form of Acceptance and deliver it in an envelope marked "**HEC — H Share Offer**" to the Registrar together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable instruction and authority to Citigroup and/or HEG and/or any of their respective agent(s) to collect from HEC or the Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such H Share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such H Share certificate(s), subject to the terms and conditions to the H Share Offer, as if it/they were delivered to the Registrar with the Form of Acceptance.

- (f) Acceptance of the H Share Offer will be treated as valid only if the duly completed and signed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on Monday, 20 May 2019, being the Closing Date, or such later time and/or date as HEG may determine and announce in compliance with the requirements of the Takeovers Code, and is:
- (i) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those H Share certificate(s) is/are not in your name, such other documents (for example a duly stamped transfer of the relevant H Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant H Share(s); or
  - (ii) from a registered HEC H Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Share(s) which are not taken into account under another sub-paragraph of this paragraph (f)); or
  - (iii) certified by the Registrar or the Stock Exchange.
- (g) If the Form of Acceptance is executed by a person other than the registered HEC H Shareholder, appropriate documentary evidence of authority (for example grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.
- (h) No acknowledgement of receipt for any Form(s) of Acceptance, H Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## **2. ACCEPTANCE PERIOD**

- (a) The H Share Offer is made on Wednesday, 20 March 2019, the date of posting of this Composite Document, and is capable of acceptance on and from this date. Unless the H Share Offer has previously been extended with the consent of the Executive, to be valid, the Form of Acceptance must be received by the Registrar by 4:00 p.m. on Monday, 20 May 2019, being the Closing Date.
- (b) If the H Share Offer is extended, the announcement of such extension will state the next Closing Date or a statement that the H Share Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to the HEC H Shareholders before the H Share Offer is closed. If the H Share Offer is declared unconditional in all respects, the H Share Offer will be extended and remain open for acceptance for not less than 28 days thereafter.
- (c) If the Closing Date is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date of the H Share Offer so extended.

- (d) The acceptance by or on behalf of a HEC H Shareholder in its original and/or any previously revised form, shall be treated as an acceptance of the relevant H Share Offer so extended.
- (e) Any acceptance of the relevant extended H Share Offer and/or any election pursuant thereof shall be irrevocable unless and until the accepting HEC H Shareholder of the H Share Offer becomes entitled to withdraw his/her/its acceptance under the paragraph headed “4. Effect of Acceptance of the H Share Offer and Right of Withdrawal” below and duly does so.

### **3. SETTLEMENT**

- (a) Settlement of the consideration under the H Share Offer will be made as soon as possible, but in any event within seven Business Days following the later of (i) the Unconditional Date and (ii) the date of receipt of a complete and valid Form of Acceptance by the Registrar in respect of the H Share Offer.
- (b) In the case of the HEC H Shareholders accepting the H Share Offer, each cheque will be despatched by ordinary post to the address specified on the relevant HEC H Shareholder’s Form of Acceptance at his/her/its own risk.
- (c) No fractions of a cent will be payable and the amount of cash consideration payable to a HEC H Shareholder who accepts the H Share Offer will be rounded up to the nearest cent.
- (d) Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honoured and be of no further effect, and in such circumstances cheque holders should contact HEG for payment.
- (e) Settlement of the consideration to which a HEC H Shareholder is entitled under the H Share Offer will be implemented in full accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which HEG may otherwise be, or claim to be, entitled against such HEC H Shareholder.

### **4. EFFECT OF ACCEPTANCE OF THE H SHARE OFFER AND RIGHT OF WITHDRAWAL**

- (a) By validly accepting the H Share Offer, the HEC H Shareholders will sell to HEG their tendered H Shares free from all options, liens, claims, equities, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of the Announcement or which subsequently become attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of the Announcement.

In addition to the Conditions set out in the Letter from Citigroup from pages 8 to 10 of this Composite Document, the H Share Offer is made on the basis that acceptance of the H Share Offer by any HEC H Shareholder will constitute a warranty by such HEC H Shareholder to HEG that the H Shares acquired under the H Share Offer are fully paid and sold by such HEC H Shareholder free from all options, liens, claims, equities, charges,



encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of the Announcement or which subsequently become attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of the Announcement.

- (b) The H Share Offer is conditional upon fulfilment of the Conditions set out in the Letter from Citigroup from pages 8 to 10 of this Composite Document. Acceptance of the H Share Offer tendered by the HEC H Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the H Share Offer shall be entitled to withdraw his/her/its acceptance after 21 days from the Closing Date if the H Share Offer has not by then become unconditional as to acceptances. An acceptor of the H Share Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.
- (c) Under Rule 19.2 of the Takeovers Code, if HEG is unable to comply with any of the requirements of making announcements relating to the H Share Offer set out in the section headed “5. ANNOUNCEMENTS” of this Appendix I, the Executive may require that the HEC H Shareholders who have tendered acceptances to the H Share Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.
- (d) Upon the withdrawal of acceptance by a HEC H Shareholder, HEG shall (or shall procure), as soon as possible but in any event within 10 days thereof, return by ordinary post, the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the H Share(s) lodged with the Form of Acceptance to such HEC H Shareholder.

## **5. ANNOUNCEMENTS**

- (a) The announcement of the results of the H Share Offer will be jointly issued by HEG and HEC and posted on the website of the Stock Exchange by 7:00 p.m. on Monday, 20 May 2019, being the Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 of the Takeovers Code and will include, among other things, the results of the H Share Offer.
- (b) If the H Share Offer is extended, the announcement of such extension will state the next Closing Date or a statement that the H Share Offer will remain open until further notice. If the H Share Offer is unconditional in all respects, a statement may be made that the H Share Offer will remain open for acceptance for at least 28 days thereafter in accordance with the Takeovers Code.

- (c) The results announcements shall specify the total number of H Shares and rights over H Shares:
  - (i) for which acceptances of the H Share Offer have been received;
  - (ii) held, controlled or directed by HEG or 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) before the Offer Period; and
  - (iii) acquired or agreed to be acquired during the Offer Period by HEG or 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).
- (d) The results announcements must include details of any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in HEC which HEG or 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) has/have borrowed or lent, save for any borrowed H Shares which have been either on-lent or sold.
- (e) The results announcements shall specify the percentages of the relevant classes of share capital of HEC, and the percentages of voting rights, represented by these numbers.
- (f) If HEG, its concert parties or its advisers make(s) any statement about the level of acceptances or the number or percentage of accepting HEC H Shareholders during the Offer Period, then HEG must make an immediate announcement in compliance with Note 2 to Rule 19 of the Takeovers Code.
- (g) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the H Share Offer in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

## **6. NOMINEE REGISTRATION**

To ensure the equality of treatment of all HEC H Shareholders, registered HEC H Shareholders who hold the H Share(s) as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of H Share(s) whose investments are registered in the names of nominees to accept the H Share Offer, it is essential that they provide instructions of their intentions to the H Share Offer to their respective nominees.

## **7. POSTING**

All documents and remittances to be sent to the HEC H Shareholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent, in the case of HEC H Shareholders, at their addresses as they appear in the Registers, in the case of joint HEC

H Shareholders, to the HEC H Shareholder whose name appears first in the Registers. None of HEG, HEC, Citigroup, Somerley, the Registrar or any of their respective directors or agents or any other person involved in the H Share Offer will be responsible for any loss or delay in transmission or any other liability that may arise as a result thereof.

#### **8. OVERSEAS HEC H SHAREHOLDERS**

- (a) The H Share Offer is in respect of a company incorporated in the PRC and listed in Hong Kong and is therefore subject to the procedure and disclosure requirements of laws, regulations and rules in Hong Kong which may be different from those in other jurisdictions. The ability of HEC H Shareholders who are citizens, residents or nationals of jurisdictions outside of Hong Kong to participate in the H Share Offer may be subject to the laws and regulations of the relevant jurisdictions. It is the responsibility of each such HEC H Shareholder to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes due from such HEC H Shareholder in such relevant jurisdictions.
- (b) Any acceptance by any HEC H Shareholder will be deemed to constitute a representation and warranty from such HEC H Shareholder to HEG and HEC that all local laws and requirements have been complied with and that the H Share Offer can be accepted by such HEC H Shareholder lawfully under the laws of the relevant jurisdiction. HEC H Shareholders should consult their professional advisers if in doubt.

#### **9. HONG KONG STAMP DUTY AND TAXATION**

- (a) Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration arising on acceptance of the H Share Offer will be payable by the HEC H Shareholders who accept the H Share Offer. The relevant amount of stamp duty will be deducted from the consideration payable to such HEC H Shareholders under the H Share Offer. HEG will bear its own portion of buyer's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of acceptances of the H Share Offer and will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the H Shares which are validly tendered for acceptance under the H Share Offer.
- (b) There may be tax implications on the HEC H Shareholders in relation to the H Share Offer depending on the individual circumstances of the HEC H Shareholders. HEC H Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the H Share Offer. It is emphasised that none of HEG, HEC and their ultimate beneficial owners and concert parties, Citigroup, Somerley, the Registrar or any of their respective directors or professional advisers or any persons involved in the H Share Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the H Share Offer.

**10. GENERAL**

- (a) All communications, notices, the Form of Acceptance, H Share certificate(s), transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the H Share Offer to be delivered by or sent to or from the HEC H Shareholders will be delivered by or sent to or from them, or their designated agents, by post at their own risk, and none of HEG, HEC, Citigroup, Somerley, the Registrar or any of their respective directors or agents or any other person involved in the H Share Offer accepts any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the H Share Offer.
- (c) The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the H Share Offer is made will not invalidate the H Share Offer in any way.
- (d) The H Share Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a HEC H Shareholder will constitute such HEC H Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the H Share Offer.
- (e) Due execution of a Form of Acceptance will constitute an authority to HEG, Citigroup or such person or persons as any of them may direct to complete, amend and execute any document on behalf of the person or persons accepting the H Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in HEG, or such person or persons as it may direct, the H Share(s) in respect of which such person or persons has/have accepted the H Share Offer.
- (f) The settlement of the consideration to which any HEC H Shareholder is entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which HEG may otherwise be, or claim to be, entitled against such HEC H Shareholder.
- (g) Any HEC H Shareholders accepting the H Share Offer will be responsible for payment of any transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.
- (h) In making their decision, HEC H Shareholders must rely on their own examination of the HEC Group and the terms of the H Share Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance, shall not be construed as any legal or business advice on the part of HEG, HEC, Citigroup or their respective professional advisers. HEC H Shareholders should consult their own professional advisers for professional advice.

- (i) 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 Overseas HEC H Shareholders wishing to accept the H Share Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Such Overseas HEC H Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties due by such Overseas HEC H Shareholders in respect of the relevant jurisdictions. The Overseas HEC H Shareholders are recommended to seek professional advice on deciding whether or not to accept the H Share Offer.
  
- (j) This Composite Document and the Form of Acceptance have been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the H Share Offer in Hong Kong and the operating rules of the Stock Exchange.

## **11. INTERPRETATION**

- (a) A reference in this Composite Document to a HEC H Shareholder includes a reference to a person(s) who, by reason of an acquisition or transfer of H Shares, is entitled to execute a Form of Acceptance and in the event of more than one person executing a Form of Acceptance, the provisions of this Composite Document apply to them jointly and severally.
  
- (b) A reference in this Composite Document and the Form of Acceptance to the H Share Offer shall include any extension thereof.
  
- (c) A reference in this Composite Document and the Form of Acceptance to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural, and vice versa.

*The purpose of this section is to provide a summary of the terms of the Merger Agreement and important information to the HEC Shareholders. As this is a summary, it may not contain all the information of the Merger Agreement. The Merger Agreement is one of the documents available for inspection as referred to in the section headed “Appendix IV — 10. Documents Available for Inspection” of this Composite Document.*

## **INTRODUCTION**

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 Article 172 of 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 recorded on the Registers 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.

## **CERTAIN PROVISIONS OF THE MERGER AGREEMENT**

### **1. Merger Price and Payment of the Merger Price**

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 recorded on the Registers as at the Merger Effective Date, within seven Business Days after the Merger Effective Date.

