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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 or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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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) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF  
THE EPC FRAMEWORK AGREEMENT  
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING  
AND THE CLASS MEETINGS**

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



### SOMERLEY CAPITAL LIMITED

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A letter from the Board is set out on pages 1 to 29 of this circular. A letter from Somerley Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 44 of this circular and a letter from the Independent Board Committee is set out on page 30 of this circular.

The notices dated 21 February 2020 convening the EGM, the H Shares Class Meeting and the Domestic Shares Class Meeting respectively to be held at the conference room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Thursday, 9 April 2020 at 9:00 a.m., on Thursday, 9 April 2020 at 9:30 a.m. (or immediately after the conclusion or adjournment of the EGM), and on Thursday, 9 April 2020 at 10:00 a.m. (or immediately after the conclusion or adjournment of the H Shares Class Meeting) respectively, are set out on pages EGM-1, HCM-1 and DCM-1 of this circular.

Whether or not you intend to attend the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting, 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 holders of the H Shares 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 holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the time fixed for holding the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting or any adjournment thereof. Completion and delivery of the said proxy form(s) will not prevent you from attending, and voting in person at, the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting or any adjournment thereof if you so wish.

The reply slips for the EGM, the H Shares Class Meeting and the Domestic Shares Class Meeting respectively are also enclosed. You are reminded to complete and sign the reply slip(s) (if you are entitled to attend the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting) and return the signed slip(s) in accordance with the instructions printed thereon.

21 February 2020

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## DEFINITIONS

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

“Annual Cap(s)”	the maximum annual amount of the transactions contemplated under the EPC Framework Agreement to be transacted for each of the three years ending 31 December 2022;
“Articles”	the articles of association of the Company as revised from time to time;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Class Meetings”	the Domestic Shares Class Meeting and the H Shares Class Meeting;
“Company”	哈爾濱電氣股份有限公司 (Harbin Electric Company Limited*), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the director(s) of the Company;
“Domestic Shares”	the ordinary unlisted domestic share(s) with a nominal value of RMB1.00 each in the issued share capital of the Company;
“Domestic Shares Class Meeting”	the class meeting of the holders of the Domestic Shares to be held on Thursday, 9 April 2020 at 10:00 a.m. or (immediately after the conclusion on adjournment of the H Shares Class Meeting) to consider and, if thought fit, to approve, among other things, the proposed amendments to paragraphs 1 and 2 of Article 80 as set out in this circular;

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held on Thursday, 9 April, 2020 at 9:00 a.m. to consider and, if thought fit, to approve, among other things, (i) the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps; and (ii) the Proposed Amendments;
“EPC”	engineering procurement and construction;
“EPC Framework Agreement”	the framework agreement dated 14 February 2020 entered into between the Company and Harbin Electric in respect of, among others, the provision of EPC Services from the Group to the Unlisted Harbin Electric Group;
“EPC Services”	the EPC services, which consist of the contracting and the provision of related services for the whole process or certain stages of the engineering construction projects, including but not limited to the design, procurement, construction and trial operation;
“Group”	the Company and its subsidiaries;
“Harbin Electric”	哈爾濱電氣集團有限公司 (Harbin Electric Corporation Co., Ltd.*), a wholly state-owned enterprise and a controlling shareholder of the Company;
“Harbin Electric International”	哈爾濱電氣國際工程有限責任公司 (Harbin Electric International Engineering Co., Ltd.*), a wholly-owned subsidiary of the Company;
“H Share(s)”	the ordinary share(s) with a nominal value of RMB1.00 each in the issued share capital of the Company which are listed on the Main Board of the Stock Exchange;
“H Shares Class Meeting”	the class meeting of the holders of the H Shares to be held on Thursday, 9 April, 2020 at 9:30 a.m. (or immediately after the conclusion or adjournment of the EGM) to consider and, if thought fit, to approve, among other things, the proposed amendments to paragraphs 1 and 2 of Article 80 as out in this circular;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board established for the purpose of reviewing the EPC Framework Agreement and the transactions contemplated thereunder;
“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 and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the EPC Framework Agreement and the transactions contemplated thereunder;
“Independent Shareholder(s)”	the Shareholder(s) other than Harbin Electric and its associates;
“Independent Third Party(ies)”	party(ies) who and whose ultimate beneficial owners are third parties independent of the Group and connected persons of the Group;
“Latest Practicable Date”	17 February, 2020, being the latest practicable date prior to the 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;
“percentage ratio(s)”	the percentage ratio(s) under Rule 14.07 of the Listing Rules, other than the profits ratio and the equity capital ratio;
“PRC”	the People’s Republic of China but excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Proposed Amendments”	the proposed amendments to the Articles as set out in this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;

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## DEFINITIONS

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“Share(s)”	the Domestic Share(s) and the H Share(s);
“Shareholder(s)”	the holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Unlisted Harbin Electric Group”	Harbin Electric and its subsidiaries (other than the Group);
“%”	per cent.

\* *For identification purposes only*

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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:*

Si Ze-fu  
Wu Wei-zhang  
Zhang Ying-jian

*Principal Place of Business in the PRC:*

1399 Chuangxinyi Road  
Songbei District  
Harbin  
Heilongjiang Province  
The PRC

*Independent Non-executive Directors:*

Zhu Hong-jie  
Yu Wen-xing  
Hu Jian-min  
Tian Min

*Principal Place of Business in Hong Kong:*

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

21 February 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF  
THE EPC FRAMEWORK AGREEMENT  
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING  
AND THE CLASS MEETINGS**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 14 February 2020 respectively in relation to, inter alia, (i) the EPC Framework Agreement and the transactions contemplated thereunder; and (ii) the Proposed Amendments.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide the Shareholders with (i) details of the EPC Framework Agreement and the transactions contemplated thereunder; (ii) details of the Proposed Amendments; (iii) a letter from the Independent Board Committee to the Independent Shareholders on the EPC Framework Agreement and the transactions contemplated thereunder; (iv) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the EPC Framework Agreement and the transactions contemplated thereunder; and (v) notices of the EGM and the Class Meetings.

### **A. EPC FRAMEWORK AGREEMENT**

On 14 February 2020, the Company entered into the EPC Framework Agreement with Harbin Electric, pursuant to which the Company (through its wholly-owned subsidiary, Harbin Electric International) agreed to provide the EPC Services to the Unlisted Harbin Electric Group subject to and upon the terms and conditions set out in the EPC Framework Agreement.

The principal terms and conditions of the EPC Framework Agreement are set out below:

#### **I. Date**

14 February 2020

#### **II. Parties**

1. The Company; and
2. Harbin Electric

#### **III. Term**

Subject to the fulfillment of the conditions set out below, the EPC Framework Agreement shall have a term commencing from the date on which the Company obtained approval of the Independent Shareholders at the EGM in respect of, inter alia, the EPC Framework Agreement and the transactions contemplated thereunder and ending on 31 December 2022, which may be renewed after expiry subject to the compliance with all applicable laws and regulations (including the Listing Rules), the setting of new annual caps (if applicable) and the entering into of a new framework agreement.



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## LETTER FROM THE BOARD

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### **IV. Subject Matter**

Pursuant to the EPC Framework Agreement, the Company (through its wholly-owned subsidiary, Harbin Electric International) agreed to provide the EPC Services, which consist of the contracting and the provision of related services for the whole process or certain stages of the engineering construction projects, including but not limited to the design, procurement, construction and trial operation, to the Unlisted Harbin Electric Group from time to time according to their needs arising from their ordinary course of business at fair and reasonable market prices and on normal commercial terms.

The Unlisted Harbin Electric Group has the right to engage other EPC service providers of their choice according to their business needs and is not obliged to engage the Group for the provision of the EPC Services. At the same time, the Group is not obliged to accept orders from the Unlisted Harbin Electric Group for the provision of the EPC Services.

### **V. Conditions**

The EPC Framework Agreement is conditional upon the parties thereto having duly executed the EPC Framework Agreement and the Company having obtained approval of the Independent Shareholders at the EGM in respect of the EPC Framework Agreement and the transactions contemplated thereunder.

### **VI. Pricing Policy**

Pursuant to the EPC Framework Agreement, the prices and payment terms for the transactions contemplated under the EPC Framework Agreement shall be fair and reasonable and determined with reference to the market price and terms.

For the purposes of ascertaining the market price and terms, the Group will make reference to the market price and charging basis applicable to the EPC Services of the same or similar type provided by the Group to Independent Third Parties on normal commercial terms, and will take into account any comparable transactions of the same or similar type provided by the Group to Independent Third Parties within the same or a recent period of time.

