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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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# 哈尔滨电气股份有限公司

## HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

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

Financial Adviser to the Company



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



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Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless the context otherwise requires.

A letter from the Board is set out on pages 1 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 38 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular.

The notices convening the EGM and the H Shares Class Meeting to be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Wednesday, 12 April 2023 at 9:00 a.m. and 9:30 a.m. (or immediately after the EGM) respectively, are set out on pages EGM-1 to EGM-7 and HCM-1 to HCM-3 of this circular. The respective proxy forms for use at the EGM and the H Shares Class Meeting are also enclosed with this circular.

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

This circular and the enclosed proxy forms for use at the EGM and the H Shares Class Meeting have been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.hpec.com](http://www.hpec.com)).

20 March 2023

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## DEFINITIONS

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*Unless the context requires otherwise, the following expressions used in this circular shall have the meanings as follow:*

“Announcement”	the announcement of the Company dated 28 December 2022 in relation to the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles;
“Articles”	the articles of association of the Company, as revised from time to time;
“Board”	the board of Directors;
“Closing Price”	the closing price of the H Shares on the Reference Date;
“Company”	Harbin Electric Company Limited, a company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code 1133);
“Completion”	the completion of the Domestic Share Subscription;
“Conditions Precedent”	the conditions precedent to the Completion as set out under the section headed “Conditions Precedent” in this circular;
“Director(s)”	the director(s) of the Company;
“Domestic Share(s)”	the ordinary domestic share(s) with par value of RMB1.00 each in the share capital of the Company;
“Domestic Shareholder(s)”	the holder(s) of the Domestic Shares;
“Domestic Share Subscription”	the proposed subscription of new Domestic Shares by the Subscriber pursuant to the Domestic Share Subscription Agreement;

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## DEFINITIONS

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“Domestic Share Subscription Agreement”	the conditional share subscription agreement entered into between the Subscriber and the Company on 28 December 2022, pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to issue, new Domestic Shares at the total subscription price of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion);
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles;
“Final Subscription Price”	the final subscription price per new Domestic Share to be determined with reference to the Initial Subscription Price subject to adjustment;
“Group”	the Company and its subsidiaries from time to time;
“H Shareholder(s)”	the holder(s) of the H Shares;
“H Share(s)”	the overseas listed foreign share(s) with par value of RMB1.00 each in the share capital of the Company, listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars;
“H Shares Class Meeting”	the class meeting of the H Shareholders to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription and the Specific Mandate;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, formed to advise the Independent Shareholders in relation to the Domestic Share Subscription and the Specific Mandate;

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## DEFINITIONS

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“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Domestic Share Subscription and the Specific Mandate;
“Independent Shareholder(s)”	Shareholder(s) other than (i) the Subscriber and its associates and (ii) any other persons who are involved or interested in the Domestic Share Subscription and the Specific Mandate;
“Initial Subscription Price”	the initial subscription price, being HK\$3.43 per new Domestic Share;
“Latest Practicable Date”	13 March 2023, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time;
“Long Stop Date”	31 July 2023, or such other subsequent date as may be agreed by the Company and the Subscriber from time to time in writing;
“PRC”	the People’s Republic of China, which shall for the purposes of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Reference Date”	the trading day immediately preceding the date of the EGM and the H Shares Class Meeting;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;
“Share(s)”	Domestic Share(s) and/or H Share(s);
“Shareholder(s)”	the holder(s) of the Shares of the Company;

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## DEFINITIONS

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“Specific Mandate”	the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the EGM and the H Shares Class Meeting to issue new Domestic Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Harbin Electric Corporation, a state-owned enterprise and the controlling shareholder of the Company; and
“%”	per cent.

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

*For the purposes of this circular, unless the context requires otherwise, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK\$1 to RMB0.8914. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.*

*Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables, the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*

*Unless the context requires otherwise, references to the singular number include references to the plural and vice versa and references to one gender include every gender.*

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LETTER FROM THE BOARD

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

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

(Stock Code: 1133)

*Executive Directors:*

Mr. Cao Zhi-an  
Mr. Wu Wei-zhang  
Mr. Zhang Ying-jian

*Registered Office and Headquarters:*

1399 Chuangxinyi Road  
Songbei District  
Harbin, Heilongjiang Province  
the PRC

*Independent Non-executive Directors:*

Mr. He Yu  
Mr. Hu Jian-min  
Mr. Chen Guo-qing  
Mr. Tang Zhi-hong

*Principal Place of Business in Hong Kong:*

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

20 March 2023

*To the Shareholders*

Dear Sir or Madam,

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

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the Announcement. On 28 December 2022, the Company entered into the Domestic Share Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, new Domestic Shares in cash at a total subscription price of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion). The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to adjustment. The number of new Domestic Shares to be issued under the Domestic Share Subscription is calculated by dividing the amount of the total subscription price in Hong Kong dollars equivalent to approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion based on the agreed exchange rate) by the Final Subscription Price and rounded down to the nearest thousand. The new Domestic Shares will be issued under the Specific Mandate to be sought at the EGM and the H Shares Class Meeting. The new Domestic Shares, when issued, will rank pari passu in all respects among themselves and with the existing Domestic Shares in issue at the time of issue of such new Domestic Shares. The net proceeds from the Domestic Share Subscription are expected to be approximately RMB1.697 billion (equivalent to approximately HK\$1.903 billion). Details of the use of proceeds are set out under the section headed “Use of Proceeds” in this circular.

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

### A. PROPOSED ISSUE OF NEW DOMESTIC SHARES

#### 1. Domestic Share Subscription Agreement

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

***Date***

28 December 2022

***Parties***

- (1) The Company (as issuer); and
- (2) the Subscriber (as subscriber).



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## LETTER FROM THE BOARD

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### *Subscription Price and principle for pricing*

The total subscription price of the Domestic Share Subscription is approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion). The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed for under the Domestic Share Subscription Agreement (as determined by the calculation as set out under the section headed “Number of new Domestic Shares” below) by the Final Subscription Price.

The Initial Subscription Price, being HK\$3.43 per new Domestic Share, was determined after arm’s length negotiations between the Company and the Subscriber at the average closing price of H Shares for the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement plus a premium of 10%, rounded off to the nearest two decimal places. The Initial Subscription Price represents:

- (i) a discount of approximately 7.05% to the closing price of HK\$3.69 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 11.00% to the closing price of HK\$3.09 per H Share as quoted on the Stock Exchange on the date of the Domestic Share Subscription Agreement;
- (iii) a premium of approximately 14.72% to the average closing price of approximately HK\$2.99 per H Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Domestic Share Subscription Agreement; and
- (iv) a premium of approximately 13.20% to the average closing price of approximately HK\$3.03 per H Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Domestic Share Subscription Agreement.

The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment:

- (a) In the event that the Closing Price is higher than the Initial Subscription Price, the Company is entitled to adjust the Final Subscription Price to the value of the Closing Price, subject to a maximum price of HK\$3.60 per new Domestic Share (being the Initial Subscription Price plus a premium of 5%, rounded off to the nearest 2 decimal places).

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## LETTER FROM THE BOARD

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The adjustment of the Final Subscription Price shall be based on the following formula:

$$\text{Adjustment} = \text{Closing Price}/\text{Initial Subscription Price} - 1$$

$$\text{Final Subscription Price} = \text{Initial Subscription Price} \times (1 + \text{Adjustment})$$

where, if the value of the adjustment is calculated to be equal or higher than 5%, it shall be taken as 5%; if the value of the adjustment is calculated to be lower than 5%, its actual value shall be taken and in such case, the Final Subscription Price shall be the Closing Price; and the Final Subscription Price shall be rounded off to the nearest two decimal places.

- (b) In the event that the Closing Price is equal to or lower than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.

As the Closing Price is denominated in Hong Kong dollars, for the purpose of determining the total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the middle exchange rate between Renminbi and Hong Kong dollars published by the People's Bank of China on 27 December 2022, being HK\$1 to RMB0.8914.

The maximum price of HK\$3.60 per new Domestic Share was set for the following reasons:

- (1) *Market price of H Shares in the secondary market*

For the six months immediately preceding the date of the Domestic Share Subscription Agreement, the average closing price of H Shares was approximately HK\$2.611 per H Share based on the daily closing prices as quoted on the Stock Exchange, with the highest closing price at HK\$3.330 per H Share (on 29 November 2022) and the lowest closing price at HK\$2.140 per H Share (on 31 August 2022). For the three months immediately preceding the date of the Domestic Share Subscription Agreement, the average closing price of H Shares was approximately HK\$2.831 per H Share based on the daily closing prices as quoted on the Stock Exchange, with the highest closing price at HK\$3.330 per H Share (on 29 November 2022) and the lowest closing price at HK\$2.280 per H Share (on 29 September 2022). Having considered the market price of H Shares in the secondary market, the Company believed that basing the subscription price of the new Domestic Shares to be issued under the Domestic Share Subscription on the market price of H Shares in the secondary market with a certain level of premium would be conducive to safeguarding the interests of the H Shareholders.

