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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)

ANNOUNCEMENT

(1) CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ISSUE OF NEW DOMESTIC SHARES UNDER THE SPECIFIC MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Sole Financial Adviser to the Company

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PROPOSED ISSUE OF NEW DOMESTIC SHARES

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

IMPLICATIONS UNDER THE LISTING RULES

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

INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate. In this connection, the Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Domestic Share Subscription and the Specific Mandate are fair and reasonable as far as the Independent Shareholders are concerned and make recommendation(s) on voting and the Independent Board Committee has been authorised to approve the appointment of the independent financial adviser.

PROPOSED AMENDMENTS TO THE ARTICLES

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

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

Further information in respect of the proposed amendments to the Articles will be set out in the circular to be issued by the Company in relation to, among others, the Domestic Share Subscription.

EGM AND CLASS MEETINGS

The EGM and the Class Meeting will be convened to consider and, if thought fit, approve the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles (as the case may be).

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

DESPATCH OF CIRCULAR

A circular containing, among other things: (i) details of the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate; and (iii) a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate, is expected to be despatched on or before 25 September 2017 in compliance with the Listing Rules.

As the Domestic Share Subscription is subject to the satisfaction of the conditions precedent under the Domestic Share Subscription Agreement as set out in the section headed “Conditions precedent to the Domestic Share Subscription Agreement” in this announcement, the proposed Domestic Share Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action to be taken, should consult their stockbroker, bank manager or other professional advisers.

A. PROPOSED ISSUE OF NEW DOMESTIC SHARES

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

Domestic Share Subscription Agreement

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

Date:

4 September 2017

Parties:

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

Subscription Price and principle for pricing

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

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

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

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

Number of new Domestic Shares to be subscribed for

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

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

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

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

Conditions precedent to the Domestic Share Subscription Agreement

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

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

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

Termination

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

Completion

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

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

Specific Mandate

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

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

B. RANKING OF NEW DOMESTIC SHARES TO BE ISSUED

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

C. SHAREHOLDING STRUCTURE OF THE COMPANY

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

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

D. PROPOSED AMENDMENTS TO THE ARTICLES

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

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

Further information in respect of the proposed amendments to the Articles will be set out in the circular to be issued by the Company in relation to, among other things, the Domestic Share Subscription and the Domestic Share Subscription Agreement.

E. USE OF PROCEEDS

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

- (i) to invest in a joint venture project on gas turbine and a nuclear power technology upgrading project; and
- (ii) for general working capital of the Company and to improve the assets-liabilities ratio of the Company.

F. REASONS FOR AND BENEFITS OF THE DOMESTIC SHARE SUBSCRIPTION

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

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

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

The revenue generated from the traditional coal power market forms a large portion of the total revenue of the Company. In order to enhance the overall business development, the Company plans to further strengthen the production and manufacturing capacity in emerging industries such as gas turbine and nuclear power in preparation for the future development in the energy industry and in order to strengthen the growth potential of the Company. The proceeds raised in the Domestic Share Subscription will provide financial support to the reform, transformation and sustainable development of the Company and improve the assets-liabilities ratio of the Company, which will allow the Company to create greater value for the shareholders as a whole.

G. RECENT FUND RAISING ACTIVITIES

The Company has not conducted any fund raising activities through any issue of equity securities within the 12 months immediately prior to the date of this announcement.

H. IMPLICATIONS UNDER THE LISTING RULES

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

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

I. INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate. The members of the Independent Board Committee are Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie. In this connection, the Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Domestic Share Subscription and the Specific Mandate are fair and reasonable as far as the Independent Shareholders are concerned and make recommendation(s) on voting and the Independent Board Committee has been authorised to approve the appointment of the independent financial adviser.

J. EGM AND CLASS MEETING

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

The Subscriber will (and any other shareholder who is involved or interested in the Domestic Share Subscription and the Specific Mandate will be required to) abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription and the Specific Mandate at the EGM and the Class Meeting.

K. DESPATCH OF CIRCULAR

A circular containing, among other things: (i) details of the Domestic Share Subscription, the Specific Mandate and the proposed amendments to the Articles; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate; and (iii) a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Domestic Share Subscription and the Specific Mandate, is expected to be despatched on or before 25 September 2017 in compliance with the Listing Rules.

DEFINITIONS

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

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

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

“Initial Subscription Price”	the initial subscription price, being HK\$4.56 (equivalent to approximately RMB3.84) per new Domestic Share;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time;
“Long Stop Date”	31 March 2018, or such other subsequent date as may be agreed by the Company and the Subscriber from time to time in writing;
“PRC”	the People’s Republic of China but excluding, for the purposes of this announcement, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Reference Date”	the trading day immediately preceding the date of the EGM and the Class Meeting;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time;
“Shareholder(s)”	holder(s) of the Shares of the Company;
“Share(s)”	Domestic Share(s) and/or H Share(s);
“Specific Mandate”	the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the EGM and Class Meeting to issue the new Domestic Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Harbin Electric Corporation;
“%”	per cent.

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

Harbin, PRC
4 September 2017

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

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

Certain English translation of Chinese names or words marked with “” in this announcement are included for information only, and are not official English translations of such Chinese names or words.*