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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: 921)*

ANNOUNCEMENT

**REVISED ANNUAL CAPS AND SUPPLEMENTAL AGREEMENT FOR
MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement and circular of the Company dated 10 November 2015 and 2 December 2015 respectively in respect of, amongst others, the Financial Services Agreement.

In view of substantial improvement of the Company's capital condition due to accelerated capital circulation, reduction of inventories and the better receivable collection in the first half of year 2016, for the purpose of facilitating business development, the Company has entered into the Supplemental Agreement with Hisense Finance to revise the annual caps for each of the two years ending 31 December 2016 and 2017 for some of the transactions contemplated under the 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 44.93% of the issued shares of the Company and (ii) Hisense HK holds 7.13% 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 (as supplemented by the Supplemental 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 Financial Services Agreement (as supplemented by the Supplemental Agreement) exceed 5%, the Supplemental Agreement and the Revised Annual Caps are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Furthermore, the provision of deposit services to the Group under the Financial Services Agreement (as supplemented by the Supplemental 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 25% but less than 75%, it will constitute a major transaction of the Company under Chapter 14 of the Hong

Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

GENERAL

A circular containing, inter alia, (a) further information on the Revised Annual Caps and the Supplemental Agreement; (b) the letter of advice from the independent financial adviser to the independent board committee and Shareholders; and (c) the recommendation from the independent board committee will be despatched to the Shareholders on or before 9 September 2016 in accordance with the Hong Kong Listing Rules. 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 the Revised Annual Caps and the Supplemental Agreement. Therefore, it is expected that the circular will be despatched beyond 15 business days after the publication of this announcement.

BACKGROUND

Reference is made to the announcement and circular of the Company dated 10 November 2015 and 2 December 2015 respectively in respect of, amongst others, the Financial Services Agreement. The Financial Services Agreement and the transactions contemplated thereunder (subject to the related caps) were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 28 December 2015.

In view of substantial improvement of the Company's capital condition due to accelerated capital circulation, reduction of inventories and the better receivable collection in the first half of year 2016, for the purpose of facilitating business development, the Company has entered into the Supplemental Agreement with Hisense Finance to revise the annual caps for each of the two years ending 31 December 2016 and 2017 for some of the transactions contemplated under the Financial Services Agreement.

SUPPLEMENTAL AGREEMENT

Date: 3 August 2016

Parties: The Company;
Hisense Finance

Revision of annual caps:

(1) Deposit service

Pursuant to the Financial Services Agreement, the Company has agreed that the Group shall engage Hisense Finance to provide deposit services as may be required by the Group from time to time upon the terms and conditions of the Financial Services Agreement.

Original annual cap

The existing 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 annual cap of RMB1,500,000,000 (inclusive of interest) on any given day for each of the two years ending 31 December 2016 and 31 December 2017.

Revised annual cap

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance on any given day for each of the two years ending 31 December 2016 and 31 December 2017 shall be revised to RMB3,000,000,000 (inclusive of interest).

Historical figures

For the periods commencing from 10 January 2014 to 31 December 2014, from 1 January 2015 to 31 December 2015 and from 1 January 2016 to 30 June 2016, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB795,000,000, RMB799,000,000 and RMB1,498,000,000 respectively.

(2) Loan and electronic bank acceptance bill service

Pursuant to the Financial Services Agreement, the Company has agreed that the Group shall engage Hisense Finance to provide loan and electronic bank acceptance bill (電子銀行承兌匯票) services as may be required by the Group from time to time upon the terms and conditions of the Financial Services Agreement.

Original annual cap

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 annual cap of RMB3,000,000,000 (inclusive of interest and service fees) on any given day for each of the two years ending 31 December 2016 and 31 December 2017.

Revised annual cap

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group on any given day for each of the two years ending 31 December 2016 and 31 December 2017 shall be revised to RMB4,500,000,000 (inclusive of interest and service fees).

Historical figures

For the periods commencing from 10 January 2014 to 31 December 2014, from 1 January 2015 to 31 December 2015 and from 1 January 2016 to 30 June 2016, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB1,108,000,000, RMB 1,951,000,000 and RMB 2,638,000,000 respectively.

The Supplemental Agreement is conditional upon the approval of the Supplemental Agreement (which stipulates the Revised Annual Caps for the Relevant Transactions as set out above) by the Independent Shareholders.

Save and except for the revision of the annual caps as set out above, all other terms and conditions under the Financial Services Agreement shall remain unchanged.

BASIS OF THE REVISED ANNUAL CAPS

The Revised Annual Caps for each of the two years ending 31 December 2016 and 2017 were determined with reference to the actual amounts paid or received by the Group in relation to the Relevant Transactions for the 6 months ended 30 June 2016 and the requirement for business development of the Company in the remaining term of the Financial Services Agreement. It is estimated that the original annual caps will not be sufficient to meet the current requirement for business development of the Company.

As at the date of this announcement, the original annual caps for the Relevant Transactions have not been exceeded.