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## LETTER FROM THE BOARD

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(2) *Approval procedures of the Subscriber*

The Subscriber is a state-owned enterprise. The “Measures for the Supervision and Administration of State-owned Equities of Listed Companies” (《上市公司國有股權監督管理辦法》) sets out the general principles of “for the purpose of regulating the changes of state-owned equities of listed companies, promoting the optimised allocation of state-owned resources, equally protecting the lawful rights and interests of all kinds of investors, and preventing the loss of state-owned assets”. It also provides that “a state-owned shareholder’s subscription of shares issued by a listed company that does not result in the transfer of controlling interest in a listed company is subject to the review and approval by a state-funded enterprise”, and “the consideration in relation to any change in state-owned equity of a listed company shall be reasonably determined with reference to open trading prices in the securities market, stock trading prices of comparable companies, net asset value per share and other factors”. As the Subscriber is a state-funded enterprise under such provisions, the Domestic Share Subscription amounts to a change in state-owned equity of a listed company which is subject to the review and approval by the Subscriber. The Subscriber shall, in accordance with the aforementioned provisions including the general principles, review and approve the Domestic Share Subscription, including the determination of a reasonable consideration thereof with reference to the open trading prices in the securities market, stock trading prices of comparable companies, net asset value per share and other factors.

Accordingly, being also a Condition Precedent, the terms and conditions (including the mechanism for determining the Final Subscription Price and the subscription price range) of the Domestic Share Subscription Agreement were subject to approval procedures of the Subscriber as required in the aforementioned provisions. As at the Latest Practicable Date, the Subscriber has completed such approval procedures and a maximum price of HK\$3.60 per new Domestic Share was set for the Final Subscription Price.

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## LETTER FROM THE BOARD

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The Board is of the view that the maximum price of HK\$3.60 per new Domestic Share is fair and reasonable:

(1) *Premium to the market price of H Shares on the date of the Domestic Share Subscription Agreement*

The Initial Subscription Price was determined after arm's length negotiations between the Company and the Subscriber at HK\$3.43 per new Domestic Share, which represents a premium of 10% to the average closing price of H Shares for the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement. Meanwhile, an adjustment mechanism was implemented with a view to cope with a possible increase in the market price of H Shares on Completion. In the event that the Closing Price exceeds the Initial Subscription Price, the Final Subscription Price will be adjusted to a maximum price of HK\$3.60 per new Domestic Share, which represents:

- (i) a premium of approximately 16.50% to the closing price of HK\$3.09 per H Share as quoted on the Stock Exchange on the date of the Domestic Share Subscription Agreement;
- (ii) a premium of approximately 20.40% to the average closing price of approximately HK\$2.99 per H Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of the Domestic Share Subscription Agreement; and
- (iii) a premium of approximately 18.81% to the average closing price of approximately HK\$3.03 per H Share as quoted on the Stock Exchange for the ten trading days immediately preceding the date of the Domestic Share Subscription Agreement.

The maximum price of HK\$3.60 per new Domestic Share has fully taken into account the interests of the H Shareholders and has exceeded the highest closing price of H Shares at HK\$3.330 per H Share (on 29 November 2022) over the six months immediately preceding the date of the Domestic Share Subscription Agreement.

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## LETTER FROM THE BOARD

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(2) *Unpredictability in price trend of H Shares in the secondary market*

Given that the price trend of shares is unpredictable, changes in future market price of H Shares could not be foreseen at the time of the entering into of the Domestic Share Subscription Agreement. The Board considers that the increase in market price of H Shares since the date of the Announcement shows positive feedback from the market and reflects the market's recognition of the proposed issue of new Domestic Shares under the Domestic Share Subscription and optimism about the future prospects of the Company. Nonetheless, the market price of H Shares in the secondary market is still subject to fluctuation before Completion and may become lower than the maximum price of HK\$3.60 per new Domestic Share.

(3) *Low liquidity of the new Domestic Shares to be subscribed for by the Subscriber*

As the new Domestic Shares to be subscribed for by the Subscriber under the Domestic Share Subscription are not listed and traded on the Stock Exchange, their liquidity is relatively low. As such, the Domestic Share Subscription at a maximum subscription price of HK\$3.60 per new Domestic Share demonstrates the support to the Company by, and the confidence in the Company's future business development from, the Subscriber.

***Number of new Domestic Shares***

The Company will issue and the Subscriber will subscribe for not more than 556,009,000 new Domestic Shares. The number of new Domestic Shares to be issued is calculated by dividing the amount of the total subscription price in Hong Kong dollars equivalent to approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion based on the agreed exchange rate) by the Final Subscription Price and rounded down to the nearest thousand.

Assuming the Final Subscription Price is the same as the Initial Subscription Price, 556,009,000 new Domestic Shares will be issued, which represent (i) approximately 53.93% of the existing total issued Domestic Shares and approximately 32.58% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 35.04% of the enlarged total issued Domestic Shares and approximately 24.57% of the total issued share capital of the Company as enlarged by the issue of new Domestic Shares under the Domestic Share Subscription (assuming that there will be no change in the total issued share capital of the Company other than the issue of new Domestic Shares under the Domestic Share Subscription).

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## LETTER FROM THE BOARD

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Assuming the Final Subscription Price is the maximum price of HK\$3.60 per new Domestic Share, 529,753,000 new Domestic Shares will be issued, which represent (i) approximately 51.38% of the existing total issued Domestic Shares and approximately 31.04% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.94% of the enlarged total issued Domestic Shares and approximately 23.69% of the total issued share capital of the Company as enlarged by the issue of new Domestic Shares under the Domestic Share Subscription (assuming that there will be no change in the total issued share capital of the Company other than the issue of new Domestic Shares under the Domestic Share Subscription).

As at the Latest Practicable Date, the Company had a total number of 1,706,523,000 Shares, among which the Subscriber held 1,030,952,000 Domestic Shares, which represent approximately 60.41% of the total issued share capital of the Company. According to the price range of HK\$3.43-HK\$3.60 per new Domestic Share, the shareholding interest of the Subscriber in the Company will increase, and the shareholding interests of the H Shareholders in the Company will be diluted accordingly, by 9.38–9.73 percentage points immediately after the issue of the new Domestic Shares under the Domestic Share Subscription.

Having fully considered the dilution effect on the shareholding interests of H Shareholders under the Domestic Share Subscription, a mechanism to enable upward adjustment of the Final Subscription Price in the event of an increase in the market price of H Shares, which shall reduce the dilution effect on the shareholding interests of H Shareholders accordingly, was put in place to better safeguard the interests of the H Shareholders. Having taken into account (i) the reasons for and benefits of the Domestic Share Subscription set out under the section headed “Reasons for and benefits of the Domestic Share Subscription” in this circular, which the Board believes will create long-term value for the H Shareholders and outweigh the dilution effect on their shareholding interests; and (ii) the maximum price of HK\$3.60 per new Domestic Share being fair and reasonable as set out above, the Board is of the view that the said level of dilution to the shareholding interests of H Shareholders as a result of the Domestic Share Subscription is acceptable and the Domestic Share Subscription (including the mechanism for determining the Final Subscription Price) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Conditions Precedent*

Completion of the Domestic Share Subscription under the Domestic Share Subscription Agreement is conditional upon the satisfaction or waiver (if applicable) of the following conditions:

- (1) the obtaining of the approval by the Independent Shareholders approving the Domestic Share Subscription and the Specific Mandate by way of special resolutions by way of poll at the EGM and the H Shares Class Meeting and such approval being valid on the date of Completion;
- (2) the obtaining of the approval from the Subscriber approving the Domestic Share Subscription and such approval being valid on the date of Completion;
- (3) the obtaining of the approval from the China Securities Regulatory Commission approving the directional issue of new Domestic Shares by the Company and such approval remaining valid on the date of Completion;
- (4) no laws, regulations, rules, directives, orders or notices prohibiting the completion of the transactions contemplated under the Domestic Share Subscription Agreement being issued, promulgated or enforced by relevant government authorities;
- (5) with respect to the obligations to be performed by the Subscriber, the representations and warranties given by the Company under the Domestic Share Subscription Agreement being true and accurate on the date of signing and remaining true and accurate up to the date of Completion (as if repeated on the date of Completion) in all material respects; and
- (6) with respect to the obligations to be performed by the Company, the representations and warranties given by the Subscriber under the Domestic Share Subscription Agreement being true and accurate on the date of signing and remaining true and accurate up to the date of Completion (as if repeated on the date of Completion) in all material respects.

Save for Condition Precedent (5) above which may be waived by the Subscriber and Condition Precedent (6) above which may be waived by the Company, none of the other Conditions Precedent can be waived by either party. If any of the Conditions Precedent is not satisfied or waived (if applicable) on or before the Long Stop Date, either party shall be entitled to terminate the Domestic Share Subscription Agreement with immediate effect by giving written notice to the other party.

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## LETTER FROM THE BOARD

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### ***Termination***

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

### ***Completion***

Completion of the Domestic Share Subscription will take place on the seventh business day after the fulfilment or waiver (if applicable) of the Conditions Precedent or any other date after the fulfilment or waiver (if applicable) of the Conditions Precedent as agreed by the parties. Completion is expected to take place in or around June 2023.

