

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Haier 海尔

HAIER ELECTRONICS GROUP CO., LTD.

海爾電器集團有限公司*

(incorporated in the Bermuda with limited liability)

(Stock Code: 1169)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser

in respect of some of the Continuing Connected Transactions



THE CONTINUING CONNECTED TRANSACTIONS

References are made to the announcement of the Company dated 20 July 2015 and the circular of the Company dated 10 August 2015 relating to the continuing connected transactions contemplated under various agreements which will expire on 31 December 2018. The Board wishes to announce that, on 24 September 2018, the Company on the one part and the Haier Group and its relevant members on the other, have entered into the CCT Agreements to renew the existing continuing connected transaction agreements entered into on 20 July 2015. The existing continuing connected transaction agreements (unless otherwise agreed between the parties) shall remain in force until 31 December 2018.

The terms of the CCT Agreements commencing on 1 January 2019 and those of the existing connected transaction agreements are broadly similar.

* For identification purposes only

CATEGORISATION OF THE CONTINUING CONNECTED TRANSACTIONS ACCORDING TO THE LISTING RULES

As Haier Corp and Qingdao Haier are the Substantial Shareholders and connected persons of the Company, the transactions contemplated under each of the CCT Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Each of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) for those Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement, is expected to be higher than 25% on an annual basis, or, where the relevant applicable percentage ratio is higher than 5% but less than 25% on an annual basis, it is expected to have an annual consideration of higher than HK\$10,000,000.

On the other hand, the applicable percentage ratios for each of the transaction amounts under the Continuing Connected Transactions contemplated under the Internal Sales Agreement, the Production and Experimental Equipment Procurement Agreement, the After-sale Services Agreement, the Promotion Agreement, the Product R&D Agreement and the Services Agreement are expected to be, on an annual basis, higher than 0.1% but less than 5% for each of the three consecutive financial years ending 31 December 2021, and has an annual consideration of more than HK\$3,000,000. The applicable percentage ratios for the transaction amounts under the Continuing Connected Transactions contemplated under Logistics Services Agreement are expected to be higher than 0.1% but will be monitored to be under 5% for the financial year ending 31 December 2019. In the event that any of the applicable percentage ratios for the transaction amounts is going to exceed 5% within the term of the Logistics Services Agreement, the Company shall take such action as necessary to seek the approval by independent Shareholders of the Continuing Connected Transactions under the Logistics Services Agreement and would comply with the reporting, announcement, independent financial advice and annual review requirements under Chapter 14A of the Listing Rules.

The Company will therefore seek the approval of the Independent Shareholders for the following non-exempt Continuing Connected Transactions under the following agreements which are subject to the reporting, announcement, independent financial advice, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules:

- Products Procurement Agreement (Item B.1);
- Materials Procurement Agreement (Item B.2); and
- Export Agreement (Item C.1).

Under the terms of the Logistics Services Agreement, the Logistic Services Agreement will be terminated upon the completion of the Asset Swap. In the event of the occurrence of such termination, the Logistics Services under the Logistic Services Agreement will cease to form a continued connected transaction of the Group.

The following Continuing Connected Transactions under the following agreements are only subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules:

- Internal Sales Agreement (Item A.1);
- Logistics Services Agreement (Item A.2);
- After-sale Services Agreement (Item A.3);
- Production and Experimental Equipment Procurement Agreement (Item B.3);
- Promotion Agreement (Item C.2);
- Production R&D Agreement (Item C.3); and
- Services Agreement (Item C.4).

TERMS OF ALL CCT AGREEMENTS

The terms of the CCT Agreements and the Continuing Connected Transactions contemplated therein have been negotiated and conducted on an arm's length basis, on normal commercial terms among the parties involved and/or on terms no less favourable than those offered by independent third parties to the Group.

