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**HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

**海信科龍電器股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 00921)

**ANNOUNCEMENT  
CONTINUING CONNECTED TRANSACTIONS  
AND  
DISCLOSEABLE TRANSACTION**

The Existing Business Co-operation Framework Agreement, the Existing Export Agency Framework Agreement, the Existing Financial Services Agreement and the Existing Supplemental Financial Services Agreement will expire on 31 December 2013 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 21 November 2013, the Business Co-operation Framework Agreement and the Financial Services Agreement were entered into by the Company.

**BUSINESS CO-OPERATION FRAMEWORK AGREEMENT**

As at the date of this announcement, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and (ii) Hisense HK holds 3.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 40.43% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

**FINANCIAL SERVICES AGREEMENT**

As at the date of this announcement, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the

issued shares of the Company and (ii) Hisense HK holds 3.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit, loan and electronic bank acceptance bill (電子銀行承兌匯票), draft discount (票據貼現), settlement and sale of foreign exchange (結售匯) services and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Since the consideration ratio for the provision of such deposit services is more than 5% but less than 25%, it will constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the announcement requirement thereunder.

## **GENERAL**

A circular containing, inter alia, (a) further information on the Business Co-operation Framework Agreement and the Financial Services Agreement and the Caps in relation thereto; (b) the letter of advice from the independent financial adviser to the independent board committee and Independent Shareholders; and (c) the recommendation from the independent board committee will be dispatched to the Shareholders on or before 24 December 2013 in accordance with the Hong Kong Listing Rules.

## **BACKGROUND**

Reference is made to:-

- (a) the announcement and circular of the Company dated 29 November 2011 and 28 December 2011 respectively in relation to, inter alia, the Existing Financial Services Agreement;
- (b) the announcement of the Company dated 6 December 2012 in relation to the Existing Supplemental Financial Services Agreement;
- (c) the announcement of the Company dated 6 December 2012 in relation to, inter alia, the Existing Business Co-operation Framework Agreement and the Existing Export Agency Framework Agreement; and
- (d) the circular of the Company dated 4 January 2013 in relation to, inter alia, the Existing Business Co-operation Framework Agreement and the Existing Export Agency Framework Agreement.

The Existing Business Co-operation Framework Agreement, the Existing Export Agency Framework Agreement, the Existing Financial Services Agreement and the Existing Supplemental Financial Services Agreement will expire on 31 December 2013 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 21 November 2013, the following agreements were entered into by the Company:-

- (a) the Business Co-operation Framework Agreement; and
- (b) the Financial Services Agreement.

## **CONTINUING CONNECTED TRANSACTIONS**

### **BUSINESS CO-OPERATION FRAMEWORK AGREEMENT**

**Date:** 21 November 2013

**Parties:** The Company;  
Hisense Group; and  
Hisense Electric

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2014 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2014, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any exemption for connected transactions being withdrawn or revoked or becoming invalid and there is non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

**Condition:**

The Business Co-operation Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

The transactions contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Business Co-operation Framework Agreement does not restrict the rights of the parties (as the case may be) to sell or purchase products or services contemplated under the Business Co-operation Framework Agreement from any other

purchasers or suppliers (as the case may be).

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement (other than fees for provision of agency services for export of the white goods products of the Group) shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. As provided in the Business Co-operation Framework Agreement, the fees for the provision of the agency services for export of the white goods products of the Group will be calculated on a monthly basis and the relevant members of the Group should pay the monthly fee for the preceding month by way of telegraphic transfer or bills.

The transactions contemplated under the Business Co-operation Framework Agreement are in connection with the following aspects of business co-operation between the parties:-

***(1) Purchase of home electrical appliances***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis home electrical appliances as they may require from time to time.

**Pricing:**

Pricing for the purchase of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time.

**Historical figures:**

The annual cap allocated to the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB2,100,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB10,000 (exclusive of VAT and unaudited) (of which RMB 0 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB10,000 was for the purchases from Hisense Electric and/or its subsidiaries).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December

2014 are subject to the Cap of RMB1,110,000 (exclusive of VAT), of which:-

- (i) RMB600,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB510,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2014 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators.