The Subscriber shall, within seven business days after receiving a payment notice issued by the Company upon the fulfilment or waiver (if applicable) of the Conditions Precedent, make payment of the total subscription price in cash to the Company.

The Company shall arrange for the registration of the Subscriber as holder of the new Domestic Shares issued under the Domestic Share Subscription upon issuance of a verification report by an accountant registered in the PRC in respect of the payment of the total subscription price by the Subscriber.

### ***Specific Mandate***

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreement will be issued under the Specific Mandate to be sought at the EGM and the H Shares Class Meeting. The Specific Mandate is proposed to be valid for 12 months from the date of approval at the EGM and the H Shares Class Meeting.

## **2. Ranking and Transfer Restrictions of the New Domestic Shares**

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

Any transfer of the new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreement shall comply with the relevant provisions of the Company Law of the PRC and other applicable laws and regulations as well as the Articles regarding the transfer of Shares. Save for the foregoing, there are no other restrictions on the transfer of the new Domestic Shares.



## LETTER FROM THE BOARD

### 3. Shareholding Structure of the Company

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the new Domestic Shares, assuming the Final Subscription Price is the same as the Initial Subscription Price; and (iii) immediately after the issue of the new Domestic Shares, assuming the Final Subscription Price is at the maximum price of HK\$3.60 per new Domestic Share, respectively (assuming that there will be no change in the total issued share capital of the Company other than the issue of the new Domestic Shares):

Name of Shareholder	Share class	As at the Latest Practicable Date		Immediately after the issue of the new Domestic Shares (assuming the Final Subscription Price is the same as the Initial Subscription Price)		Immediately after the issue of the new Domestic Shares (assuming the Final Subscription Price is at the maximum price of HK\$3.60 per new Domestic Share)	
		No. of Shares held	Percentage of total issued Shares	No. of Shares held	Percentage of total issued Shares	No. of Shares held	Percentage of total issued Shares
The Subscriber	Domestic Shares	1,030,952,000	60.41%	1,586,961,000	70.14%	1,560,705,000	69.79%
Public Shareholders	H Shares	675,571,000	39.59%	675,571,000	29.86%	675,571,000	30.21%
<b>Total</b>		<b>1,706,523,000</b>	<b>100.00%</b>	<b>2,262,532,000</b>	<b>100.00%</b>	<b>2,236,276,000</b>	<b>100.00%</b>

### 4. Proposed Amendments to the Articles

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

The proposed amendments to the Articles are subject to approval by the Shareholders by way of special resolutions at the EGM and the approval of and registration or filing with the relevant PRC government authorities.

The amendments set out below are based on the assumption that the Final Subscription Price is the same as the Initial Subscription Price and 556,009,000 new Domestic Shares are issued in 2023. In the event that the Final Subscription Price is higher than the Initial Subscription Price, the number of Shares and the amount of the registered capital stated in the relevant articles set out below will be adjusted accordingly to reflect the number of new Domestic Shares that have actually been issued and the amount of the registered capital that has actually been increased.

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## LETTER FROM THE BOARD

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### Before amendment:

**Article 16** Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,706,523,000 shares, the nominal value of each share being Rmb 1, of which:

- (i) When the company was founded, 720,000,000 domestic shares were issued to the initiators; in the share-increasing process in Dec 2005, after the issuer reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in Mar 2007, after the issuer reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company; in the share-increasing process in 2017, after the promoter increased the holding of 329,717,000 domestic shares, the quantity held by it was increased to 1,030,952,000 domestic shares, accounting for 60.41% of the total quantity of shares of the company.
- (ii) After the company was founded, it issued 469,151,000 overseas listed foreign shares. In Dec 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the company's total shares; on Mar 2007, the company increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company; after the issue of domestic shares in 2017, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 39.59% of the total quantity of shares of the Company.

The structure of the share capital of the Company is 1,706,523,000 ordinary shares of which the promoter holds 1,030,952,000 domestic shares and oversea listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

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## LETTER FROM THE BOARD

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**Article 17** The registered capital of the Company is Rmb 1,706,523,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (1) by offering new shares to unspecified investors;
- (2) by placing new shares to existing shareholders;
- (3) by bonus issue of shares to existing shareholders;
- (4) by any other method permitted by PRC laws and administrative regulations.

**After amendment:**

**Article 16** Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is **2,262,532,000** shares, the nominal value of each share being **RMB1.00**, of which:

- (i) when the Company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the Company; in the share-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the Company; in the share-increasing process in 2017, after the promoter increased the holding of 329,717,000 domestic shares, the quantity held by it was increased to 1,030,952,000 domestic shares, accounting for 60.41% of the total quantity of shares of the Company; in the share-increasing process in 2023, after the promoter increased the holding of 556,009,000 domestic shares, the quantity held by it was increased to 1,586,961,000 domestic shares, accounting for 70.14% of the total quantity of shares of the Company;

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## LETTER FROM THE BOARD

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- (ii) after the Company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of overseas listed foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the Company; in March 2007, the Company increased 102,355,000 overseas listed foreign shares, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the Company; after the issue of domestic shares in 2017, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 39.59% of the total quantity of shares of the Company; after the issue of domestic shares in 2023, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 29.86% of the total quantity of shares of the Company.

The structure of the share capital of the Company is **2,262,532,000** ordinary shares of which the promoter holds **1,586,961,000** domestic shares and overseas listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

### Article 17

The registered capital of the Company is **RMB2,262,532,000**. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (1) by offering new shares to unspecified investors;
- (2) by placing new shares to existing shareholders;
- (3) by bonus issue of shares to existing shareholders;
- (4) by any other method permitted by PRC laws and administrative regulations.

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## LETTER FROM THE BOARD

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### 5. Use of Proceeds

The Company expects to raise gross proceeds of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion) from the Domestic Share Subscription. The net proceeds from the Domestic Share Subscription are expected to be approximately RMB1.697 billion (equivalent to approximately HK\$1.903 billion). Based on the above net proceeds, the net price per new Domestic Share is (i) approximately RMB3.05 (equivalent to approximately HK\$3.42) assuming the Final Subscription Price is the same as the Initial Subscription Price and (ii) approximately RMB3.20 (equivalent to approximately HK\$3.59) assuming the Final Subscription Price is at the maximum price of HK3.60 per new Domestic Share.

It is the intention of the Company to use the net proceeds from the Domestic Share Subscription for replenishing the general working capital of the Group, such that the asset-liability ratio and capital structure can be improved and the financial expenses and financial risks can be reduced.

In particular, the Company intends to use part of the net proceeds as procurement expenditures relating to the businesses of thermal power, nuclear power, gas turbines, etc.. As the market improves, the Company expects that the scale of some business areas may increase in the upcoming years, leading to an increase of procurement expenditures. As such, the Company intends to use the net proceeds of approximately RMB500 million each year over the next three years for the working capital in the ordinary course of business of the Group in such areas.

In addition, given that the asset-liability ratio (being total assets divided by total liabilities) of the Group has decreased in recent years, the remaining net proceeds of approximately RMB200 million is intended to be used for ordinary administrative expenditures and repayment of borrowings.

The Board believes that the abovementioned use of proceeds for replenishing the general working capital of the Group would relieve part of the financial pressure, supplement the cash flow, reduce the financial leverage effectively and improve the asset-liability ratio of the Group as well as prevent liquidity risks.

### 6. Reasons for and Benefits of the Domestic Share Subscription

The issue of new Domestic Shares and the Domestic Share Subscription can effectively replenish the general working capital of the Group, such that the asset-liability ratio and the capital structure can be improved and the financial expenses and financial risks can be reduced.

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## LETTER FROM THE BOARD

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In the strategic context of promoting green and low-carbon transformation and development in the PRC, the proceeds from the issue of new Domestic Shares and the Domestic Share Subscription provide financial support for the Company's reform, transformation and sustainable development, which is conducive to the Company's stimulation of the momentum for business development and steady introduction of new strategies, hence enabling the Company to create greater value for the Shareholders as a whole.

Furthermore, with the influence of the domestic economic environment and industrial development, the thermal power market has warmed up and the construction of nuclear power infrastructure has accelerated. During the period of the 14th Five-Year Plan, it is expected that procurement expenditures and net expenditures for some of the principal activities of the Company may increase over the next three years.

On the other hand, the asset-liability ratio (being total assets divided by total liabilities) of the Company remains at a low level, with such asset-liability ratio having decreased from approximately 138.79% as at 31 December 2020 to approximately 124.66% as at 30 June 2022. While the Company currently has certain amount of working capital on its book, the Company also has substantial amount of liabilities as at 30 June 2022 (such as short-term and long-term borrowings of approximately RMB7.75 billion, notes payable of approximately RMB6.98 billion, borrowings from central bank of approximately RMB89.06 million and placement from banks and other financial institutions of approximately RMB200.00 million). Moreover, the future needs of expenditures of the Company as set out above might lead to a further decrease in the asset-liability ratio and an increase in liquidity risk of the Company, hence affecting the competitiveness of the Company. The Domestic Share Subscription may to a certain extent replenish the cash flow needs for daily operations, improve the asset-liability ratio, enhance credit rating and reduce financing costs of the Company and effectively resist financial risks in the current complex market environment.