INTERNAL CONTROL AND RISK MANAGEMENT MEASURES

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group have adopted certain guidelines and principles respectively in monitoring the transactions between the Group and the Haier Group (with further details as set out in the section headed "Internal Control and Risk Management Measures" of this announcement).

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors has been formed to consider the terms of, and the respective Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement, so far as the interests of the Company and the Independent Shareholders are concerned as a whole. The Company has appointed China Everbright Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same which do not include any other Continuing Connected Transactions. At the same time, China Everbright Capital Limited was also appointed as the independent financial adviser to advise on the Asset Swap disclosed in the Asset Swap Announcement.

CIRCULAR

A circular containing, among other things, (1) particulars of each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement; (2) a notice of the SGM; (3) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (4) a letter of recommendation from the Independent Board Committee to the Independent Shareholders is expected to be despatched to the Shareholders on or around 30 October 2018, taking into consideration the detailed information to be included in the circular.

THE CONTINUING CONNECTED TRANSACTIONS

References are made to the announcement of the Company dated 20 July 2015 and the circular of the Company dated 10 August 2015 relating to the continuing connected transactions contemplated under various agreements which will expire on 31 December 2018. The Board wishes to announce that, on 24 September 2018, the Company on the one part and the Haier Group and its relevant members on the other, have entered into the CCT Agreements to renew the existing continuing connected transaction agreements entered into on 20 July 2015. The existing continuing connected transaction agreements (unless otherwise agreed between the parties) shall remain in force until 31 December 2018.

The terms of the CCT Agreements commencing on 1 January 2019 and those of the existing connected transaction agreements are broadly similar. All the CCT Agreements (except the Logistics Services Agreement) have a term of three years expiring on 31 December 2021. The Logistics Services Agreement has a term of one year expiring on 31 December 2019.

The Continuing Connected Transactions together with the proposed annual caps are disclosed as follows and the terms of each of the CCT Agreements are as described in detail below.

The Continuing Connected Transactions under the CCT Agreements have been categorized into three groups, with Internal Sales, Logistics Services and After-sale Services forming one group as these involve the Group selling products or providing services to the Haier Group, and with Products Procurement, Materials Procurement and Production and Experimental Equipment Procurement forming another group as these involve the Group purchasing products or equipment from the Haier Group for sales or production; with Export, Promotion, Product R&D Works and General Services forming a further group as these involve the Group using the respective work platforms of members of the Haier Group.

Transactions	Cap Amounts			Counter-party(ies)
	For years ending 31 December			
	<i>(RMB Million)</i>			
	2019	2020	2021	
A. Internal Sales, Logistics Services and After-sale Services				
Internal Sales (Item A.1)	345	466	623	Haier Corp and Qingdao Haier
Logistics Services (Item A.2)	2,000	—	—	Haier Corp and Qingdao Haier
After-sale Services (Item A.3)	291	331	373	Haier Corp and Qingdao Haier

Transactions	Cap Amounts			Counter-party(ies)
	For years ending 31 December			
	<i>(RMB Million)</i>			
	2019	2020	2021	

B. Products Procurement, Materials Procurement and Production and Experimental Equipment Procurement

Products Procurement (Item B.1)	67,650	82,533	99,865	Haier Corp and Qingdao Haier
Materials Procurement (Item B.2)	26,925	32,310	38,772	Haier Corp and Qingdao Haier
Production and Experimental Equipment Procurement (Item B.3)	490	300	280	Haier Corp and Qingdao Haier

Transactions	Cap Amounts			Counter-party(ies)
	For years ending 31 December			
	<i>(RMB Million)</i>			
	2019	2020	2021	

C. Export, Promotion, Production R&D Works and General Services

Export (Item C.1)	3,220	4,190	5,430	Qingdao Haier
Promotion (Item C.2)	104	134	172	Haier Corp and Qingdao Haier
Product R&D Works (Item C.3)	388	465	553	Haier Corp and Qingdao Haier
General Services (Item C.4)	799	962	1,147	Haier Corp and Qingdao Haier

A. INTERNAL SALES, LOGISTICS SERVICES AND AFTER-SALE SERVICES

For generating revenue streams of the Group, the Group makes sales of products or provides services to the Haier Group.

