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Hisense 海信科龙

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)

**PROPOSED APPOINTMENT OF DIRECTORS
SPECIAL REPORT ON THE CARRYING OUT OF FOREIGN
EXCHANGE CAPITAL TRANSACTION BUSINESS IN 2014
AND NOTICE OF THE 2013 ANNUAL GENERAL MEETING**

A notice convening the 2013 annual general meeting (the "AGM") of Hisense Kelon Electrical Holdings Company Limited (the "Company") to be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the People's Republic of China (the "PRC") on 26 June 2014 at 9:30 a.m. is set out on pages 9 to 12 of this circular. If you are not able to attend the AGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and deliver the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM or any adjournment thereof if you so wish.

7 May 2014

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“AGM”	the 2013 annual general meeting of the Company to be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the PRC on 26 June 2014 at 9:30 a.m., the notice of which is set out on pages 9 to 12 of this circular
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“Company”	Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司), a company incorporated in the PRC with limited liability, the shares of which are listed on the main board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PRC”	the People’s Republic of China
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange

Hisense 海信科龙

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)

Directors:

Mr. Tang Ye Guo
Ms. Yu Shu Min
Mr. Lin Lan
Mr. Xiao Jian Lin

Independent non-executive Directors:

Mr. Xu Xiang Yi
Mr. Wang Xin Yu
Mr. Wang Ai Guo

Registered office:

No. 8 Ronggang Road
Ronggui Street
Shunde District
Foshan City
Guangdong Province
PRC

*Principal place of business
in Hong Kong:*

Room 3101-05
Singga Commercial Centre,
No. 148 Connaught Road West,
Hong Kong

7 May 2014

To the Shareholders

Dear Sir or Madam,

PROPOSED APPOINTMENT OF DIRECTORS
SPECIAL REPORT ON THE CARRYING OUT OF FOREIGN
EXCHANGE CAPITAL TRANSACTION BUSINESS IN 2014
AND
NOTICE OF THE 2013 ANNUAL GENERAL MEETING

INTRODUCTION

The purpose of this circular is to provide you with information regarding the resolutions in relation to (i) the election of directors and (ii) the special report on the carrying out of foreign exchange capital transaction business in 2014 to be proposed at the AGM.

LETTER FROM THE BOARD

PROPOSED APPOINTMENT OF DIRECTORS

Given Mr. Ren Li Ren and Mr. Gan Yong He have resigned as directors of the Company, the Board has nominated Mr. Tian Ye and Mr. Huang Xiao Jian for election as directors of the eighth session of the Board. Please refer to the notice of AGM contained in this circular for the biographical details of the director candidates.

SPECIAL REPORT ON THE CARRYING OUT OF FOREIGN EXCHANGE CAPITAL TRANSACTION BUSINESS IN 2014

Pursuant to the relevant requirements of Memorandum No. 26 for Information Disclosure – Derivatives Investments issued by Shenzhen Stock Exchange (《深圳證券交易所信息披露業務備忘錄第26號 — 衍生品投資》), and in view of its actual business needs, the scope of the products for which the Company proposes to carry out foreign exchange capital derivatives business comprises a combination of forward settlement and sale of foreign exchange and its related businesses, with the balance of the foreign exchange capital derivatives business not exceeding US\$800 million. The relevant details are set out as follows:

I. Necessity of carrying out foreign exchange capital transaction business

In 2014, the risks in foreign exchange market have significantly increased as compared to prior years under the prevailing international political and economic environment. The two-way fluctuation of the RMB against the U.S. dollar has continued and the range of fluctuation has widened. The fluctuation in the exchange rates of non-U.S. dollar currencies (such as Euro) is expected to be violent. In 2013, the import and export business of the Company recorded a total turnover of approximately US\$980 million. To mitigate the exposure to foreign exchange risks in the import and export business and to safeguard the stable operation of the Company, there is a necessity for the Company to avert foreign exchange risks through the carrying out of foreign exchange capital transaction business.