Pursuant to the Merger Agreement, no further registration of transfer of HEC Shares shall be recorded on the Registers on or after the Merger Effective Date.

Cheques for the Merger Price will be posted to the HEC H Shareholders recorded on the Registers as at the Merger Effective Date by ordinary post at their addresses as shown in the Registrar or, in the case of joint holders, to the address of that joint holder as shown in the Registrar in respect of the joint holding. All such cheques for the Merger Price will be sent at the risk of the persons entitled thereto and neither HEG nor HEC will be liable for any loss or delay in transmission.

Upon payment of the Merger Price, the relevant rights attaching to the H Shares are deemed to be cancelled.

**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 Shareholder(s)**

Any Dissenting HEC H Shareholder, who has voted against the Merger Agreement and the Merger contemplated thereunder at both the Extraordinary General Meeting and the H Share Class Meeting, 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 HEC and/or the HEC Shareholders being requested to purchase such H Shares choose to request HEG to undertake such obligation, HEC and/or such HEC Shareholder is required to (1) submit the written request, revocation request for purchase of Shares at a fair price received or other documents issued to HEC pursuant to the PRC Company Law or the HEC’s Articles to HEG or any of its successors at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC; and (2) let HEG or its successors have the opportunity to take the lead in all the negotiations and procedures in relation to determining the fair price under HEC’s Articles (including the engagement of relevant professional advisers), and unless with the prior written consent of HEG or any of its successors, HEC and/or the HEC Shareholders being requested to purchase the H Shares who choose to request HEG to undertake such obligation shall not proactively confirm or make payment for the fair price as claimed by the Dissenting HEC H Shareholders.

**It is a pre-requisite that a Dissenting HEC H Shareholder has to be a HEC H Shareholder who has registered as a shareholder on the Registers. Therefore, if you decide to exercise your right to request HEC or other HEC Shareholders who have voted for the Merger Agreement and the Merger contemplated thereunder to acquire your H Shares at a “fair price” as a Dissenting HEC H Shareholder and your H Share(s) have been lodged with your licensed securities dealer (or other registered dealer in securities or custodian bank) through CCASS, you shall instruct your licensed securities dealer (or other registered dealer in securities or custodian bank) to register the H Share(s) in the Registers in your own name (instead of in the name of HKSCC Nominees Limited). The latest time for lodging transfers of H Share(s) from the name of HKSCC**

**Nominees Limited to your own name in order to be entitled to attend and vote at both the Extraordinary General Meeting and the H Share Class Meeting will be 4:30 p.m. on Thursday, 4 April 2019. If you are in doubt as to the action you should take, you should consult your licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities or custodian bank) for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer (or other registered dealer in securities or custodian bank) as required by them.**

The provisions regarding the right of the Dissenting HEC H Shareholder(s) 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 that may be incurred by the Dissenting HEC H Shareholders in such process for determining the “fair price”.

According to the Merger Agreement, a Dissenting HEC H Shareholder who 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” shall serve a written notice to HEC Board office at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC. 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, disputes or claims (including the determination of the “fair price”) arise from the rights and obligations set forth in the HEC’s Articles, the 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.

According to the Merger Agreement and the HEC’s Articles, there is no time limit for the Dissenting HEC H Shareholders to exercise their 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”.



The Dissenting HEC H Shareholders are entitled to exercise such right starting from the date on which the Merger Agreement and the Merger contemplated thereunder have been approved at the Extraordinary General Meeting and the H Share Class Meeting.

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.

Pursuant to the HEC's Articles, disputes or claims (including the determination of the "fair price") may be brought to the relevant arbitration bodies. According to the PRC Arbitration Law and other applicable PRC Laws, the time limit for bringing disputes or claims to arbitration is three years, counting from the date on which such person becomes aware of, or ought to be aware of, their asserted infringed rights. Unless there is evidence to the contrary, the three-year time limit for the Dissenting HEC H Shareholders to bring such dispute or claim arising from the determination of the "fair price" to the relevant arbitration body under the HEC's Articles shall be counted from the date on which the Merger Agreement and the Merger contemplated thereunder have been approved at the Extraordinary General Meeting and the H Share Class Meeting.

#### **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 the 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 have 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.

## **6. Representations and Warranties**

### ***Representations and warranties provided by HEG***

The Merger Agreement contains various representations and warranties provided by HEG in relation to the following:

- (1) HEG is duly established and validly existing under the PRC Laws and has the requisite corporate authority to carry on its business and own its existing assets;
- (2) HEG has power to execute the Merger Agreement and to perform the obligations contained thereunder and be legally bound by the Merger Agreement upon execution and may be enforced in accordance with the terms of the Merger Agreement, except as otherwise provided by the PRC Bankruptcy Law or similar law;
- (3) the execution of the Merger Agreement and the performance of the obligations contained thereunder by HEG (i) will not breach or violate, articles of association or other similar constitutional documents of HEG or its subsidiaries (except HEC and its subsidiaries); (ii) will not breach any terms, conditions or provisions of any agreements of HEG; (iii) will not violate any relevant order, injunction, decree, law, rule or regulation applicable to any properties or assets of HEG or its subsidiaries (except HEC and its subsidiaries). In the foregoing clauses (ii) and (iii), if such violation, breach or default would not individually or in aggregate have a material adverse effect on HEG and its subsidiaries (except HEC and its subsidiaries), it should not be deemed as a breach;

- (4) except where third party consent is required under the PRC laws, there is no third party consent that is necessary for the implementation of the Merger, including but not limited to loans, contracts, leases or other parties to the agreement; and
- (5) HEG has sufficient fund to pay for the consideration required to be paid under the Merger and all the costs and expenses in relation to the Merger before the Merger Effective Date.

***Representations and warranties provided by HEC***

The Merger Agreement contains various representations and warranties provided by HEC in relation to the following:

- (1) HEC is duly established and validly existing under the PRC Laws and has the requisite corporate authority to carry on its business and own its existing assets;
- (2) the ownership of the shares of each of the subsidiaries of HEC is not subject to liens, options, pledges, guarantees or third-party rights, any major claims or allegations of any kind;
- (3) the registered share capital of HEC is 1,706,523,000 shares and the total number of Domestic Shares and H Shares issued by HEC are 1,030,952,000 shares (representing approximately 60.41% of the issued shares of HEC) and 675,571,000 shares (representing approximately 39.59% of the issued shares of HEC), respectively;
- (4) HEC has power to execute the Merger Agreement and perform the obligations contained thereunder and be legally bound by the Merger Agreement upon execution and may be enforced in accordance with the terms of the Merger Agreement, except as otherwise provided by the PRC Bankruptcy Law or similar law;
- (5) the execution of the Merger Agreement and the performance of the obligations contained thereunder by HEC (i) will not breach or violate the articles of association or other similar constitutional documents of HEC or its subsidiaries; (ii) will not breach any terms, conditions or provisions of any agreements of HEC; (iii) will not violate any relevant order, injunction, decree, law, rule or regulation applicable to any properties or assets of HEC or its subsidiaries. In the foregoing clauses (ii) and (iii), if such violation, breach or default would not individually or in aggregate have a material adverse effect on HEC and its subsidiaries, it should not be deemed as a breach;
- (6) all documents and materials (including financial statements) provided by HEC to the Stock Exchange in relation to the Merger are true and complete in material respects and there is no material omission or misleading statements on the filing date or, if amended, on the date of the amendment;
- (7) since the date of the latest audited balance sheet of HEC, HEC and its subsidiaries have been operating in their ordinary course of business; HEC is not aware of any material

adverse events or changes having or likely to have, individually or in aggregate, a material adverse effect on HEC and its subsidiaries; and the major assets have not been significantly affected by any flood, fire, explosion or other disasters (whether or not covered by insurance);

- (8) there have been no major lawsuits, inquiries, procedures or investigations known to HEC to be pending or threatened against HEC or any of its subsidiaries;
- (9) the employee benefits schemes, funds, projects, agreements or arrangements of HEC are developed, maintained or funded by HEC or its subsidiaries for the benefit of their employees or former employees. Save for the existing plans, there is no commitment or formal plan to create any major employee plan or modify any existing plans which may have a significant impact to the employees or former employees;
- (10) all necessary tax returns of HEC or its subsidiaries have been formally submitted and all tax payments have been fully paid in full up to the end of the financial year prior to the signing of the Merger Agreement. There is no national, provincial or local audits, reviews or other administrative procedures for taxation or tax reporting or financial status or management of HEC or its subsidiaries that is ongoing or known to HEC. To the best of knowledge of HEC, no tax authority or auditing authority has filed a dispute or request for any tax liability, or request for financial status involving HEC or its subsidiaries or requesting for rectification or punishment;
- (11) the major properties and assets owned by HEC or its subsidiaries (immovable assets, movable assets, properties, mixed, tangible and intangible assets) and the major properties and assets purchased by HEC or its subsidiaries since the date of the latest audited balance sheet of HEC (other than inventory and short term investments) are not subject to mortgage, title defects or objections, lien, claim, allegation, charge, other security interests or other encumbrances; the immovable assets of HEC or its subsidiaries are not subject to right of passage or restrictions, changes, limitation on the use of building except, with respect to all such properties and assets, (1) liens shown on the balance sheet as securing specific liabilities or obligations and liens incurred in connection with the purchase of property and/or assets, if such purchase was effected after the date of the balance sheet, with respect to which no default exists; (2) minor defects on title, if any, none of which are substantial in amount, materially detract from the value or impair the use of the property subject thereto, or impair the operations of HEC or any of its subsidiaries; and (3) no liens is due for current tax payables. The rights, properties and other assets presently owned, leased or licensed by HEC and its subsidiaries and described elsewhere in the Merger Agreement include all rights, properties and other assets necessary to permit HEC and its subsidiaries to conduct their businesses in all material respects in the same manner as their businesses have been conducted prior to the date hereof;
- (12) the principal construction, structures and equipment of HEC and its subsidiaries are reasonably structured and operationally performing well without informed defects which satisfy usage of their purposes. Apart from daily maintenance and repair and overhauls as

scheduled or required by relevant state policies, the principal factories, structures and equipment do not require maintenance or repairment. HEC and any of its subsidiaries have not been notified or informed that their principal construction, structures and equipment are in breach of any applicable architectural, regional planning, environmental, hygiene laws, orders or ordinances or laws, orders or ordinances of other aspects;

- (13) the leasing terms of immovable assets or major movable assets of HEC and its subsidiaries are effective, binding and enforceable and in full force. There is no existing material default thereof by HEC and its subsidiaries as well as any events which constitute material breach by HEC and its subsidiaries (regardless of notifications, lapses of time or occurrences of other events); all lessors thereunder (if necessary) consent to proceed the Merger (if needed) and do not request amendments of the rights or obligations of the lessees thereunder;
- (14) HEC or its subsidiaries abide and are not in violation of PRC state or local laws, rules or ordinances or competent foreign government institutions with respect to the businesses, properties or assets of HEC or its subsidiaries as well as securities laws and ordinances of the jurisdiction which HEC got listed. HEC or its subsidiaries have not received any notifications, allegations, requests, litigations or claims or, to their knowledge, there are no such notifications, allegations, requests, litigations or claims, except those that are reasonably excepted which would not materially and adversely affect HEC or its subsidiaries. The approvals and consents required by the laws, rules and ordinances are in full force, except those that are reasonably excepted which would not materially and adversely affect HEC or its subsidiaries;
- (15) HEC or its subsidiaries (1) comply with all environmental laws in all material aspects, inter alia, compliance of any permits or government authorisations or terms and conditions thereunder; (2) have not received any written notification from government authorities or other organisations claiming that HEC or its subsidiaries are in material breach of environmental laws and they shall accordingly bear responsibilities. To the knowledge of HEC, there are no any ongoing or pending material environmental claims; (3) to the knowledge of HEC, with reasonable expectations, there are no material environmental claims against HEC or its subsidiaries or any individuals or entities of which HEC or its subsidiaries shall bear their responsibilities under the claim due to the contractual or legal applications;
- (16) the intellectual properties belonged or otherwise owned by or permitted to HEC or its subsidiaries to use shall neither be changed nor prejudiced due to the Merger. To the knowledge of HEC, there are currently no ongoing objections, cancellations, mistrials, interferences or retrials involving their intellectual properties which shall be reasonably expected with possibilities that it will have material and adverse effect on HEC or its subsidiaries. To the knowledge of HEC, the business operation and their intellectual properties of HEC or its subsidiaries do not infringe any intellectual properties or any other

propriety rights of any other parties. HEC or its subsidiaries have not been notified by any other persons with doubts of the rights of use by HEC or its subsidiaries. HEC or its subsidiaries have not claimed against other persons in relation to infringement of their intellectual properties;

- (17) all of HEC and each of its subsidiaries maintain effective insurance against fire, obligations and other aspects. Premium payable due on the completion date of the Merger (inclusive of that day) is paid. Notifications in relation to insurance cancellation or termination have not been received. No additional premium is required. Aforementioned insurance shall not be affected or terminated due to the Merger;
- (18) all of the material leaseholds or other material assets of HEC and each of its subsidiaries or any part of them are not sold or officially confiscated, hired or otherwise occupied by government authorities with or without compensation. To the knowledge of HEC, there are no plans for such confiscation, hire or occupation; and
- (19) unless required by the PRC Laws, no consent of any third party is necessary, and the failure to obtain of which will not prevent the consummation of the Merger, which include but not limited to consents from the third party to loans, contracts, leases or other agreements.

