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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

The Existing Business Co-operation Framework Agreement will expire on 31 December 2016 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under that agreement from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 17 November 2016, the Business Co-operation Framework Agreement was 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 43.10% 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 Electric is owned as to 39.35% 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 shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

GENERAL

A circular containing, inter alia, (a) further information on the Business Co-operation Framework Agreement and the Caps in relation thereto; (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 23 December 2016 in accordance with the Hong Kong Listing Rules.

BACKGROUND

Reference is made to:-

- (a) the announcement of the Company dated 10 November 2015 in relation to, inter alia, the Existing Business Co-operation Framework Agreement; and
- (b) the circular of the Company dated 2 December 2015 in relation to, inter alia, the Existing Business Co-operation Framework Agreement.

The Existing Business Co-operation Framework Agreement will expire on 31 December 2016 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 17 November 2016, the Business Co-operation Framework Agreement was entered into by the Company.

CONTINUING CONNECTED TRANSACTIONS

BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

Date: 17 November 2016

Parties: The Company;
Hisense Group; and
Hisense Electric

Term:

The Business Co-operation Framework Agreement shall commence from 1 January 2017 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 2017, 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 shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

The Company's internal policy regarding continuing connected transactions:

Before a definitive transaction is conducted, the Company will compare the price of similar existing transactions with or quotations obtained from independent third parties. Commencement of the definitive transaction with the connected party/parties is conditional upon the Company's assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the Independent Shareholders as a whole.

For such purpose, the Company has adopted an internal policy for managing and monitoring continuing connected transactions contemplated under the Business Co-operation Framework Agreement. According to the internal policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. If the operation department is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from each operation department and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB920,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB120,000 (exclusive of VAT and unaudited) (of which RMB0 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB120,000 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 2017 are subject to the Cap of RMB1,600,000 (exclusive of VAT), of which:-

- (i) RMB1,000,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB600,000 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 2017 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 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB35,850,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB9,870,000 (exclusive of VAT and unaudited) (of which RMB4,950,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB4,920,000 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 2017 are subject to the Cap of RMB118,670,000 (exclusive of VAT), of which:-

- (i) RMB104,070,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB14,600,000 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 2017.

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, with the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases; Hisense Group has better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. 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.

(3) *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, distribution, property, medical, leasing, design, inspection, agency services, 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, technical support and advertisement services as they may require from time to time.

Pricing:

The fees payable by the Group for the provision of the aforesaid services are 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB201,340,000. For the nine months ended 30 September 2016, 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 RMB142,410,000 (unaudited) (of which RMB125,440,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB16,970,000 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 2017 are subject to the Cap of RMB582,600,000, of which:-

- (i) RMB548,540,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB34,060,000 will be allocated to the provision of property, technical support and advertisement 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 2017.

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.

(4) 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB3,594,500,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB2,133,970,000 (exclusive of VAT and unaudited) (of which RMB2,133,910,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB60,000 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 2017 are subject to the Cap of RMB10,241,130,000 (exclusive of VAT), of which:-

- (i) RMB10,238,990,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB2,140,000 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; (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2017; and (d) in view of the supply of home electrical appliances to Hisense Group and/or its respective subsidiaries has better profitability than those for sale of electrical appliance via procurement of Hisense Group /or its subsidiaries' agency services for export of white goods products in the nine months in 2016; the Company

has decided to cancel the export agency model and wholly adopt sale and supply model instead commencing from 2017.

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.

(5) *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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB3,690,000 (exclusive of VAT). For the nine months ended 30 September 2016, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB2,700,000 (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 2017 are subject to the Cap of RMB19,300,000 (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 2017.

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.

(6) 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB347,380,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB231,740,000 (exclusive of VAT and unaudited) (of which RMB160,140,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB71,600,000 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 2017 are subject to the Cap of

RMB451,000,000 (exclusive of VAT), of which:-

- (i) RMB331,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (ii) RMB120,000,000 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 has 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 continue to serving as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group.

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.

(7) 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB93,340,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB46,110,000 (exclusive of VAT and unaudited) (of which RMB25,600,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB20,510,000 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 2017 are subject to the Cap of RMB112,090,000 (exclusive of VAT), of which:-

- (i) RMB48,090,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB64,000,000 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 Group.

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.

(8) Provision of services by the Group

Pursuant to the terms of the Business Co-operation Framework Agreement, (i) the Company and/or its subsidiaries will provide design, processing services and property services to Hisense Group and/or its subsidiaries and (ii) the Company will provide processing services to Hisense Electric and/or its subsidiaries on a non-exclusive basis from time to time.

Pricing:

The fees payable by Hisense Group, Hisense Electric and/or their respective subsidiaries for the aforesaid services are 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB23,700,000. For the nine months ended 30 September 2016, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB13,610,000 (unaudited) (of which RMB13,230,000 was for the provision of relevant services by the Group to Hisense Group and/or its subsidiaries, whereas RMB380,000 was for the provision of relevant services by the Group to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 are subject to the Cap of RMB37,280,000, of which:-

- (i) RMB35,280,000 will be allocated to the provision of design, processing services and property services by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB2,000,000 will be allocated to the provision of processing services 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; 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, Hisense Electric and/or their respective subsidiaries:

The provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the Group'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, 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.

INFORMATION RELATING TO THE COMPANY, HISENSE ELECTRIC AND HISENSE GROUP

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 RMB 1,308,481,222. Its authorised representative is Mr. Liu Hong Xin 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; the self-operated import and export business and property management; Leasing of tangible asset; and leasing of real estate.

IMPLICATIONS UNDER THE 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 43.10% 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 Electric is owned as to 39.35% 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 shareholders' approval requirements under Chapter 14A 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.

GENERAL

Mr. Tang Ye Guo, Mr. Lin Lan, Mr. Liu Hong Xin and Mr. Dai Hui Zhong, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement 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. Lin Lan, Mr. Liu Hong Xin and Mr. Dai Hui Zhong are also directors of Hisense Electric and/or some of its subsidiaries.

An independent financial adviser will be appointed to advise the independent board committee of the Company and the Shareholders regarding the Business Co-operation Framework 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 Shareholders on whether or not the Business Co-operation Framework 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 Shareholders are concerned.

A circular containing, inter alia, (a) further information on the Business Co-operation Framework Agreement and the Caps in relation thereto; (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 23 December 2016 in accordance with the Hong Kong Listing Rules. In view of the number of transactions contemplated under the Business Co-operation Framework 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:

“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;
“Business Co-operation Framework Agreement”	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 17 November 2016 in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services;
“Caps”	the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2017, being (i) RMB1,600,000 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) RMB118,670,000 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; (iii) RMB582,600,000 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; (iv) RMB10,241,130,000 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; (v) RMB19,300,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB451,000,000 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; (vii) RMB112,090,000 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; (viii) RMB37,280,000 in respect of the provision of services by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement;

“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 and the transactions contemplated thereunder and the Caps in relation thereto;

“Existing Business Co-operation Framework Agreement”

the framework agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 10 November 2015 in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services;

“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 Electric”	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;
“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;
“Hisense Marketing”	青島海信國際營銷股份有限公司 (Hisense International Co., Ltd.), a company incorporated in the PRC 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 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;
“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;
“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 Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳証券交易所上市規則);

“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“VAT”	value-added tax;
“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
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 17 November 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.