LETTER FROM THE BOARD

II. Summary of foreign exchange capital transaction business to be carried out

To avert foreign exchange risks in the collection and payment of foreign exchange for its import and export business, the Company proposes to carry out the following foreign exchange capital transaction businesses:

1. Forward settlement of foreign exchange: contract for forward settlement of foreign exchange will be entered into with the banks in alignment with the amount and time of foreign exchange to be collected in future in order to fix the exchange rate for foreign exchange to be collected in future.
2. Forward sale of foreign exchange: contract for the Company's forward purchase of foreign exchange will be entered into with the banks in alignment with the amount and time of foreign exchange to be paid in future in order to fix the exchange rate for foreign exchange to be paid in future.
3. DF+NDF business: contract for forward settlement and sale of foreign exchange (abbreviated "DF") will be entered into with domestic banks in alignment with the amount and time of foreign exchange to be collected and paid in future, and an overseas subsidiary of the Company will simultaneously enter into non-deliverable forward (abbreviated "NDF") contract with foreign banks in a reverse direction with the same amount and same maturity date in order to fix the income upon maturity.

III. Principal terms of foreign exchange capital transactions to be carried out

1. Duration of the contract: all foreign exchange capital transactions to be carried out by the Company shall have a term not exceeding two years.
2. Counterparty: banks.
3. Arrangement about liquidity: all foreign exchange capital transaction businesses shall be based on reasonable estimation of the future import and export business of the Company to fulfill actual trading needs. In addition, forward foreign exchange transactions are carried out by way of bank credits and thus have no impact on the liquidity of the Company.

LETTER FROM THE BOARD

IV. Management system

Pursuant to the “Internal Control System for Forward Foreign Exchange Capital Transactions” and the “Management Measures for Foreign Exchange Capital”.

V. Risk analysis of foreign exchange capital transactions

1. Market risks

Unilateral forward settlement of foreign exchange and unilateral forward sale of foreign exchange: taking into account its research and forecast on the trend of the foreign exchange rates and considering the Company’s tolerance to price changes arising from fluctuations in exchange rates, the Company will determine if it will enter into contracts for forward settlement of foreign exchange and contracts for forward sale of foreign exchange in order to fix the costs and gains from currency exchange. Despite the existence of loss of certain opportunities, the timely operation of unilateral forward settlement and sale of foreign exchange business will effectively avert the market risks and ensure reasonable profits for the Company.

For DF+NDF business, the income upon maturity will be fixed at the time of its operation and it is not exposed to the risks of market fluctuations.

2. Liquidity risks

The Company enters into contracts related to foreign exchange capital transactions based on its reasonable estimation of future foreign exchange income and expenses. There is neither speculative operation nor risks of non-performance, and the liquidity of the Company will not be affected.

3. Risk of breach of contracts by banks

In relation to the forward settlement and sale of foreign exchange business and NDF settlement and sale of foreign exchange business, the Company will not be able to settle the original foreign exchange contracts using the contract price in case the banks go bankrupt during the term of the contracts. There is a risk of the income being uncertain.

LETTER FROM THE BOARD

However, as the Company will select to carry out its foreign exchange capital transaction business with large banks such as Industrial and Commercial Bank of China, Bank of China, Bank of Communications, HSBC and ANZ Bank, which possess solid strengths and stable operation, the risk of loss that the Company may suffer due to the bankruptcy of such banks is very low.

VI. Description of risk management strategies

The Company upholds the principle of “capital safety, appropriateness and reasonableness”, under which all foreign exchange capital businesses shall have a normal and reasonable business background to eliminate speculative operation. At the same time, the Company’s foreign exchange capital transactions are subject to hierarchical management system with specific management positions and responsibilities at each level. The application, supervision and actual operation of foreign exchange capital business are the responsibilities of different levels and different departments with specific persons-in-charge. The hierarchical management has fundamentally eradicated the risks of operation by one single person or one single department, realizing effective control and prevention of risks.

VII. Analysis of fair values

The Company recognizes and measures fair values in accordance with the “Accounting Standard for Enterprise No. 22 – Recognition and Measurement of Financial Instruments”, and the fair values are fundamentally determined in accordance with the prices provided by the banks which are the contractual counterparties. The Company measures and recognizes the fair values on a monthly basis.

VIII. Accounting policies and principle of auditing

In accordance with the relevant requirements of the “Accounting Standard for Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, the “Accounting Standard for Enterprises No. 24 – Hedging”, and the “Accounting Standard for Enterprises No. 37 – Presentation of Financial Instruments” and the guidelines of the Ministry of Finance, the Company arranges corresponding audits on the foreign exchange capital transaction businesses that have already been carried out and the same will be reflected in the relevant items in the statement of financial position and the income statement.