**Reasons for and benefits of the purchase of home electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The sales and overall image of the Company can be enhanced by purchasing television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances. In addition, the Group intends to procure models for electrical appliances (such as refrigerators and air-conditioners) through Hisense Group and its subsidiaries for the purpose of conducting analysis and research so as to develop the Group's market research functions. Since the pricing for the purchase of home electrical appliances will be determined with reference to the market price of similar home electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain home electrical appliances through Hisense Group, Hisense Electric and/or their respective subsidiaries.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the purchase of home electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***(2) Purchase of equipment***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group and/or its subsidiaries on a non-exclusive basis such quantities of equipment as they may require from time to time.

**Pricing:**

Pricing for the purchase of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

**Historical figures:**

The annual cap allocated to the purchase of equipment by the Group from Hisense Group and/or its subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB8,550,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the purchase of equipment by the Group from Hisense Group and/or its subsidiaries amounted to approximately RMB30,000 (exclusive of VAT and unaudited).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of equipment by the Group from Hisense Group and/or its subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB4,000,000 (exclusive of VAT).

The above Cap was determined with reference to the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2014.

**Reasons for and benefits of the purchase of equipment from Hisense Group and/or its subsidiaries:**

Certain subsidiaries of Hisense Group are principally engaged in the import and export business. As such, Hisense Group has broad channels for import of equipment and is in an advantageous position to obtain products with better quality and pricing by placing bulk purchase orders. For these reasons, the purchase of equipment by the Group from Hisense Group and/or its subsidiaries will reduce purchase costs. At the same time, the Company is satisfied with the quality of the equipment provided by Hisense Group and/or its subsidiaries from their previous course of dealings. Besides, it is the trend of the Group's business and production to move towards high-end products and it is expected that equipment will be purchased and imported from overseas to improve the Group's current production line technology.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the purchase of equipment from Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**(3) *Purchase of raw materials, parts and components***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

**Pricing:**

Pricing for the purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

**Historical figures:**

The annual cap allocated to the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB53,830,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB 31,550,000 (exclusive of VAT and unaudited) (of which RMB14,310,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB17,240,000 was for the purchases from Hisense Electric and/or its subsidiaries).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB67,980,000 (exclusive of VAT), of which:-

- (i) RMB18,010,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB49,970,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2014.

**Reasons for and benefits of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries:**

Certain subsidiaries of Hisense Group and/or Hisense Electric are principally engaged in the import and export business. As such, Hisense Group and/or Hisense Electric have broad channels for import of materials and are in an advantageous position to obtain products with better quality and pricing by placing bulk purchase orders. For these reasons, the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will reduce purchase costs, and at the same time, the Group can benefit from the sharing of resources and the maximization of the economies of scale. Further, the Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by importing certain raw materials overseas, which in turn boosts the sales of high-end products and increases product and brand competitiveness.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business

Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**(4) Provision of services**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property and design services as they may require from time to time.

**Pricing:**

The fees payable by the Group for the provision of the aforesaid services is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services from time to time.

**Historical figures:**

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB124,840,000. For the nine months ended 30 September 2013, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB54,990,000 (unaudited) (of which RMB50,830,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB4,160,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2014 are subject to the Cap of RMB130,120,000, of which:-

- (i) RMB118,590,000 will be allocated to the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB11,530,000 will be allocated to the provision of property and design services by Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2014.

**Reasons for and benefits of the engagement of services of Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings and considers that Hisense Group, Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly. Certain subsidiaries of Hisense Group are outstanding companies in the property development industry in Qingdao and the quality of property construction for the Group can be assured as a result of the professional quality which they can deliver.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the engagement of services of Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***(5) Provision of agency services for export of the white goods***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will engage Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of agency services for export of white goods products of the Group (which include without limitation, refrigerators, air-conditioners, freezers, washing machines, small household electrical appliances and their related parts and spare parts which are to be assembled).

The agency services for export of the white goods products of the Group to be provided by Hisense Group and/or its subsidiaries will mainly include the following:

- (i) Hisense Group and/or its subsidiaries shall be responsible for expanding the customer base of the Group in the international market, and shall conduct business negotiation with third party customers in the name of the Company and/or its subsidiaries and accept orders for the goods after obtaining the latter's consent. Contracts for such orders shall be entered into between the Company and/or its subsidiaries and the customers directly.
- (ii) Hisense Group and/or its subsidiaries shall provide information in relation to the delivery requirements of the customers to the Group which shall arrange for production. Any amendments proposed by Hisense Group and/or its subsidiaries in relation to the orders for the goods shall be subject to the Group's consent. In case the Group needs to adjust the date of delivery for reasons such as production capacity, Hisense Group and/or its subsidiaries shall negotiate and confirm with the customers on behalf of the Group.
- (iii) The products to be supplied by the Group shall be delivered timely and in accordance with the specifications as per the purchase orders confirmed by the customers. There should not be any deficiencies in the design, raw materials and workmanship, and the quality and packaging shall meet the mandatory standards and requirements in the

country of end use of the products. The Group shall provide technological services and warranties according to the agreement with the customers depending on the types of products involved.