Dates of agreements

The Internal Sales Agreement, the Logistics Services Agreement and the After-sale Services Agreement are dated 24 September 2018.

Parties

- (i) the Company;
- (ii) Haier Corp and Qingdao Haier

Principal terms

Pursuant to the Internal Sales Agreement, the Group will sell electrical, water and home appliance products to members of the Haier Group for their internal consumption and resale, subject to the entering into of individual contracts as agreed between the Group and the Haier Group. Members of the Group can also sell the Products to third parties not being a member of the Haier Group and not a connected person to the Group as they think fit. The consideration payable under the Internal Sales Agreement will be settled by cash. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Internal Sales Agreement.

Pursuant to the Logistics Services Agreement, the Company will procure members of the Group to provide Logistics Services to members of the Haier Group on a non-exclusive basis, meaning members of the Group has the right to provide logistics services to parties other than the Haier Group. The consideration payable under the Logistics Services Agreement will be settled by cash. Under the Logistics Services Agreement, the Logistic Services Agreement will be terminated upon the completion of the Asset Swap. In the event of the occurrence of such termination, the transactions contemplated under the Logistics Services Agreement will cease to be continuing connected transactions of the Group.

Pursuant to the After-sale Services Agreement, the Company will procure members of the Group to provide the after-sale services and value-added consumer services, such as installation, calibration, consultation, repair and maintenance, to members of the Haier Group on a non-exclusive basis, meaning members of the Group has the right to provide after-sale services to parties other than the Haier Group. The consideration payable under the After-sale Services Agreement will be settled by cash.

Pricing principles

The electrical, water and home appliance products sold by the Group to members of the Haier Group pursuant to the Internal Sales Agreement shall be on terms no less favourable to the Group than those prevailing in the PRC market for the products of the same type and quality and at similar time and those offered by the Group to independent third parties. In determining the prevailing market price, the Group will collect the relevant market information, review and compare the transactions conducted or quotes obtained in the last three years of the same or similar type and quality entered into with independent third parties, and in any event, the terms on which the products sold by the Group to members of the Haier Group shall be no less favourable to the Group than those on which comparable products are sold by the Group to independent third parties.

The fee charged by the Group for the provision of the Logistics Services shall be on terms no less favourable than those prevailing in the PRC market for services of similar kind and quality and at similar time and those charged by the Group to independent third parties. The exact service fees charged and the time of payment shall be negotiated on an arm's length basis upon the parties entering into individual contracts pursuant to the Logistics Services Agreement by reference to prevailing market prices for similar logistics services.

The fees to be charged by the Group for the provision of the After-sale services and value-added consumer services pursuant to the After-sale Services Agreement shall be on terms no less favourable to the Group than those prevailing in the PRC market for services of similar nature and scale and at similar time and those charged by the Group to independent third parties. The exact service fees charged and the time for payment will be determined on an arm's length basis upon the parties entering into individual contracts pursuant to the After-sale Services Agreement. In determining the prevailing market price, the Group will collect relevant market information of comparable transactions of the same or similar type and quality entered into with independent third parties, and compare such transactions with those offered by the Group.

Proposed Caps

The Directors expect that for the period from 1 January 2019 to 31 December 2021, the aggregate amount of sales of electrical, water and home appliance products by the Group to members of the Haier Group pursuant to the Internal Sales Agreement and the aggregate amount of service fees receivable by the Group from the Haier Group pursuant to the After-sale Services Agreement shall not exceed the Caps (Items A.1 and A.3) respectively as summarised in the table set out in the section headed "The Continuing Connected Transactions" of this announcement.