#### **7. Termination of the Merger Agreement**

The Merger Agreement will be terminated on or before the Merger Effective Date by:

- (1) either HEC or HEG if:
  - (i) any governmental body has issued an order, decree or ruling or taken any other action (the parties hereto shall use their reasonable efforts to lift such order, decree, ruling or other action), which permanently restrains, enjoins or otherwise prohibits the Merger and such order, decree, ruling or other action has become final and non-appealable;
  - (ii) the Merger Agreement cannot be performed for sixty days due to a force majeure event;
  - (iii) the Merger Conditions have not been fully satisfied or waived (if applicable) by 31 December 2019 (or such other date as HEC and HEG may mutually agree); or
  - (iv) HEC has not obtained the requisite vote at the Extraordinary General Meeting or the H Share Class Meeting;
- (2) HEG may unilaterally terminate the Merger Agreement if HEC has breached any of its representations, warranties or undertakings under the Merger Agreement or other agreements executed in relation to the Merger, where such breach has a material impact on the Merger and has not been rectified within 30 days after the giving of written notice by HEG to HEC (if applicable); or

- (3) HEC may unilaterally terminate the Merger Agreement if HEG has breached any of its representations, warranties or undertakings under the Merger Agreement or other agreements executed in relation to the Merger, which such breach has a material impact on the Merger and has not been rectified within 30 days after the giving of written notice by HEC to HEG (if applicable).

If the Merger is terminated in accordance with the terms of the Merger Agreement, HEC or HEG shall give written notice to the other party stating the terms on which the termination is based on, and HEG or HEC shall not be liable to the other party for any breach of contract for such termination, unless the Merger is terminated as a result of (i) any fraud committed by HEC or HEG before the termination in connection with the Merger or any breach of the Merger Agreement; and (ii) any breach of item (2) or (3) above by HEG or HEC, respectively.

Upon termination of the Merger Agreement, the Merger will not be implemented under the Merger Agreement. HEC will not be obliged to pay the Merger Price to then existing HEC H Shareholders. Under the circumstance that the H Share Offer has become unconditional in all respects and the H Shares have been delisted from the Stock Exchange, the then Independent Shareholders will be holding securities that are not listed on the Stock Exchange.

#### **8. Expenses**

Unless otherwise provided under the Merger Agreement, each of HEG and HEC shall be responsible for the costs incurred by it in connection with the execution and performance of Merger Agreement. Unless otherwise provided under the Merger Agreement, each of HEG and HEC shall be responsible for the taxes incurred in connection with the execution and performance of Merger Agreement, irrespective of whether the Merger Agreement is completed or not.

#### **9. Hong Kong Stamp Duty and Taxation**

Upon the implementation of the Merger, the H Shares, among other HEC Shares, will be cancelled. Therefore, the cancellation of H Shares does not involve the sale and purchase of Hong Kong stock, and in this respect only, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

For the Dissenting HEC H Shareholder who exercises its right to require acquisition of its H Shares, Hong Kong stamp duty is payable at the rate of 0.1% of the consideration.

The stamp duty payable will be deducted from the cash to be received by the Dissenting HEC H Shareholder who exercises such right.

There may be tax implications on the HEC Shareholders in relation to the Merger depending on the individual circumstances of the HEC Shareholders. The HEC Shareholders (including the Dissenting HEC H Shareholders), whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implication of the Merger and, in particular, whether the receipt of Merger Price would make such HEC Shareholders



(including the Dissenting HEC H Shareholders) liable to taxation in the PRC, Hong Kong or in other jurisdictions. It is emphasised that none of HEG, HEC and their ultimate beneficial owners and concert parties, Citigroup, Somerley, the Registrar or any of their respective directors or professional advisers or any persons involved in the Merger accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of the Merger.

#### **10. Conduct of Business by HEC**

HEC undertakes that, upon the signing of the Merger Agreement and prior to the completion of the Merger, save as (i) expressly provided in the Merger Agreement; (ii) approved by HEG; or (iii) the applicable law requirements,

- (1) HEC shall operate its principal business in the usual, prudent and ordinary course and substantially in the same manner as its past practices, and shall use its reasonable efforts to maintain the corporate structure, maintain its existing relations with its employees, customers, suppliers, creditors, business partners and other persons with whom they have business relationship. Prior to the completion of the Merger, all planned capital expenditure and maintenance related to the main business plants of HEC or its subsidiaries should be carried out. If any of such capital expenditure or maintenance cannot be completed on the completion of the Merger, HEC should take all necessary and reasonable actions to carry out all necessary and reasonable preparations, such that it could be completed within reasonable time upon completion of the Merger;
- (2) HEC should not, and should procure that its subsidiaries should not:
  - a. amend the Articles of HEC or other similar constitutional documents;
  - b. issue, sell, transfer, mortgage, dispose of the shares or share capital or voting bonds or convertible shares or share capital or voting rights (or the right to receive such right);
  - c. declare, set aside or pay dividend or other dividend in connection with any share or share capital by way of cash, share or asset;
  - d. subdivide, combine or reclassify any share or share capital;
  - e. redeem, acquire or otherwise directly or indirectly obtain any share or share capital or obtain any notes or guarantee of such share capital;
  - f. undertake or modify any major indebtedness or other significant responsibilities, except in the ordinary course of business or consistent with previous practice;
  - g. change, modify or terminate any material contract, or waive or transfer any material rights or requirements, except in the ordinary course of business or consistent with previous practice;

- h. incur or assume any major long-term indebtedness or short term indebtedness, except in the ordinary course of business;
- i. change any material indebtedness or other obligations, except in the ordinary course of business or consistent with previous practice;
- j. assume, guarantee, endorse or otherwise become responsible (whether directly or otherwise) for material obligations of any other person, except in the ordinary course of business or consistent with previous practice;
- k. offer any material loans, advance, capital contribution or investment, except in the ordinary course of business or consistent with previous practice;
- l. make any material commitment or conduct any material transaction (including but not limited to capital expenditure or purchase, sale or lease of any asset or immovable assets);
- m. transfer, lease, license, sell, mortgage, pledge, dispose of or retain any material assets, except in the ordinary course of business or consistent with previous practice;
- n. sign any contract or transaction related to the purchase of major assets, except in the ordinary course of business or consistent with previous practice;
- o. pay, repurchase, dismiss or settle any material claims, obligations or liabilities (absolute, contingent or otherwise), except for the payment, discharge or satisfaction in the ordinary course of business or consistent with previous practice;
- p. adopt complete or partial liquidation, dissolution, reorganisation, recapitalisation or other reorganisation of it or its subsidiaries (except for the Merger);
- q. change any of the accounting methods, except as required by the PRC or international accounting standards; or
- r. enter into any agreement, contract, commitment or arrangement to do any of the foregoing, or authorise, recommend or declare an intention to do any of the foregoing.

#### **11. Amendments**

Prior to the Merger Effective Date, the Merger Agreement may be amended, modified or supplemented by written agreement between HEG and HEC. Upon the approval of the shareholders of both HEG and HEC, any amendment, modification or supplement on the Merger Agreement should not reduce the Merger Price or change the form of Merger Price.

#### **12. Governing Laws**

The Merger Agreement shall be governed by the PRC Laws.

## 1. FINANCIAL SUMMARY

The following summary financial information for each of the three financial years ended 31 December 2016, 31 December 2017 and 31 December 2018 is extracted from the respective published audited consolidated financial statements of the HEC Group as set forth in the annual reports for the years ended 31 December 2016 and 31 December 2017 of HEC and the 2018 Annual Results Announcement, respectively.

The auditors of the HEC Group, BDO China Shu Lun Pan Certified Public Accountants LLP, did not issue any modified opinion nor any emphasis of matter or material uncertainty related to going concern contained in the auditors' report of the HEC Group for any of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018. There are no exceptional items because of size, nature or incidence of the HEC Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018.

### Summary Consolidated Income Statement

	<b>For the year ended 31 December</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Revenue	26,302,310	31,980,647	31,293,016
Profit/(loss) before income tax	156,854	343,366	657,169
Income tax expense	(54,166)	(82,398)	(165,575)
<b>Profit/(loss) for the year/period</b>	<b>102,688</b>	<b>260,969</b>	<b>491,594</b>
Attributable to:			
Owners of the company	71,317	194,227	413,283
Non-controlling interests	31,371	66,742	78,311
<b>Total comprehensive income/(loss) for the year/period</b>	<b>169,255</b>	<b>288,859</b>	<b>805,694</b>
Attributable to:			
Owners of the company	137,827	219,680	727,383
Non-controlling interests	31,428	69,179	78,311
Earnings /(loss) per share attributable to owners of the company (for profit for the year/period)			
Basic and diluted ( <i>RMB yuan</i> )	0.04	0.14	0.30
Dividend	—	25,598	41,304
Dividend per share ( <i>RMB yuan</i> )	—	0.015	0.03

## Summary Consolidated Statement of Financial Position

	As at 31 December		
	2018	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Total assets	56,541,983	64,838,093	65,867,508
Total liabilities	<u>40,232,952</u>	<u>48,695,941</u>	<u>51,225,093</u>
	<u>16,309,031</u>	<u>16,142,152</u>	<u>14,642,415</u>
Equity attributable to owners of the company	15,026,282	14,870,751	13,433,093
Non-controlling interests	<u>1,282,749</u>	<u>1,271,401</u>	<u>1,209,321</u>
	<u>16,309,031</u>	<u>16,142,152</u>	<u>14,642,415</u>

## 2. CONSOLIDATED FINANCIAL STATEMENTS

Set below is the reproduction of the text of the audited consolidated financial statements of the HEC Group together with the accompanying notes contained in the 2018 Annual Results Announcement. Capitalised terms used in this section have the same meanings as those defined in the 2018 Annual Results Announcement.