### **Pricing:**

The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2014, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below

| Growth rate of the revenue from export subject to the export agency services | Corresponding profit margin for export agency services | Corresponding export agency fee percentage |
|------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------|
| Below 0%                                                                     | 0%                                                     | 7.24%                                      |
| 0-5% (inclusive of 5%)                                                       | 0.5%                                                   | 7.74%                                      |
| 5-10% (inclusive of 10%)                                                     | 0.8%                                                   | 8.04%                                      |
| 10-15% (inclusive of 15%)                                                    | 1%                                                     | 8.24%                                      |
| Above 15%                                                                    | 1.1%                                                   | 8.34%                                      |

Note: Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2014 - the Group's audited revenue from export subject to the export agency services in 2012) / the Group's audited revenue from export subject to the export agency services in 2012.

In the course of provision of agency services for export for the white goods for the Group by Hisense Group and/or its subsidiaries, the Group will engage audit firm to conduct audit once every two years on the rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group. If the difference between the latest audited rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group and 7.24% does not exceed 1%, the export agency fee percentage shall remain the same as that agreed in the Business Co-operation Framework Agreement. However, if such difference exceeds 1%, then the parties shall further negotiate the export agency fee percentage based on the then circumstances.

Furthermore, pursuant to the Business Co-operation Framework Agreement, the charges which may be imposed at the port of inspection in relation to the export of products and the fees for repair and spare parts shall be borne and paid by the Group, and Hisense Group and/or its subsidiaries shall bear and pay other export-related charges.

The Group shall however bear the following costs/ expenses in any of the following

circumstances:

- (i) in the event that any liquidated damages, damages, compensation and other compensation costs are claimed by customers due to the failure of the Group to deliver relevant products in time (including without limitation, inability to deliver relevant products, delay in delivering relevant products and deficiency in the quality of the products), Hisense Group and/or its subsidiaries shall negotiate with the customers on the settlement proposal for and on behalf of the Group. The Group shall be responsible if the proposal is agreed to by the Group; and
- (ii) for reasons such as the Group's need to expand its business, the Group may propose, and Hisense Group and/or its subsidiaries will communicate with the customers on, certain support to be provided to the customers in relation to the expenses for the promotion of sales, etc. The Group shall be responsible for those expenses which have been agreed to by the Group.

**Historical figures:**

The annual cap allocated to the provision by Hisense Marketing and/or its subsidiaries of agency services for export of white goods products of the Group for the financial year ending 31 December 2013 as specified in the Existing Export Agency Framework Agreement is RMB280,000,000. For the nine months ended 30 September 2013, the aggregate transaction amount for the provision by Hisense Marketing and/or its subsidiaries of agency services for export of the white goods products of the Group amounted to approximately RMB157,090,000 (unaudited)

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of agency services for export of the white goods products of the Group by Hisense Group and/or its subsidiaries to the Group for the financial year ending 31 December 2014 are subject to the Cap of RMB366,830,000.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Marketing and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services.

**Reasons for and benefits of the engagement of services of Hisense Group and/or its subsidiaries:**

Hisense Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By engaging the export agency services of Hisense Group and/or its subsidiaries which will provide professional management services to the Group for its development of the international market, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business.

As the setting up of overseas market channels, the solicitation of and maintenance of

relationship with customers and the overseas professional personnel are managed by Hisense Group and/or its subsidiaries under the export agency services, the Group is, to a certain extent, dependent on Hisense Group and/or its subsidiaries in respect of its export business. However, the expansion in the scale of revenue from export subject to the export agency services can bring about increase in the amount of gross profit and sharing of the Company's fixed costs and expenses as a whole which enables the Company to improve its earning capacity.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the engagement of agency services for export of the white goods of Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

#### ***(6) Supply of home electrical appliances***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

#### **Pricing:**

Pricing for the supply of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar home electrical appliances from time to time.