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## LETTER FROM THE BOARD

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As confirmed by the Company, the prices for the EPC Services provided to the customers are based on the estimated costs for the EPC projects as a whole plus a reasonable profit margin. In general, EPC procuring parties select their EPC service providers by way of a tender process. Harbin Electric International will first understand the specifics of the EPC Services to be provided, which are usually set out in the tender request documents. Different projects, such as power plants for different power types with different size, will involve different kinds and extent of services. Harbin Electric International will then determine the estimated EPC Services involved with details of the types of services involved and timing of providing such services. Based on the design, equipment and construction requirements of the EPC projects, Harbin Electric International will determine the amounts of internal and external costs associated. Internal costs mainly include expenses for employees for the project management, while external costs mainly include costs paid to different contractors for provision of different services such as design and construction services and provision of equipment. Steps for ascertaining these costs and providing its fee quotation include the following:

- (a) In determining the internal costs, Harbin Electric International will mainly make reference to the historical internal costs of all EPC project transactions of the Group with Independent Third Parties within the recent two years which are similar and comparable in terms of scale, specific requirements by the procuring parties and required timeframe and cycles for project execution, in order to estimate the number and qualification of employees needed and their working time to be spent on the EPC projects and hence the staff cost for project management.
- (b) For the external costs, since such services will be provided by different contractors, Harbin Electric International will obtain and summarise fee quotations from around three different suppliers (including both independent suppliers and where applicable, other subsidiaries of the Company) for each product or service required in the EPC projects based on the specific requirements of the EPC procuring parties to arrive at a preliminary estimation of the external costs for the EPC projects.
- (c) Under normal circumstances, after a reasonable estimation of the project costs, Harbin Electric International will finalise its fee quotation by adding on an estimated profit margin which is not less than the historical average gross profit margin of engineering services for power stations provided by the Group to Independent Third Parties for the two years immediately preceding the provision of such fee quotation for the EPC projects. For reference, the gross profit margin was approximately 3.42% in 2018 and 4.65% in 2017.

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## LETTER FROM THE BOARD

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- (d) Upon being selected as the EPC service provider, for each product or service required in the EPC projects, Harbin Electric International will generally invite around three suppliers as mentioned above which best meet the requirements of the EPC procuring parties and whose fee quotations represent a reasonable market price to participate in tender procedures. During the tender process, Harbin Electric International will coordinate internally to comprehensively evaluate various aspects of the submitted tenders, and eventually select the best supplier and thereby finalise the external costs of the EPC projects. However, the abovementioned obtaining of fee quotations and carrying out of tender procedures for determining the external costs are dependent on the specific requirements of the EPC Services to be provided as requested by the EPC procuring parties, and the procedures or number of suppliers involved may differ from case to case accordingly.

Pursuant to the EPC Framework Agreement, the Company will also implement an internal control mechanism to monitor the pricing for transactions of the same or similar type in the market, in order to ensure the fairness and reasonableness of the prices for the transactions entered into pursuant to the EPC Framework Agreement from time to time, and that the actual price and terms for the transactions between the Group and the Unlisted Harbin Electric Group will be no less favourable to the Company than those provided to Independent Third Parties for transactions of the same or similar type. In the event that such price and terms for the transactions between the Group and the Unlisted Harbin Electric Group are less favourable to the Company than those provided to Independent Third Parties, the Company will negotiate with the Unlisted Harbin Electric Group to ensure that such price and terms will not be less favourable.

As confirmed by the Company, the details of the internal control mechanism are as follows:

- (a) the business operations and development department of Harbin Electric International will take the lead and serve as the central management department of EPC project management and be mainly responsible for project approval and review, project establishment, project tracking, negotiation and execution work, and also for coordinating with different departments to carry out relevant works, while other departments, such as the engineering project department, the financial investment department, logistics management department, quality safety department and the operations management department, will provide professional support for project development to the business operations and development department respectively;

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## LETTER FROM THE BOARD

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- (b) the finance and other relevant departments of Harbin Electric International will coordinate to obtain fee quotations from external independent suppliers and estimate the project cost and revenue;
- (c) the legal department of Harbin Electric International will assess the risks and commercial terms of the EPC projects;
- (d) the department head will be person in charge of the relevant responsibilities of each department;
- (e) prior to the execution of any agreement for EPC projects, the project cost and estimated profit margin are subject to the approval of the management of Harbin Electric International, which is a collective decision of the senior management;
- (f) the management of Harbin Electric International will review and approve the profitability of the fee quotation provided to the connected party of the Company and that of similar projects in the past, in order to ensure that the price and terms of the transactions are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; and
- (g) the Company will adhere to its internal control policy, which it has adopted for all connected transactions of the Group, when implementing the transactions contemplated under the EPC Framework Agreement to ensure that the terms of the EPC transactions to be entered into are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Further, as confirmed by the Company, the Company will adopt the following internal control measures to ensure that the proposed Annual Caps will not be exceeded:

- (a) the Group will closely monitor the transactions contemplated under the EPC Framework Agreement to ensure that they are conducted in accordance with the terms of the EPC Framework Agreement and are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) the Group will also monitor the transaction amounts under the EPC Framework Agreement from time to time so as to ensure that the annual transaction amounts will not exceed the Annual Caps;

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## LETTER FROM THE BOARD

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- (c) the management will track and record information (including but not limited to the pricing terms, payment arrangements and actual transaction amounts under each of the EPC agreements to be entered into) of the transactions contemplated under the EPC Framework Agreement on a quarterly basis and report the relevant information to the Board and the audit committee of the Company in a timely manner;
- (d) the management will summarise and report the then situation of the EPC transactions that have occurred to the Board before the entering into of any new EPC agreement under the EPC Framework Agreement; and
- (e) Harbin Electric International will set an alert at approximately 80% of the Annual Caps so that the Company could timely take necessary measures (including but not limited to entering into a new framework agreement and revising the Annual Caps or communicating with Harbin Electric to delay upcoming EPC projects) to comply with the requirements under Chapter 14A of the Listing Rules in the event that the annual transaction amount is likely to approach or exceed the Annual Cap.

### **VII. Payment Terms**

The payment terms will be specified in the agreements to be entered into by the relevant parties and determined in accordance with usual market practices and similar projects in the past.

As confirmed by the Company, payment is usually divided into three parts, namely prepayment, progress payment and payment for the warranty of quality, as follows:

- (i) a prepayment of approximately 10% of the total contract price is usually payable by the EPC procuring parties to Harbin Electric International after the execution of the agreement for EPC projects;

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## LETTER FROM THE BOARD

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- (ii) during the EPC project, progress payments in the aggregate of approximately 80% of the total contract price is usually payable in instalments according to the progress of the project (i.e. the progress of the design, equipment manufacturing and installation, and construction works respectively); and
- (iii) payment for the warranty of quality of approximately 10% of the total contract price is usually payable upon the completion of the project and the expiry of the quality warranty period.

### VIII. Annual Caps

The proposed Annual Caps are as follows:

	<b>For the period from the date of the EGM to 31 December 2020</b>	<b>For the year from 1 January 2021 to 31 December 2021</b>	<b>For the year from 1 January 2022 to 31 December 2022</b>
Provision of EPC Services by the Group to the Unlisted Harbin Electric Group	RMB1,000,000,000	RMB1,000,000,000	RMB1,000,000,000

The provision of the EPC Services by the Group to the Unlisted Harbin Electric Group under the EPC Framework Agreement is a new transaction to be conducted between the parties. As such, there are no historical transaction amounts. The Annual Caps have been determined with reference to the estimated amount of the EPC Services that may be provided to the Unlisted Harbin Electric Group each year.

An EPC project for power plants involves design, equipment procurement and construction works, which amounts to a large contract sum and can usually cost several hundred million RMB for a single project, therefore requiring relatively higher Annual Caps. Upon communication with Harbin Electric, it is expected that Harbin Electric will develop a number of power plant projects through investment on its own or jointly with other third parties gradually in the coming three years. Harbin Electric International intends to take part in the tender process for the abovementioned projects and may provide the EPC Services to the Unlisted Harbin Electric Group upon being selected as the EPC service provider.

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## LETTER FROM THE BOARD

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When determining the Annual Caps, the Company has considered the following bases and assumptions when estimating the contract amounts of the EPC Services that may be provided and billed by Harbin Electric International to the Unlisted Harbin Electric Group for each of the three years ending 31 December 2022:

**(i) *Future development plans of the Unlisted Harbin Electric Group for the three years ending 31 December 2022***

Upon communication with the Unlisted Harbin Electric Group, it is expected that the Unlisted Harbin Electric Group is planning to develop several power stations over the years from 2020 to 2022, which would require EPC Services in power stations construction. Such developments will either be carried out solely by its own or through joint venture arrangements with other industry players. The Company expects that certain of the projects with joint venture arrangements would be carried out by the Unlisted Harbin Electric Group as minority shareholders with less than 30% interest and such transactions may not be classified as connected transactions of the Group under the Listing Rules. In determining the proposed Annual Caps, the Company has only considered those projects that the Group would participate in and would likely constitute connected transactions for the Group.

**(ii) *Operation plan of Harbin Electric International***

Based on the development plan of the Unlisted Harbin Electric Group, the Company assessed which projects it would participate in the tender process for the EPC Services to be provided to the Unlisted Harbin Electric Group, taking into account the operation plan, planned projects on hand and the operation capacity of Harbin Electric International.

**(iii) *Estimation of the project prices***

The Company has estimated the project prices based on, among other things, project size and nature; market intelligence on the contract values of different projects, such as preliminary estimation of project costs as advised by the Unlisted Harbin Electric Group and information provided in the announcements published by other listed companies regarding EPC projects entered into by them which involve similar types of power plants and similar designed capacity and size as compared with the EPC projects to be conducted by Harbin Electric International (where such public information enables Harbin Electric International to have general assessment of the market price and cost of recent projects of similar nature); and planned investment amounts of the projects of the Unlisted Harbin Electric Group.