## CONSOLIDATION BALANCE SHEET

(Apart from special notes: the unit of amount is RMB)

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current assets:</b>				
Cash and bank		12,543,251,700.19	16,165,238,281.47	16,165,238,281.47
△Settlement reserve				
△Due from banks and other financial institutions		600,000,000.00		
☆Transactional financial assets				
Financial assets at fair value through profit and loss				
Derivative assets				
Notes receivable and accounts receivable	2	9,787,027,952.87	11,585,761,383.44	14,951,037,967.00
Prepayments		3,592,286,216.57	5,389,851,256.88	5,389,851,256.88
△Premium receivable				
△Reinsurance premium receivable				
△Reinsurance reserve receivable				
Other receivables		1,270,159,303.49	956,987,640.88	956,987,640.88
△Buying back the sale of financial assets				
Inventories		10,454,912,311.25	12,099,669,344.43	15,546,042,302.41
Including: raw materials		3,212,257,379.48	3,480,285,176.50	3,480,285,176.50
Merchandise inventories (finished goods)		344,585,898.98	426,733,313.77	426,733,313.77
☆Contract assets	3	8,233,457,249.78	6,811,649,541.54	
Held-for-sale assets				
Current portion of non-current assets		49,955,000.00		
Other current assets		781,645,718.79	3,009,630,060.28	3,009,630,060.28
<b>Total current assets</b>		<u>47,312,695,452.94</u>	<u>56,018,787,508.92</u>	<u>56,018,787,508.92</u>

**APPENDIX III**
**FINANCIAL INFORMATION OF HEC GROUP**

Items	<i>Notes</i>	December 31, 2018	January 1, 2018	December 31, 2017
<b>Non-current assets:</b>				
△Loans and advances issued			492,068.11	492,068.11
☆Debt investments				
Available-for-sale financial assets				85,895,000.00
☆Other debt investments			49,300,000.00	
Held-to-maturity investments				
Long-term receivables		3,358,126.45	2,831,982.28	2,831,982.28
Long-term equity investments		182,173,650.81	202,785,739.51	202,785,739.51
☆Other equity instruments investments		716,953,772.26	36,595,000.00	
☆Other non-current financial assets				
Investment property		233,173,255.85	230,786,722.78	230,786,722.78
Fixed assets		5,868,709,413.99	5,960,919,220.49	5,960,919,220.49
Construction in progress productive biological assets		664,086,992.85	863,769,342.73	863,769,342.73
Oil and gas assets				
Intangible assets		767,164,480.73	771,625,366.77	771,625,366.77
Development disbursements		274,062,234.32	239,205,849.67	239,205,849.67
Goodwill				
Long-term deferred expenses		29,463,079.46	30,412,529.89	30,412,529.89
Deferred tax assets		490,142,216.40	430,581,741.83	430,581,741.83
Other non-current assets				
Including: authorised reserve material				
<b>Total non-current assets</b>		<u>9,229,287,223.12</u>	<u>8,819,305,564.06</u>	<u>8,819,305,564.06</u>
<b>Total assets</b>		<u><u>56,541,982,676.06</u></u>	<u><u>64,838,093,072.98</u></u>	<u><u>64,838,093,072.98</u></u>

**APPENDIX III**
**FINANCIAL INFORMATION OF HEC GROUP**

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current liabilities:</b>				
Short-term borrowings		1,572,908,534.19	3,083,568,542.78	3,083,568,542.78
△Borrowings from central bank				
△Deposits and placements from other financial institutions		1,701,564,614.29	803,027,749.69	803,027,749.69
△Placement from banks and other financial institutions		300,000,000.00		
☆Transactional financial liabilities				
Financial liabilities at fair value through profit and loss				
Derivative liabilities				
Notes payable and Accounts payable	4	19,051,847,769.30	19,531,513,198.03	19,531,513,198.03
Advances from customers				19,691,124,928.12
☆Contract liabilities	3	14,596,720,387.12	19,691,124,928.12	
△Securities sold under agreement to repurchase				
△Fees and commissions payable				
Employee benefits payable		296,206,737.79	319,715,914.16	319,715,914.16
Including: Salary payable		47,549,236.28	91,949,227.59	91,949,227.59
Welfare benefits payable		20,641.00		
# Including: Employee bonus and welfare fund				
Taxes and surcharges payable		374,043,503.79	240,442,949.52	240,442,949.52
Including: taxes payable excluding surcharges		359,389,161.53	227,313,951.19	227,313,951.19
Other payables		282,211,997.43	406,316,171.00	406,316,171.00
△Reinsurance amounts payable				
△Reserve of insurance contract				
△Securities brokering				
△Securities underwriting				
Held-for-sale liabilities				
Current portion of non-current liabilities		200,000,000.00	2,999,707,500.00	2,999,707,500.00
Other current liabilities		188,548.80	134,893.80	134,893.80
<b>Total current liabilities</b>		<u>38,375,692,092.71</u>	<u>47,075,551,847.10</u>	<u>47,075,551,847.10</u>

**APPENDIX III****FINANCIAL INFORMATION OF HEC GROUP**

<b>Items</b>	<i>Notes</i>	<b>December 31, 2018</b>	<b>January 1, 2018</b>	<b>December 31, 2017</b>
<b>Non-current liabilities:</b>				
Long-term borrowings		300,000,000.00	200,000,000.00	200,000,000.00
Bonds payable				
Including: Preferred stocks				
Perpetual debts				
Long-term payable		484,843,694.29	485,953,994.29	485,953,994.29
Long-term employee benefits payable		142,308,359.65	141,039,180.93	141,039,180.93
Provisions		785,172,986.49	631,358,782.54	631,358,782.54
Deferred income		144,934,944.49	154,756,614.71	154,756,614.71
Deferred tax liabilities			7,280,974.79	7,280,974.79
Other non-current liabilities				
Including: authorized reserve fund				
<b>Total non-current liabilities</b>		<u>1,857,259,984.92</u>	<u>1,620,389,547.26</u>	<u>1,620,389,547.26</u>
<b>Total liabilities</b>		<u><u>40,232,952,077.63</u></u>	<u><u>48,695,941,394.36</u></u>	<u><u>48,695,941,394.36</u></u>



**APPENDIX III**
**FINANCIAL INFORMATION OF HEC GROUP**

Items	<i>Notes</i>	December 31, 2018	January 1, 2018	December 31, 2017
<b>Equity:</b>				
Paid-in capital(share capital)		1,706,523,000.00	1,706,523,000.00	1,706,523,000.00
State-owned capital		1,030,952,000.00	1,030,952,000.00	1,030,952,000.00
Including: State-owned legal person's capital		1,030,952,000.00	1,030,952,000.00	1,030,952,000.00
Collectively owned capital				
Private capital				
Including: Individual capital				
Foreign capital		675,571,000.00	675,571,000.00	675,571,000.00
#Less: payback capital				
Paid-in capital (share capital) - net value		1,706,523,000.00	1,706,523,000.00	1,706,523,000.00
Other equity instruments				
Including: Preferred stock				
Perpetual debt				
Capital reserve		3,715,737,494.12	3,690,197,230.17	3,690,197,230.17
Less: treasury shares				
Other comprehensive income		66,045,215.97	18,514,209.22	18,514,209.22
Including: Currency translation reserve		2,716,262.19	-691,329.32	-691,329.32
Specialized reserve		30,812,983.78	19,377,426.96	19,377,426.96
Surplus reserve		809,136,649.47	786,529,945.86	786,529,945.86
Including: Statutory surplus reserve		809,136,649.47	786,529,945.86	786,529,945.86
Other surplus reserve				
#Reserve fund				
#Corporate development fund				
#Return of investment				
△General risk reserve				
Retained earnings	5	8,698,026,738.58	8,649,609,089.09	8,649,609,089.09
Equity attributable to parent company		<u>15,026,282,081.92</u>	<u>14,870,750,901.30</u>	<u>14,870,750,901.30</u>
Minority interests		<u>1,282,748,516.51</u>	<u>1,271,400,777.32</u>	<u>1,271,400,777.32</u>
<b>Total owner's equity</b>		<u>16,309,030,598.43</u>	<u>16,142,151,678.62</u>	<u>16,142,151,678.62</u>
<b>Total liabilities and owner's equity</b>		<u>56,541,982,676.06</u>	<u>64,838,093,072.98</u>	<u>64,838,093,072.98</u>
Corporate representative:	Chief Accountant:	Accounting Supervisor:		

## CONSOLIDATION INCOME STATEMENTS

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
<b>1. Revenue</b>		26,302,310,419.37	31,980,647,049.20
Including: Operating revenue	6	25,879,460,850.62	31,540,323,856.38
△Interest income		422,786,538.17	440,314,100.89
△Premium earned			
△Fees and commissions income		63,030.58	9,091.93
<b>2. Total cost</b>		26,407,437,378.71	31,704,374,594.40
Including: Operating cost	6	22,687,530,919.78	27,267,954,227.34
△Interest expenses		20,736,138.63	24,780,211.04
△Fees and commissions expenses		27,263.79	15,292.72
△Cash surrender amount			
△Net expenses of claim settlement			
△Net provisions for insurance contract reserves			
△Policy dividend expenses			
△Reinsurance expenses			
Taxes and surcharges		203,240,789.57	178,624,849.16
Selling expenses		731,236,125.20	639,375,988.88
Administrative expenses		1,465,162,135.63	1,695,026,548.09
Including: Party building work funds		17,227,024.91	
Research and development expenses		591,928,067.08	558,679,659.76
Financial expenses		36,096,224.78	322,789,200.85
Including: interest expenses		124,294,753.28	241,715,596.09
Interest income		62,278,154.48	47,822,335.41
Net proceeds of exchange		43,507,919.60	
Net exchange loss			100,183,554.29
Impairment on assets		179,934,482.68	1,017,128,616.56
☆Credit impairment losses		491,545,231.57	
Other costs and expenses			
Add: Other income		174,777,343.70	45,731,908.93
Investment income (“-” for loss)		139,663,587.58	121,466,718.09
Including: investment income from associates and joint ventures		33,832,648.30	26,360,761.31
△Gain on foreign exchange (“-” for loss)		-4,285.22	496.06
☆Net exposure hedging returns (“-” for losses)		812,129.03	
Gain from fair-value changes (“-” for loss)			-12,995,817.33
Proceeds from asset disposal (“-” for loss)		2,283,473.35	3,627,423.23

Items	<i>Notes</i>	Current Period	Prior Period
<b>3. Operating profits (“-” for loss)</b>		212,405,289.10	434,103,183.78
Add: non-operating income		47,261,642.78	72,224,866.35
Including: Government grants		4,876,415.01	50,539,789.12
Gain from debt restructuring		1,620,168.00	325,314.71
Less: non-operating expenses		102,812,797.65	162,961,645.20
Including: Loss on debt restructuring		38,647,346.91	
<b>4. Profit before tax (“-” for loss)</b>		156,854,134.23	343,366,404.93
Less: income tax	7	54,166,496.62	82,397,811.03
<b>5. Net profit (“-” for net loss)</b>		102,687,637.61	260,968,593.90
(1) By ownership			
Net profit attributable to parent company		71,316,651.84	194,226,740.00
* Profit/loss attributable to minority share-holders		31,370,985.77	66,741,853.90
(2) By going concern basis			
Continuous operating profit and loss		103,075,019.32	234,628,922.24
Termination of the business profit and loss		-387,381.71	26,339,671.66
<b>6. Other comprehensive income after tax</b>		66,567,309.74	27,890,241.37
Other comprehensive income after tax attributable to parent company		66,510,166.44	25,453,003.92
(1) Comprehensive income not to be reclassified as profit or loss		63,358,777.91	
1. Remeasure the change in net liabilities or net assets of defined beneficiary plans			
2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method			
☆3. Net gain on equity instruments at fair value through other comprehensive income		63,358,777.91	
☆4. Fair value changes in enterprise’s own credit risk			
5. Others			
(2) Other comprehensive income to be reclassified as profit or loss		3,151,388.53	25,453,003.92
1. Share of other comprehensive income of an associate			
☆2. Net gain on debt instruments at fair value through other comprehensive income		434,106.70	
3. Gain or loss from fair value changes of available-for-sale financial assets			18,515,228.86
☆4. The amount of financial assets reclassified into other comprehensive income			

Items	Notes	Current Period	Prior Period
5. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
☆6. Other debt investment credit impairment provision			
7. Cash flow hedging reserve		-690,309.68	11,046,444.74
8. Currency translation reserve		3,407,591.51	-4,108,669.68
9. Other profit or loss to be reclassified			
* Other comprehensive income after tax attributable to minority share-holders		57,143.30	2,437,237.45
<b>7. Total comprehensive income</b>		169,254,947.35	288,858,835.27
Total comprehensive income attributable to parent company		137,826,818.28	219,679,743.92
* Total consolidated income attributable to minority share-holders		31,428,129.07	69,179,091.35
<b>8. Earnings per share:</b>			
(1) Basic earnings per share	8	0.04	0.14
(2) Diluted earnings per share	8	0.04	0.14

Corporate representative:

Chief Accountant:

Accounting Supervisor:

## CONSOLIDATION CASH FLOW STATEMENT

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
<b>1. Cash flows from operating activities:</b>			
Cash received from sales and services		22,354,782,681.00	28,225,962,462.60
△ Net increase in deposits and placements from financial institutions		898,590,519.60	-1,871,034,396.96
△ Net increase in due to central banks			
△ Net increase in placement from financial institutions		-400,000,000.00	
△ Cash received from premiums of original insurance contracts			
△ Net amount of reinsurance business			
△ Net increase in insured deposits and investments			
△ Net increase in disposal of financial assets at fair value through profit and loss			
△ Cash received from interests, fees and commissions		424,925,505.86	447,167,753.39
△ Net increase of placement from banks and other financial institutions			
△ Net increase in repurchasing			
Taxes and surcharges refunds		126,401,116.57	482,180,368.30
Other cash receipts related to operating activities		736,892,044.63	546,476,733.08
<b>Total cash inflows from operating activities</b>		<u>24,141,591,867.66</u>	<u>27,830,752,920.41</u>
Cash paid for goods and services		19,119,364,492.84	24,402,799,893.73
△ Net increase in loans and advances		-492,068.11	-6,059,019.07
△ Net increase in deposits with central banks and other financial institutions		-112,415,761.06	-36,795,414.91
△ Cash paid for claim settlements on original insurance contracts			
△ Cash paid for interest, fees and commissions		36,902,209.86	28,321,122.91
△ Cash paid for policy dividends			
Cash paid to and for employees		2,839,831,972.33	2,815,255,957.74
Taxes and surcharges cash payments		1,496,406,732.76	1,312,144,726.28
Other cash payments related to operating activities		1,437,993,936.57	2,007,334,731.37
<b>Total cash outflows from operating activities</b>		<u>24,817,591,515.19</u>	<u>30,523,001,998.05</u>
<b>Net cash flows from operating activities</b>		<u><u>-675,999,647.53</u></u>	<u><u>-2,692,249,077.64</u></u>

Items	<i>Notes</i>	Current Period	Prior Period
<b>2. Cash flows from investing activities:</b>			
Cash received from withdraw of investments		4,220,000,000.00	3,390,000,000.00
Cash received from investment income		107,622,371.16	207,910,838.39
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,456,938.83	7,040,342.41
Net cash received from disposal of subsidiaries and other business units		3,607,833.22	
Other cash receipts related to investing activities		<u>18,173,074.77</u>	<u>8,143,264.60</u>
<b>Total cash inflows from investing activities</b>		<u>4,353,860,217.98</u>	<u>3,613,094,445.40</u>
Cash paid for fixed assets, intangible assets and other long-term assets		398,730,260.63	1,029,227,966.42
Cash payments for investments		2,267,999,994.35	4,090,000,000.00
△ Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities		<u>5,467,409.36</u>	<u>2,983,041.09</u>
Total cash outflows from investing activities		<u>2,672,197,664.34</u>	<u>5,122,211,007.51</u>
Net cash flows from investing activities		<u>1,681,662,553.64</u>	<u>-1,509,116,562.11</u>
<b>3. Cash flows from financing activities:</b>			
Cash received from investments by others			1,269,999,456.00
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		1,064,550,263.57	1,410,490,000.00
△ Cash received from bond issues			
Other cash receipts related to other financing activities		<u>5,178,584.78</u>	<u>6,970,000.00</u>
<b>Total cash inflows from financing activities</b>		<u>1,069,728,848.35</u>	<u>2,687,459,456.00</u>
Cash repayments for debts		5,412,652,622.16	136,076,363.31
Cash payments for distribution of dividends, profit and interest expenses		192,880,766.41	178,148,351.58
Including: dividends or profit paid by subsidiaries to minority shareholders		31,707,132.77	
Other cash payments related to financing activities		<u>1,208,154.36</u>	<u>79,404,090.85</u>
<b>Total cash outflows from financing activities</b>		<u>5,606,741,542.93</u>	<u>393,628,805.74</u>
<b>Net cash flows from financing activities</b>		<u>-4,537,012,694.58</u>	<u>2,293,830,650.26</u>

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**APPENDIX III****FINANCIAL INFORMATION OF HEC GROUP**

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<b>Items</b>	<i>Notes</i>	<b>Current Period</b>	<b>Prior Period</b>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>30,740,345.41</u>	<u>-90,313,766.92</u>
<b>5. Net increase in cash and cash equivalents</b>		-3,500,609,443.06	-1,997,848,756.41
Add: beginning balance of cash and cash equivalents		<u>15,206,290,892.00</u>	<u>17,204,139,648.41</u>
<b>6. Ending balance of cash and cash equivalents</b>		<u>11,705,681,448.94</u>	<u>15,206,290,892.00</u>
Corporate representative:	Chief Accountant:	Accounting Supervisor:	

**CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY**  
(Apart from special notes: the unit of amount is RMB)

Items	Paid-in capital		Other equity instruments		Equity attributable to parent company		Current period			Subtotal	Minority interests	Total owner's equity		
	Preferred stock	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	Δ General risk provision				Retained earnings	Others
<b>1. Ending balance of last year</b>	1,706,523,000.00			3,690,197,230.17		18,514,209.22	19,377,426.96	786,529,945.86		8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
Add: increase/decrease due to changes in accounting policies														
Increase/decrease due to corrections of errors in Prior Period														
Others														
<b>2. Beginning balance of current year</b>	1,706,523,000.00			3,690,197,230.17		18,514,209.22	19,377,426.96	786,529,945.86		8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
<b>3. Increase/decrease for current year</b>														
<b>for decrease</b>														
(1) Total comprehensive income						47,531,006.75	11,435,556.82	22,606,703.61		48,417,649.49		155,531,180.62	11,347,739.19	166,878,919.81
(2) Owner's contributions and withdrawals of capital						66,510,166.44				71,316,651.84		137,826,818.28	31,428,129.07	169,254,947.35
(3) Common stock contributed by owners														
(4) Capital contributed by other equity instruments holders														
(5) Share-based payment recorded in owner's equity														
(6) Others														
(7) Accrual and utilization of specialized reserve														
(8) Accrual of specialized reserve							11,435,556.82							
(9) Utilization of specialized reserve							23,194,591.55							
(10) Profits distribution							-11,759,034.73							
(11) Appropriation of surplus reserve														
(12) Including: statutory surplus reserve														
(13) Discretionary surplus reserve														
(14) Reserve fund														
(15) Corporate development fund														
(16) Return of investment														
(17) Accrual of general risk reserve														
(18) Distribution to owner/shareholder														
(19) Others														
(20) Transfer within owner's equity														
(21) Capital reserve transferred to paid-in capital														
(22) Surplus reserve transferred to paid-in capital														
(23) Recover of loss by surplus reserve														
(24) Defined benefit plan changes carried forward to retained earnings														
(25) Other comprehensive income carried forward to retained earnings														
(26) Others														
<b>4. Ending balance of current year</b>	1,706,523,000.00			3,715,737,494.12		66,045,215.97	30,817,983.78	809,136,649.47		8,698,026,738.58		15,026,282,081.92	1,282,748,516.51	16,309,030,598.43



APPENDIX III

FINANCIAL INFORMATION OF HEC GROUP

Items	Other equity instruments			Equity attributable to parent company			Prior period	Retained earnings	Others	Subtotal	Minority interests	Total owner's equity
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Less: treasury shares						
1. Ending balance of last year	1,376,806,000.00			2,764,208,480.41	2,764,208,480.41	15,801,148.88	786,529,945.86	8,496,686,529.09	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48	
Add: increases/decreases due to changes in accounting policies												
Increase/decrease due to corrections of errors in Prior Period												
Others												
2. Beginning balance of current year	1,376,806,000.00			2,764,208,480.41	2,764,208,480.41	15,801,148.88	786,529,945.86	8,496,686,529.09	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48	
3. Increase/decrease for current year <sup>(1)</sup>	329,717,000.00			925,988,749.76	925,988,749.76	3,576,278.08		152,922,560.00	1,437,657,591.76	62,079,331.38	1,499,736,923.14	
(1) Total comprehensive income								194,226,740.00	219,679,743.92	69,179,091.35	288,858,835.27	
(2) Owner's contributions and withdrawals of capital	329,717,000.00											
1. Common stock contributed by owners	329,717,000.00											
2. Capital contributed by other equity instruments holders												
3. Share-based payment recorded in owner's equity												
4. Others												
(3) Accrual and utilization of specialized reserve												
1. Accrual of specialized reserve												
2. Utilization of specialized reserve												
(4) Profits distribution												
1. Appropriation of surplus reserve including: statutory surplus reserve												
Discretionary surplus reserve												
#Reserve fund												
#Corporate development fund												
#Return of investment												
2. Accrual of general risk reserve												
3. Distribution to owner/shareholder												
4. Others												
(5) Transfer within owner's equity												
1. Capital reserve transferred to paid-in capital												
2. Surplus reserve transferred to paid-in capital												
3. Recover of loss by surplus reserve												
4. Defined benefit plan changes carried forward to retained earnings												
※5. Other comprehensive income carried forward to retained earnings												
6. Others												
4. Ending balance of current year	1,706,523,000.00			3,690,197,230.17	3,690,197,230.17	19,377,426.96	786,529,945.86	8,649,609,089.09	14,870,750,901.30	1,271,400,777.32	16,142,151,678.62	

Accounting Supervisor:

Chief Accountant:

Corporate representative:

**2018 ANNUAL PERFORMANCE ANNOUNCEMENT***(Except for special notes, the units of amount are RMB)***I. BASIS OF PREPARATION OF FINANCIAL STATEMENTS****1. Basis of preparation**

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as “CAS”), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

**2. Going concern**

For the reporting period and at least 12 months since the end of the reporting period, the Company’s production and operation was stable with reasonable asset and liability structure, therefore it has ability to continue as a going concern and there’s no significant risk affecting its ability to continue as a going concern.

**II. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE**

<b>Items</b>	<b>Closing balance</b>	<b>Opening balance</b>
Notes receivable	3,112,281,635.68	4,362,451,678.86
Accounts receivable	<u>6,674,746,317.19</u>	<u>7,223,309,704.58</u>
Total	<u><u>9,787,027,952.87</u></u>	<u><u>11,585,761,383.44</u></u>

**1. Notes receivable**

<b>Type</b>	<b>Carrying Amount</b>	<b>Closing balance</b>		<b>Carrying Amount</b>	<b>Opening balance</b>	
		<b>Bad debt Provision</b>	<b>Book value</b>		<b>Bad debt Provision</b>	<b>Book value</b>
Bank acceptance	2,549,245,442.79		2,549,245,442.79	3,456,249,576.99		3,456,249,576.99
Business acceptance	<u>563,036,192.89</u>		<u>563,036,192.89</u>	<u>906,202,101.87</u>		<u>906,202,101.87</u>
Total	<u><u>3,112,281,635.68</u></u>		<u><u>3,112,281,635.68</u></u>	<u><u>4,362,451,678.86</u></u>		<u><u>4,362,451,678.86</u></u>

**2. Accounts receivable**

<b>Items</b>	<b>Closing balance</b>	<b>Opening balance</b>
Accounts receivable	11,238,171,927.04	11,886,206,458.19
Less: bad-debt provision	<u>4,563,425,609.85</u>	<u>4,662,896,753.61</u>
Net accounts receivable	<u><u>6,674,746,317.19</u></u>	<u><u>7,223,309,704.58</u></u>

2.1 *Accounts receivable accruing bad debt provision by applying aging analysis*

Age	Closing balance Amount	Opening balance Amount
Within one year	4,020,608,853.48	4,325,601,379.58
One to two years	1,646,863,673.80	1,479,843,186.24
Two to three years	537,649,317.28	810,790,231.08
Over three years	469,624,472.63	607,074,907.68
Total	<u>6,674,746,317.19</u>	<u>7,223,309,704.58</u>

The credit period given to customers is different, generally depending on the financial strength of individual customers. For the effective management of the credit risk associated with accounts receivable, the Group regularly assesses the customer's credit.