Taking into account a combination of the financial strength and willingness to contribute capital of the Subscriber as well as the financial position of the Company, the total subscription price was determined at RMB1.70 billion after arm's length negotiation between the Company and the Subscriber.

As such, the Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) believe that the terms (including the subscription price) of the Domestic Share Subscription Agreement are fair and reasonable and on normal commercial terms and the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Three of the executive Directors, Mr. Cao Zhi-an, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian, are also directors or senior managers of the Subscriber and thus, are considered materially interested in the Domestic Share Subscription, and had abstained from voting on the relevant Board resolutions for considering and approving the entering into of the Domestic Share Subscription Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Domestic Share Subscription Agreement or is required to abstain from voting on the relevant Board resolutions for considering and approving the entering into of the Domestic Share Subscription Agreement and the transactions contemplated thereunder pursuant to the Listing Rules and/or the Articles.

### **7. Recent Fund Raising Activities**

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

### **8. Implications under the Listing Rules**

As at the Latest Practicable Date, the Subscriber directly holds 1,030,952,000 Domestic Shares in the Company, representing approximately 60.41% of the Company's total issued share capital and is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the Subscriber is a connected person of the Company and accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company, which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **9. Information on the Parties**

#### ***Information on the Company***

The Company is a company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Company is one of the largest manufacturers of power plant equipment in the PRC. Its principal activities include the manufacturing of main thermal power equipment, main hydropower equipment, main nuclear power equipment, gas power equipment set and turnkey construction of power station projects, etc..

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## LETTER FROM THE BOARD

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### *Information on the Subscriber*

The Subscriber is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power generating equipment, marine engines, power driven equipment and export base for complete set of equipment in the PRC. Its ultimate beneficial owner is The State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

### **B. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate, taking into account the advice of the Independent Financial Adviser. The members of the Independent Board Committee are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.

In this connection, Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Domestic Share Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on whether to vote in favour of the resolutions to be proposed for approving the Domestic Share Subscription and the Specific Mandate at the EGM and the H Shares Class Meeting.

### **C. EGM AND H SHARES CLASS MEETING**

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



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## LETTER FROM THE BOARD

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The Subscriber and its associates will (and any other Shareholder who has a material interest in the Domestic Share Subscription and the Specific Mandate will be required to) abstain from voting on the resolutions to be proposed for approving the Domestic Share Subscription and the Specific Mandate at the EGM and the H Shares Class Meeting. As at the Latest Practicable Date, to the extent that the Directors are aware having made all reasonable enquiries, the Subscriber holds 1,030,952,000 Shares (representing approximately 60.41% of the total issued share capital of the Company), and it controls or is entitled to exercise control over the voting rights in respect of such Shares. There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon the Subscriber; and (ii) no obligation or entitlement of the Subscriber as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

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

The notices convening the EGM and the H Shares Class Meeting of the Company to be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Wednesday, 12 April 2023 at 9:00 a.m. and 9:30 a.m. (or immediately after the conclusion of the EGM) respectively, are set out on pages EGM-1 to EGM-7 and HCM-1 to HCM-3 of this circular. Whether or not you intend to attend such meetings, you are reminded to complete the proxy form(s) enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the H Shareholders only) or the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for the Domestic Shareholders only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding such meetings or any adjournment thereof. Completion and delivery of the said proxy form(s) will not prevent you from attending, and voting in person at, such meetings or any adjournment thereof if you so wish.

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## LETTER FROM THE BOARD

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### D. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 22 to 38 of this circular, considers that the Domestic Share Subscription and the Specific Mandate are in the interests of the Company and the Shareholders as a whole and the terms of the Domestic Share Subscription Agreement are fair and reasonable and on normal commercial terms as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM and the H Shares Class Meeting to approve the Domestic Share Subscription and the Specific Mandate.

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

### E. ADDITIONAL INFORMATION

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

**As the Domestic Share Subscription is subject to the satisfaction or waiver (if applicable) of the Conditions Precedent, the Domestic Share Subscription may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

Yours faithfully,  
By Order of the Board  
**Harbin Electric Company Limited**  
**Ai Li-song**  
*Company Secretary*

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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

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

(Stock Code: 1133)

20 March 2023

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to the circular issued by the Company to the Shareholders dated 20 March 2023 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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

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

Yours faithfully,

Independent Board Committee

**He Yu, Hu Jian-min, Chen Guo-qing, Tang Zhi-hong**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



**SOMERLEY CAPITAL LIMITED**

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

20 March 2023

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

Dear Sirs,

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

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Harbin Electric Company Limited (the “**Company**”) in relation to the proposed subscription of new domestic shares of the Company by Harbin Electric Corporation (the “**Domestic Share Subscription**”). Details of the Domestic Share Subscription are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company to the Shareholders dated 20 March 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 28 December 2022 (after trading hours), the Company entered into the Domestic Share Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for new Domestic Shares in cash at a total subscription price of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With reference to the Board Letter, as at the Latest Practicable Date, the Subscriber directly holds 1,030,952,000 Domestic Shares in the Company, representing approximately 60.41% of the total issued share capital of the Company, and is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the Subscriber is a connected person of the Company. Accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company, which is subject to reporting, announcement and independent shareholders' approval requirements.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong, has been established to make a recommendation to the Independent Shareholders in relation to the Domestic Share Subscription and the Specific Mandate. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard (the "**Engagement**").

During the past two years, Somerley Capital Limited was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to a potential connected transaction of the Company. The past engagement was limited to potential provision of independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and the Subscriber that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Engagement.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Domestic Share Subscription and the Specific Mandate, we have taken into account the principal factors and reasons set out below:

#### 1. Information on the Company

The Company is a company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Company is one of the largest manufacturers of power plant equipment in the PRC. Its principal activities include the manufacturing of main thermal power equipment, main hydropower equipment, main nuclear power equipment, gas power equipment set and turnkey construction of power station projects, etc..

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2020 and 2021 (audited) and for the six months ended 30 June 2021 and 2022 (unaudited) as extracted from the 2021 annual report and 2022 interim report of the Company respectively:

	For the year		For the six months	
	ended 31 December	ended 31 December	ended 30 June	ended 30 June
	2021	2020	2022	2021
	RMB' million	RMB' million	RMB' million	RMB' million
Operating Revenue	21,225	23,760	11,741	11,807
– Thermal power equipment	7,562	8,710	4,379	4,437
– Hydropower host equipment	2,727	2,454	1,569	1,236
– Power station engineering services	4,496	6,405	2,720	3,074
– Power station auxiliary equipment and ancillary products	852	931	218	408
– Nuclear products	1,101	1,468	593	606
– AC and DC motors and other	4,488	3,792	2,262	2,048
Net profit/(loss) attributable to parent company	(4,142)	(7)	52	34

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	As at 30 June 2022 <i>RMB' million</i>	As at 31 December 2021 <i>RMB' million</i>	As at 31 December 2020 <i>RMB' million</i>
Total assets	62,188	60,610	57,961
– <i>Current assets</i>	53,131	51,501	48,678
– <i>Non-current assets</i>	9,057	9,109	9,283
Total liabilities	49,884	48,416	41,761
– <i>Current liabilities</i>	45,176	44,452	38,406
– <i>Non-current liabilities</i>	4,709	3,963	3,355
Net assets attributable to parent company	11,643	11,569	15,677

During the year ended 31 December 2021 (“**FY2021**”), the Group recorded operating revenue of approximately RMB21.23 billion, representing a decrease of approximately 10.67% as compared to that for the year ended 31 December 2020 (“**FY2020**”). As advised by the Management, such decrease in operating revenue was mainly attributable to (i) the decrease in operating revenue from the domestic traditional industry segment (such as coal-fired power, hydropower and nuclear power) due to a decline in market demand and continued low prices; and (ii) the significant decline in operating revenue from international engineering projects due to the impact of the pandemic and international policies on the coal and power industry, as some projects were not executed as expected or did not commence as scheduled. The Group recorded net loss attributable to parent company of approximately RMB4,142 million for FY2021, representing a significant increase as compared to a loss of approximately RMB7 million for FY2020. As advised by the Management, such increase in loss was mainly attributable to (i) the decrease in gross profit from traditional industries (such as coal-fired power, hydropower and nuclear power) due to the decrease in product prices and increase in costs, which led to an increase in the number of loss contracts to be executed; (ii) the impact of the overseas pandemic and the increase in construction costs, which led to a larger loss on overseas international projects; and (iii) the increase in current overheads due to the one-off accrual of extra expenses for retired staff by the Company.