LETTER FROM THE BOARD

AGM

The notice of the AGM is set out on pages 9 to 12 of this circular. A form of proxy for use at the AGM is enclosed with this circular. To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon, and must be lodged, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time appointed for holding of the AGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting at the AGM or any adjournment thereof if they so wish.

VOTING BY POLL

In accordance with Article 8.27 of the Articles of Association, a poll may be demanded in any general meeting of the Company by:

- (A) the chairman of the meeting; or
- (B) at least two shareholders present in person or by proxy entitled to vote thereat; or
- (C) one or more shareholder(s) present in person or by proxy and representing, individually or in aggregate, 10% or more of all shares carrying the right to vote at the general meeting.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes casted at the AGM will be taken by poll (except those which relate purely to a procedural or administrative matter) and the chairman of the meeting will make such demand at the AGM and will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

The register of members of the Company will be closed from 27 May 2014 (Tuesday) to 26 June 2014 (Thursday) (both days inclusive). To qualify for attendance at the AGM, all H shares transfer together with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 26 May 2014 for registration.

LETTER FROM THE BOARD

RECOMMENDATION

The Board is of the opinion that the all resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole. Accordingly, the Board recommends the shareholders to vote in favor of the resolutions to be proposed at the AGM as set out in the notice of the AGM.

Yours faithfully,

By Order of the Board of

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

NOTICE OF ANNUAL GENERAL MEETING

Hisense 海信科龙

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)

NOTICE OF 2013 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2013 annual general meeting (the “AGM”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) will be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the People’s Republic of China (the “PRC”) on 26 June 2014 at 9:30 a.m. to consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

1. To consider and approve the report of the board of directors of the Company for the year 2013;
2. To consider and approve the report of the supervisory committee of the Company for the year 2013;
3. To consider and approve the 2013 annual report of the Company and its summary;
4. To consider and approve the audited 2013 financial statements of the Company;
5. To consider and approve the profit distribution proposal of the Company for the year 2013⁽⁷⁾;
6. To consider and approve the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2014 and the authorization to the board of directors to fix its remuneration⁽⁸⁾;
7. To consider and approve the special report on the carrying out of foreign exchange capital transaction business in 2014 of the Company;
8. To consider and approve the resolution to purchase liability insurance for directors and senior management members of the Company and to authorize the board of directors to proceed with the relevant matters⁽⁹⁾;

NOTICE OF ANNUAL GENERAL MEETING

9. To consider and approve the resolutions on the election of directors:
- 9.1 To consider and approve the election of Mr. Huang Xiao Jian⁽¹¹⁾ as an executive director of the eighth session of the board of directors of the Company and to fix the level of his remuneration; and
- 9.2 To consider and approve the election of Mr. Tian Ye⁽¹²⁾ as an executive director of the eighth session of the board of directors of the Company and to fix the level of his remuneration.

According to the provisions of the Articles of Association of the Company, cumulative voting system shall be adopted for the election of directors.

By order of the Board of
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 7 May 2014

As at the date of this notice, the Company's directors are Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin; and the Company's independent non-executive directors are Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.

Notes:

- (1) Holders of H shares intending to attend the AGM shall return the accompanying reply slip in writing to the registered office of the Company on or before Thursday, 5 June 2014. To qualify for attendance at the AGM, all H shares transfer together with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 26 May 2014 for registration.
- (2) Shareholders who are entitled to attend and vote at the AGM are entitled to appoint one or more persons (whether or not a shareholder of the Company) as their proxy or proxies to attend and vote on their behalf.
- (3) Holders of A shares and H shares of the Company whose names appear on the register of members of the Company as at the close of business on 26 May 2014 (Monday) (including holders of H shares of the Company who have submitted verified transfer forms on or before 26 May 2014) will be entitled to attend the AGM. For determining the entitlement of shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from 27 May 2014 (Tuesday) to 26 June 2014 (Thursday) (both days inclusive).