For the period from 1 January 2019 to 31 December 2019, the aggregate amount of service fees receivable by the Group from the Haier Group pursuant to the Logistics Services Agreement shall not exceed the Cap (Items A.2) as summarised in the table set out in the section headed “The Continuing Connected Transactions” of this announcement.

The Internal Sales Cap is determined, by reference to (i) the historical figures of the transactions between the Group and the Haier Group during each of the two financial years ended 31 December 2017, and for the six months ended 30 June 2018 together with the historical growth rates; and (ii) the internal projection for the growth in the demand by members of the Haier Group for internal consumption and resale of the electrical, water and home appliance products manufactured or procured by members of the Group, which is attributable to the future growth prospects of the Haier Group as well as the expected growth of domestic demand for electrical, water and home appliance products in the PRC. Such growth is assumed solely for determining the Internal Sales Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

The Logistics Services Cap is determined principally by reference to (i) the historical figures of the transactions between the Group and the Haier Group during each of the two financial years ended 31 December 2017, and for the six months ended 30 June 2018 together with the historical growth rates; (ii) the anticipated increase in demand for the Logistics Services by the Haier Group by taking into account the future growth prospects of the Haier Group in the coming few years and the Group’s strategy of further penetration and enhancement of the logistics network; and (iii) the anticipated completion of the Asset Swap. The applicable percentage ratios for the transaction amounts under the Continuing Connected Transactions contemplated under Logistics Services Agreement are expected to be higher than 0.1% but will be monitored to be under 5% for the financial year ending 31 December 2019. In the event that any of the applicable percentage ratios for the transaction amounts is going to exceed 5% within the term of the Logistics Services Agreement, the Company shall take such action as necessary to seek the approval of the independent Shareholders for the continuation of the transactions under the Logistics Services Agreement and would comply with the reporting, announcement, independent financial advice and annual review requirements under Chapter 14A of the Listing Rules.

The After-sale Services Cap is determined principally by reference to (i) the historical figures of the transactions between the Group and the Haier Group during each of the two financial years ended 31 December 2017 and the six months ended 30 June 2018 together with the historical growth rates; and (ii) the anticipated increase in demand for the After-sale Services by the Haier Group after taking into account the expected growth of domestic demand for electrical and home appliance products in

the PRC. Such growth is assumed solely for determining the After-sale Services Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

Historical figures

The total amount of the Internal Sales of Products from the Group to the Haier Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB44 million, RMB95 million and RMB58 million, respectively.

The relevant fees for Logistics Services earned for the logistics business for each of the two financial years ended 31 December 2017 and the six months ended 30 June 2018 were approximately RMB2,082 million, RMB2,365 million and RMB1,360 million, respectively.

The relevant fees for After-sale Services earned for the after-sale services business for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB205 million, RMB208 million and RMB109 million, respectively.

B. PRODUCTS PROCUREMENT, MATERIALS PROCUREMENT AND PRODUCTION AND EXPERIMENTAL EQUIPMENT PROCUREMENT

The Haier Group supplies products or equipment to the Group for sales or production.

Dates of agreements

The Products Procurement Agreement, the Materials Procurement Agreement and the Production and Experimental Equipment Procurement Agreement are dated 24 September 2018.

Parties

- (i) the Company;
- (ii) Haier Corp and Qingdao Haier

Principal terms

Pursuant to the Products Procurement Agreement, the Company will procure members of the Group to purchase and Haier Corp and Qingdao Haier will procure members of the Haier Group to sell the electrical and home appliance products, including but not limited to, refrigerators, televisions and air conditioners, manufactured by the Haier Group subject to the entering into individual contracts as agreed between the Group and the Haier Group and on a non-exclusive basis, meaning members of the Haier Group may manufacture and sell products to third

parties other than the Group. Furthermore, under the Products Procurement Agreement, the Company and the Group may also receive relevant supporting services, including without limitation, warranty services in relation to the procurement of products. The consideration payable under the Products Procurement Agreement will be settled by cash or promissory notes or such other ways the parties may agree. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Products Procurement Agreement.