During the six months ended 30 June 2022 (“**HY2022**”), the Group recorded operating revenue of approximately RMB11.74 billion, maintaining at a similar level as compared to that for the six months ended 30 June 2021 (“**HY2021**”). The Group recorded net profit attributable to parent company of approximately RMB52 million for HY2022, representing an increase of approximately 50.37% as compared to that for HY2021. As advised by the Management, such increase in profit was mainly attributable to the decrease in operating cost (which was mainly attributable to implementation of special action by the Company to turn losses into profit, as well as to reduce and control losses in loss contracts).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group had total assets of approximately RMB62.19 billion as at 30 June 2022, representing increases of approximately 2.60% and 7.29% as compared to that as at 31 December 2021 and 31 December 2020 respectively. The Group had total liabilities of approximately RMB49.88 billion as at 30 June 2022, representing increases of approximately 3.03% and 19.45% as compared to that as at 31 December 2021 and 31 December 2020 respectively. The Group recorded an asset-liability ratio (being total assets divided by total liabilities) of approximately 124.66% as at 30 June 2022 as compared to approximately 125.19% as at 31 December 2021 and approximately 138.79% as at 31 December 2020.

As at 30 June 2022, the Group had net assets attributable to parent company of approximately RMB11.64 billion.

### **2. Information on the Subscriber**

With reference to the Board Letter, the Subscriber is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power generating equipment, marine engines, power driven equipment and export base for complete set of equipment in the PRC. Its ultimate beneficial owner is The State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

### **3. Reasons for and Benefits of the Domestic Share Subscription and Use of Proceeds**

With reference to the Board Letter, the Company expects to raise gross proceeds of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion) from the Domestic Share Subscription. The amount of net proceeds from the Domestic Share Subscription is expected to be approximately RMB1.697 billion (equivalent to approximately HK\$1.903 billion). It is the intention of the Company to use the net proceeds from the Domestic Share Subscription for replenishing the general working capital of the Group, such that the asset-liability ratio and capital structure can be improved and the financial expenses and financial risks can be reduced.

According to the Board Letter, the Company intends to use part of the net proceeds as procurement expenditures relating to the businesses of thermal power, nuclear power, gas turbines, etc.. As the market improves, the Company expects that the scale of some business areas may increase in the upcoming years, leading to year-by-year increase of the procurement expenditures. As such, the Company intends to use the net proceeds of approximately RMB500 million each year over the next three years for the working capital in the ordinary course of business of the Group in such areas. In addition, given that the asset-liability ratio of the Group has increased in recent years, the remaining net proceeds of approximately RMB200 million is intended to be used for ordinary administrative expenditures and repayment of borrowings.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As further mentioned in the Board Letter, in the strategic context of promoting green and low-carbon transformation and development in the PRC, the proceeds from the issue of new Domestic Shares and the Domestic Share Subscription provide financial support for the Company's reform, transformation and sustainable development, which is conducive to the Company's stimulation of the momentum of business development and steady introduction of new strategies, hence enabling the Company to create greater value for the Shareholders as a whole.

Despite that the Group had cash and bank of approximately RMB14.67 billion as at 30 June 2022, the Group also had substantial amount of liabilities as at 30 June 2022 (such as short-term and long-term borrowings of approximately RMB7.75 billion, notes payable of approximately RMB6.98 billion, borrowings from central bank of approximately RMB89.06 million and placement from banks and other financial institutions of approximately RMB200.00 million). In addition, as shown in the section headed "1. Information on the Company" above, the asset-liability ratio of the Company was on a decreasing trend and decreased from approximately 139% as at 31 December 2020 to approximately 125% as at 30 June 2022. Accordingly, we concur with the Directors that the Domestic Share Subscription can replenish the general working capital of the Group and reduce its financial risks.

As advised by the Management, in addition to the Domestic Share Subscription, the Company has also considered other financing alternatives, including but not limited to debt financing and other means of equity issuance. Given that the Management did not intend to create additional debt liabilities and interest burden to the Group for fund raising, debt financing was not considered. Considering (i) that one of the purposes of the fund-raising exercise is to improve the asset-liability ratio and capital structure and to reduce the financial risks of the Group and (ii) the aforesaid financial condition of the Group (in particular the decreasing asset-liability ratio), we concur with the Directors that debt financing is not preferable. The Management considers that the Domestic Share Subscription demonstrates the support and commitment from the controlling shareholder of the Company and is an appropriate fund raising method. To show its support for the Group and in view of its long-term prospects, the Subscriber is willing to subscribe for new Domestic Shares at a premium to the recent market prices of the H Shares. Given that it is possible to secure an issue of unlisted Domestic Shares at a price above the recent market prices of the H Shares, the Management considered that it is not in the interests of the Company to incur underwriting costs and the other issuance costs of new Shares under an open offer or rights issue. Based on the above and have considered that the pricing for an open offer or rights issue would normally be set at a discount to recent market prices of the H Shares in order to secure underwriting commitments and encourage existing Shareholders to participate, we concur with the Management that the Domestic Share Subscription is an appropriate fund raising method.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account (i) the aforementioned latest financial condition of the Group (i.e. the decreasing asset-liability ratio); (ii) that the Domestic Share Subscription can replenish the general working capital of the Group; and (iii) that the Domestic Share Subscription provide financial support for the Company's reform, transformation and sustainable development, which is conducive to the Company's stimulation of the momentum of business development and steady introduction of new strategies, we consider that although the Domestic Share Subscription is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

#### 4. Principal Terms of the Domestic Share Subscription

Set out below are the principal terms and conditions of the Domestic Share Subscription Agreement, details of which are set out in the section headed "Domestic Share Subscription Agreement" of the Board Letter:

***Date:***

28 December 2022

***Parties:***

- (1) The Company (as issuer); and
- (2) the Subscriber (as subscriber)

***Subscription price and pricing principle:***

The total subscription price of the Domestic Share Subscription is approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion). The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed for under the Domestic Share Subscription Agreement (as determined by the calculation as set out under the section headed "Number of new Domestic Shares" in the Board Letter) by the Final Subscription Price.

The Initial Subscription Price, being HK\$3.43 per new Domestic Share, was determined after arm's length negotiations between the Company and the Subscriber at the average closing price of the H Shares of the Company for the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement plus a premium of 10%, rounded off to the nearest two decimal places.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment (the “**Adjustment Mechanism**”):

- (a) In the event that the Closing Price is higher than the Initial Subscription Price, the Company is entitled to adjust the Final Subscription Price to the value of the Closing Price, subject to the maximum price of HK\$3.60 per new Domestic Share (being the Initial Subscription Price plus a premium of 5%, rounded off to the nearest 2 decimal places).
- (b) In the event that the Closing Price is equal to or lower than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.

***Number of new Domestic Shares:***

The Company will issue and the Subscriber will subscribe for not more than 556,009,000 new Domestic Shares. The number of new Domestic Shares to be issued is calculated by dividing the amount of the total subscription price in Hong Kong dollars equivalent to approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion based on the agreed exchange rate) by the Final Subscription Price and rounded down to the nearest thousand.

Assuming the Final Subscription Price is the same as the Initial Subscription Price, 556,009,000 new Domestic Shares will be issued, which represent (i) approximately 53.93% of the existing total issued Domestic Shares and approximately 32.58% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 35.04% of the enlarged total issued Domestic Shares and approximately 24.57% of the total issued share capital of the Company as enlarged by the issue of the new Domestic Shares under the Domestic Share Subscription (assuming that there will be no change in the total issued share capital of the Company other than the issue of the new Domestic Shares under the Domestic Share Subscription).

Assuming the Final Subscription Price is the maximum price of HK\$3.60 per new Domestic Share, 529,753,000 new Domestic Shares will be issued, which represent (i) approximately 51.38% of the existing total issued Domestic Shares and approximately 31.04% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.94% of the issued Domestic Shares and approximately 23.69% of the total issued share capital of the Company as enlarged by the issue of the new Domestic Shares under the Domestic Share Subscription (assuming that there will be no change in the total issued share capital of the Company other than the issue of the new Domestic Shares under the Domestic Share Subscription).

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreement will be issued under the Specific Mandate to be sought at the EGM and the H Shares Class Meeting. The Specific Mandate is proposed to be valid for 12 months from the date of approval at the EGM and the H Shares Class Meeting.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***Conditions Precedent:***

Completion of the Domestic Share Subscription under the Domestic Share Subscription Agreement is conditional upon the satisfaction or waiver (if applicable) of certain conditions, including, among others:

- (1) the obtaining of the approval by the Independent Shareholders approving the Domestic Share Subscription and the Specific Mandate by way of special resolutions by way of poll at the EGM and the H Shares Class Meeting and such approval being valid on the date of Completion;
- (2) the obtaining of the approval from the Subscriber approving the Domestic Share Subscription and such approval being valid on the date of Completion; and
- (3) the obtaining of the approval from the China Securities Regulatory Commission approving the directional issue of new Domestic Shares by the Company and such approval remaining valid on the date of Completion.

Further details of the Conditions Precedent are set out in the section headed “Domestic Share Subscription Agreement” of the Board Letter.