REASONS FOR THE REVISION OF THE ANNUAL CAPS

Due to the Company's accelerated capital circulation, reduction of inventories and better receivable collection in the first half of 2016, the maximum daily balance of the monetary capital has reached RMB2,500,000,000 (which was much higher than the annual cap of RMB1,500,000,000 in respect of the deposit services that can be placed by the Group with Hisense Finance under the Financial Services Agreement), resulting in a lot of capital being placed with other third parties. Furthermore, due to the increase in business volume of the Company, the Company has increasing needs to procure Hisense Finance to provide electronic bank acceptance bill services. In the first half of 2016, the Company was in need of electronic bank acceptance bill services for approximately RMB3,800,000,000. However, due to the limitation on the existing annual cap in respect of loan and electronic bank acceptance bill services under the Financial Services Agreement, the Company had to resort to other financial solution, resulting in the Company's loss of certain revenue from capital. Therefore, based on the actual situation in the first half of 2016, the Company intends to revise the annual caps of the deposit service and loan and electronic bank acceptance bill service to ensure to the optimal utilisation by the Company of the relevant services provided by Hisense Finance to facilitate the business development of the Company.

It was also set out in the Financial Services Agreement that the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties.

In view 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 Relevant Transactions have been and will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties. As such, the Directors (excluding the independent non-executive Directors) consider that the terms of the Supplemental Agreement and the Revised Annual Caps thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION RELATING TO THE COMPANY AND HISENSE FINANCE

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

Hisense Finance is a non-bank financial institution established with the approval from 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 RMB900 million. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Ltd.), 30.89% by Hisense Group and 12.12% 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 includes the following domestic and foreign currency business: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies and draft discount services approved by State Administration of Foreign Exchange.

IMPLICATIONS UNDER HONG KONG LISTING RULES

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 44.93% of the issued shares of the Company and (ii) Hisense HK holds 7.13% 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 (as supplemented by the Supplemental 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 Financial Services Agreement (as supplemented by the Supplemental Agreement) exceed 5%, the Supplemental Agreement and the Revised Annual Caps are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Furthermore, the provision of deposit services to the Group under the Financial Services Agreement (as supplemented by the Supplemental 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 25% but less than 75%, it will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

The EGM will be convened for the Independent Shareholders to approve the Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder by poll.

In view of the interests of Hisense Finance in the Company, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder.

GENERAL

Mr. Tang Ye Guo, Mr. Liu Hong Xin ,Mr. Lin Lan and Mr.Dai Hui Zhong being Directors, have abstained from voting on the relevant board resolution(s) for approving the Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder in view of their interest therein as set out below:-

- (a) Mr. Tang Ye Guo, Mr. Liu Hong Xin ,Mr. Lin Lan and Mr.Dai Hui Zhong are also directors or senior management of Hisense Group and/or some of its subsidiaries; and
- (b) Mr. Tang Ye Guo and Mr. Liu Hong Xin are also directors of Hisense Finance.

An independent financial adviser will be appointed to advise the independent board committee of the Company and the Shareholders regarding the Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder. An independent board committee of the Company will also be formed to advise the Shareholders on whether or not the Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder are in the interest of the Company and are fair and reasonable so far as the Shareholders are concerned.

A circular containing, inter alia, (a) further information on the Revised Annual Caps and the Supplemental Agreement; (b) the letter of advice from the independent financial adviser to the independent board committee and Shareholders; and (c) the recommendation from the independent board committee will be despatched to the Shareholders on or before 9 September 2016 in accordance with the Hong Kong Listing Rules. 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 the Revised Annual Caps and the Supplemental Agreement. 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:

“A Shares” domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;

“associates” has the meaning ascribed to it under the Hong Kong Listing Rules;

“Board” or “Director(s)” the board of directors of the Company;

“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 liabilities, 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 under the Hong Kong Listing Rules;
“EGM”	the extraordinary general meeting of the Company to be held for the approval of the Supplemental Agreement (which stipulates, the Revised Annual Caps) and the transactions contemplated thereunder;
“Financial Services Agreement”	the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 10 November 2015 in connection with the provision of financial services by Hisense Finance to the Group;
“Group”	the Company and its subsidiaries;
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange;
“Hisense Air-conditioning”	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;
“Hisense Finance”	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;
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Independent Shareholders”	Shareholders other than Hisense Finance and its associates;
“PRC”	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;
“Relevant Transactions”	certain continuing connected transactions of the Group contemplated under the Financial Services Agreement (as amended and supplemented by the Supplemental Agreement) as set out in the section headed “Supplemental Agreement” in this announcement;
“Revised Annual Caps”	the revised annual caps for the Relevant Transactions for each of the two years ending 31 December 2016 and 2017;
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement”	the supplemental agreement to the Financial Services Agreement entered into between the Company and Hisense Finance dated 3 August 2016, which amends and supplements the Financial Services Agreement;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“%”	per cent.

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

Foshan City, Guangdong, the PRC, 3 August 2016

As at the date of this announcement, the Company’s directors are Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li; and the Company’s independent non-executive directors are Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.