#### **Historical figures:**

The annual cap allocated to the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB2,888,970,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB2,276,340,000 (exclusive of VAT and unaudited) (of which RMB2,276,300,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB40,000 was for the supply to Hisense Electric and/or its subsidiaries).

#### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB3,039,800,000 (exclusive of VAT), of which:-

- (i) RMB3,038,950,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB850,000 will be allocated to the supply of home electrical appliances by the Group to

Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2014.

**Reasons for and benefits of the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The production and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share and boost its sales turnover and revenue by selling products through the online platform of Hisense Group which reduces the product circulation links.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**(7) Supply of equipment**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis such quantities of equipment to Hisense Group and/or its subsidiaries as they may require from time to time.

**Pricing:**

Pricing for the supply of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

**Historical figures:**

The annual cap allocated to the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB8,550,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB3,850,000 (exclusive of VAT and unaudited).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement

regarding the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB8,560,000 (exclusive of VAT).

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2014.

**Reasons for and benefits of the supply of equipment to Hisense Group and/or its subsidiaries:**

The supply of equipment by the Group to Hisense Group and/or its subsidiaries will increase the Company's revenue and satisfy the production needs of Hisense Group and/or its subsidiaries. At the same time, through the export channels of Hisense Group and/or its subsidiaries, sales to overseas markets will be enhanced to satisfy the demands therein.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of equipment to Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**(8) Supply of moulds**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

**Pricing:**

In response to the invitations to tender from Hisense Group, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense Electric and/or their respective subsidiaries in its/ their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process.

**Historical figures:**

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB358,550,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB172,860,000 (exclusive of VAT and unaudited) (of which RMB115,440,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB57,420,000 was for the supply to Hisense Electric and/or its subsidiaries).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB349,680,000 (exclusive of VAT), of which:-

- (i) RMB255,660,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (ii) RMB94,020,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

**Reasons for and benefits of the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The sale of moulds by the Group to Hisense Group and Hisense Electric will become an important part of the Group's business. The sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with the relevant subsidiaries of Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may become stable customers of the Company in respect of the sale of moulds, thereby further expanding the sales of the Company.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***(9) Supply of raw materials, parts and components***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply to Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

**Pricing:**

Pricing for the supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

**Historical figures:**

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB26,350,000 (exclusive of VAT). For the nine months ended 30 September 2013, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB9,590,000 (exclusive of VAT and unaudited) (of which RMB5,580,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB4,010,000 was for the supply to Hisense Electric and/or its subsidiaries).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB29,050,000 (exclusive of VAT), of which:-

- (i) RMB16,250,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB12,800,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

**Reasons for and benefits of the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

Hisense Group and Hisense Electric have overseas sales channels and high quality customer resources which can enhance the sales of raw materials, parts and components of the Company. Further, the provision of raw materials, parts and components to Hisense Group, Hisense Electric and their respective subsidiaries can increase the revenues of the Company.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***(10) Provision of services by the Group***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will provide loading and unloading, design, equipment rental and property services to Hisense Group and/or its subsidiaries on a non-exclusive basis from time to time.

**Pricing:**

The fees payable by Hisense Group and/or its subsidiaries for the aforesaid services is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services from time to time.

**Historical figures:**

The annual cap allocated to the provision of services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2013 as specified in the Existing Business Co-operation Framework Agreement is RMB6,900,000. For the nine months ended 30 September 2013, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB1,680,000 (unaudited).

**Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of loading and unloading, design, equipment rental and property services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2014 are subject to the Cap of RMB6,870,000.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services.

**Reasons for and benefits of the provision of services to Hisense Group and/or its subsidiaries:**

The provision of design, loading and unloading services, equipment rental services and property services to Hisense Group and/or its subsidiaries will increase the Company's revenue.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the provision of services to Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTION - FINANCIAL SERVICES AGREEMENT**

**Date:** 21 November 2013

**Parties:** The Company; and  
Hisense Finance

**Term:**

The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement by the Independent Shareholders until 31 December 2015, which

can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

**Condition:**

The Financial Services Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including without limitation, deposit services, loan services, draft discount services (票據貼現服務) and other businesses which may be carried on by Hisense Finance as approved by the regulatory authorities. Particulars of the services to be provided by Hisense Finance to the Group are as follows:-

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill (電子銀行承兌匯票) services;
- (iii) draft discount services (票據貼現服務); and
- (iv) settlement and sale of foreign exchange services (結售匯服務);
- (v) agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest (貼現利息) from the Group for “cashing” the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to the latter which will have the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

The implementation of the provision of particular services contemplated under the Financial Services Agreement shall be subject to the definitive contract(s) to be entered into between the relevant parties within the scope of the Financial Services Agreement.