### **5. Analysis of the Subscription Price**

#### ***(a) Comparison of the subscription price to market price***

The subscription price of the new Domestic Shares will be set in a range from the Initial Subscription Price of HK\$3.43 per new Domestic Share to the maximum Final Subscription Price of HK\$3.60 per new Domestic Share. We compare the above prices to the closing prices of the H Shares as set out below:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Initial Subscription Price of HK\$3.43 per new Domestic Share represents:

- (i) a discount of approximately 7.05% to the closing price of HK\$3.69 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 11.00% to the closing price of HK\$3.09 per H Share as quoted on the Stock Exchange on the date of the Domestic Share Subscription Agreement;
- (iii) a premium of approximately 14.72% to the average closing price of approximately HK\$2.99 per H Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Domestic Share Subscription Agreement; and
- (iv) a premium of approximately 13.20% to the average closing price of approximately HK\$3.03 per H Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Domestic Share Subscription Agreement.

The maximum Final Subscription Price of HK\$3.60 per new Domestic Share represents:

- (i) a discount of approximately 2.44% to the closing price of HK\$3.69 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 16.50% to the closing price of HK\$3.09 per H Share as quoted on the Stock Exchange on the date of the Domestic Share Subscription Agreement;
- (iii) a premium of approximately 20.40% to the average closing price of approximately HK\$2.99 per H Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Domestic Share Subscription Agreement; and
- (iv) a premium of approximately 18.81% to the average closing price of approximately HK\$3.03 per H Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Domestic Share Subscription Agreement.

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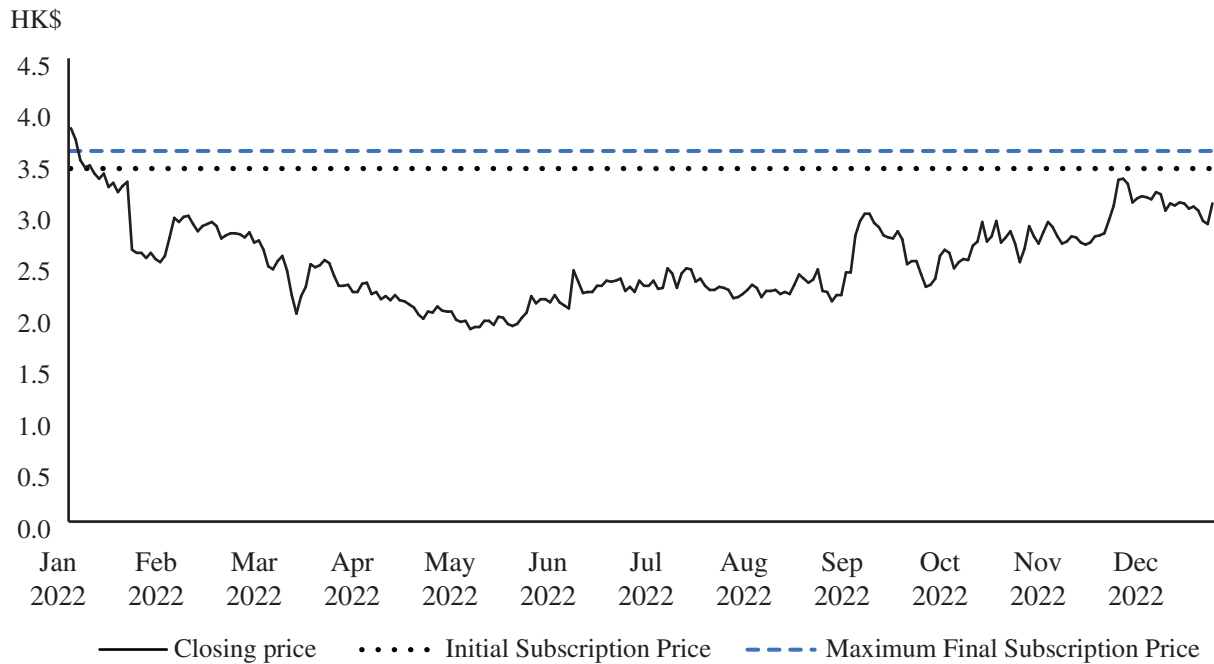
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**(b) H Share price performance**

We reviewed the daily closing price of the H Shares as quoted on the Stock Exchange from 1 January 2022 up to and including 28 December 2022, being an approximate one-year period prior to the date of the Domestic Share Subscription Agreement (the “**Review Period**”). The comparison of daily closing price of the H Shares and the Initial Subscription Price and the maximum Final Subscription Price is illustrated as follows:

**H Share Price Chart**



Source: The Stock Exchange’s website

During the Review Period, the highest and lowest closing prices of the H Shares as quoted on the Stock Exchange were HK\$3.82 recorded on 3 January 2022 and HK\$1.87 recorded on 12 May 2022 respectively, and the average closing price of the H Shares was approximately HK\$2.54.

The closing price of the H Shares was on a general decreasing trend at the start of the Review Period, decreasing from HK\$3.82 on 3 January 2022 to HK\$1.87 on 12 May 2022. During the period from 13 May 2022 to 31 August 2022, the closing price of H Shares fluctuated between HK\$1.89 and HK\$2.46. The closing price of H Shares further surged since September 2022, increasing from HK\$2.20 on 1 September 2022 to HK\$3.09 on 28 December 2022, being the date of the Domestic Share Subscription Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the 244 trading days in the Review Period, the Initial Subscription Price and the maximum Final Subscription Price were higher than the closing prices of the H Shares in 239 trading days (being approximately 98% of all trading days in the Review Period) and 242 trading days (being approximately 99% of all trading days in the Review Period) respectively.

*(c) Comparable issues*

We have also searched the website of the Stock Exchange on a best efforts basis to identify the entering into of subscription agreements involving the issue of new domestic shares for cash under specific mandate announced by companies listed on the Stock Exchange (the “**Comparable Issue(s)**”) during the period from 1 January 2022 up to 28 December 2022, being a period of approximately one year prior to and including the date of the Domestic Share Subscription Agreement (excluding transactions by prolonged suspension company with trading suspended for more than three months at the time of the domestic share subscription agreement, as the comparison of subscription price to the closing price on the last trading day which is distant from the date of agreement would not be insightful). Based on the said criteria, we identified only one transaction. Accordingly, we have extended the Review Period by two years (i.e. from 1 January 2020 to up to 28 December 2022, being a period of approximately three years prior to and including the date of the Domestic Share Subscription Agreement). To the best of our knowledge and as far as we are aware of, we found 5 transactions which met the said criteria and it is exhaustive.

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

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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<b>Company (stock code)</b>	<b>Date of announcement</b>	<b>Premium/(discount) of the subscription price to closing price per share on the date of agreement in relation to the respective subscription of new domestic shares (%)</b>
Tianjin TEDA Biomedical Engineering Company Limited (8189)	21 June 2022	(16.67) <i>(note)</i>
Guangzhou Rural Commercial Bank Co., Ltd. (1551)	8 December 2021	139.53
Xinte Energy Co., Ltd. (1799)	5 August 2021	(13.79) <i>(note)</i>
Bank of Gansu Co., Ltd. (2139)	11 December 2020	14.62
Bank of Jinzhou Co., Ltd. (416)	10 March 2020	(10.91) <i>(note)</i>
<b>Maximum</b>		139.53
<b>Minimum</b>		(16.67)
 <b>Domestic Share Subscription</b>		
<b><i>Initial Subscription Price</i></b>		11.00
<b><i>Maximum Final Subscription Price</i></b>		16.50

*Note:* Based on the closing price per share of the company on the last trading day prior to the date of agreement in relation to the transaction

The subscription prices of the Comparable Issues ranged from a discount of approximately 16.67% to a premium of approximately 139.53% over the closing prices of the shares on the date of agreement in relation to the respective subscription of new domestic shares (the “Discount/Premium Market Range”). The Initial Subscription Price and the maximum Final Subscription Price, which represent a premia of approximately 11.00% and 16.50% respectively to the closing price of H Share on the date of the Domestic Share Subscription Agreement, both fall within the Discount/Premium Market Range.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The subscription price for the Domestic Share Subscription will be set in a range between the Initial Subscription Price of HK\$3.43 per new Domestic Share and the maximum Final Subscription Price of HK\$3.60 per new Domestic Share. With reference to the Board Letter, the Initial Subscription Price was determined after arm's length negotiations between the Company and the Subscriber at the average closing price of H Shares of the Company on the 20 trading days immediately preceding the date of the Domestic Share Subscription Agreement plus a premium of 10% (rounded off to the nearest two decimal places), while the Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the Adjustment Mechanism. Having considered that (i) the Initial Subscription Price was set at premium to recent market prices prior to the entering into of the date of the Domestic Share Subscription Agreement and represented a premium of approximately 11.00% to the closing price of HK\$3.09 per H Share as quoted on the Stock Exchange on the date of the Domestic Share Subscription Agreement, and (ii) the Adjustment Mechanism, while enabling upward adjustment to the subscription price, secures the minimum subscription price at the Initial Subscription Price, which was set at premium to recent market prices prior to the entering into of the date of the Domestic Share Subscription Agreement, we consider the Adjustment Mechanism to be fair and reasonable.