Pursuant to the Materials Procurement Agreement, Haier Corp and Qingdao Haier will procure members of the Haier Group to sell the Materials to the Group from time to time. The Group will purchase the Materials from the Haier Group on a non-exclusive basis, meaning the Group may purchase Materials from third parties independent of and not connected with the Haier Group or the Group. The consideration payable under the Materials Procurement Agreement will be settled by cash. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Materials Procurement Agreement.

Pursuant to the Production and Experimental Equipment Procurement Agreement, the Company will procure members of the Group to purchase and Haier Corp and Qingdao Haier will procure members of the Haier Group to sell the production and experimental equipment used, idled and/or tailor-made by members of the Haier Group, which are related to the production of the Products, subject to the entering into of individual contracts as agreed between the members of the Group and members of the Haier Group. The Company has further agreed to procure members of the Group to purchase the imported production and experimental equipment from Haier Group on a non-exclusive basis. The Group will procure the production and experimental equipment from the Haier Group on a non-exclusive basis. The Group can also procure the production and experimental equipment from third parties not being a member of the Haier Group and not a connected person to the Group as it thinks fit. The consideration payable under the Production and Experimental Equipment Procurement Agreement will be settled in cash. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Production and Experimental Equipment Procurement Agreement.

Pricing principles

The electrical, water and home appliance products manufactured or offered by the Haier Group will be purchased by members of the Group pursuant to the Products Procurement Agreement on terms no less favourable than those prevailing in the PRC market for the products of the same type and quality as those offered by the Haier Group. The Group would obtain prices of comparable products and transactions as references upon determining the purchase prices.

The Haier Group will charge the Group for the Materials pursuant to the Materials Procurement Agreement on the following basis:

Item	Types of Materials	Pricing principle
1.	Moulds	Fees to be charged at a price, being the actual costs of Haier Group, with reference to the market tender and bidding price, but notwithstanding, with reference to and, on terms no less favourable than those offered at similar time by at least two independent third parties in relation to the same quantity and quality of Materials.
2.	All other Materials	Fees to be charged at such price to be agreed by the parties, which shall not be higher than the consolidated and integrated tender and bidding price of the Materials plus a commission fee not exceeding 1.25% of such abovementioned price (which is for the purpose of covering the relevant operational and administrative expenses of the members of Haier Group providing the Materials) (the prices shall be determined by comparison with market prices of comparable materials).

Pursuant to the Materials Procurement Agreement, the parties agree to negotiate a further discounted commission fee rate for purchases should the total amount of purchases during the term of the Materials Procurement Agreement exceed RMB38 billion.

Pursuant to the Production and Experimental Equipment Procurement Agreement, the Group will procure the production and experimental equipment (i) used or idled by members of the Haier Group for a consideration calculated based on their net asset values; (ii) tailor-made by members of the Haier Group for a consideration calculated based on the reasonable costs plus reasonable profits, with reference to the market tender and bidding prices. The Group will obtain quotes from independent third parties for similar transactions for comparison and reference and in any event, the consideration for such procurement shall be no less favourable than terms offered by independent third parties to the Group with regard to the same quantity and quality of comparable products at similar time; and (iii) imported through the Haier Group, at a price representing the purchase price of such imported production and experimental equipment paid by the Haier Group plus a fixed service fee margin on the purchase price to cover the selling expenses (relevant operational and administrative expenses) incurred by members of the Haier Group, and the price is determined as follows:

Relevant operational and administrative expenses	Fixed service fee margin, not exceeding (% of purchase price)
Less than RMB1 million	3%
RMB1 million or more but less than RMB10 million	2%
RMB10 million or more but less than RMB20 million	1.5%
RMB20 million or more	1.3%

Proposed Caps

The Directors expect that for the period from 1 January 2019 to 31 December 2021, the aggregate amounts of purchases of electrical and home appliance products by the Group from the Haier Group pursuant to the Products Procurement Agreement, the aggregate value of the Materials to be provided by the Haier Group to the Group pursuant to the Materials Procurement Agreement, and the aggregate amounts of procurement of the production and experimental equipment used, idled and/or tailor-made by members of the Haier Group, and of production and experimental equipment imported through the Haier Group and sold by the members of the Haier Group to the Group pursuant to the Production and Experimental Equipment Procurement Agreement, shall not exceed the Caps (Items B.1, B.2 and B.3) as summarised in the table set out in the section headed “The Continuing Connected Transactions” of this announcement.

The Products Procurement Cap is determined, by reference to, among other things, (i) the expected demand for the electrical and home appliance products in the PRC; (ii) an expected growth in the demand for the electrical and home appliance products in certain rural areas in the PRC; (iii) the Group’s strategy to expand the sales and distribution network and the anticipated growth in the demand for the electrical and

home appliance products manufactured by the Haier Group, which is attributable to the future growth prospects of the Group together with the Haier Group; and (iv) the expected Products Procurement amount from the Haier Group for 2018 and the historical growth rates of such amounts during the two years ended 31 December 2017. Such growth is assumed solely for determining the Products Procurement Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

The Materials Procurement Cap is determined by reference to (i) the expected Materials Procurement amount from the Haier Group for 2018 and the historical growth rates of such amounts during the two years ended 31 December 2017; and (ii) the anticipated increase in the requirement of the Materials by the Group, which in turn is determined with reference to the potential growth in the sales of the Group. For the purposes of determining the Materials Procurement Cap only, it is expected that sales of the Group may increase due to the growth trend of its sales. In line with the expected increase in sales, the Group's demand for the Materials from the Haier Group is also expected to increase. Such expected growth in sales is assumed solely for the purpose of determining the Materials Procurement Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

The Production and Experimental Equipment Procurement Cap is determined by reference to (i) the expected Production and Experimental Equipment Procurement amount from the Haier Group for 2018 and the historical growth rates of such amounts during the two years ended 31 December 2017; and (ii) the estimated need due to the expected enhancement and expansion of production lines, and the production and experimental equipment required for production by the Group for the three financial years ending 31 December 2021.

Historical figures

The total amount of the products procured by the Group from Haier Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB29,931 million, RMB41,162 million and RMB22,058 million, respectively.

The total purchases of the Materials from the Haier Group by the Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB13,836 million, RMB16,748 million and RMB9,051 million, respectively.

The consideration for procurement of production and experimental equipment used, idled and/or tailor-made by members of the Haier Group, and for purchases of the imported production and experimental equipment from Haier Group, in relation to the production of the Products of the Group paid by the Group to the Haier Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB93 million, RMB103 million and RMB13 million, respectively.

C. EXPORT, PROMOTION, PRODUCT R&D WORKS AND GENERAL SERVICES

By leveraging on the Haier Group's export, promotion, product research and development and other back office service platforms, the Group could minimize the operation cost and enhance operation efficiency.

Dates of the agreements

The Export Agreement, the Promotion Agreement, the Product R&D Agreement and the Services Agreement are dated 24 September 2018.

Parties

In respect of the Promotion Agreement, the Product R&D Agreement and the Services Agreement:

- (i) the Company; and
- (ii) Haier Corp and Qingdao Haier

In respect of the Export Agreement only:

- (i) the Company; and
- (ii) Qingdao Haier

Principal terms

Pursuant to the Export Agreement, the Company has agreed to procure members of the Group to sell the Products to Qingdao Haier (or another member of the group of Qingdao Haier) for export purpose. Members of the Group can also sell the Products to third parties not being a member of the Haier Group and not a connected person to the Group as they think fit. The consideration payable under the Export Agreement will be settled by cash. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Export Agreement.