The Group may obtain financial services contemplated under the Financial Services Agreement from other financial institutions in addition to Hisense Finance, as it sees fit.

**Pricing:**

*Deposit service*

The interest rate payable for the Group’s deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits.

*Loan and electronic bank acceptance bill service*

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans.

The service fees charged for the provision of electronic bank acceptance bill services by

Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services.

Hisense Finance may require the Group to provide guarantee or security or pledge in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs.

*Draft discount service*

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

*Settlement and sale of foreign exchange*

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group.

*Agency services such as settlement services for receipt and payment of funds*

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period.

The basis for the pricing for the aforesaid services shall be the benchmark interest rate for deposits and loans (存貸款基準利率) and the rediscount rate (再貼現利率) prescribed by The People's Bank of China, and the market level of the market interest rates of discounted bill (票據貼現市場利率), the service fee for establishing electronic bank acceptance bill (開立電子銀行承兌匯票手續費) and the service fee for settlement for receipt and payment of funds (資金收支結算手續費) and agency services .

The transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

**Proposed Caps and Historical figures:**

*Deposit service*

The maximum daily balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB 350,000,000 (inclusive of interest). For the periods commencing from 16 January 2012 to 31 December 2012 and from 1 January 2013 to 30 September 2013, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB328,234,064 and RMB347,026,565 respectively.

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB800,000,000 (inclusive of interest) on any given day.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

*Loan and electronic bank acceptance bill service*

The maximum balance of loan and electronic bank acceptance bills which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB1.5billion (inclusive of interest and service fees). For the periods commencing from 16 January 2012 to 31 December 2012 and from 1 January 2013 to 30 September 2013, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB1,162,751,328 and RMB1,498,101,246 respectively.

The Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB2.2billion (inclusive of interest and service fees).

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the years ending 31 December 2015 since the terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan application process by the Company.

*Draft discount service*

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 16 January 2012 to 31 December 2012 and from 1 January 2013 to 30 September 2013, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB4,822,489 and RMB225,518 respectively.

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000.

The above Cap was determined with reference to (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use

more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the years ending 31 December 2015 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

*Settlement and sale of foreign exchange*

Under the Existing Financial Services Agreement, the annual amount settled or sold by Hisense Finance for the Group shall not exceed US\$50,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 16 January 2012 to 31 December 2012 and from 1 January 2013 to 30 September 2013, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$0 and US\$26,046,587 respectively.

The Company currently expects that the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$500,000,000. The above Cap was determined with reference to the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the years ending 31 December 2015.

*Agency services such as settlement services for receipt and payment of funds*

There has not been any historical transaction for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) by Hisense Finance to the Group.

The Company currently expects that annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) during the term of the Financial Services Agreement shall not exceed the Cap of RMB5,000,000.

The above Cap was determined with reference to the historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue and the charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

**Reasons for and benefits of the Financial Services Agreement:**

The main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- (i) the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;
- (ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and

- (iii) Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard customers' funds more effectively.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the Financial Services Agreement and the Caps in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **INFORMATION RELATING TO THE COMPANY, HISENSE ELECTRIC, HISENSE GROUP AND HISENSE FINANCE**

The Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners.

Hisense Electric was established on 17 April 1997 and has a registered capital of RMB1,306,645,222. Its authorised representative is Ms. Yu Shu Min and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. It is primarily engaged in the manufacture and sale of television, refrigerators, washing machines, radio and television equipment, communication products, information technology products, home and commercial appliances and electronic products and provision of the related services.

Hisense Group was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. It is primarily engaged in the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small home electrical appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; and the self-operated import and export business and property management.