Taking into account that (i) the subscription price (including both the Initial Subscription Price and the maximum Final Subscription Price) is set at premium to recent market prices; (ii) the subscription price (including both the Initial Subscription Price and the maximum Final Subscription Price) is higher than the closing prices of the H Shares during most trading days of the Review Period; and (iii) the premia as represented by both the Initial Subscription Price and the maximum Final Subscription Price are within the Discount/Premium Market Range of the Comparable Issues, we consider that the subscription price is fair and reasonable.

### **6. Financial Effects of the Domestic Share Subscription**

#### ***(i) Net asset value***

As set out in the Company's 2022 interim report, the Group's equity attributable to parent company (the "NAV") was approximately RMB11.64 billion as at 30 June 2022, representing approximately RMB6.82 per Share (equivalent to approximately HK\$7.65 per Share) based on a total of 1,706,523,000 Shares in issue as at 30 June 2022. The closing price of H Share on the date of the Domestic Share Subscription Agreement represents a discount to the NAV per Share of approximately 59.61%. The Initial Subscription Price of HK\$3.43 per new Domestic Share and the maximum Final Subscription Price of HK\$3.60 per new Domestic Share represent discounts to the NAV per Share of approximately 55.16% and 52.94% respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the section headed “4. Principal terms of the Domestic Share Subscription” above, assuming the Final Subscription Price is the same as the Initial Subscription Price, 556,009,000 new Domestic Shares will be issued (“**Scenario 1**”). In the event that the Closing Price is higher than the Initial Subscription Price and assuming the Final Subscription Price is the maximum price of HK\$3.60 per new Domestic Share, 529,753,000 new Domestic Shares will be issued (“**Scenario 2**”). In either case, the Company shall receive the total subscription price in cash. The table below sets out, for illustration purpose, the effect on the Group’s NAV per Share:

	<i>RMB'000</i> <i>(approximate)</i>	
NAV as at 30 June 2022		11,642,619
	<i>Scenario 1</i>	<i>Scenario 2</i>
<i>Add: Estimated net proceeds from the Domestic Share Subscription</i>	1,697,000	1,697,000
NAV upon Completion	13,339,619	13,339,619
		Number of Shares
Number of Shares in issue as at 30 June 2022		1,706,523,000
	<i>Scenario 1</i>	<i>Scenario 2</i>
<i>Add: Number of new Domestic Shares to be issued</i>	556,009,000	529,753,000
Number of Shares upon Completion	2,262,532,000	2,236,276,000
NAV per Share immediately after Completion	RMB5.90	RMB5.97
Change in net asset value per Share	(13.58%)	(12.57%)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated above, upon Completion, the NAV per Share will be reduced by approximately 13.58% to RMB5.90 under Scenario 1, and by approximately 12.57% to RMB5.97 under Scenario 2. We noted that, however, the Company has consistently traded significantly below its net asset value in the recent year and the nature of its assets are highly specialized for power generating equipment. In circumstances where an issue of further equity is desirable and prudent, some dilution in net asset value is inevitable. Consequently, we consider a decrease in the NAV per Share of approximately 12–14% is acceptable after taking into account our analysis on the subscription price and the reasons for and benefits of the Domestic Share Subscription as set out in this letter.

**(ii) *Asset-liability ratio***

As set out in the Company's 2022 interim report, as at 30 June 2022, the Group had total liabilities and total assets of approximately RMB49.88 billion and RMB62.19 billion, respectively. The ratio of total assets over total liabilities of the Group was approximately 124.66% as at 30 June 2022. Immediately upon Completion, the total assets of the Group will increase by the amount of the net proceeds and hence the ratio of total assets over total liabilities of the Group will increase to approximately 128.07%.

**7. Dilution Effect on the Shareholding Interests of the Public Shareholders**

As illustrated in the section headed "Shareholding Structure of the Company" of the Board Letter, the shareholding interests of the public Shareholders would be diluted by approximately 9.38–9.73 percentage point as a result of the Domestic Share Subscription. In this regard, taking into account (i) the reasons for and benefits of the Domestic Share Subscription; and (ii) the subscription price being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of the Domestic Share Subscription is acceptable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Domestic Share Subscription are on normal commercial terms and are fair and reasonable; and (ii) although the Domestic Share Subscription is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM and the H Shares Class Meeting to approve the Domestic Share Subscription and the Specific Mandate.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Clifford Cheng**  
*Director*

*Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission 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 ten years of experience in the corporate finance industry.*

\* *For the purposes of this letter, unless the context otherwise requires, conversion of RMB into HK\$ is based on the approximate exchange rate of HK\$1 to RMB0.8914. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in RMB or HK\$ have been, could have been or may be converted at such or any other rate or at all.*

**1. RESPONSIBILITY STATEMENT**

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

**2. DIRECTORS' AND SUPERVISORS' INTERESTS**

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

**3. SUBSTANTIAL SHAREHOLDERS' INTERESTS**

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

**Long Positions:**

Name of Shareholder	Share class	Capacity and nature of interest	No. of Shares held	Percentage of issued share capital of the relevant class	Percentage of total issued share capital
The Subscriber	Domestic Shares	Directly and beneficially owned	1,030,952,000	100.00%	60.41%

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

#### **4. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, Mr. Cao Zhi-an, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian are directors or senior managers of the Subscriber, which has an interest in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **5. SERVICE CONTRACTS**

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

#### **6. MATERIAL ADVERSE CHANGE**

The Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

#### **7. COMPETING BUSINESS**

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

#### **8. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company was materially interested in any subsisting contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or supervisors of the Company had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**9. MATERIAL LITIGATION**

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

**10. EXPERT**

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

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, the above expert (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter or opinion and the references to its name included herein in the form and context in which they are respectively included; (ii) has no direct or indirect shareholding in the Company or any other member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in the Company or any other member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to the Company or any other member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**11. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hpec.com>) for a period of 14 days from the date of this circular:

- (a) the Domestic Share Subscription Agreement;
- (b) the written consent referred to in the paragraph headed “10.EXPERT” in this appendix;

- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 21 in this circular; and
- (d) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 22 to 38 in this circular.

**12. MISCELLANEOUS**

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



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## NOTICE OF EGM

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# 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 Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Wednesday, 12 April 2023 at 9:00 a.m. to consider and, if thought fit, pass the following resolutions. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular dated 20 March 2023 issued by the Company (the “Circular”).

#### SPECIAL RESOLUTIONS

**1. THAT:**

the grant of a specific mandate for a validity period of 12 months from the date of approval at the EGM be and is hereby approved and the Company be and is hereby approved to conditionally issue new Domestic Shares to the Subscriber under the specific mandate granted as aforesaid pursuant to the terms and conditions set out in the Domestic Share Subscription Agreement entered into between the Company and the Subscriber. The terms and conditions of the Domestic Share Subscription Agreement and the transactions contemplated thereunder are as follows:

**(1) Type of new Domestic Shares to be issued**

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

**(2) Price of new Domestic Shares to be issued**

(i) The Initial Subscription Price is denominated in Hong Kong dollars, being HK\$3.43 per new Domestic Share.

(ii) The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment:

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## NOTICE OF EGM

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- (a) in the event that the Closing Price is higher than the Initial Subscription Price, the Company is entitled to adjust the Final Subscription Price to the value of the Closing Price, subject to a maximum price of HK\$3.60 per new Domestic Share (being the Initial Subscription Price plus a premium of 5%, rounded off to the nearest two decimal places); and
  - (b) in the event that the Closing Price is equal to or lower than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.
- (3) **Number of new Domestic Shares to be issued and total amount to be raised from the Domestic Share Subscription**

The Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, new Domestic Shares in cash at a total subscription price of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion). The number of new Domestic Shares to be subscribed for is to be calculated by dividing the amount of the total subscription price in Hong Kong dollars equivalent to approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion based on the agreed exchange rate) by the Final Subscription Price and rounded down to the nearest thousand. The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed for under the Domestic Shares Subscription Agreement by the Final Subscription Price.

For the purpose of calculating the number of new Domestic Shares to be subscribed for and the total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the middle exchange rate between Renminbi and Hong Kong dollars published by the People's Bank of China on 27 December 2022, being HK\$1 to RMB0.8914.

**2. THAT:**

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

**Registered capital and shareholding structure**

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

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## NOTICE OF EGM

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The amendments set out below are based on the assumption that the Final Subscription Price is the same as the Initial Subscription Price and 556,009,000 new Domestic Shares are issued in 2023. In the event that the Final Subscription Price is higher than the Initial Subscription Price, the number of Shares and the amount of the registered capital stated in the relevant articles set out below will be adjusted accordingly to reflect the number of new Domestic Shares that have actually been issued and the amount of the registered capital that has actually been increased.

### **Before amendment:**

**Article 16** Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,706,523,000 shares, the nominal value of each share being Rmb 1, of which:

- (i) When the company was founded, 720,000,000 domestic shares were issued to the initiators; in the share-increasing process in Dec 2005, after the issuer reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the company; in the issue-increasing process in Mar 2007, after the issuer reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the company; in the share-increasing process in 2017, after the promoter increased the holding of 329,717,000 domestic shares, the quantity held by it was increased to 1,030,952,000 domestic shares, accounting for 60.41% of the total quantity of shares of the company.
- (ii) After the company was founded, it issued 469,151,000 overseas listed foreign shares. In Dec 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of foreign shares reached 562,981,000 shares, accounting for 44.17% of the company's total shares; on Mar 2007, the company increased 102,355,000 overseas listed foreign shares, the total quantity of foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the company; after the issue of domestic shares in 2017, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 39.59% of the total quantity of shares of the Company.