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## LETTER FROM THE BOARD

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***(iv) Progress and payment schedules of the EPC projects***

Since the prices of the EPC Services will be settled in instalments according to the project progress, the Company has estimated the amounts and timing of the progress payments for the EPC projects based on the estimated timetables discussed with the Unlisted Harbin Electric Group and expertise of Harbin Electric International.

***(v) Uncertainties in project timetable, number of EPC projects and future EPC project price fluctuations***

EPC projects will involve different stages, and the actual timetable of each project will be subject to uncertainties (e.g. there could be delay or shortening in time required for agreeing upon the project design, construction progress of each parts of the project, delivery of equipment, or installation and testing of equipment). The timing of occurrence of the progress payments may therefore differ from the current plans. The Company has taken into account such uncertainties in project timetable and, based on the past experience of implementation of EPC projects by Harbin Electric International, estimated the impact of possible changes of timetable to the timing of the progress payments. During discussion with the Unlisted Harbin Electric Group, the Company also understood that the involvement of the Unlisted Harbin Electric Group in certain planned projects will be subject to further discussions with the business partners. Accordingly, the number of EPC projects that may constitute continuing connected transactions of the Group may also change. Furthermore, based on the experience of the Company's management in the industry, the Company is of the view that there may be possible fluctuation for the price of EPC projects in the future. As such, considering the possibility of the increase in the number of future EPC projects which constitute continuing connected transactions of the Group, and the possibility of EPC project price fluctuation, the Company has allowed a buffer of approximately 10% when determining the proposed Annual Caps.

Having regard to the above, the Company has therefore considered it reasonable to set the Annual Caps at RMB1 billion.



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## LETTER FROM THE BOARD

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### **B. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE EPC FRAMEWORK AGREEMENT**

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

Harbin Electric International is a wholly-owned subsidiary of the Company which is principally engaged in the business of providing EPC Services and complete equipment for thermal power plants, hydropower plants and combined-cycle power plants, contracting large scale power transmission and transformation facilities and public facilities, and providing comprehensive and professional after-sale services for power stations.

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

The provision of EPC Services has been the principal business of Harbin Electric International and the provision of the EPC Services to the Unlisted Harbin Electric Group is beneficial for the business expansion and development of Harbin Electric International. In addition, the main focus of the EPC business of Harbin Electric International has always been on overseas markets, whereas the provision of the EPC Services to the Unlisted Harbin Electric Group will mainly target the PRC market which will allow Harbin Electric International to further understand the EPC market conditions in the PRC, improve its ability to execute projects in the PRC and bring positive impact to the development of the PRC market.

The Directors (including the independent non-executive Directors) are of the view that the terms of the transactions contemplated under the EPC Framework Agreement (including the Annual Caps) are:

- (1) fair and reasonable;
- (2) entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and
- (3) in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### C. IMPLICATIONS UNDER THE LISTING RULES

Harbin Electric, being a controlling shareholder of the Company holding 1,030,952,000 Domestic Shares, representing approximately 60.41% of the issued share capital of the Company as at the Latest Practicable Date, is a connected person of the Company under the Listing Rules. The subsidiaries of Harbin Electric (other than the Group), being associates of Harbin Electric, are also connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the EPC Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As certain applicable percentage ratio(s) in respect of the proposed Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the transactions contemplated under the EPC Framework Agreement are subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the EPC Framework Agreement, or is required to abstain from voting on the Board resolutions approving the EPC Framework Agreement and the transactions contemplated thereunder.

### D. INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Independent Shareholders on the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. The members of the Independent Board Committee are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min. In this connection, Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

### E. PROPOSED AMENDMENTS TO THE ARTICLES

In light of the current situation of the Company and the relevant regulatory requirements, the Board proposed to make the following Proposed Amendments, in order to, among other things, reflect (i) the change of the legal address of the Company; (ii) the change of name of the promoter of the Company; (iii) certain amendments made to the Company Law of the PRC; (iv) the change in the percentage of overseas listed foreign shares to the total issued share capital due to the issue of Domestic Shares in 2017; (v) the change of the notification period of the shareholders general meetings and class meetings; (vi) the addition of means for corporate communication for overseas listed foreign shareholders; and (vii) the change of the dividends payment period.

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## LETTER FROM THE BOARD

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(1) Change of the legal address of the Company

**Before amendment:**

**Paragraph 4 of Article 2**

The legal address of the Company:

**Block 3, Nangang High Technology Production Harbin, Heilongjiang, the People's Republic of China, (Postal code: 150036, Telephone No.: (0451)82135727)**

**After amendment:**

**Paragraph 4 of Article 2**

The legal address of the Company:

**1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the People's Republic of China, (Postal code: 150028, Telephone No.: (0451)82135727)**

(2) Change of name of the promoter of the Company

**Before amendment:**

**Paragraph 2 of Article 3**

The promoter of the Company is:

**Harbin Electric Corporation**

**After amendment:**

**Paragraph 2 of Article 3**

The promoter of the Company is:

**Harbin Electric Corporation Co., Ltd.**

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## LETTER FROM THE BOARD

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(3) Certain amendments made to the Company Law of the PRC

1. *Removal of investment limits and relevant approval requirements*

**Before amendment:**

**Article 8**

The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of its investment in those companies. The Company shall not become a shareholder with unlimited liability of any other economic organizations. The Company having obtained approval from the companies supervisory department authorized by the State Council, may make aggregate investments of more than 50% of its net assets in other limited liability companies and joint stock limited companies.

**After amendment:**

**Article 8**

The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of its investment in those companies. The Company shall not become a shareholder with unlimited liability of any other economic organizations.

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## LETTER FROM THE BOARD

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2. *Amendments of procedural provisions in relation to the reduction of capital, merger, demerger and liquidation*

(i) *Amendment of procedural provisions in relation to the reduction of capital*

**Before amendment:**

**Paragraph 2 of Article 19**

The Company shall notify its creditors within 10 days from the date of the resolution to reduce its registered capital, and shall **make a public announcement** in newspapers **at least 3 times** within 30 days thereof. The creditors shall have the right, within 30 days of receipt of the notice or **within 90 days of the date of the first public announcement** if the notice has not been received, to require the Company to pay up its debts or provide corresponding security for the payment of the debt.

**After amendment:**

**Paragraph 2 of Article 19**

The Company shall notify its creditors within 10 days from the date of the resolution to reduce its registered capital, and shall **make a public announcement** in newspapers within 30 days thereof. The creditors shall have the right, within 30 days of receipt of the notice or **within 45 days of the date of the public announcement** if the notice has not been received, to require the Company to pay up its debts or provide corresponding security for the payment of the debt.

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## LETTER FROM THE BOARD

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(ii) *Amendment of procedural provisions in relation to merger*

**Before amendment:**

**Paragraph 2 of Article 184** When the Company merges, all parties to the merger shall sign a merger agreement, and a balance sheet and list of property shall be prepared. The Company shall notify its creditors within 10 days and shall **make a public announcement at least 3 times** in newspapers within 30 days after the date of the resolution to merge.

**After amendment:**

**Paragraph 2 of Article 184** When the Company merges, all parties to the merger shall sign a merger agreement, and a balance sheet and list of property shall be prepared. The Company shall notify its creditors within 10 days and shall **make a public announcement** in newspapers within 30 days after the date of the resolution to merge.

(iii) *Amendment of procedural provisions in relation to demerger*

**Before amendment:**

**Paragraph 2 of Article 185** When the Company demerges, all parties to the demerger shall sign a demerger agreement, and a balance sheet and list of property shall be prepared. The Company shall notify its creditors within 10 days and **make a public announcement at least 3 times** in newspapers within 30 days of the date of the resolution to demerge.

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## LETTER FROM THE BOARD

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**After amendment:**

**Paragraph 2 of Article 185** When the Company demerges, all parties to the demerger shall sign a demerger agreement, and a balance sheet and list of property shall be prepared. The Company shall notify its creditors within 10 days and **make a public announcement** in newspapers within 30 days of the date of the resolution to demerge.

(iv) *Amendment of procedural provisions in relation to liquidation*

**Before amendment:**

**Article 191** The liquidation committee of the Company shall notify all creditors **within the day of its establishment** and within 60 days thereof publish **at least 3 public announcements** in newspapers. The liquidation committee shall be responsible for the registration of the creditor rights.

**After amendment:**

**Article 191** The liquidation committee of the Company shall notify all creditors **within 10 days following its establishment** and within 60 days thereof publish **a public announcement** in newspapers. The liquidation committee shall be responsible for the registration of the creditor rights.