Pursuant to the Promotion Agreement, Haier Corp and Qingdao Haier will procure members of the Haier Group to provide the Promotion Works to the Group for the Products under Haier Group's collective promotional campaigns and the specific business projects of the Group. The Group will engage the Promotion Works provided by the Haier Group on a non-exclusive basis. The Group can also use the Promotion Works provided by third parties not being a member of the Haier Group and not a connected person to the Group as it thinks fit. The consideration payable under the Promotion Agreement will be settled in cash directly to the actual provider of the Promotion Works. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Promotion Agreement.

Pursuant to the Product R&D Agreement, Haier Corp and Qingdao Haier will procure members of the Haier Group to provide the Product R&D Works to the Group for the Products under the Haier Group's collective products development programme. The Group will engage the Product R&D Works provided by the Haier Group on a non-exclusive basis. The Group can also use the Product R&D Works provided by third parties not being a member of the Haier Group and not a connected person to the Group as it thinks fit. The consideration payable under the Product R&D Agreement will be settled in cash directly to the actual provider of the Product R&D Works. The time for payment will be negotiated upon the parties entering into individual contracts pursuant to the Product R&D Agreement.

Pursuant to the Services Agreement, Haier Corp and Qingdao Haier will procure members of the Haier Group to provide the General Services to the Group on a non-exclusive basis. The Group may use the services provided by third parties not being a member of the Haier Group and not a connected person of the Group as it thinks fit. The consideration payable under the Services Agreement will be settled in cash.

Pricing principles

Pursuant to the Export Agreement, the Group will make use of the export customer sourcing platform of Haier Group and to sell the Products to Qingdao Haier at a price representing the actual selling price of the Products for export less a fixed service fee margin determined by reference to the prevailing market fee which shall be no more than 1.5% of the selling price of the Products. The Group will determine the fixed service fee margin by comparison with at least two quotes from independent third parties in relation to two comparable transactions of similar type and quality, in any event, the actual fees shall not exceed those in the quotes obtained by the Group.

The Promotion Works will be charged based on the actual costs incurred, market condition, and by reference to normal commercial terms and after arm's-length negotiation. The amount charged shall in any event not exceed 0.6% of the total value of the domestic and export sales of the Products of the Group, and on terms no less favourable than those offered by any independent third parties to the Group (at least two quotations from independent third parties would be obtained for similar services of similar quality at similar time for comparison).

The Product R&D Works will be charged at actual costs (which shall comprise of direct costs (that is costs of materials and salaries) and allocation of indirect costs (such as overhead cost) assessed to be incurred by the Haier Group in providing the Product R&D Works to the Group or alternatively, if an intellectual property right is involved and, by reference to the assessed value of the relevant intellectual property right conducted by an independent valuer for any amount of any particular individual transaction of over RMB20 million, then by reference to such assessed value).

Pursuant to the Services Agreement, the Group will pay service fees in respect of utilities services (including supplies of water, electricity, energy and the provision of sewage treatment services) based on state-prescribed prices plus actual administrative costs incurred by the Haier Group for the provision of the relevant services (if any) which shall be on terms no less favourable than terms offered by independent third parties to the Group; for conferencing and travel agency services, based on the actual costs incurred in respect of conferences arranged by third parties which shall be on terms no less favourable than terms offered by independent third parties to the Group; on actual prices charged by hotels in respect of conferences held at hotels of Haier Group or in Qingdao, which shall be on terms no less favourable than terms offered by independent third parties to the Group, and on actual costs in respect of travelling accommodation and expenses which shall be on terms no less favourable than terms offered by independent third parties to the Group; for product certification services, based on actual costs which shall be on terms no less favourable than terms offered by independent third parties to the Group, and for product testing services, based on actual costs for component testing and product testing which shall be on terms no less favourable than terms offered by independent third parties to the Group; for software services, based on actual costs for operation system development and maintenance services and other software services which shall be no less favourable than terms offered by independent third parties to the Group; for catering services, based on actual costs which shall be on terms no less favourable than terms offered by independent third parties to the Group; for property furnishing services, fees to be calculated by reference to the then prevailing market rate in similar industries in the PRC for the same type of services of the same quality and at the same time and on terms no less favourable than those offered by independent third parties to the Group; for leasing services, rental to be charged with reference to the then prevailing market rent of similar premises (the Group will make reference to the independent valuation by the independent property valuer if rentals to be charged on any particular individual transaction are to exceed RMB10 million) at which the premises are located and on terms no less favourable than those offered by any independent third parties to the Group; and for any other General Services, based on actual costs and on terms no less favourable than terms offered by independent third parties to the Group of similar quality and type and at similar time. In relation to all the services under the Services Agreement, the Group will seek at least two quotations from independent third parties of services of similar nature and quality and time for comparison.