Hisense Finance is a non-bank financial institution which establishment was approved by the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB500 million. Hisense Finance is owned as to 51% by Hisense Group, 9% by 青島海信移動通信技術股份有限公司(Hisense Mobile Communications Technology Co., Ltd.), 20% by Hisense Electric and 20% by 青島海信電子產業控股股份有限公司(Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

The business scope of Hisense Finance include: the provision of financial services including financial consultation, credit appraisal and other relevant advice and agency services to member

companies, provision of assistance in receiving transaction proceeds to member companies, provision of approved insurance agency services, provision of guarantees for member companies, entrusted loans and entrusted investment services among member companies, draft acceptance and discount services to member companies, planning of settlement scheme, deposit services to member companies, loan and finance leasing and intra-group transfer and settlement services to member companies, under writing corporate bonds for member companies, securities investment other than investment in secondary markets for stocks and provision of consumer credit and buyer credit for products of member companies.

## **IMPLICATIONS UNDER THE HONG KONG LISTING RULES**

### **(A) Business Co-operation Framework Agreement**

As at the date of this announcement, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and (ii) Hisense HK holds 3.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 40.43% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM.

### **(B) Financial Services Agreement**

As at the date of this announcement, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and (ii) Hisense HK holds 3.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit, loan and electronic bank acceptance bill, draft discount, settlement and sale of foreign exchange services and agency services such as settlement services for receipt and payment of funds by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated

thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Since the consideration ratio for the provision of such deposit services is more than 5% but less than 25%, it will constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the announcement requirement thereunder.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM.

The Business Co-operation Framework Agreement and the Financial Services Agreement are not inter-conditional on each other.

## **GENERAL**

Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement, the Financial Services Agreement and the transactions contemplated thereunder in view of their interest therein as set out below:-

- (a) Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors or senior management of Hisense Group and/or some of its subsidiaries;
- (b) Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors of Hisense Electric and/or some of its subsidiaries; and
- (c) Mr. Tang Ye Guo and Ms. Yu Shu Min are also directors of Hisense Finance.

An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders regarding the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto. An independent board committee of the Company will also be formed to advise the Independent Shareholders on whether or not the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

A circular containing, inter alia, (a) further information on the Business Co-operation Framework Agreement and the Financial Services Agreement and the Caps in relation thereto; (b) the letter of advice from the independent financial adviser to the independent board committee and Independent Shareholders; and (c) the recommendation from the independent board committee will be dispatched to the Shareholders on or before 24 December 2013 in accordance with the Hong Kong Listing Rules. In view of the number of transactions contemplated under the Business Co-operation Framework Agreement and the Financial

Services Agreement which are to be covered in the circular, it is expected that more time may be required by the Company to prepare the circular and for the independent financial adviser to review and advise on such transactions. Therefore, it is expected that the circular will be despatched beyond 15 business days after the publication of this announcement.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“A Shares”</b>                                  | domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>“associates”</b>                                | has the meaning ascribed to it under the Hong Kong Listing Rules;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>“Board” or “Director(s)”</b>                    | the board of directors of the Company;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>“Business Co-operation Framework Agreement”</b> | the Business Co-operation Framework Agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 21 November 2013 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds, and the provision of various services;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>“Caps”</b>                                      | the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2014, being (i) RMB1,110,000 in respect of the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ii) RMB4,000,000 in respect of the purchase of equipment by the Group from Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (iii) RMB67,980,000 in respect of the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (iv) RMB130,120,000 in respect of the provision of services by Hisense Group, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (v) RMB366,830,000 in respect of the provision of agency services for export of white goods by Hisense Group and its subsidiaries to the Group under the Business Co-operation Framework Agreement; (vi) RMB3,039,800,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (vii) RMB8,560,000 in |

respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (viii) RMB349,680,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ix) RMB29,050,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (x) RMB6,870,000 in respect of the provision of services by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; and the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (a) RMB800,000,000 in respect of the maximum daily balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (b) RMB2.2 billion in respect of the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (c) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services under the Financial Services Agreement; and (d) US\$500,000,000 in respect of the annual amount settled or sold by Hisense Finance for the Group under the Financial Services Agreement and (e) RMB5,000,000 in respect of the maximum annual amount of service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds under the Financial Services Agreement;

**“CBRC”**

中國銀行業監管管理委員會 (China Banking Regulatory Commission);

**“Company”**

Hisense Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange;

**“connected person”**

has the meaning ascribed to it in the Hong Kong Listing Rules;

