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If you have sold or transferred all your shares in **HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)*

(1) SUPPLEMENTAL AGREEMENT TO THE BUSINESS FRAMEWORK AGREEMENT WITH QINGDAO HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.

(2) PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

A letter from the Board is set out on pages 3 to 10 of this circular.

A notice of the EGM, a proxy form for use at the EGM (the “**original proxy form**”) and a reply slip have been despatched by the Company on 7 August 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). A supplemental notice of the EGM and a supplemental proxy form for use at the EGM in respect of the resolutions for approval of the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder and the appointment of Mr. Liu as an independent non-executive Director are despatched together with this circular and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>).

If you are not able to attend the meeting in person, you are requested to complete and return the original and supplemental proxy forms in accordance with the instructions printed thereon and to lodge the same 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 less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the original and supplemental proxy forms will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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DEFINITIONS

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

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;
“Board” or “Director(s)”	the board of directors of the Company;
“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;
“EGM”	the 2017 second extraordinary 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 22 September 2017 at 3:00 p.m. for, among other things, the approval of the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder and the proposed appointment of independent non-executive Director;
“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 Group”	Hisense Company Limited* (海信集團有限公司), a company incorporated in the PRC with limited liability;
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.* (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability;
“Hitachi Business Framework Agreement”	the business framework agreement 1 (業務框架協議(一)) entered into between the Company and Hisense Hitachi dated 17 November 2016 in relation to the supply of home electrical appliances and moulds and sale and purchase of raw materials, parts and components and provision of products maintenance services;

DEFINITIONS

“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;
“PRC”	the People’s Republic of China, which for the purposes of this circular, 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 (深圳證券交易所上市規則);
“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;
“Supplemental Agreement”	the supplemental agreement (業務框架協議(一)之補充協議) to the Hitachi Business Framework Agreement dated 31 August 2017 entered into between the Company and Hisense Hitachi, which amends and supplements the Hitachi Business Framework Agreement;
“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.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Tang Ye Guo
Mr. Liu Hong Xin
Mr. Lin Lan
Mr. Dai Hui Zhong
Mr. Jia Shao Qian
Mr. Wang Yun Li

Registered Office:

No. 8 Ronggang Road
Ronggui
Shunde
Foshan
Guangdong Province
The PRC

Independent non-executive Directors:

Mr. Ma Jin Quan
Mr. Xu Xiang Yi
Mr. Wang Xin Yu

Principal place of business

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

31 August 2017

To the Shareholders

Dear Sir or Madam,

**(1) SUPPLEMENTAL AGREEMENT TO THE BUSINESS
FRAMEWORK AGREEMENT WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.**
**(2) PROPOSED APPOINTMENT OF
INDEPENDENT NON-EXECUTIVE DIRECTOR**

BACKGROUND

The Company received a written request from Hisense Air-conditioning, a substantial shareholder of the Company which holds 516,758,670 shares of the Company, representing approximately 37.92% of the issued shares of the Company as at the date of this circular, on 31 August 2017, pursuant to which, Hisense Air-conditioning requested that two resolutions be proposed at the EGM for the Company's shareholders' consideration and approval, namely, (i) the Supplemental Agreement, the continuing connected transactions contemplated thereunder and the relevant revised annual cap, and (ii) the election of Mr. Liu Xiao Feng as an independent non-executive director of the ninth session of the Board of the Company and to fix the level of his remuneration.

LETTER FROM THE BOARD

The purpose of this circular is to:

- (a) provide you with further information on the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder; and
- (b) provide you with information regarding the ordinary resolution in relation to the election of the independent non-executive Director to be proposed at the EGM.

I. SUPPLEMENTAL AGREEMENT TO THE HITACHI BUSINESS FRAMEWORK AGREEMENT

Reference is made to the circular of the Company dated 23 December 2016 in relation to, inter alia, the Hitachi Business Framework Agreement. On 31 August 2017, the Company has entered into the Supplemental Agreement with Hisense Hitachi to revise the existing annual cap of one category of the transactions under the Hitachi Business Framework Agreement (namely sale of home electrical appliances) due to business development needs. The transactions contemplated under the Supplemental Agreement constitute ordinary connected transactions under the Shenzhen Listing Rules and are subject to the approval at the EGM.

The Supplemental Agreement

Date: 31 August 2017

Parties: The Company; and
Hisense Hitachi

Revision of annual cap

Sale of home electrical appliances

Pursuant to the Hitachi Business Framework Agreement, the Company, among others, sells home electrical appliances to Hisense Hitachi.

The existing annual cap of the total transaction amount of sale of home electrical appliances is RMB400,000,000 (exclusive of VAT) during the term of the Hitachi Business Framework Agreement from 9 January 2017 to 31 December 2017.

Pursuant to the Supplemental Agreement and upon the approval by the independent Shareholders, the annual cap of the total transaction amount of sale of home electrical appliances shall be revised to RMB460,000,000 (exclusive of VAT).