**III. CONTRACT ASSETS AND CONTRACT LIABILITIES****1. Details of contractual assets and contractual liabilities**

	<b>Contract assets</b>
Opening balance	8,042,694,649.96
Increase in this period	8,979,557,673.69
Converted in to accounts receivable in this period	7,340,262,717.42
Closing balance	9,681,989,606.23
Contract asset impairment provision	1,448,532,356.45
Net closing balance	8,233,457,249.78
Including: listed as contract assets	8,233,457,249.78
listed as other non-current assets	
	<b>Contract liabilities</b>
Opening balance	19,588,274,771.42
Increase in this period	11,459,274,863.15
Interest adjustment	
The income confirmed in the current period includes the income in the balance at the beginning of the year.	16,450,829,247.45
Closing balance	14,596,720,387.12
Including: listed as contract liabilities	14,596,720,387.12
listed as other non-current liabilities	

## IV. NOTES PAYABLE AND ACCOUNTS PAYABLE

Items	Closing balance	Opening balance
Notes payable	5,836,028,015.25	5,479,804,293.43
Accounts payable	<u>13,215,819,754.05</u>	<u>14,051,708,904.60</u>
Total	<u><u>19,051,847,769.30</u></u>	<u><u>19,531,513,198.03</u></u>

## 1. Notes payable

Type	Closing balance	Opening balance
Bank acceptance	4,611,567,962.08	4,570,861,423.55
Business acceptance	<u>1,224,460,053.17</u>	<u>908,942,869.88</u>
Total	<u><u>5,836,028,015.25</u></u>	<u><u>5,479,804,293.43</u></u>

## 2. Accounts payable

Items	Closing balance	Opening balance
Within one year	10,003,805,732.84	11,359,184,726.32
One to two years	1,811,999,790.23	1,328,277,162.52
Two to three years	597,497,973.67	586,962,812.92
Over three years	<u>802,516,257.31</u>	<u>777,284,202.84</u>
Total	<u><u>13,215,819,754.05</u></u>	<u><u>14,051,708,904.60</u></u>

## V. UNDISTRIBUTED PROFIT

Items	Current period
Balance before adjustment at the end of preceding period	8,649,609,089.09
Adjust the total undistributed profit at the beginning of the year (increase +, decrease-)	
Opening balance after adjustment	8,649,609,089.09
Add: Net profit attributable to owners of the parent company	71,316,651.84
Other increase	25,305,546.26
Less: Appropriation of statutory surplus reserve	22,606,703.61
Appropriation of discretionary surplus reserve	
Appropriation of general risk reserve	
Dividends payable on ordinary shares	25,597,845.00
Dividends on ordinary share converted to share capital	
Others	
Closing balance	<u><u>8,698,026,738.58</u></u>

The Company's distribution of common stock dividends to shareholders during the year was in accordance with the 2017 after-tax profit distribution plan which was reviewed and passed at the 2017 annual general meeting of the company held on May 25, 2018. Based on the company's total share capital of 1,706,523,000 at the end of 2017, the company announced the distribution of the company's 2017 final dividend of RMB0.015 per share (including the applicable tax rate), and distributed 2017 final dividend of RMB25,597,845.00 in total(including tax).

#### VI. OPERATING INCOME AND OPERATING COST

Items	Amount of this period		Amount of the previous period	
	Income	Cost	Income	Cost
Main business	25,673,513,488.27	22,523,020,468.15	31,345,884,860.70	27,104,569,528.75
Other business	<u>205,947,362.35</u>	<u>164,510,451.63</u>	<u>194,438,995.68</u>	<u>163,384,698.59</u>
Total	<u>25,879,460,850.62</u>	<u>22,687,530,919.78</u>	<u>31,540,323,856.38</u>	<u>27,267,954,227.34</u>

#### VII. INCOME TAX EXPENSE

Items	Current period	Previous period
Current income tax calculated based on tax law and related regulations	113,890,721.19	163,258,837.00
Adjustment to deferred income tax	<u>-59,724,224.57</u>	<u>-80,861,025.97</u>
Total	<u>54,166,496.62</u>	<u>82,397,811.03</u>

#### VIII. EARNINGS PER SHARE

##### 1. Basic Earnings Per share

Items	Current period	Previous period
Consolidated net profit attributable to ordinary shareholders of the parent company	71,316,651.84	194,226,740.00
Consolidated net profit attributable to ordinary shareholders of the parent company (After deducting non-recurring gains and losses)	-37,928,493.45	110,097,146.85
The weighted average number of ordinary shares issued by the parent company	1,706,523,000.00	1,376,806,000.00
Basic eps ( <i>Yuan per share</i> )	0.0418	0.1411
Basic eps ( <i>Yuan per share</i> ) (After deducting non-recurring gains and losses)	-0.0222	0.0800

Common stock weighted average calculation:

Items	No.	Current period	Previous period
Number of ordinary shares outstanding at the beginning of the year	1	1,706,523,000.00	1,376,806,000.00
Issuance of new shares or debt to convert shares and other increase in the number of shares (II)	2		329,717,000.00
Increase the cumulative number of shares (II) from the next month to the end of the year	3		
Number of months in the reporting period	4	12	12
Weighted average number of common shares issued outside	$5=1+2*3/12$	1,706,523,000.00	1,376,806,000.00

## 2. Diluted Earnings Per share

Items	Current period	Previous period
Adjusted net profit attributable to common shareholders of the parent company	71,316,651.84	194,226,740.00
Adjusted net profit attributable to ordinary shareholders of the parent company (after deducting non-recurring gains and losses)	-37,928,493.45	110,097,146.85
The weighted average number of ordinary shares issued by the Company after adjustment	1,706,523,000.00	1,376,806,000.00
Diluted Earnings Per share	0.0418	0.1411
Diluted Earnings Per share (After deducting non-recurring gains and losses)	-0.0222	0.0800

## IX. SEGMENT INFORMATION

## 1. The assets, liabilities and income of segments

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
<b>As at 31 Dec 2018</b>							
Total amount of reportable segment assets	38,060,046,043.09	4,981,546,381.13	5,900,713,218.18	2,224,798,407.05	5,918,287,179.76	6,783,336,804.67	63,868,728,033.88
Including: increase the amount of construction in progress in the current period	166,286,437.12	33,271,531.75		3,461,068.88	48,118,232.00	122,108,436.70	373,245,706.45
Purchase of fixed assets and intangible assets	37,055,011.52	5,563,549.63	3,113,450.72	3,749,449.78	41,635,536.57	32,934,371.17	124,051,369.39
Total amount of reportable segment liabilities	<u>30,909,471,437.62</u>	<u>2,886,382,078.26</u>	<u>5,424,335,500.65</u>	<u>1,612,693,371.77</u>	<u>4,168,102,585.60</u>	<u>5,536,702,477.71</u>	<u>50,537,687,451.61</u>
<b>Jan to Dec 2018</b>							
Segment income							
Income from external customers	11,877,253,493.44	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,338,543,115.52	2,648,001,639.96	25,879,460,850.62
Income between segment	2,445,150,561.55					25,907,149.35	2,471,057,710.90
Reportable segment income	14,322,404,054.99	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,338,543,115.52	2,673,908,789.31	28,350,518,561.52
Reportable segment gross margin	<u>1,688,416,137.54</u>	<u>151,307,340.39</u>	<u>253,427,300.43</u>	<u>90,244,697.64</u>	<u>279,757,718.61</u>	<u>762,349,542.38</u>	<u>3,225,502,736.99</u>

**APPENDIX III**
**FINANCIAL INFORMATION OF HEC GROUP**

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
<b>As at 31 Dec 2017</b>							
Total amount of reportable segment assets	41,212,539,999.63	4,621,011,351.10	6,651,596,886.48	3,020,134,669.35	8,114,465,554.50	6,582,095,472.16	70,201,843,933.22
Including: increase the amount of construction in progress in the current period	205,698,456.10	11,100,895.65	15,746,976.00	12,736,227.18	502,590,983.75	81,402,678.44	829,276,217.12
Purchase of fixed assets and intangible assets	39,551,824.68	18,813,052.57	205,009,241.96	985,708.73	25,456,422.56	39,193,899.47	329,010,149.97
Total amount of reportable segment liabilities	<u>34,634,317,661.74</u>	<u>2,229,206,421.05</u>	<u>5,884,095,242.01</u>	<u>2,316,900,005.18</u>	<u>6,304,818,582.81</u>	<u>4,993,809,765.82</u>	<u>56,363,147,678.61</u>
<b>Jan to Dec 2017</b>							
Segment income							
Income from external customers	13,871,644,397.96	1,146,212,806.36	10,704,840,383.96	1,339,075,625.77	2,032,575,585.70	2,445,975,056.63	31,540,323,856.38
Income between segment	2,534,289,826.09		-141,400,613.00			22,799,084.22	2,415,688,297.31
Reportable segment income	16,405,934,224.05	1,146,212,806.36	10,563,439,770.96	1,339,075,625.77	2,032,575,585.70	2,468,774,140.85	33,956,012,153.69
Reportable segment gross margin	<u>2,371,509,963.21</u>	<u>182,328,452.21</u>	<u>490,768,642.94</u>	<u>195,206,172.08</u>	<u>519,357,241.58</u>	<u>594,919,083.22</u>	<u>4,354,089,555.24</u>

**2. Information of assets, liabilities and income of segments**

Items	Closing balance	Opening balance
<b>Assets</b>		
Reportable segment assets	63,868,728,033.88	70,201,843,933.22
Offset segment related transaction	-19,044,229,265.34	-20,122,713,238.83
Reportable segment net assets	44,824,498,768.54	50,079,130,694.39
Deferred tax assets	490,142,216.40	430,581,741.83
Other non-current assets		
Financial asset and its change record in current profit and loss based on fair value		
Restricted and pledged bank borrowing		
Bank deposit	8,730,639,860.30	12,155,831,808.52
Central bank deposit	635,145,558.72	747,561,319.78
Cash and cash equivalent	50,694,420.76	107,033,625.67
Undistributed headquarters and company assets	<u>1,810,861,851.34</u>	<u>1,317,953,882.79</u>
Total assets	<u>56,541,982,676.06</u>	<u>64,838,093,072.98</u>



Items	Closing balance	Opening balance
<b>Liabilities</b>		
Reportable segment liabilities	50,537,687,451.61	56,363,147,678.61
Offset segment related transaction	-12,683,916,496.00	-8,721,527,596.46
Reportable segment net liabilities	37,853,770,955.61	47,641,620,082.15
Tax payable	374,043,503.79	240,442,949.52
Deferred tax liabilities		7,280,974.79
Undistributed liabilities	<u>2,005,137,618.23</u>	<u>806,597,387.90</u>
Total liabilities	<u><u>40,232,952,077.63</u></u>	<u><u>48,695,941,394.36</u></u>
Items	Current period	Previous period
<b>Income</b>		
Income from external customers	25,879,460,850.62	31,540,323,856.38
Income between segment	2,471,057,710.90	2,415,688,297.31
Reportable segment income	28,350,518,561.52	33,956,012,153.69
Reportable segment gross margin	3,225,502,736.99	4,354,089,555.24
Offset segment loss	33,572,806.15	81,719,926.20
Report segment gross margin from external customers of the group	3,191,929,930.84	4,272,369,629.04
Long-term equity investment gain based on equity method	33,832,648.30	26,360,761.31
Interest income	485,064,692.65	488,136,436.30
Chinese government grants	179,653,758.71	96,282,405.05
Financial asset and its change record in current profit and loss based on fair value		-11,399,680.48
Financial liabilities and its change record in current profit and loss based on fair value		
Interest expense	145,030,891.91	266,495,807.13
Impairment loss for the present period of long-term assets such as fixed assets and intangible assets		29,642,866.59
Undistributed other income and net income	151,370,514.79	97,359,627.28
Undistributed headquarters and corporate expenses	<u>3,739,966,519.15</u>	<u>4,329,604,099.85</u>
Total income	<u><u>156,854,134.23</u></u>	<u><u>343,366,404.93</u></u>