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## LETTER FROM THE BOARD

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3. *Amendment of the shareholding of the shareholders bearing proposal rights*

(i) *Amendment of the scope of duties of shareholders general meetings*

**Before amendment:**

**Paragraph (13) of Article 49** to consider any resolution proposed by shareholders representing 5% or more of the shares bearing voting rights of the Company;

**After amendment:**

**Paragraph (13) of Article 49** to consider any resolution proposed by shareholders representing 3% or more of the shares bearing voting rights of the Company;

(ii) *Amendment of the shareholding of the shareholders bearing proposal rights*

**Before amendment:**

**Article 69** When the Company convenes an annual general meeting, shareholders holding 5% or more of the total shares carrying the right to vote of the Company are entitled to propose to the Company in writing new matters to be considered. The Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the shareholders general meeting.

Any matter not set out in the notice convening an extraordinary general meeting shall not be decided at that meeting.



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## LETTER FROM THE BOARD

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### After amendment:

#### Article 69

When the Company convenes **a shareholders general meeting**, shareholders holding **3% or more** of the total shares carrying the right to vote of the Company are **entitled to propose to the convener of the shareholders general meeting in writing** new matters to be considered **10 days prior to the convening of the shareholders general meeting**. **Those matters contained in the proposal which are within the scope of the duties of the shareholders general meeting must be included in the agenda of that meeting**. **The convener of the shareholders general meeting shall, within two days upon receipt of such proposals, issue a supplemental notice for the shareholders general meeting**. **The content of such proposals shall fall within the scope of the duties of the shareholders general meeting, and has a clear topic for discussion and specific issues for resolution**.

- (4) **Change in the percentage of overseas listed foreign shares to total issued share capital due to the issue of Domestic Shares in 2017**

### Before amendment:

**Paragraph 2 (1) of Article 16** After the Company was founded, it initially issued 469,151,000 overseas listed foreign shares. In Dec 2005, it further issued 93,830,000 overseas listed foreign shares, and the total quantity of overseas listed foreign shares reached 562,981,000 shares, accounting for 44.17% of the Company's total shares; in Mar 2007, the Company further issued 102,355,000 overseas listed foreign shares, and 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.

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## LETTER FROM THE BOARD

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**After amendment:**

**Paragraph 2 (1) of Article 16** After the Company was founded, it initially issued 469,151,000 overseas listed foreign shares. In Dec 2005, it further issued 93,830,000 overseas listed foreign shares, and the total quantity of overseas listed foreign shares reached 562,981,000 shares, accounting for 44.17% of the Company's total shares; in Mar 2007, the Company further issued 102,355,000 overseas listed foreign shares, and 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.**

(5) **Change of the notification period of the shareholders general meetings and class meetings**

*1. Amendment of the record date prior to the holding of shareholders general meetings*

**Before amendment:**

**Paragraph 1 of Article 45** **No change of registration shall be made on the register of shareholders by reason of a transfer of shares within the 30 days prior to the holding of a shareholders general meeting or 5 days prior to the record date for the determination of dividend distribution by the Company.**

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## LETTER FROM THE BOARD

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After amendment:

Paragraph 1 of Article 45

Where PRC laws and regulations, the Rules Governing the Listing of Securities on the Exchange, the relevant provisions of the securities regulatory authorities of the place where the shares of the Company are listed stipulate the period of closure of the register of shareholders prior to the holding of a shareholders general meeting or the record date for the determination of dividend distribution by the Company, such provisions shall prevail.

2. *Amendment of the notification period of the shareholders general meetings*

Before amendment:

Article 52

When the Company convenes a shareholders meetings, it shall give written notice 45 days prior to the date of the meeting (but not more than 60 days) and shall inform all the registered shareholders of the matters proposed to be considered at the meeting and the date and venue of the meeting. A shareholder proposing to attend the shareholders meeting shall deposit at the Company a written reply confirming his attendance 20 days prior to the holding of the meeting.

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## LETTER FROM THE BOARD

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The Company shall, according to the written replies received 20 days prior to the holding of a shareholders general meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting reaches half of the total number of shares of the Company carrying the right to vote, then the Company may hold the shareholders general meeting; if that number is not reached, the Company shall within 5 days notify the shareholders again of the matters proposed to be considered at the meeting, the date and place of the meeting by way of public announcement, and after such public announcement, the Company may hold the shareholders general meeting.

**After amendment:**

**Article 52**

When the Company convenes an annual general meeting, it shall give written notice **at least 20 clear business days** prior to the date of the meeting; **when the Company convenes an extraordinary general meeting, it shall give written notice at least 10 clear business days or 15 days (whichever is the longer period) prior to the date of the meeting,** and shall inform all the registered shareholders of the matters proposed to be considered at the meeting and the date and venue of the meeting.

**“Business day” means any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities.**

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## LETTER FROM THE BOARD

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### 3. *Amendment of the notification period for holders of Domestic Shares*

#### **Before amendment:**

##### **Paragraph 2 of Article 54**

In respect of holders of domestic shares, notices of shareholders general meetings may be given in accordance with the foregoing provision or by way of public announcement. If the public announcement method is used, it shall be published **on any one day within the period of 45 to 50 days prior to the convening of the meeting** in one or more publications specified by the PRC State Council securities regulatory authority. Once the notice is published, all holders of domestic shares shall be deemed to have received notice of the relevant shareholders general meeting.

#### **After amendment:**

##### **Paragraph 2 of Article 54**

In respect of holders of domestic shares, notices of shareholders general meetings may be given in accordance with the foregoing provision or by way of public announcement. If the public announcement method is used, it shall be published **in accordance with the notification period requirements with respect to the holding of shareholders general meetings as stipulated in Article 52 of these Articles** in one or more publications specified by the PRC State Council securities regulatory authority. Once the notice is published, all holders of domestic shares shall be deemed to have received notice of the relevant shareholders general meeting.

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## LETTER FROM THE BOARD

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4. *Amendment of the notification period of the class meetings*

**Before amendment:**

**Paragraphs 1, 2 of  
Article 80**

When the Company convenes a class meeting, it shall give written notice 45 days prior to the date of the meeting and shall inform all the registered class shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders proposing to attend the class meeting shall deposit at the Company a written reply confirming his attendance 20 days prior to the meeting.

If the number of shares carrying the right to vote represented by the shareholders proposing to attend that meeting reaches half of the total number of shares of the Company carrying the right to vote, then the Company may hold the class meeting; if the number is not reached, the Company shall within 5 days notify the shareholders again of the matters proposed to be considered at the meeting, the date and place of the meeting by way of public announcement, and after such public announcement, the Company may hold the class meeting.

**After amendment:**

**Paragraphs 1, 2 of  
Article 80**

When the Company convenes a class meeting, it shall give written notice in accordance with the notification period requirements with respect to the holding of extraordinary general meetings as stipulated in Article 52 of these Articles and shall inform all the registered class shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting.

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## LETTER FROM THE BOARD

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(6) **Addition of means for corporate communication for overseas listed foreign shareholders**

**Before amendment:**

**Article 202**

Save as otherwise provided for in these Articles, notices, information or written statements to be given by the Company to holders of overseas listed foreign shares listed in Hong Kong shall be served to the registered address of each holder of overseas listed foreign shares by personal delivery, or by post to each holder of overseas listed foreign shares. Notices given to holders of overseas listed foreign shares listed in Hong Kong shall so far as possible be posted in Hong Kong.

Notices to be given by the Company to holders of domestic shares shall be published in one or more publications specified by the PRC securities regulatory authority. Once published, all holders of domestic shares shall be deemed to have received such notice.

**After amendment:**

**Article 202**

Save as otherwise provided for in these Articles, notices, information or written statements to be given by the Company to holders of overseas listed foreign shares listed in Hong Kong shall be served to the registered address of each holder of overseas listed foreign shares by personal delivery, or by post to each holder of overseas listed foreign shares. Notices given to holders of overseas listed foreign shares listed in Hong Kong shall so far as possible be posted in Hong Kong.

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## LETTER FROM THE BOARD

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Notwithstanding the requirements under paragraph 1 of this Article and Articles 54, 161 and 183 of these Articles or any other provisions (if related) with respect to the form of issuance or notification of any documents, notices or other communications, subject to compliance with all applicable laws and regulations, relevant provisions of the securities regulatory authority of the place where the shares of the Company are listed and these Articles, the Company may elect to issue corporate communications in the form of notification by posting on the website of the Company and the websites designated by the securities regulatory authority of the place where the shares of the Company are listed, as a substitute for the delivery of a written document by hand or by prepaid mail to each holder of overseas listed foreign shares.

“Corporate communications” means any documents issued or to be issued by the Company for the information or action of the shareholders, including but not limited to annual reports (including annual financial reports), interim reports (including interim financial reports), directors’ reports (together with balance sheets and profit and loss statements or income statements), notices of meetings, listing documents, circulars, proxy forms and other communication documents.

Notices to be given by the Company to holders of domestic shares shall be published in one or more publications specified by the PRC securities regulatory authority. Once published, all holders of domestic shares shall be deemed to have received such notice. The Company may also serve such notices to such holders of domestic shares by post or by personal delivery.



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## LETTER FROM THE BOARD

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(7) **Change of dividends payment period**

**Before amendment:**

**Article 151** Subject to the restrictions imposed by Articles 143, 144 and 146, dividends shall be paid proportionately to the shareholding of each shareholder, **within 6 months after the end of each financial year.**

**After amendment:**

**Article 151** Subject to the restrictions imposed by Articles 143, 144 and 146, dividends shall be **paid proportionately** to the shareholding of each shareholder.

Save and except for the Proposed Amendments, the content of other chapters and provisions of the Articles shall remain unchanged. The English version of the Proposed Amendments is an unofficial translation of its Chinese version for reference purpose only. In case of discrepancies, the Chinese version shall prevail.

**F. EGM AND THE CLASS MEETINGS**

The EGM, will be held to consider and, if thought fit, pass resolutions to approve (i) the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps; and (ii) the Proposed Amendments. The voting in relation to the above resolutions at the EGM will be conducted by way of poll. The EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps will be proposed by way of ordinary resolution at the EGM to be approved by the Independent Shareholders. The Proposed Amendments will be proposed by way of special resolution at the EGM to be approved by the Shareholders.

In addition, the Class Meetings will be held to consider and, if thought fit, to approve the proposed amendments to paragraphs 1 and 2 of Article 80 as set out in this circular by way of special resolution respectively. The voting in relation to the above resolutions at the Class Meetings will be conducted by way of poll. The proposed amendments to paragraphs 1 and 2 of Article 80 as set out in the Circular shall take effect upon the approval from the EGM, the Domestic Shares Class Meeting and the H Shares Class Meeting by way of special resolution, respectively. The remaining Proposed Amendments shall take effect upon approval from the EGM by way of special resolution.

The EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps are subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. Harbin Electric and its associates will abstain from voting on the ordinary resolution to be proposed at the EGM for the purpose of approving the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. As at the Latest Practicable Date, Harbin Electric controls and is entitled to exercise control over the voting rights of 1,030,952,000

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## LETTER FROM THE BOARD

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Domestic Shares, representing approximately 60.41% of the total voting rights of the Shareholders. There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Harbin Electric and its associates; and (ii) no obligation or entitlement of Harbin Electric and its associates as at the Latest Practicable Date, whereby they have or may have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to a third party, either generally or on a case-by-case basis.

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

The notices dated 21 February 2020 convening the EGM, the H Shares Class Meeting and the Domestic Shares Class Meeting respectively to be held at the conference room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Thursday, 9 April 2020 at 9:00 a.m., on Thursday, 9 April 2020 at 9:30 a.m. (or immediately after the conclusion or adjournment of the EGM), and on Thursday, 9 April 2020 at 10:00 a.m. (or immediately after the conclusion or adjournment of the H Shares Class Meeting) respectively, are set out on pages EGM-1, HCM-1 and DCM-1 of this circular. Whether or not you intend to attend the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting, 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 holders of the H Shares 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 holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the time fixed for holding the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting or any adjournment thereof if you so wish. The reply slips for the EGM and the Class Meetings are also enclosed. You are reminded to complete and sign the reply slip(s) (if you are entitled to attend the EGM, the H Shares Class Meeting and/or the Domestic Shares Class Meeting) and return the signed slip(s) in accordance with the instructions printed thereon.

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## LETTER FROM THE BOARD

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### G. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 30 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 31 to 44 of this circular, consider that the terms of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

The Directors (including the independent non-executive Directors) consider that the Proposed Amendments are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders, holders of the H Shares and holders of the Domestic Shares to vote in favour of the resolutions to be proposed at the EGM, the H Shares Class Meeting and the Domestic Shares Class Meeting respectively to approve the Proposed Amendments.

### H. ADDITIONAL INFORMATION

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

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



# 哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

21 February 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF  
THE EPC FRAMEWORK AGREEMENT  
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
(3) NOTICES OF EXTRAORDINARY GENERAL MEETING  
AND THE CLASS MEETINGS**

We refer to the circular issued by the Company to the Shareholders dated 21 February 2020 (the “**Circular**”) which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the EPC Framework Agreement and to advise the Independent Shareholders in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. Somerley Capital Limited has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of Somerley Capital Limited as set out in their letter of advice, we are of the opinion that (i) the terms of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable; (ii) the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps 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 ordinary resolution approving the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

Yours faithfully,

Independent Board Committee

**Zhu Hong-jie, Yu Wen-xing, Hu Jian-min, Tian Min**

*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 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

21 February 2020

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE EPC FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the EPC Framework Agreement and the transactions contemplated thereunder (including the Annual Caps). Details of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps are set out in the circular of the Company dated 21 February 2020 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 14 February 2020, the Company entered into the EPC Framework Agreement with Harbin Electric, pursuant to which the Company (through Harbin Electric International) will provide the EPC Services to the Unlisted Harbin Electric Group up to 31 December 2022.

As Harbin Electric is a controlling shareholder of the Company, it, together with its associates (as defined under the Listing Rules), are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the EPC Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratio(s) in respect of the proposed Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the transactions contemplated under the EPC Framework Agreement are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min, has been established to advise the Independent Shareholders in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. In the past two years, except for the independent financial adviser engagement in relation to, among other things, the voluntary conditional offer to acquire all of the issued H Shares of the Company, details of which were set out in the composite document jointly issued by the Company and Harbin Electric dated 20 March 2019, there has been no other engagement between the Group and Somerley Capital Limited. We do not consider the past engagement as independent financial adviser to give rise to any conflict for Somerley Capital Limited to act as the independent financial adviser in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps. Apart from normal professional fees paid in respect of the past engagement or payable to us in connection with this appointment as the independent financial adviser in respect of the EPC Framework Agreement, the transactions contemplated thereunder and the Annual Caps, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group (the “**Management**”), and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. 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 or withheld 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 opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group and Harbin Electric, 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 and recommendation, we have taken into account the following principal factors and reasons:

### 1. Background to and reasons for the EPC Framework Agreement

As set out in the 2019 interim report of the Company, the Group is principally engaged in manufacturing of power generator and generator units, with principal businesses of production and sales of power generator and turn-key construction of power station projects.

We have reviewed the 2019 interim report of the Company and discussed with the Management regarding the latest business development of the Group, and noted that the Group's operating revenue recorded a decrease of approximately 21.76% in first half of 2019 as compared with the same period last year. For the six months ended 30 June 2019, the value of new contracts secured by the Group also decreased by approximately 29.10% from the same period last year. The above decreases were mainly due to the increasingly intensified market competition and the replacement of thermal power generation (which is the Group's key operating segment) with clean and renewable power generation. The Management is of the view that the Group is operating in an environment with more and more challenges and the Group will continue to take measures to develop markets and accelerate its transformation and upgrading.

We understand from the Management that Harbin Electric International, a wholly-owned subsidiary of the Company, has been providing engineering, procurement and construction (i.e. EPC) services to Independent Third Party customers since its incorporation. Projects carried out by Harbin Electric International include construction of power plants (including thermal power plants, hydro power plants and combined-cycle power plants), contracting of large scale power transmission and transformation facilities and public facilities, and provision of comprehensive and professional after-sale services for power stations with customers located in different countries globally. The Management considered that Harbin Electric International has possessed sound experience and expertise in EPC projects, which can help the Group to develop the business of EPC projects in the PRC. At the same time, the Management understood from Harbin Electric (the controlling Shareholder) that it has plans to develop power stations, which may also require EPC project management services. The Management is of the view that it will help the Group to further develop its business by providing EPC Services to Harbin Electric. As a result, the Company entered into the EPC Framework Agreement with Harbin Electric for the provision of the EPC Services.

In view of the above and given that (i) the provision of EPC services has been the principal activity of Harbin Electric International; and (ii) it is a reasonable strategic move for the Group to provide the EPC Services to further develop its business, we concur with the Management's view that the entering into of the EPC Framework Agreement is in the interests of the Company and the Shareholders as a whole, and consider that the transactions contemplated under the EPC Framework Agreement are in the ordinary and usual course of business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms of the EPC Framework Agreement

Set out below is a summary of details of the EPC Framework Agreement. Further details of the EPC Framework Agreement are set out in the “Letter from the Board” contained in the Circular.

Date: 14 February 2020

Parties: The Company and Harbin Electric

Subject matter: The Company (through its wholly-owned subsidiary, Harbin Electric International) to provide the EPC Services to the Unlisted Harbin Electric Group at fair and reasonable market prices and on normal commercial terms.

The Unlisted Harbin Electric Group has the right to engage other EPC service providers and the Group is not obliged to accept orders from the Unlisted Harbin Electric Group for the provision of the EPC Services.

Term: From the date on which the Independent Shareholders approved the EPC Framework Agreement and the transactions contemplated thereunder up to 31 December 2022

Conditions: The EPC Framework Agreement is conditional upon, among other things, the approval of EPC Framework Agreement and the transactions contemplated thereunder by the Independent Shareholders at the EGM.

Pricing terms: The prices for the transactions contemplated under the EPC Framework Agreement shall be fair and reasonable and determined with reference to the market price and terms.

For the purposes of ascertaining the market price, the Group will make reference to the market price and charging basis applicable to the EPC Services of the same or similar type provided by the Group to Independent Third Parties on normal commercial terms, and will take into account any comparable transactions of the same or similar type provided by the Group to Independent Third Parties within the same or a recent period of time.