During the period from 9 January 2017 to 31 July 2017, the total unaudited transaction amount of sale of home electrical appliances was RMB243,792,300 (exclusive of VAT).

LETTER FROM THE BOARD

Save and except for the revision of the annual cap as set out above, all other terms and conditions of the Hitachi Business Framework Agreement and the annual caps for other transactions under the Hitachi Business Framework Agreement shall remain unchanged.

Condition

The Supplemental Agreement is conditional upon approval of the same (which stipulates the revised annual cap as set out above) by the independent Shareholders.

Historical transaction amounts under the Hitachi Business Framework Agreement

As at 31 July 2017, the historical amounts of the transactions conducted by the Company under the Hitachi Business Framework Agreement are as follows:—

Unit: RMB ('0000) (exclusive of VAT)

Types of transactions	Annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement	Amount paid/received in respect of such type of transactions from January to July 2017 (unaudited)
Sale of home electrical appliances	40,000	24,379.23
Sale of raw materials, parts and components	254	93.05
Sale of moulds	2,500	605.81
Provision of product maintenance services	20	0.45
Purchase of raw materials, parts and components	1,519	660.16

Reasons for revising the annual cap and impact on the Company

This increase of annual cap for the Company to sell home electrical appliances to Hisense Hitachi can further enhance the Company's scale of sales and increase sales revenue.

The connected transactions between the Company and Hisense Hitachi follow the principles of fairness and reasonableness without prejudicing the interests of the Company, and will not adversely affect the financial positions and operating results of the Company during this period and in the future. The principal business activities of the Company will not rely significantly on connected persons as a result of the above connected transactions and the independence of the Company will not be affected.

LETTER FROM THE BOARD

Information of Hisense Hitachi

Hisense Hitachi was established on 8 January 2003, registered address: 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, legal representative: FRANZ WOLFGANG CERWINKA, registered capital: US\$46 million, scope of business: research and development of commercial air-conditioning system, manufacture and sale of self-produced products and provision of after-sale services. As at the date of this circular, the Company held 49% equity interest of Hisense Hitachi.

As of 30 June 2017, the total asset of Hisense Hitachi amounted to RMB8,593,331,600 and its shareholders' equity amounted to RMB4,103,024,800. During the first half of 2017, Hisense Hitachi achieved operating revenue of RMB4,417,814,900 (unaudited) and net profit of RMB711,280,300 (unaudited).

In view of the above, and based on the business credit and ability of commercial operation of Hisense Hitachi as known by the Company, the Board considers that Hisense Hitachi can honour its obligations, and effect payments to the Company in respect of the connected transactions conducted in the same period in a timely manner.

Implications under the Shenzhen Listing Rules

As Mr. Tang Ye Guo being Chairman, is also a director of Hisense Hitachi, the transactions contemplated under the Supplemental Agreement will constitute ordinary connected transactions under the Shenzhen Listing Rules.

The independent non-executive Directors considered that such transactions would be conducted on normal commercial terms and based on the terms of the Supplemental Agreement, and the terms of the transactions as agreed in the Supplemental Agreement were fair and reasonable and were in the interests of the Company and its Shareholders as a whole. They also considered that the terms of the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder were fair and reasonable so far as the independent Shareholders were concerned. Therefore, the independent non-executive Directors recommend the Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the same.

Mr. Tang Ye Guo, being a Chairman, is also a director of Hisense Hitachi and has abstained from voting on the relevant board resolution for approving the Supplemental Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

II. PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 31 August 2017 in relation to the proposed appointment of an independent non-executive Director.

As the term of office of Mr. Wang Xin Yu (“**Mr. Wang**”) as an independent non-executive Director is about to expire, in accordance with the relevant laws, regulations and the articles of association of the Company, the Board of the Company has nominated Mr. Liu Xiao Feng (劉曉峰) (“**Mr. Liu**”) as an independent non-executive Director candidate for the ninth session of the Board.

Details of the biography of the independent non-executive Director candidate are set out below.

BIOGRAPHIES OF MR. LIU

Mr. Liu Xiao Feng, aged 55, obtained a Master’s degree and a Ph.D. in Development Economics from the University of Cambridge, England in 1988 and 1994 respectively. He also obtained a Master’s degree in Development Studies from the University of Bath, England in 1987, and a Bachelor’s degree in Political Economics from Southwest University of Finance and Economics in 1983.