## 3. Region information

Items	Income from external customers	
	2018	2017
1. Domestic (China)	18,482,059,253.38	20,937,172,169.16
2. Overseas		
— Islamic Republic of Pakistan	940,501,828.49	3,883,858,635.49
— The Republic of Turkey	292,124,872.39	1,771,972,533.17
— The United Arab Emirates	5,275,085,949.28	1,687,649,086.59
— The Republic of Ecuador	382,959,581.28	1,164,629,635.62
— People's Republic of Bangladesh	139,432,199.33	617,243,022.29
— the Republic of Indonesia	66,947,781.02	314,662,168.56
— other countries	300,349,385.45	1,163,136,605.50
Overseas subtotal	7,397,401,597.24	10,603,151,687.22
Total	25,879,460,850.62	31,540,323,856.38

## X. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Investee	Opening balance	Increase	Changes in the current period				Declaration of cash dividends or profits	Others	Closing balance	Provision for impairment loss	Impairment provision at the end of the year
			Decrease	Under the equity method to confirm the investment profit and loss	Other comprehensive income adjustment	Other equity changes					
<b>I. Associates</b>											
General Electric Harbin Power Services (Qinhuangdao) Company	135,003,849.87			30,101,873.68			45,342,884.15		119,762,839.40		
Huludao Binhai Hydro Power Company Limited	51,265,399.11							51,265,399.11			10,223,752.07
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd.	6,570,491.74			233,304.71				6,803,796.45			
Harbin Huitong Power Engineering Company Limited	5,823,729.61			3,020,037.04			2,293,598.96	6,550,167.69			
Heilongjiang Harbin Hydropower Development	3,850,222.15		3,920,930.55	70,708.40				—			
Harbin HE Petrol Station Co., Ltd.	1,638,475.76			406,724.47			30,000.00	2,015,200.23			
Harbin Ruifeng New Energy Co., Ltd.		6,000,000.00						6,000,000.00			
Total	204,152,168.24	6,000,000.00	3,920,930.55	33,832,648.30			19,243,152.96	192,397,402.88			10,223,752.07

**XI. NET CURRENT ASSETS**

<b>Items</b>	<b>Closing balance</b>	<b>Opening balance</b>
Current assets	47,312,695,452.94	56,018,787,508.92
Less: current liabilities	<u>38,375,692,092.71</u>	<u>47,075,551,847.10</u>
Net current assets	<u>8,937,003,360.23</u>	<u>8,943,235,661.82</u>

**XII. TOTAL ASSETS MINUS CURRENT LIABILITIES**

<b>Items</b>	<b>Closing balance</b>	<b>Opening balance</b>
Total assets	56,541,982,676.06	64,838,093,072.98
Less: current liabilities	<u>38,375,692,092.71</u>	<u>47,075,551,847.10</u>
Total assets minus current liabilities	<u>18,166,290,583.35</u>	<u>17,762,541,225.88</u>

**XIII. DIVIDEND**

After the 22nd meeting of the 8th Board of Directors reviewed and approved the 2018 profit distribution plan, the board of directors does not recommend to pay the company's final dividend of 2018.

**3. INDEBTEDNESS STATEMENT**

As at 31 December 2018, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this Composite Document, the HEC Group had outstanding borrowings as follows:

	<i>RMB'000</i>
Bank loans	
Secured	15,900.00
Unsecured	1,238,935.26
Loans from controlling companies	
Unsecured	818,073.27
	<u>2,072,908.53</u>

The bank loans were secured by property with a total carrying amount of RMB4,082,336.52 and land use rights with a total carrying amount of RMB3,574,081.97.

Meanwhile, the subsidiaries in the HEC Group have a loan right of drawing down up to RMB76,959,430.00 secured by property, plant and equipment with a total carrying amount of RMB80,803,380.12 and land use rights with a total carrying amount of RMB25,574,278.61.

Apart from intra-group liabilities within the HEC Group and save as aforesaid, as at 31 December 2018, the HEC Group did not have any bank overdraft or loan, or other similar indebtedness, mortgages, charges or guarantees or other material contingent liabilities.

**4. MATERIAL CHANGE**

Save as set out in this Composite Document as regards the H Share Offer, the Delisting, the Merger Agreement and the Merger contemplated thereunder, the directors of HEC confirm that there has been no material change in the financial or trading position or outlook of the HEC Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the HEC Group were made up, and up to and including the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

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

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

## 2. SHARE CAPITAL OF HEC

### (a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of HEC were as follows:

<i>Authorised:</i>	<i>RMB</i>
1,030,952,000 Domestic Shares of RMB1.00 each	1,030,952,000.00
675,571,000 H Shares of RMB1.00 each	675,571,000.00
Total	1,706,523,000.00
 <i>Issued and fully paid:</i>	 <i>RMB</i>
1,030,952,000 Domestic Shares of RMB1.00 each	1,030,952,000.00
675,571,000 H Shares of RMB1.00 each	675,571,000.00
Total	1,706,523,000.00

All of the Domestic Shares and H Shares currently in issue rank pari passu in all respects with 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.

The number of HEC Shares in issue at 31 December 2018, being the date to which the latest audited consolidated financial statements of the HEC Group were made up, was 1,706,523,000, with 1,030,952,000 Domestic Shares and 675,571,000 H Shares. HEC has not issued any HEC Shares since that date until the Latest Practicable Date.

HEC does not have any outstanding options, derivatives, warrants, or securities convertible or exchangeable into HEC Shares and has not entered into any agreement for the issue of such options, derivatives, warrants, or securities convertible or exchangeable into HEC Shares, and HEC has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

(b) **Listing**

The H Shares are listed and traded on the Main Board of the Stock Exchange. No part of the HEC Shares is listed or dealt in, nor is any listing or permission to deal in the HEC Shares being or proposed to be sought, on any other stock exchange.

### 3. MARKET PRICES

The table below shows the closing prices of the H Shares as quoted on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement, (ii) on 17 December 2018, being the Last Trading Day prior to the suspension of trading in the H Shares pending the issue of the Announcement, and (iii) on the Latest Practicable Date.

<b>Date</b>	<b>Price per H Share</b> <i>HK\$</i>
29 June 2018	2.30
31 July 2018	2.42
31 August 2018	2.47
28 September 2018	2.46
31 October 2018	2.22
30 November 2018	2.43
17 December 2018 (Last Trading Date)	2.50
15 March 2019 (Latest Practicable Date)	4.12

During the Disclosure Period, the highest and lowest closing prices per H Share recorded on the Stock Exchange were HK\$4.24 on 24 January 2019 and HK\$2.20 on 11 September 2018, respectively.

### 4. DISCLOSURE OF INTERESTS

(a) **Interests of the directors, supervisors and chief executives of HEC in the securities of HEC and the securities of the associated corporations of HEC**

As at the Latest Practicable Date, none of the directors, supervisors and chief executives of HEC had any interests or short positions in the shares, underlying shares and debentures of HEC or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to HEC and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO

(including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) to be notified to HEC and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

**(b) Interests of substantial shareholders in the securities of HEC**

As at the Latest Practicable Date, the following persons or entities (other than the directors, supervisors and chief executives of HEC) had an interest or a short position in the shares and underlying shares of HEC which would fall to be disclosed to HEC and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to HEC and the Stock Exchange:

Name of HEC Shareholders	Capacity/Nature of interests	Class of HEC Shares held	Approximate percentage of total issued share capital of HEC as at the Latest Practicable Date	
			Total number of HEC Shares held (Note)	
HEG	Beneficial owner	Domestic Shares	1,030,952,000 (L)	60.41%

*Note:*

The letter "L" denotes long positions in the shares and underlying shares of HEC.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the directors of HEC, no other persons or entities (other than the directors, supervisors and the chief executives of HEC) had any interests or short positions in the shares or underlying shares of HEC which would fall to be disclosed to HEC and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to HEC and the Stock Exchange.

**(c) Interests discloseable under Schedule I to the Takeovers Code**

As at the Latest Practicable Date,

- (i) HEG owned the entire 1,030,952,000 Domestic Shares, representing approximately 60.41% of the issued capital of HEC. Save for the existing direct and indirect shareholding of HEG 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 (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (ii) no directors of HEG were interested in any shares in HEC or any convertible securities, warrants, options or derivatives in respect of the shares in HEC;

- (iii) save for the existing direct and indirect shareholding of HEG in HEC, none of the persons 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) owned or controlled any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of HEC;
  - (iv) no one who owned or controlled shares, convertible securities, warrants, options or derivatives in respect of the shares of HEC had irrevocably committed to vote in favour of or against the resolutions at the H Share Class Meeting and/or at the Extraordinary General Meeting (save that HEG intends to vote in favour of the Merger Agreement and the Merger contemplated thereunder in the Extraordinary General Meeting), or to accept or reject the H Share Offer;
  - (v) save for the H Share Offer and the Merger, no person had any arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code with HEG or HEC or any of their concert parties during the period commencing from the date of the Announcement and ending on the Latest Practicable Date;
  - (vi) 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) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22) in HEC; and
  - (vii) none of HEG, the directors of HEG or any parties acting in concert with any of them (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 dealt for value in any shares of HEC, or any convertible securities, warrants, options or derivatives in respect of the shares of HEC during the Disclosure Period.
- (d) **Interests discloseable under Schedule II to the Takeovers Code**

Save as disclosed above, as at the Latest Practicable Date:

- (i) HEC was not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEG;
- (ii) none of the directors of HEC was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC or HEG, or had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC or HEG during the Disclosure Period;
- (iii) none of the subsidiaries of HEC, the pension fund of HEC or of its subsidiaries, or a person who is presumed to be acting in concert with HEC by virtue of class (5) of the definition of “acting in concert” or who is an associate of HEC by virtue of class (2) of the definition



of “associate” under the Takeovers Code owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC, or had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC during the Disclosure Period;

- (iv) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with HEC or with any person who is presumed to be acting in concert with HEC by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” or who is an associate of HEC by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and none of such persons had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC during the Disclosure Period;
- (v) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC were managed on a discretionary basis by fund managers connected with HEC, and none of them had dealt in any relevant securities in HEC during the Disclosure Period;
- (vi) none of the directors of HEC held any beneficial shareholdings in HEC which would otherwise entitle them to accept or reject the H Share Offer; and
- (vii) none of HEC or the directors of HEC had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEC.

(e) **Other interests**

As at the Latest Practicable Date,

- (i) save for the H Share Offer and the Merger, there was no agreement, arrangement or understanding between HEG and any other person in relation to the transfer, charge or pledge of the HEC Shares to be purchased by HEG or any of its wholly-owned subsidiaries upon completion of the H Share Offer or the Merger;
- (ii) HEG had no intention to transfer, charge or pledge any securities in HEC pursuant to the H Share Offer or the Merger to any other person, or has no agreement, arrangement or understanding with any third party to do so;
- (iii) no benefit had been or would be given to any director of HEC as compensation for loss of office or otherwise in connection with the H Share Offer or the Merger;
- (iv) save for the H Share Offer and the Merger, no agreement, arrangement or understanding, including any compensation arrangement, existed between HEG or any person acting in concert with HEG and any of the directors of HEC, recent directors of HEC, HEC Shareholders or recent HEC Shareholders which is conditional on or dependent upon the outcome of or otherwise connected with the H Share Offer or the Merger;
- (v) there is no material contract entered into by HEG in which any director of HEC has a material personal interest;

- (vi) there is no agreement or arrangement to which HEG is a party which relates to the circumstances in which it may or may not invoke or seek to invoke the pre-condition, a condition to the H Share Offer and the consequence of its doing so; and
- (vii) save for the Conditions contained in the Merger Agreement, there is no agreement or arrangement to which HEG is party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Merger.