The structure of the share capital of the Company is 1,706,523,000 ordinary shares of which the promoter holds 1,030,952,000 domestic shares and oversea listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

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## NOTICE OF EGM

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**Article 17** The registered capital of the Company is Rmb 1,706,523,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (1) by offering new shares to unspecified investors;
- (2) by placing new shares to existing shareholders;
- (3) by bonus issue of shares to existing shareholders;
- (4) by any other method permitted by PRC laws and administrative regulations.

**After amendment:**

**Article 16** Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 2,262,532,000 shares, the nominal value of each share being RMB1.00, of which:

- (i) when the Company was founded, 720,000,000 domestic shares were issued to the promoter; in the share-increasing process in December 2005, after the promoter reduced the holding of 8,530,000 domestic shares, the quantity held by it was left with 711,470,000 domestic shares, accounting for 55.83% of the total quantity of shares of the Company; in the share-increasing process in March 2007, after the promoter reduced the holding of 10,235,000 domestic shares, the quantity held by it was left with 701,235,000 domestic shares, accounting for 50.93% of the total quantity of shares of the Company; in the share-increasing process in 2017, after the promoter increased the holding of 329,717,000 domestic shares, the quantity held by it was increased to 1,030,952,000 domestic shares, accounting for 60.41% of the total quantity of shares of the Company; in the share-increasing process in 2023, after the promoter increased the holding of 556,009,000 domestic shares, the quantity held by it was increased to 1,586,961,000 domestic shares, accounting for 70.14% of the total quantity of shares of the Company;

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## NOTICE OF EGM

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- (ii) after the Company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares, the total quantity of overseas listed foreign shares reached 562,981,000 shares, accounting for 44.17% of the total quantity of shares of the Company; in March 2007, the Company increased 102,355,000 overseas listed foreign shares, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 49.07% of the total quantity of shares of the Company; after the issue of domestic shares in 2017, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 39.59% of the total quantity of shares of the Company; after the issue of domestic shares in 2023, the total quantity of overseas listed foreign shares reached 675,571,000 shares, accounting for 29.86% of the total quantity of shares of the Company.

The structure of the share capital of the Company is **2,262,532,000** ordinary shares of which the promoter holds **1,586,961,000** domestic shares and overseas listed foreign shareholders hold 675,571,000 overseas listed foreign shares.

### Article 17

The registered capital of the Company is **RMB2,262,532,000**. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (1) by offering new shares to unspecified investors;
- (2) by placing new shares to existing shareholders;
- (3) by bonus issue of shares to existing shareholders;
- (4) by any other method permitted by PRC laws and administrative regulations.

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## NOTICE OF EGM

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### 3. THAT:

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

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

By Order of the Board  
**Harbin Electric Company Limited**  
**Ai Li-song**  
*Company Secretary*

Harbin, the PRC,  
20 March 2023

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## NOTICE OF EGM

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Notes:

**(1) VOTING ARRANGEMENTS**

The Subscriber and its associates will and will be required to abstain from voting on the resolution(s) to be proposed for approving the Domestic Share Subscription and the Specific Mandate at the EGM.

**(2) REGISTRATION PROCEDURES FOR THE EGM**

Shareholders shall note that pursuant to Article 45 of the Articles, the register of shareholders of the Company will be closed during the period from Tuesday, 4 April 2023 to Wednesday, 12 April 2023, both days inclusive, during which no transfer of Shares will be registered. In order to qualify to attend and vote at the EGM, all transfer documents, together with the relevant share certificates, should be lodged to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for H Shareholders), or to the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for Domestic Shareholders), no later than 4:30 p.m. on Monday, 3 April 2023. Shareholders whose names appear on the register of shareholders of the Company on Tuesday, 4 April 2023 shall be entitled to attend the EGM to vote thereat.

**(3) PROXY**

- i. Any Shareholder entitled to attend and to vote at the EGM shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more Shares may appoint more than one proxy.
- ii. To be valid, the proxy form and, if such proxy form is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the EGM or any adjournment thereof.
- iii. Domestic Shareholders shall deliver the proxy form and, if such proxy form is signed by a person on behalf of his or her appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority, to the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC.
- iv. H Shareholders shall deliver the proxy form and, if such proxy form is signed by a person on behalf of his or her appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority, to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- v. Completion and return of the proxy form will not affect the right of the Shareholders to attend and to vote at the EGM in person. In such event, the proxy form will be deemed to have been revoked.
- vi. Shareholders or their proxies shall produce their identification documents (and proxy form in case of proxies) when attending the EGM.

**(4) MISCELLANEOUS**

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

*As at the date of this notice, the executive Directors of the Company are Mr. Cao Zhi-an, Mr. Wu Weizhang and Mr. Zhang Ying-jian; and the independent non-executive Directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.*

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## NOTICE OF H SHARES CLASS MEETING

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# 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 SHARES CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the H Shares Class Meeting (the “**H Shares Class Meeting**”) of Harbin Electric Company Limited (the “**Company**”) will be held at Conference Room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Wednesday, 12 April 2023 at 9:30 a.m. (or immediately after the conclusion of the extraordinary general meeting of the Company of even date) to consider and, if thought fit, pass the following resolution. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular dated 20 March 2023 issued by the Company (the “**Circular**”).

#### SPECIAL RESOLUTION

**1. THAT:**

the grant of a specific mandate for a validity period of 12 months from the date of approval at the H Shares Class Meeting be and is hereby approved and the Company be and is hereby approved to conditionally issue the new Domestic Shares to the Subscriber under the specific mandate granted as aforesaid pursuant to the terms and conditions set out in the Domestic Share Subscription Agreement entered into between the Company and the Subscriber. The terms and conditions of the Domestic Share Subscription Agreement and the transactions contemplated thereunder are as follows:

**(1) Type of new Domestic Shares to be issued**

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

**(2) Price of new Domestic Shares to be issued**

- (i) The Initial Subscription Price is denominated in Hong Kong dollars, being HK\$3.43 per new Domestic Share.
- (ii) The Final Subscription Price is to be determined with reference to the Initial Subscription Price subject to the following adjustment:



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## NOTICE OF H SHARES CLASS MEETING

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- (a) in the event that the Closing Price is higher than the Initial Subscription Price, the Company is entitled to adjust the Final Subscription Price to the value of the Closing Price, subject to a maximum price of HK\$3.60 per new Domestic Share (being the Initial Subscription Price plus a premium of 5%, rounded off to the nearest two decimal places); and
  - (b) in the event that the Closing Price is equal to or lower than the Initial Subscription Price, the Final Subscription Price shall be the same as the Initial Subscription Price.
- (3) **Number of new Domestic Shares to be issued and total amount to be raised from the Domestic Share Subscription**

The Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, new Domestic Shares in cash at a total subscription price of approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion). The number of new Domestic Shares to be subscribed for is to be calculated by dividing the amount of the total subscription price in Hong Kong dollars equivalent to approximately RMB1.70 billion (equivalent to approximately HK\$1.91 billion based on the agreed exchange rate) by the Final Subscription Price and rounded down to the nearest thousand. The exact total subscription price is to be calculated by multiplying the number of new Domestic Shares to be subscribed for under the Domestic Shares Subscription Agreement by the Final Subscription Price.

For the purpose of calculating the number of new Domestic Shares to be subscribed for and the total subscription price, exchange of Renminbi into Hong Kong dollars is to be calculated on the basis of the middle exchange rate between Renminbi and Hong Kong dollars published by the People's Bank of China on 27 December 2022, being HK\$1 to RMB0.8914.

By Order of the Board  
**Harbin Electric Company Limited**  
**Ai Li-song**  
*Company Secretary*

Harbin, the PRC,  
20 March 2023

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## NOTICE OF H SHARES CLASS MEETING

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Notes:

**(1) REGISTRATION PROCEDURES FOR THE H SHARES CLASS MEETING**

H Shareholders shall note that pursuant to Article 45 of the Articles, the register of shareholders of the Company will be closed during the period from Tuesday, 4 April 2023 to Wednesday, 12 April 2023, both days inclusive, during which no transfer of Shares will be registered. In order to qualify to attend and vote at the H Shares Class Meeting, all transfer documents, together with the relevant share certificates, should be lodged to the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 3 April 2023. Shareholders whose names appear on the register of H Shareholders of the Company on Tuesday, 4 April 2023 shall be entitled to attend the H Shares Class Meeting to vote thereat.

**(2) PROXY**

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

**(3) MISCELLANEOUS**

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

*As at the date of this notice, the executive Directors of the Company are Mr. Cao Zhi-an, Mr. Wu Weizhang and Mr. Zhang Ying-jian; and the independent non-executive Directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.*