**“EGM”**

the extraordinary general meeting of the Company to be held for, among other things, the approval of the Business Co-operation Framework Agreement, the Financial Services Agreement and the transactions contemplated thereunder and the caps in relation thereto;

|                                                             |                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Existing Business Co-operation Framework Agreement”</b> | the framework agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 6 December 2012 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds, and the provision of various services for the period up to 31 December 2013; |
| <b>“Existing Export Agency Framework Agreement”</b>         | the Export Agency for White Goods Framework Agreement (白電產品出口代理框架協議) entered into between the Company and Hisense Marketing dated 6 December 2012 in connection with the provision by Hisense Marketing and/or its subsidiaries of agency services for export for the white goods products of the Group;                                         |
| <b>“Existing Financial Services Agreement”</b>              | the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 29 November 2011 in connection with the provision of financial services by Hisense Finance to the Group;                                                                                                                                                       |
| <b>“Existing Supplemental Financial Services Agreement”</b> | the supplemental agreement (金融服務協議之補充協議) entered into between the Company and Hisense Finance dated 6 December 2012 supplemental to the Existing Financial Services Agreement;                                                                                                                                                                   |
| <b>“Financial Services Agreement”</b>                       | the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 21 November 2013 in connection with the provision of financial services by Hisense Finance to the Group;                                                                                                                                                       |
| <b>“Group”</b>                                              | the Company and its subsidiaries;                                                                                                                                                                                                                                                                                                                |
| <b>“H Shares”</b>                                           | overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange;                                                                                                                                                                                                                         |
| <b>“Hisense Air-conditioning”</b>                           | Qingdao Hisense Air-conditioning Company Limited (青島海信空調有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;                                                                                                                                                                                       |
| <b>“Hisense Electric”</b>                                   | Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange;                                                                                                                                                                                     |
| <b>“Hisense Finance”</b>                                    | Hisense Finance Co., Ltd. (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;                                                                                                                                                                                                              |
| <b>“Hisense Group”</b>                                      | Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability;                                                                                                                                                                                                                                                    |

|                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Hisense HK”</b>               | Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;                                                                                                                                                                                                                                                                                                           |
| <b>“Hisense Marketing”</b>        | 青島海信國際營銷股份有限公司 (Qingdao Hisense International Marketing Holdings Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;                                                                                                                                                                                                                                                                     |
| <b>“Hong Kong”</b>                | the Hong Kong Special Administrative Region of the People’s Republic of China;                                                                                                                                                                                                                                                                                                                                                               |
| <b>“Hong Kong Listing Rules”</b>  | the Rules Governing the Listing of Securities on the Stock Exchange;                                                                                                                                                                                                                                                                                                                                                                         |
| <b>“Independent Shareholders”</b> | (i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, Hisense Electric and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules, and(ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates; |
| <b>“PRC”</b>                      | the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;                                                                                                                                                                                                                                                       |
| <b>“Share(s)”</b>                 | share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares;                                                                                                                                                                                                                                                                                                                                            |
| <b>“Shareholder(s)”</b>           | holder(s) of the Shares;                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>“Shenzhen Listing Rules”</b>   | the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所上市規則);                                                                                                                                                                                                                                                                                                                                                      |
| <b>“Shenzhen Stock Exchange”</b>  | The Shenzhen Stock Exchange;                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>“Stock Exchange”</b>           | The Stock Exchange of Hong Kong Limited;                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>“substantial shareholder”</b>  | has the meaning ascribed to it under the Hong Kong Listing Rules;                                                                                                                                                                                                                                                                                                                                                                            |
| <b>“VAT”</b>                      | value-added tax;                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>“white goods”</b>              | the general term by which white-coloured household electrical                                                                                                                                                                                                                                                                                                                                                                                |

appliances are commonly known which include, but not limited to, air-conditioners, refrigerators, freezers, washing machines and other small household electrical appliances;

**“HK\$”**

Hong Kong dollars, the lawful currency of Hong Kong;

**“RMB”**

Renminbi, the lawful currency of the PRC;

**“US\$”**

United States dollars, the lawful currency of the United States of America;

**“%”**

per cent.

By order of the Board of  
**HisenseKelon Electrical Holdings Company Limited**  
**Tang Ye Guo**  
Chairman

Foshan City, Guangdong, the PRC, 21 November 2013

*As at the date of this announcement, the Company’s directors are Mr. Tang Ye Guo, Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin and Mr. Gan Yong He; and the Company’s independent non-executive directors are Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo*