

20 March 2019

To the Independent Shareholders

Dear Sir or Madam

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

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

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

**INTRODUCTION**

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

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

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

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

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

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

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

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

## **THE H SHARE OFFER**

### **1. Consideration for the H Share Offer**

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

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

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

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

### **2. Comparisons of value**

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

- (a) a premium of approximately 10.68% over the closing price of HK\$4.12 per H Share as quoted on the Stock Exchange on 15 March 2019 (being the Latest Practicable Date);
- (b) a premium of approximately 82.40% over the closing price of HK\$2.50 per H Share as quoted on the Stock Exchange on 17 December 2018 (being the Last Trading Day);
- (c) a premium of approximately 80.52% over HK\$2.53 which is the average closing price per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 17 December 2018;
- (d) a premium of approximately 80.02% over HK\$2.53 which is the average closing price per H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 17 December 2018;
- (e) a premium of approximately 77.50% over HK\$2.57 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 17 December 2018;

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

### 3. **Highest and lowest prices**

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

### 4. **Consideration**

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

### 5. **Settlement of consideration**

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

## **CONDITIONS OF THE H SHARE OFFER**

### **Conditions of the H Share Offer**

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

- (a) the passing of resolutions by way of poll approving the voluntary withdrawal of the listing of the H Shares on the Stock Exchange at the H Share Class Meeting to be convened for this purpose by the Independent Shareholders, provided that:
  - (i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent Shareholders that are cast either in person or by proxy at the H Share Class Meeting; and

- (ii) the number of votes cast (by way of poll) against the resolutions is not more than 10% of the votes attaching to all of the H Shares held by the Independent Shareholders;
- (b) minimum valid acceptances of the H Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as HEG may, subject to the Takeovers Code, decide) amounting to at least 90% of the H Shares in issue;
- (c) the approvals or filing procedures from the PRC government and/or regulatory bodies such as SASAC, NDRC and SAFE in relation to the H Share Offer having been obtained or completed and remaining in full force and effect pursuant to the provisions of relevant laws and regulations in the PRC;
- (d) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the H Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, the H Share Offer (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG to proceed with or consummate the H Share Offer);
- (e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having imposed any additional material conditions or obligations with respect to, the H Share Offer (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG to proceed with or consummate the H Share Offer);
- (f) the business licence of HEC remaining in full force and effect; and
- (g) the obtaining of approval of the Merger Agreement and the Merger contemplated thereunder by the requisite votes of HEC Shareholders in the H Share Class Meeting and the Extraordinary General Meeting as described under the section headed “Merger By Absorption of HEC By HEG — Merger Conditions”.

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

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

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

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

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

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

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

## **COMPLETION OF THE H SHARE OFFER**

If the Conditions are not satisfied (or not waived, where applicable) on or before the Unconditional Date, the H Share Offer will lapse. HEG and HEC will issue an announcement in relation to the extension or lapse of the H Share Offer or the fulfilment (or, if permissible, waiver) of the Conditions in accordance with the Takeovers Code and the Listing Rules. The latest time on which HEG can declare the H Share Offer unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

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

### **The Merger Agreement**

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

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

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

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

### **Merger Conditions**

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

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

- (e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having imposed any additional material conditions or obligations with respect to, the Merger (other than such orders or decisions that would not have a material adverse effect on the legal ability of HEG or HEC to proceed with or consummate the Merger); and
- (f) the completion of the H Share Offer, and HEC has submitted the Delisting application to the Stock Exchange and such Delisting has become effective pursuant to the Listing Rules.

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

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

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

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

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

## **WARNING**

**The Independent Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent Shareholders holding securities that are not listed on the Stock Exchange.**

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

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

### **REASONS FOR AND BENEFITS OF THE H SHARE OFFER, THE DELISTING AND THE MERGER**

Despite the continued growth of energy demand nationally and globally, the operating environment for power-generating equipment manufacturing and construction companies has become increasingly challenging, due to a combination of fierce market competition and an increasing focus on clean and renewable forms of generation at the expense of thermal generation. In the PRC, the share of total generation capacity additions by thermal power continues to decline, while hydropower has maintained moderate growth and other forms of mainstream renewable generation such as wind power and solar power are expected to continue to gain market share. HEC, being primarily engaged in the manufacturing of thermal power and hydropower main equipment, has therefore faced increasing pressure over its sales and profitability in the prevailing market environment. For the year ended 31 December 2018, HEC recorded operating revenue of RMB25,879.46 million, representing a decrease of 17.95% as compared with the same period in 2017 and net profit attributable to the HEC Shareholders of RMB71.32 million, representing a decrease of 63.28% over the same period in 2017.

The H Share Offer, the Delisting and the Merger, if successful, will reduce the costs through the simplification of the corporate structure and dispensation of costs associated with compliance and maintaining the listing status of HEC. The Merger of HEC by HEG, if successful, can fully integrate the underlying assets and liabilities of HEC by HEG, so as to optimise their corporate structure, enhance management effectiveness, and promote business integration and future development of HEG and its subsidiaries.

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

- (a) **Attractive premium:** the H Share Offer Price of HK\$4.56 per share represents a premium of approximately 82.40% over the closing price on 17 December 2018, being the Last Trading Day and a premium of approximately 10.68% over the closing price on 15 March 2019, being the Latest Practicable Date. The H Share Offer Price also represents a premium of approximately 77.50% and 85.64% over the average closing price of approximately HK\$2.57 and approximately HK\$2.46 per H Share on the Stock Exchange for 30 and 60 consecutive trading days up to and including 17 December 2018. In addition, the Offer

Price commands a premium of approximately 67.03% over the highest closing price during the 180 calendar days period preceding and including 17 December 2018, being the Last Trading Day while it represents a discount of approximately 55.98% to the unaudited consolidated NAV of HEC as at 30 June 2018.

- (b) **Certain and immediate value for the H Shares with limited liquidity:** the H Share Offer provides an attractive opportunity for the HEC H Shareholders to dispose of their H Shares expeditiously and receive cash at a price significantly above the prevailing market price, particularly in light of the persistent and significant underperformance of the share price for the past three years. Given the limited liquidity of the H Shares, not only it will limit or even eliminate HEC's ability to raise funds in the equity capital markets for future development and growth, it is also extremely challenging for the HEC H Shareholders to monetize their H Shares in the stock market without adversely affecting the market price of the H Shares. The H Share Offer also offers the HEC H Shareholders an opportunity, if they so wish, to realise their investments in HEC and invest the monies received in alternative investments with higher liquidity.
  
- (c) **Avoid holding unlisted shares:** assuming the H Share Offer becomes unconditional, HEC will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. If the H Shares are delisted from the Stock Exchange, the H Shares will become securities that are not listed or quoted on any stock exchange and the liquidity of the H Shares may be severely reduced.

## **INTENTION IN RELATION TO HEC AND HEG**

It is the intention of HEG that it will continue to carry on its current business. HEG is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

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

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

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

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

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

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

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

The HEC Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the H Shares and on which the voluntary withdrawal of the listing of the H Shares on the Stock Exchange will become effective.

Once all of the Conditions have been either satisfied or, waived (if applicable) by HEG, the H Share Offer will be declared unconditional and the H Share Offer will be extended for a subsequent period of not less than 28 days in order to allow sufficient time for those HEC H Shareholders who have not initially accepted the H Share Offer to accept the H Share Offer.

## **2. Merger by Absorption of HEC**

Subject to the completion of the H Share Offer, the Delisting and the fulfilment or waiver (if applicable) of other Merger Conditions, the Merger will be implemented and completed, pursuant to which, HEC will be merged and absorbed into HEG in accordance with the PRC Company Law and other applicable PRC Laws. HEC will be de-registered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions; and HEC will cease to exist as a separate legal entity, which will be merged and absorbed into HEG. As a result of the Merger, the assets and liabilities (together with the rights and obligations attached to such assets), business, employees, contracts of HEC will be assumed by HEG as the surviving corporation.

## **CONFIRMATION OF FINANCIAL RESOURCES IN RESPECT OF THE H SHARE OFFER**

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

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

## **INFORMATION OF HEG**

HEG is a wholly state-owned company established on 6 October 1994, under the PRC Laws with approval from SASAC. HEG is the controlling shareholder of HEC and owned approximately 60.41% of the issued capital of HEC as at the Latest Practicable Date, and is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

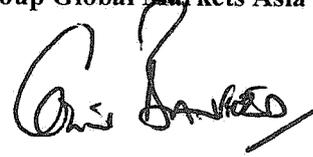
## **ADDITIONAL INFORMATION**

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

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

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

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

A handwritten signature in black ink, appearing to read 'Colin Banfield', with a long horizontal stroke extending to the right.

**Colin Banfield**  
*Managing Director*