Payment terms: The payment terms will be specified in the agreements to be entered into by the relevant parties and determined in accordance with usual market practices and similar projects in the past.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Assessment of the terms of the EPC Framework Agreement*

As set out above, pursuant to the EPC Framework Agreement, the Group is not obliged to accept orders from the Unlisted Harbin Electric Group for the provision of the EPC Services. We understand from the Management that the Group will only accept the EPC Services orders if the terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. This allows the Group to assess its own needs and benefits every time before entering into transactions to provide the EPC Services to the Unlisted Harbin Electric Group.

As regards the pricing terms, we note from the “Letter from the Board” contained in the Circular and understand from the Management that, the prices for the EPC Services will be based on the estimated costs for the whole project plus a reasonable profit margin. Harbin Electric International will first understand the specifics of the services to be provided, which are usually set out in the tender request documents. Different projects, such as power plants for different power types with different size, will involve different kinds and extent of services. Harbin Electric International will then determine the estimated EPC Services involved with details of the types of services and timing of providing such services. Based on the design, equipment and construction requirements of the projects, Harbin Electric International will determine the amounts of internal and external costs associated with the projects. Internal costs mainly represent expenses for employees for the project management while external costs mainly relate to the costs paid to different contractors for provision of different services such as design and construction services and provision of equipment.

In determining the internal costs, Harbin Electric International will mainly make reference to the historical internal costs of all EPC project transactions of the Group with Independent Third Parties within the recent two years which are similar and comparable in terms of scale, specific requirements by the procuring parties and required timeframe and cycles for project execution, in order to estimate the number and qualification of employees needed and their working time to be spent on the EPC projects and hence the staff cost for project management. We have discussed with the Management the procedures in relation to the price determination for internal costs adopted by Harbin Electric International, which are applied for all EPC projects (whether with the Unlisted Harbin Electric Group or Independent Third Parties), and noted that Harbin Electric International will determine the internal costs with reference to the circumstances of each EPC project (e.g. (i) staff costs will be estimated with reference to the internal staff costs policy; (ii) travelling expenses will be estimated based on the duration, location and scale of the EPC projects; and (iii) office expenses will be determined based on the estimated amounts of office furniture, consumables and meeting costs etc. needed for the EPC projects). We understand from the Management that such internal costs will be estimated by different relevant departments (such as operation department, finance department and business development department) involved in the EPC projects based on the circumstances of each project. We have obtained and discussed with the Management an extract of the internal control policy in relation to management of project budgeting, and noted that the pricing procedures adopted in the control policy are consistent with our understanding.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For the external costs (which is usually the major part of the total project cost as advised by the Management), since the services will be provided by different contractors, Harbin Electric International will obtain and summarise fee quotations from around three different suppliers (including both independent suppliers and where applicable, other subsidiaries of the Company) for each product or service required in the EPC projects based on the specific requirements of the EPC procuring parties to arrive at a preliminary estimation of the external costs for the EPC projects. We have reviewed the internal documents of Harbin Electric International regarding its policy for the tendering process and selection of suppliers and noted that the tendering process is generally consistent with the abovementioned procedures and such documents are properly approved by management of Harbin Electric International. Upon being selected as the EPC service provider, for each product or service required in the EPC projects, Harbin Electric International will generally invite around three suppliers as mentioned above which best meet the requirements of the EPC procuring parties and whose fee quotations represent a reasonable market price to participate in tender procedures. During the tender process, Harbin Electric International will coordinate internally to comprehensively evaluate various aspects of the submitted tenders, and eventually select the best supplier and thereby finalise the external costs of the EPC projects. However, the abovementioned obtaining of fee quotations and carrying out of tender procedures for determining the external costs are dependent on the specific requirements of the EPC Services to be provided as requested by the EPC procuring parties, and the procedures or number of suppliers involved may differ from case to case accordingly. We understand from the Management that the tendering process is subject to the regulation of the Bidding Law of the PRC (中華人民共和國招標投標法) which sets out the requirements on bidding process including, among other things, requirements on the bidding documents, bidding participants and evaluation of bids. We have reviewed the Bidding Law of the PRC and understand that pursuant to the Bidding Law of the PRC, the evaluating criteria of each tender will be set out in the tender documents and a separate committee will be set up to evaluate the bids received based on the evaluating criteria as set out in the tender documents.

Under normal circumstances, after a reasonable estimation of the project cost (including the internal costs and the external costs), Harbin Electric International will finalise its fee quotation by adding on an estimated profit margin which is not less than the historical average gross profit margin of engineering services for power stations provided by the Group to Independent Third Parties for the two years immediately preceding the provision of such fee quotation for the EPC Projects. For reference, the gross profit margin of such services was approximately 3.42% in 2018 and 4.65% in 2017. We have reviewed both the 2018 and 2017 annual reports of the Company and noted that the gross profit margin of engineering services for power stations were the same as mentioned above. Given that the profit margin to be charged for the EPC projects provided to the Unlisted Harbin Electric Group will not be less than the historical average gross profit margin of engineering services for power stations provided by the Group to Independent Third Parties, we consider the basis of determining such profit margin to be reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Management advised us that the same price determination procedures are adopted by Harbin Electric International for all EPC projects (whether with the Unlisted Harbin Electric Group or Independent Third Parties) and Harbin Electric International will ensure that the profit margin charged to the Unlisted Harbin Electric Group will follow and not be lower than the profit margins for similar projects. We have obtained and reviewed from the Management the relevant pages of an internal management policy adopted by Harbin Electric International regarding EPC projects, and noted that the pricing process for EPC projects as adopted by Harbin Electric International is generally consistent with the pricing policies as mentioned above. Given that (a) the same pricing policy is adopted for all EPC projects (whether with the Unlisted Harbin Electric Group or Independent Third Parties); (b) the major part of the project cost relates to external costs which are determined through tendering process; (c) the tendering process will be governed by the Bidding Law of the PRC; and (d) the profit margin to be charged for the EPC projects provided to the Unlisted Harbin Electric Group will not be less than the historical average gross profit margin of engineering services for power stations provided by the Group to Independent Third Parties, we consider the prices for the EPC projects under the EPC Framework Agreement will be determined at terms no less favourable than those offered by the Group to Independent Third Parties.

As regards the payment terms, we note from the “Letter from the Board” contained in the Circular and understand from the Management that payment is usually divided into three parts, namely (i) prepayment with approximately 10% of the total contract price payable after the execution of the individual agreements; (ii) progress payment with an aggregate of approximately 80% of the total contract price payable in instalments according to the progress of the project (i.e. the progress of the design, equipment manufacturing and installation, and construction works respectively); and (iii) payment for the warranty of quality with approximately 10% of the total contract price payable upon the completion of the project and the expiry of the quality warranty period. We understand from the Management that the aforesaid payment schedule applies to both contracts with the Unlisted Harbin Electric Group as well as Independent Third Parties, and that the terms available to the Unlisted Harbin Electric Group will not be more favourable than those available to the Independent Third Parties.

In view of the above, we are of the view that the terms of the EPC Framework Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Internal control measures regarding the transactions contemplated under the EPC Framework Agreement

As set out in the “Letter from the Board” contained in the Circular, the Group will implement internal control measures to monitor the carrying out of the transactions contemplated under the EPC Framework Agreement, details are as follows:

- (a) the business operations and development department of Harbin Electric International will take the lead and serve as the central management department of EPC project management and be mainly responsible for project approval and review, project establishment, project tracking, negotiation and execution work, and also for coordinating with different departments to carry out relevant works, while other departments, such as the engineering project department, the financial investment department, logistics management department, quality safety department and the operations management department, will provide professional support for project development to the business operations and development department respectively;
- (b) the finance and other relevant departments of Harbin Electric International will coordinate to obtain fee quotations from external independent suppliers and estimate the project cost and revenue;
- (c) the legal department of Harbin Electric International will assess the risks and commercial terms of the EPC projects;
- (d) the department head will be person in charge of the relevant responsibilities of each department;
- (e) prior to the execution of any agreement for EPC projects, the project cost and estimated profit margin are subject to the approval of the management of Harbin Electric International, which is a collective decision of the senior management;
- (f) the management of Harbin Electric International will review and approve the profitability of the fee quotation provided to the connected party of the Company and that of similar projects in the past, in order to ensure that the price and terms of the transactions are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (g) the Company will adhere to its internal control policy, which it has adopted for all connected transactions of the Group, when implementing the transactions contemplated under the EPC Framework Agreement to ensure that the terms of the EPC transactions to be entered into are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Further, the Company will adopt the following internal control measures to ensure that the proposed Annual Caps will not be exceeded:

- (a) the Group will closely monitor the transactions contemplated under the EPC Framework Agreement to ensure that they are conducted in accordance with the terms of the EPC Framework Agreement and are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) the Group will also monitor the transaction amounts under the EPC Framework Agreement from time to time so as to ensure that the annual transaction amounts will not exceed the Annual Caps;
- (c) the management will track and record information (including but not limited to the pricing terms, payment arrangements and actual transaction amounts under each of the EPC agreements to be entered into) of the transactions contemplated under the EPC Framework Agreement on a quarterly basis and report the relevant information to the Board and the audit committee of the Company in a timely manner;
- (d) the management will summarise and report the then situation of the EPC transactions that have occurred to the Board before the entering into of any new EPC agreement under the EPC Framework Agreement; and
- (e) Harbin Electric International will set an alert at approximately 80% of the Annual Caps so that the Company could timely take necessary measures (including but not limited to entering into a new framework agreement and revising the Annual Caps or communicating with Harbin Electric to delay upcoming EPC projects) to comply with the requirements under Chapter 14A of the Listing Rules in the event that the annual transaction amount is likely to approach or exceed the Annual Cap.

We have obtained and reviewed the internal control policy adopted by the Company in relation to connected transactions, and noted the above internal control measures have been adopted by the Company for all connected transactions. In view of the above internal control measures to be implemented by the Group, in particular, the safeguard measures in obtaining estimated costs, determination of profit margins with review and approval by management and measures to monitor the transaction amounts under the EPC Framework Agreement to ensure the Annual Caps will not be exceeded, we consider that the Group will be able to monitor the carrying out of the transactions contemplated under the EPC Framework Agreement to protect the interests of the Independent Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. The Annual Caps

The table below sets out the proposed Annual Caps for the transactions contemplated under the EPC Framework Agreement for each of the year ending 31 December 2020, 2021 and 2022.

	Proposed Annual Caps		
	For the year ending 31 December		
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Provision of the EPC Services by the Group to the Unlisted Harbin Electric Group	1 billion	1 billion	1 billion

We have reviewed the section headed “VIII. Annual Caps” in the “Letter from the Board” contained in the Circular, and discussed with the Management regarding its basis for setting the Annual Caps.

We understand from the Management that when determining the Annual Caps, they have discussed with the Unlisted Harbin Electric Group regarding its future development plans for different power plants for the three years ending 31 December 2022. As advised by the Management, the Unlisted Harbin Electric Group is planning to develop power stations, which will either be carried out solely by its own or through joint venture arrangements with other industry players. Such developments would require EPC Services in power stations construction. During the discussion with the Unlisted Harbin Electric Group, the Management understood that the Unlisted Harbin Electric Group is planning several power stations development projects over the years from 2020 to 2022. Based on the development plan, the Management has further discussed with the Unlisted Harbin Electric Group the details of projects that the Group may participate in. The Group then made reference to its operation plan to assess which projects it would participate in the tender process for the EPC Services, taking into account planned projects on hand and the operation capacity of Harbin Electric International. As advised by the Management, certain of the projects that the Group would participate in would be carried out by the Unlisted Harbin Electric Group through joint venture arrangements with other industry players. For those projects that the Unlisted Harbin Electric Group will only participate as minority shareholders with less than 30% of interest, the project company will not be classified as a connected person of the Group under the Listing Rules. In determining the proposed Annual Caps, the Management has only considered those projects (the “**Connected Transaction Projects**”) that (a) the Group would participate in; and (b) would likely constitute connected transactions for the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For each of the Connected Transaction Projects, the Group has estimated the project prices based on, among other things, (i) project size and nature; (ii) market intelligence on the contract values of different projects, such as preliminary estimation of project costs as advised by the Unlisted Harbin Electric Group and information published by other listed companies regarding EPC projects; and (iii) planned investment amounts of the projects of the Unlisted Harbin Electric Group. Since the prices of the EPC Services will be settled in instalments according to the project progress, the Management has also discussed with the Unlisted Harbin Electric Group the estimated timing of commencement of each of the Connected Transaction Projects. Based on the discussions with the Unlisted Harbin Electric Group and expertise of Harbin Electric International given Harbin Electric International has been providing EPC Services to different customers, the Group estimated the amounts and timing of the progress payments for the Connected Transaction Projects. In addition, we are advised by the Management that EPC projects will involve different stages such as the design stage, construction stage and equipment installation stage, and the actual timetable of each project will be subject to uncertainties. For example, there could be delay or shortening in time required for agreeing upon the project design, construction progress of each parts of the project, delivery of equipment, or installation and testing of equipment. The timing of occurrence of the progress payments may therefore differ from the current plans. The Management has also taken into account such uncertainties in project timetable and, based on the past experience of implementation of EPC projects by Harbin Electric International, estimated the impact of possible changes of timetable to the timing of the progress payments.

We are given the information by the Management in relation to details of projects in progress in 2019, including the number of projects, the project capacity and amount involved, demonstrating that the Group is currently managing certain EPC projects. In view of the fact that when providing EPC Services, the Group is mainly involved in the management of the EPC projects where actual construction/manufacturing work will be carried out through other contractors, it is considered that the Group is able to take up further projects when the Unlisted Harbin Electric Group has production plans. We have also discussed with the Management and understand that the Management has assessed the production plans of the Unlisted Harbin Electric Group with reference to the expertise of Harbin Electric International and determined the number, amount and timing of the Connected Transaction Projects.

The Management also advised us that during their discussion with the Unlisted Harbin Electric Group, they understand that the involvement of the Unlisted Harbin Electric Group in certain of the planned projects will be subject to further discussions with the business partners. Accordingly, it is possible that these projects may also constitute continuing connected transactions of the Group. Bearing this in mind, and considering the possibilities fluctuations in the price for the EPC projects, the Management has also considered a buffer of about 10% when determining the proposed Annual Caps for each of the years ending 31 December 2020 and 2021. On the basis set out above, the Group has determined the Annual Caps for each of the years ending 31 December 2020 and 2021 to be RMB1 billion.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Generally speaking, in our opinion, it is in the interest of the Group for the proposed Annual Caps to be as accommodating to the Group as possible. Provided that (a) the terms for the transactions contemplated under the EPC Framework Agreement, including the pricing terms, are fair and reasonable and that the conduct of such transactions is subject to the internal control measures as mentioned in this letter above and annual review by independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules; (b) possible increase in transactions with Unlisted Harbin Electric Group subject to further discussions, and the ability and expertise for Harbin Electric International to take up additional EPC projects; and (c) the possible price fluctuation for the EPC projects taking into account in general the change in producer price index for industrial products (工業生產者出廠價格指數) in the PRC in recent years (with an increase of approximately 3.5% and 6.3% respectively for 2018 and 2017), we consider reasonable for the Group to include the buffers, to retain flexibility in conducting its businesses.

For the year ending 31 December 2022, the Management has adopted similar approaches as mentioned above to determine the estimated transaction amounts of EPC Services to be provided to the Unlisted Harbin Electric Group with reference to the Connected Transaction Projects identified. In addition, the Management understood from the Unlisted Harbin Electric Group that they are planning similar amounts of investments into power plants projects in 2022. Accordingly, the Management has determined the proposed Annual Cap for the year ending 31 December 2022 to be RMB1 billion.

We have obtained from and discussed with the Management a discussion paper setting out the details of the EPC projects and calculation of the proposed Annual Caps for each of the years ending 31 December 2020, 2021 and 2022, which contains details of, among other things, the planned projects, the estimated transaction amounts for each projects and the estimated timing for recognition of the transaction amounts and noted that the details are consistent with the basis for determining the Annual Caps as mentioned above. We have also reviewed the announcements published by certain listed companies regarding EPC projects of the relevant type of power generation plants, either provided by the Management or identified through searching on the website of the Stock Exchange and the Shenzhen Stock Exchange, and considered the estimated prices of the EPC Services adopted by the Management in determining the Annual Caps to be reasonable.

Taking into account the above factors, we are of the view that the bases and assumptions involved in setting the Annual Caps are reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Review and conditions of the transactions contemplated under the EPC Framework Agreement

In compliance with the Listing Rules, the transactions are subject to a number of conditions which include, among other things:

- (i) the Annual Caps for the transactions contemplated under the EPC Framework Agreement for each of the periods will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the transactions contemplated under the EPC Framework Agreement and confirm in the Company's annual report whether the transactions contemplated under the EPC Framework Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the transactions contemplated under the EPC Framework Agreement and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the transactions:
  - (a) have not been approved by the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the transactions contemplated under the EPC Framework Agreement; and
  - (d) have exceeded the Annual Caps with respect to the transactions contemplated under the EPC Framework Agreement;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) the Company must allow, and ensure that Harbin Electric allows, the auditors of the Company sufficient access to their records of the continuing connected transactions for the purpose of the auditors' reporting on the transactions contemplated under the EPC Framework Agreement. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the transactions contemplated under the EPC Framework Agreement exceeds the relevant Annual Cap(s), or that there is any material amendment to the terms of the EPC Framework Agreement.

In light of the conditions imposed on the continuing connected transactions, in particular, (1) the limit of the value of the transactions by way of the Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the transactions contemplated under the EPC Framework Agreement; and (3) the on-going review by the auditors of the Company confirming the relevant proposed Annual Cap(s) not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the EPC Framework Agreement and safeguard the interests of the Independent Shareholders.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (i) the terms of the EPC Framework Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned; (ii) the transactions contemplated under the EPC Framework Agreement are in the ordinary and usual course of business of the Group; (iii) the entering into of the EPC Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the EPC Framework Agreement (including the Annual Caps).

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 nine years of experience in the corporate finance industry.*

**1. RESPONSIBILITY STATEMENT**

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

**2. DIRECTORS AND CHIEF EXECUTIVES' 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), which were 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 or short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, 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 Companies.