Mr. Liu has more than 20 years of experience in corporate finance and has served at various international financial institutions since 1993, including serving as a member of the board of directors at NM Rothschild & Sons (Hong Kong) Limited in Hong Kong, serving as a vice president of Investment Banking Department at JP Morgan Securities (Asia Pacific) Limited and serving as a managing director at DBS Asia Capital Limited. He also served as a managing director of China Resources Capital Holdings Company Limited from March 2010 to January 2016. Mr. Liu is currently an independent non-executive director and chairman of the audit committee of UBS Securities Co., Ltd. Mr. Liu was an independent non-executive director of Haier Electronics Group Company Limited (a company listed on the Stock Exchange) from June 2007 to June 2014, and has been an independent non-executive director of Kunlun Energy Company Limited (a company listed on the Stock Exchange) since April 2004, an independent non-executive director of Honghua Group Limited (a company listed on the Stock Exchange) since January 2008, an independent non-executive director of Cinda International Holdings Limited (a company listed on the Stock Exchange) since July 2016 and an independent non-executive director of Sunfonda Group Holdings Limited (a company listed on the Stock Exchange) since May 2017.

Save as disclosed above, Mr. Liu 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. Mr. Liu does not have any relationship with any Directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During his term of office as an independent non-executive Director, Mr. Liu is entitled to an annual emolument of RMB240,000 (before taxation) from the

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Company as the independent non-executive Director. Such emolument was determined by the remuneration and appraisal committee of the Board after taking into consideration the scale of operation of the Company and the remuneration level of independent non-executive directors of other listed companies. Mr. Liu will stand for election as an independent non-executive Director of the Company. If elected, his term of office will commence from the date of his appointment at the EGM and expire at the end of the ninth session of the Board of the Company (i.e. 25 June 2018).

Save as disclosed above, Mr. Liu 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 Hong Kong Listing Rules nor any other matter that needs to be brought to the attention of the Shareholders.

EGM

The EGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC at 3:00 p.m. on 22 September 2017, Friday at which ordinary resolutions will be proposed to approve, *inter alia*, the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder and the proposed appointment of independent non-executive Director by poll.

A notice of the EGM, a proxy form for use at the EGM (the "**original proxy form**") and a reply slip have been despatched by the Company on 7 August 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). A supplemental notice of the EGM and a supplemental proxy form for use at the EGM in respect of the resolutions for approval of the Supplemental Agreement and the revised annual cap in relation to the transactions contemplated thereunder and the appointment of Mr. Liu as an independent non-executive Director are despatched together with this circular and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>).

If you are not able to attend the meeting in person, you are requested to complete and return the original and supplemental proxy forms in accordance with the instructions printed thereon and to lodge the same 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 less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the original and supplemental proxy forms will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

If you have validly appointed a proxy to attend and act for you at the EGM but do not duly complete and deliver the supplemental proxy form, your proxy appointed under the original proxy form will be entitled to vote at the discretion on the ordinary resolutions numbered 2 and 3 set out in the supplemental notice of the EGM. If you do not duly complete and deliver the original proxy form for the EGM but have duly completed and

LETTER FROM THE BOARD

delivered the supplemental proxy form and validly appointed a proxy to attend and act for you at the EGM, your proxy appointed under the supplemental proxy form will be entitled to vote at the discretion on ordinary resolution numbered 1 set out in the notice of the EGM.

Holders of H Shares intending to attend the EGM shall return the signed and completed reply slip (which was sent to the Shareholders together with the original notice of the EGM) to the registered office of the Company on or before Saturday, 2 September 2017.

In accordance with article 8.27 of the articles of association of the Company, 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 in person or by proxy entitled to vote at the general meeting; or
- (c) one or more Shareholder(s) present in person or by proxy and individually or in aggregate representing 10% or more of all Shares carrying the voting rights at the general meeting.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes casted at the EGM must 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 EGM and the results of the poll will be announced in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

The register of members of H Shares of the Company has been closed from 23 August 2017 (Wednesday) to 22 September 2017 (Friday) (both days inclusive), during which time no share transfers of H Shares will be effected. Holders of domestic shares and H shares of the Company whose names appeared on the register of members of the Company as at the close of business on 22 August 2017 (Tuesday) (including holders of H Shares of the Company who have submitted verified transfer forms on or before Tuesday, 22 August 2017, 4:30 p.m.) are entitled to attend the EGM and to vote in respect of all resolutions to be proposed at this EGM.

RECOMMENDATION

The Board consider that the Supplemental Agreement and the transactions contemplated thereunder and the revised annual cap in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable. Accordingly, the Board recommend the Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the same.

The Board is of the opinion that the ordinary resolution to be proposed at the EGM in respect of the appointment of Mr. Liu as the independent non-executive Director of the ninth session of the Board is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the same.

LETTER FROM THE BOARD

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Room 3101-05, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up to and including 22 September 2017:

- (a) the Supplemental Agreement;
- (b) the resolutions passed by the ninth session of the Board during the seventh extraordinary Board meeting in 2017; and
- (c) the independent opinion of the independent non-executive Directors in respect of matters relating to the seventh extraordinary Board meeting in 2017.

* *For identification purpose only*

Yours faithfully,
By Order of the Board of
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman