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To the Shareholders

Dear Sir or Madam,

PROPOSED GENERAL MANDATE TO REPURCHASE SHARES

1. INTRODUCTION

The purpose of this circular is to provide you with the information in respect of the resolutions to be proposed at the Extraordinary General Meeting, H Shares Class Meeting and Domestic Shares Class Meeting to be convened on 28 August 2015, including the special

“Domestic Shares Class Meeting”	the Domestic Shares Class Meeting of the Company to be held at Conference Room of the Company (Block B, 39 Sandadongli Road, Xiangfang District, Harbin, Heilongjiang Province, the People’s Republic of China) on 28 August 2015 at 10:00 a.m.
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	10 July 2015
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

Yours faithfully,
By order of the Board
Harbin Electric Company Limited
Ai Li-Song
Company Secretary

As at the date of this announcement, the executive directors of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Song Shi-qi and Mr. Shang Zhong-fu; the non-executive director of the Company is Mr. Zou Lei; and the independent non-executive directors of the Company are Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Yu Wen-xing.

This explanatory statement contains all the information required under Rule 10.06(1)(b) of the Listing Rules and also constitutes a memorandum required under the Companies Ordinance.

EXERCISE OF THE REPURCHASE MANDATE

The Directors believe that the flexibility brought by the Repurchase Mandate would be beneficial to the Company. It is proposed that up to 10% of the aggregate nominal amount of H Shares in issue on the date of the passing of the special resolutions (subject to adjustment in the case of any subdivision and consolidation of Shares after the relevant general meeting) to approve the Repurchase Mandate may be repurchased. As at the Latest Practicable Date, the Company had 675,571,000 H Shares in issue. On the basis of such figure, the Board would be authorised to repurchase up to 67,557,100 H Shares during the period of 12 months commencing from the date of the passing of such resolution or until its revocation or alteration by a special resolution passed at a general meeting, whichever of these two events occurs first.

REASONS FOR REPURCHASE

The Board are of the view that the current share price of the Company does not actually reflect the intrinsic value of the Company. Repurchase of Shares is in the interest of the Shareholders as a whole and may at the same time stabilise market expectation and restore confidence of investors.

FUNDING OF REPURCHASE

Repurchase of shares pursuant to the Repurchase Mandate shall be financed entirely from the Company's available cash flow or working capital. Any repurchase of shares will be made out of funds of the Company legally permitted to be utilised for such purpose in accordance with its Articles of Association and the laws of the People's Republic of China, including profits otherwise available for distribution. Under the Companies Ordinance, a company's profits available for distribution are its accumulated and realised profits, so far as not previously utilised for distribution or capitalisation, less its accumulated and realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made.

There might be an adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts for the year ended 31 December 2014) in the event that the Repurchase Mandate is exercised in full.

However, the Board do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the Company's working capital or gearing position, which in the opinion of the Directors are from time to time appropriate for the Company.

DISCLOSURE OF INTERESTS

The Directors and, to the best of their knowledge having made all reasonable enquires, their close associates have no present intention to sell Shares to the Company or its subsidiaries if the Repurchase Mandate is approved by the Shareholders.

No core connected persons of the Company have notified the Company that they (i) have a present intention to sell Shares to the Company or (ii) have undertaken not to sell Shares to the Company, if the Repurchase Mandate is approved by the Shareholders.

DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the PRC.

SHARE REPURCHASE MADE BY THE COMPANY

No repurchase of Share was made by the Company (whether on the Stock Exchange or otherwise) during the six months preceding the date of this circular.

EFFECT OF TAKEOVERS CODE

If as a result of share repurchase by the Company, a Shareholder's proportionate interest in the voting rights of the Company increases

MARKET PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	Traded market price	
	Highest	Lowest
	<i>(HK\$)</i>	<i>(HK\$)</i>
2014		
July	5.35	4.75
August	5.50	4.49
September	5.02	4.54
October	4.92	4.51
November	5.30	4.60
December	4.91	4.52
2015		
January	6.00	4.86
February	5.60	5.03
March	5.48	4.60
April	7.68	4.80
May	6.76	5.81
June	7.11	5.83
July (up to the Latest Practicable Date)	6.12	3.88