As at the Latest Practicable Date, save for Mr. Si Ze-fu and Mr. Wu Wei-zhang, who are directors of Harbin Electric, none of the Directors was a director or employee of a company which had any interest or short position 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.

### 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:

Type of shareholding	Name of Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of such shareholding in the same type of issued share capital	Percentage of total issued share capital
Domestic Shares	Harbin Electric	Beneficial owner	1,030,952,000	100%	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 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 required to be kept under section 336 of the SFO.

### 4. SERVICE CONTRACTS

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

### 5. 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 2018, being the date to which the latest published audited consolidated financial statements of the Company have been made up, up to the Latest Practicable Date.

**6. COMPETING BUSINESS**

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors or supervisors of the Company nor their respective 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.

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

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company was materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or supervisors of the Company 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 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. MATERIAL LITIGATION**

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

**9. EXPERT**

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

<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 2018 (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 the Company or any member of the Group.

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

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except for public holidays) at Room 1601, 16th Floor, LHT Tower, 31 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Articles;
- (b) the EPC Framework Agreement;
- (c) the written consent referred to in the paragraph headed "Qualification of the Expert and consent" in this appendix;
- (d) the letter from the Board, the text of which is set out in this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter of advice from the Independent Financial Adviser, the text of which is set out in this circular; and
- (g) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL 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 EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “**EGM**”) of Harbin Electric Company Limited (the “**Company**”) will be held at the conference room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Thursday, 9 April 2020 at 9:00 a.m. to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 21 February 2020 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

#### ORDINARY RESOLUTION

**1. THAT:**

- (a) the EPC Framework Agreement and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the Annual Caps be and are hereby approved; and
- (c) the Board, and/or unless the Board determines otherwise, any two Directors be and are hereby authorised to take all such actions and execute all such documents or deeds as they may consider necessary or desirable for the purpose of giving effect to the EPC Framework Agreement and the transactions contemplated thereunder, with such amendments, alterations or additions thereto as they may in their absolute discretion think fit, whose signature thereto shall be conclusive evidence of their approval to such amendments, alterations or additions.

#### SPECIAL RESOLUTION

**2. THAT:**

- (a) the Proposed Amendments (details of which are set out in the Circular) be and are hereby approved; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) the Board, and/or unless the Board determines otherwise, any two Director be and are hereby authorised to take all such actions and execute all such documents or deeds as they may consider necessary or desirable for the purpose of giving effect to the Proposed Amendments, including but not limited to making such adjustments or other amendments to the Articles as they consider necessary or otherwise appropriate in connection with the Proposed Amendments or as may be required by the relevant regulatory authorities, and dealing with on behalf of the Company the relevant filing, amendments and registration (where necessary) procedures and other related issues arising from the Proposed Amendments.

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

Harbin, the PRC, 21 February 2020

*Notes:*

1. For the purpose of determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 10 March 2020 to Thursday, 9 April 2020 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register before book closure shall be entitled to attend and vote at the EGM. Persons buying Shares during book closure shall not be entitled to attend and vote at the EGM. In order to be qualified for attending the EGM, all duly completed transfer documents together with the relevant share certificates must be lodged with 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 the holders of the H Shares), or the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for the holders of the Domestic Shares), not later than 4:30 p.m. on Monday, 9 March 2020.
2. Shareholders intending to attend the EGM shall return the reply slip to the Company on or before Friday, 20 March 2020. Please refer to the reply slip and the instruction thereon for details.
3. Any Shareholder entitled to attend and vote at the EGM is entitled to appoint one or more persons (whether a Shareholder or not) as his/her proxy to attend and vote on his/her behalf.
4. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be lodged with the Company's share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the holders of the H Shares) or the Company's principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for the holders of the Domestic Shares) not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof.

*As at the date of this notice, the executive Directors are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the independent non-executive Directors are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min.*



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## NOTICE OF H SHARE 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 “**HCM**”) of Harbin Electric Company Limited (the “**Company**”) will be held at the conference room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Thursday, 9 April 2020 at 9:30 a.m. (or immediately after the conclusion or adjournment of the extraordinary general meeting) to consider and, if thought fit, pass the following resolution. Capitalised terms defined in the circular dated 21 February 2020 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

#### SPECIAL RESOLUTION

**1. THAT:**

- (a) the proposed amendments to paragraphs 1 and 2 of Article 80 (details of which are set out in the Circular) be and are hereby approved; and
- (b) the Board, and/or unless the Board determines otherwise, any two Director be and are hereby authorised to take all such actions and execute all such documents or deeds as they may consider necessary or desirable for the purpose of giving effect to the proposed amendments, including but not limited to making such adjustments or other amendments to the Articles as they consider necessary or otherwise appropriate in connection with the proposed amendments or as may be required by the relevant regulatory authorities, and dealing with on behalf of the Company the relevant filing, amendments and registration (where necessary) procedures and other related issues arising from the proposed amendments.

By Order of the Board

**Harbin Electric Company Limited**

**Si Ze-fu**

*Chairman*

Harbin, the PRC, 21 February 2020

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## NOTICE OF H SHARE CLASS MEETING

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*Notes:*

1. For the purpose of determining the entitlement to attend and vote at the HCM, the register of members of the Company will be closed from Tuesday, 10 March 2020 to Thursday, 9 April 2020 (both days inclusive), during which period no transfer of Shares will be registered. Holders of the H Shares (the “**H Shareholders**”) whose names appear on the register before book closure shall be entitled to attend and vote at the HCM. Persons buying Shares during book closure shall not be entitled to attend and vote at the HCM. In order to be qualified for attending the HCM, all duly completed transfer documents together with the relevant share certificates must be lodged with 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 the holders of the H Shares), not later than 4:30 p.m. on Monday, 9 March 2020.
2. H Shareholders intending to attend the HCM shall return the reply slip to the Company on or before Friday, 20 March 2020. Please refer to the reply slip and the instruction thereon for details.
3. Any H Shareholder entitled to attend and vote at the HCM is entitled to appoint one or more persons (whether a Shareholder or not) as his/her proxy to attend and vote on his/her behalf.
4. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be lodged with the Company’s share registrar in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong (for the holders of the H Shares) not less than 24 hours before the time fixed for holding the HCM or any adjournment thereof.

*As at the date of this notice, the executive Directors are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the independent non-executive Directors are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min.*

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## NOTICE OF DOMESTIC 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 DOMESTIC SHARES CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the domestic shares class meeting (the “**DCM**”) of Harbin Electric Company Limited (the “**Company**”) will be held at the conference room of the Company located at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC on Thursday, 9 April 2020 at 10:00 a.m. (or immediately after the conclusion or adjournment of the H shares class meeting) to consider and, if thought fit, pass the following resolution. Capitalised terms defined in the circular dated 21 February 2020 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

### SPECIAL RESOLUTION

**1. THAT:**

- (a) the proposed amendments to paragraphs 1 and 2 of Article 80 (details of which are set out in the Circular) be and are hereby approved; and
- (b) the Board, and/or unless the Board determines otherwise, any two Director be and are hereby authorised to take all such actions and execute all such documents or deeds as they may consider necessary or desirable for the purpose of giving effect to the proposed amendments, including but not limited to making such adjustments or other amendments to the Articles as they consider necessary or otherwise appropriate in connection with the proposed amendments or as may be required by the relevant regulatory authorities, and dealing with on behalf of the Company the relevant filing, amendments and registration (where necessary) procedures and other related issues arising from the proposed amendments.

By Order of the Board

**Harbin Electric Company Limited**

**Si Ze-fu**

*Chairman*

Harbin, the PRC, 21 February 2020

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## NOTICE OF DOMESTIC SHARES CLASS MEETING

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*Notes:*

1. For the purpose of determining the entitlement to attend and vote at the DCM, the register of members of the Company will be closed from Tuesday, 10 March 2020 to Thursday, 9 April 2020 (both days inclusive), during which period no transfer of Shares will be registered. Holders of the Domestic Shares (the “**Domestic Shareholders**”) whose names appear on the register before book closure shall be entitled to attend and vote at the DCM. Persons buying Shares during book closure shall not be entitled to attend and vote at the DCM. In order to be qualified for attending the DCM, all duly completed transfer documents together with the relevant share certificates must be lodged with the Company’s principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for the holders of the Domestic Shares), not later than 4:30 p.m. on Monday, 9 March 2020.
2. Domestic Shareholders intending to attend the DCM shall return the reply slip to the Company on or before Friday, 20 March 2020. Please refer to the reply slip and the instruction thereon for details.
3. Any Domestic Shareholder entitled to attend and vote at the DCM is entitled to appoint one or more persons (whether a Shareholder or not) as his/her proxy to attend and vote on his/her behalf.
4. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be lodged with the Company’s principal place of business in the PRC at 1399 Chuangxinyi Road, Songbei District, Harbin, Heilongjiang Province, the PRC (for the holders of the Domestic Shares) not less than 24 hours before the time fixed for holding the DCM or any adjournment thereof.

*As at the date of this notice, the executive Directors are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the independent non-executive Directors are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min.*