## 5. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the directors of HEC had entered into any service agreement or letter of appointment with HEC or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by HEC within one year without payment of compensation (other than statutory compensation).

## 6. MATERIAL CONTRACTS

Within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the HEC Group and are or may be material:

- (a) a supplemental agreement dated 22 February 2017 to the financial services framework agreement dated 9 December 2016 entered into between HEC and HEG in relation to certain amendments made to the terms of the provision of financial services by HEC through HE Finance Company Limited (哈爾濱電氣集團財務有限責任公司) to HEG and its subsidiaries (except for the HEC Group), particulars of which (including the pricing policy and transaction caps) are set out in the announcements of HEC dated 9 December 2016 and 22 February 2017 respectively;
- (b) a subscription agreement dated 4 September 2017 entered into between HEC (as issuer) and HEG (as subscriber) in relation to the subscription for new Domestic Shares at a total subscription price of approximately RMB1.27 billion (where 329,717,000 new Domestic Shares were allotted and issued at the subscription price of HK\$4.56 per new Domestic Share at completion);
- (c) a joint venture enterprise agreement (the “**JV Agreement**”) dated 9 July 2018 entered into between HEC and General Electric (China) Co., Ltd. in relation to the formation of a joint venture company, particulars of which are set out in the announcement of HEC dated 9 July 2018; and
- (d) a subscription agreement dated 9 October 2018 entered into between HEC (as subscriber) and Huaneng Power International, Inc. (“**HPI**”) (as issuer) in relation to the subscription for 76,335,877 ordinary shares (A shares) with RMB1.00 each under the non-public issuance by HPI at the subscription price of RMB6.55 per share.

## 7. LITIGATION

As at the Latest Practicable Date, neither HEC nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and so far as the directors of HEC are aware of, no litigation, arbitration or claim of material importance is pending or threatened by or against HEC or any of its subsidiaries.

## 8. CONSENT AND QUALIFICATIONS

The following are the names and qualifications of the experts whose letter, opinions or advice are contained or referred to in this Composite Document:

<b>Name</b>	<b>Qualifications</b>
Citigroup Global Markets Asia Limited	the exclusive financial adviser to HEG and 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 SFO
Somerley Capital Limited	the independent financial adviser to the Independent Board Committee, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of Citigroup and Somerley has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its opinions, and the references to its name and opinions in the form and context in which it respectively appears.

## 9. MISCELLANEOUS

- (1) HEG is a wholly state-owned company incorporated on 6 October 1994, under the PRC Laws with approval from SASAC. The registered office of HEG is at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC.
- (2) The directors of HEG are Mr. SI Ze-fu, Mr. WU Wei-zhang and Mr. CHI Ming.
- (3) As at the Latest Practicable Date, HEG is directly wholly owned by SASAC.
- (4) The registered office of Citigroup is at 50th Floor, Champion Tower, Three Garden Road, Central, Hong Kong.
- (5) The principal place of business in the PRC of HEC is at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC and the principal place of business in Hong Kong is at Room 1601, 16th Floor, LHT Tower, 31 Queen's Road Central, Hong Kong.

- (6) The Registrar is Hong Kong Registrars Limited, which is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (7) The registered office of Somerley is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (8) The English text of this Composite Document, the Form of Acceptance, the forms of proxy and reply slips shall prevail over the Chinese text.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (1) on the website of HEC at [www.hpec.com](http://www.hpec.com); (2) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk); and (3) at the principal place of business of HEC in Hong Kong at Room 1601, 16th Floor, LHT Tower, 31 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) until the Merger has become effective or the date on which the Merger lapses or is withdrawn, whichever is the earliest:

- (1) the Articles of HEC;
- (2) the Articles of HEG;
- (3) the annual reports of HEC for each of the two years ended 31 December 2017 and the 2018 Annual Results Announcement;
- (4) the Merger Agreement;
- (5) the letter from Citigroup, the text of which is set out from pages 6 to 16 of this Composite Document;
- (6) the letter from the HEC Board, the text of which is set out from pages 17 to 24 of this Composite Document;
- (7) the letter from the Independent Board Committee, the text of which is set out from pages 25 to 26 of this Composite Document;
- (8) the letter from Somerley, the text of which is set out from pages 27 to 59 of this Composite Document;
- (9) the material contracts referred to in the section headed "6. Material Contracts" in this Appendix IV;
- (10) the written consents referred to in the section headed "8. Consent and Qualifications" of this Appendix IV; and
- (11) this Composite Document.



# 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 (the “EGM”) of Harbin Electric Company Limited (the “Company”) will be held at the conference room of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Tuesday, 7 May 2019 at 9:30 a.m. to consider and, if thought fit, to pass the following resolutions by more than two-thirds of the votes attaching to the shares of the Company held by the shareholders of the Company that are cast either in person or by proxy at the EGM.

Capitalised terms defined in the composite document dated 20 March 2019 jointly issued by the Company and Harbin Electric Corporation Co., Ltd. (哈爾濱電氣集團有限公司) shall have the same meanings when used herein unless otherwise specified.

### SPECIAL RESOLUTION

THAT subject to the passing of this same resolution by the Independent Shareholders in H Share Class Meeting, as approved by way of poll 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 with the number of votes cast against the resolution by the Independent Shareholders being not more than 10% of the votes attaching to all the H Shares held by the Independent Shareholders:

- (a) the Merger Agreement, the execution of the Merger Agreement by the Company, and the Merger contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) the board of directors of the Company, and/or unless the board of directors of the Company determines otherwise, any two directors of the Company be and are hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the Merger and all other transactions contemplated by the Merger Agreement including but not limited to:
  - (i) establishing a specific proposal to implement the Merger based on the actual circumstances, including but not limited to determining the specific time of the Merger and the Merger Price;
  - (ii) carrying out all relevant work in relation to the Merger on behalf of the Company, drafting, preparing, amending, signing, delivering and performing all agreements, announcements, circulars to shareholders and other documentation regarding the Merger and making appropriate disclosure;

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## APPENDIX V NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (iii) signing and submitting any report or document to any government regulatory authorities;
- (iv) unless the board of directors of the Company determines otherwise, selecting and appointing qualified professional parties, including but not limited to parties involved in the Merger such as financial advisers, lawyers etc.; and
- (v) carrying out all necessary actions, resolving and processing other matters in relation to the Merger on behalf of the Company as permitted by relevant laws (including but not limited to proceeding with the procedures for the cancellation of the industrial and commercial registration of the Company).

By Order of the Board  
**Harbin Electric Company Limited**  
**Zhang Ying-jian**  
*Executive Director*

Harbin, the PRC, 20 March 2019

*Notes:*

1. For the purpose of determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 5 April 2019 to Tuesday, 7 May 2019 (both days inclusive), during which period no transfer of shares will be registered. Shareholders of the Company whose names appear on the register before book closure shall be entitled to attend and vote at the EGM. Persons buying shares of the Company during book closure shall not be entitled to attend and vote at the EGM. In order to be qualified for attending the EGM, all duly completed transfer documents together with the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at Shops 1712 - 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 4 April 2019.
2. Shareholders of the Company intending to attend the EGM shall return the reply slip to the Company at its office address at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before Wednesday, 17 April 2019.
3. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more persons (whether a shareholder of the Company or not) as his/her proxy to attend and vote on his/her behalf.
4. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be lodged at the office address of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 24 hours before the time appointed for holding the EGM.

*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. ZHU Hong-jie, Mr. YU Wen-xing, Mr. HU Jian-min and Mr. TIAN Min.*



# 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 H SHARE CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the H Share Class Meeting of Harbin Electric Company Limited (the “**Company**”) will be held at the conference room of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Tuesday, 7 May 2019 at 10:00 a.m. to consider and, if thought fit, to pass the following resolutions by at least 75% of the votes attaching to the H Shares of the Company held by the independent shareholders of the Company that are cast by poll either in person or by proxy at the H Share Class Meeting, and with the number of votes cast by poll against the resolutions at the H Share Class Meeting amounting to not more than 10% of all the H Shares of the Company held by the independent shareholders of the Company.

Capitalised terms defined in the composite document dated 20 March 2019 jointly issued by the Company and Harbin Electric Corporation Co., Ltd. (哈爾濱電氣集團有限公司) shall have the same meanings when used herein unless otherwise specified:

### AS SPECIAL RESOLUTIONS

1. THAT:

- (a) subject to 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, the Delisting be and is hereby approved; and
- (b) the board of directors of the Company, and/or unless the board of directors of the Company determines otherwise, any two directors of the Company be and are hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the Delisting including but not limited to:
  - (i) establishing a specific proposal to implement the Delisting based on the actual circumstances, including but not limited to determining the specific time of the Delisting;
  - (ii) carrying out all relevant work in relation to the Delisting on behalf of the Company, drafting, preparing, amending, signing, delivering and performing all agreements, announcements, circulars to shareholders and other documentation regarding the Delisting and making appropriate disclosure;
  - (iii) signing and submitting any report or document to any government regulatory authorities;
  - (iv) unless the board of directors of the Company determines otherwise, selecting and appointing qualified professional parties, including but not limited to parties involved in the Delisting such as financial advisers, lawyers etc.; and
  - (v) carrying out all necessary actions, resolving and processing other matters in relation to the Delisting on behalf of the Company as permitted by relevant laws.

2. THAT subject to the passing of this same resolution by the shareholders of the Company in the Extraordinary General Meeting by more than two-thirds of the votes attaching to the shares of the Company held by the shareholders of the Company that are cast either in person or by proxy at the Extraordinary General Meeting:
- (a) the Merger Agreement, the execution of the Merger Agreement by the Company, and the Merger contemplated thereunder be and are hereby approved, ratified and confirmed; and
  - (b) the board of directors of the Company, and/or unless the board of directors of the Company determines otherwise, any two directors of the Company be and are hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the Merger and all other transactions contemplated by the Merger Agreement including but not limited to:
    - (i) establishing a specific proposal to implement the Merger based on the actual circumstances, including but not limited to determining the specific time of the Merger and the Merger Price;
    - (ii) carrying out all relevant work in relation to the Merger on behalf of the Company, drafting, preparing, amending, signing, delivering and performing all agreements, announcements, circulars to shareholders and other documentation regarding the Merger and making appropriate disclosure;
    - (iii) signing and submitting any report or document to any government regulatory authorities;
    - (iv) unless the board of directors of the Company determines otherwise, selecting and appointing qualified professional parties, including but not limited to the parties involved in the Merger such as financial advisers, lawyers etc.; and
    - (v) carrying out all necessary actions, to determine on and handle other specific matters in relation to the Merger on behalf of the Company as permitted by relevant laws (including but not limited to proceeding with the procedures for the cancellation of the industrial and commercial registration of the Company).

By Order of the Board  
**Harbin Electric Company Limited**  
**Zhang Ying-jian**  
*Executive Director*

Harbin, the PRC 20 March 2019

*Notes:*

1. For the purpose of determining the entitlement of the shareholders of the Company to attend and vote at the H Share Class Meeting, the register of members of the Company will be closed from Friday, 5 April 2019 to Tuesday, 7 May 2019 (both days inclusive), during which period no transfer of shares will be registered. Shareholders of the Company whose names appear on the register before book closure shall be entitled to attend and vote at the H Share Class Meeting. Persons buying shares of the Company during the period of book closure shall not be entitled to attend and vote at the H Share Class Meeting. In order to be qualified in attending the H Shares Class Meeting, all transfers of shares accompanied with the relevant share certificates must be lodged with namely, Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, 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 Thursday, 4 April 2019.
2. Shareholders of the Company intending to attend the H Share Class Meeting shall return the reply slip to the Company at its office address at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before Wednesday, 17 April 2019.
3. Any shareholder of the Company entitled to attend and vote at the H Shares Class Meeting is entitled to appoint one or more persons (whether a shareholder of the Company or not) as his/her proxy to attend and vote on his/her behalf.
4. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be lodged at the office address of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC or Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 24 hours before the time appointed for holding the H Shares Class Meeting.

*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. ZHU Hong-jie, Mr. YU Wen-xing, Mr. HU Jian-min and Mr. TIAN Min.*