NOTICE OF ANNUAL GENERAL MEETING

- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notorially certified copy of such power of attorney or authority, must be deposited with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time appointed for holding the AGM.
- (5) In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), any vote of shareholders at a general meeting (except those which relate purely to a procedural or administrative matter) must be taken by poll. As such, the resolutions set out in the notice of AGM will be voted by way of poll. Voting results will be uploaded to the website of the Company at www.kelon.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk after conclusion of the AGM.
- (6) Please refer to the 2013 annual report of the Company for information relating to the reports as referred to in the ordinary resolutions numbered 1,2,3 and 4 in the notice of AGM.
- (7) The profit distribution proposal of the Company for the year 2013 referred to in the ordinary resolution numbered 5 in the notice of AGM is:

As audited by Ruihua Certified Public Accountants, the Company realized net profit attributable to shareholders of the listing company of RMB1,239,005,100, which will be applied to set off losses of previous years. There will be no profit distribution nor capitalization of capital reserve for the year.

- (8) In relation to the ordinary resolution numbered 6 in the notice of AGM, the Company intends to reappoint Ruihua Certified Public Accountants as the auditor of the Company for 2014 to audit the financial report and internal control of the Company in 2014.
- (9) In relation to the ordinary resolution numbered 8 in the notice of AGM, the Company intends to purchase "director and senior management liability insurance" for directors and senior management members of the Company, and it is agreed that the Company will enter into insurance contract of insurance premium not exceeding RMB100,000 for a term of one year.
- (10) The registered address of the Company is: No. 8 Ronggang Road, Ronggui, Shunde District, Foshan City, Guangdong Province.

Postal code: 528303

Tel: (86) 757 2836 2570

Fax: (86) 757 2836 1055

Contact person: Li Lin

- (11) **Mr. Huang**, aged 55, holds a master degree in mechanics in South China University of Technology. Mr. Huang has successively served as an enginner of the development department, the head of the air-conditioner design division of the research department, head of the sales management department, international marketing director and the general manager of the Company . He acted as the vice general manager of Qingdao Hisense International Marketing Holdings Co., Ltd. from February 2007 to February 2014. Mr. Huang has acted as the vice president of the Company since 27 March 2014.

NOTICE OF ANNUAL GENERAL MEETING

Mr. Huang has not held any directorship in any other listed companies for the past three years nor holds interests in any shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, Mr. Huang does not have any relationship with any directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During the term of his directorship, Mr. Huang will not receive any director's remuneration from the Company, however, Mr. Huang will receive emoluments as the vice-president of the Company in the sum of RMB1,000,000 (before taxation) per year which was determined by the remuneration and appraisal committee of the board of directors after taking into consideration the scale of operation of the Company and the remuneration level of senior management members of other listed companies. Mr. Huang will stand for election as an executive director of the Company. If elected, Mr. Huang's term of office will commence from the date of his appointment at the AGM until the expiry of the term of the eighth session of the board of directors (that is, 25 June 2015).

Save as disclosed above, Mr. Huang confirms that there is no other matter that needs to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor any other matter that needs to be brought to the attention of the shareholders of the Company.

- (12) **Mr. Tian**, aged 39, has served successively as the head of the financial planning department of Hisense Electric Co., Ltd. ("Hisense Electric"), deputy manager of the business department of the sales company of Hisense Group Company Limited, deputy manager of the financial planning department of Hisense Electric, the deputy general manager and general manager of Hisense South Africa Development Company and the deputy manager of the purchase department, manager of general manager's office and general manager of purchase centre of Hisense Electric. He has served as the assistant to the general manager of Hisense Electric from August 2006 to March 2010, the deputy general manager of Hisense Electric from March 2010 to April 2013 and the vice president of the Company since May 2013.

Mr. Tian has not held any directorship in any other listed companies for the past three years nor holds interests in any shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, Mr. Tian does not have any relationship with any directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During the term of his directorship, Mr. Tian will not receive any director's remuneration from the Company, however, Mr. Tian will receive emoluments as the vice-president of the Company in the sum of RMB1,000,000 (before taxation) per year which was determined by the remuneration and appraisal committee of the board of directors after taking into consideration the scale of operation of the Company and the remuneration level of senior management members of other listed companies. Mr. Tian will stand for election as an executive director of the Company. If elected, Mr. Tian's term of office will commence from the date of his appointment at the AGM until the expiry of the term of the eighth session of the board of directors (that is, 25 June 2015).

Save as disclosed above, Mr. Tian confirms that there is no other matter that needs to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor any other matter that needs to be brought to the attention of the shareholders of the Company.

- (13) The English version of the proposed resolutions as set out in this notice is for reference only and if there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.