Proposed Caps

The Directors expect that for the period from 1 January 2019 to 31 December 2021, the aggregate amount of sales by the Group to Qingdao Haier pursuant to the Export Agreement, and the aggregate amount of fees payable by the Group to the Haier Group pursuant to the Promotion Agreement, the Product R&D Agreement and the Services Agreement shall not exceed the Caps (Items C.1, C.2, C.3 and C.4) as summarised in the table set out in the section headed “The Continuing Connected Transactions” of this announcement.

The Export Cap is determined by reference to historical amounts and the expected export amount for the year ending 31 December 2018 and the expected growth in exports business. Such expected increase in export sales is merely assumed for the purpose of determining the Export Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

In terms of the Promotion Cap, as the Haier Group has been marketing the majority of the products under the collective promotional campaigns efficiently and effectively, it is expected that the Group will benefit from participating in such collective promotional campaigns. The Promotion Cap is determined, among other factors, by reference to (i) the overall promotion plans and strategies of the Group and of the Haier Group; (ii) the proposed budget for organizing promotional activities for the Group (including the anticipated possible scale and frequencies of the collective promotional campaigns); (iii) together with historical amounts and the anticipated increase in the promotional expenditure of the Group in line with the potential growth in the PRC domestic and export sales of the Group. Such growth is assumed solely for the purpose of determining the Promotion Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group. Furthermore, each of Haier Corp and Qingdao Haier has undertaken to the Group that, if the fee of the Promotion Works charged by the Haier Group is greater than the amount of actual costs assessed to be incurred by the Haier Group in providing the Promotion Works to the Group, the difference will be refunded to the Group. In calculating the amount of refund, the Haier Group will allocate such amount of actual costs incurred to the Group by reference to the proportion of historical revenue generated from the Products as compared to the historical revenue generated from the other products of the Haier Group involved in the Promotion Works provided by the Haier Group.

As the Haier Group has more capabilities in providing Product R&D Works for the majority of the products under the collective products development programme efficiently and effectively, it is expected that the Group will benefit from participating in such collective products development programme. The Product R&D Cap is determined, among other factors, by reference to (i) the overall products

development strategies of the Group; (ii) the proposed budget for organizing products development activities for the Group; (iii) together with historical amounts and the anticipated increase in the products development expenditure of the Group in line with the potential growth in the domestic and export sales of the Group. Such increases are assumed solely for the purpose of determining the Product R&D Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

The General Services Cap is determined principally by reference to (i) the historical figures of the transactions between the Group and the Haier Group during the two financial years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) the anticipated annual increase in demand for the General Services by the Group particularly on the leasing services required for the washing machines and water heaters manufacturing business. In determining the General Services Cap, the Group has taken into account the projected growth in the sales of the Group for the three years ending 31 December 2021, which is attributable to, among other things, (i) the Group will continue to explore the potential opportunity of manufacturing and selling more types of products; and (ii) the Group is actively increasing its production capacity in view of the anticipated possible increase in sales of the Group. Accordingly, the demand for the General Services is expected to increase. Such growth is assumed solely for determining the General Services Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Haier Group.

Historical figures

The total amount of export sales of the Products by the Group to Qingdao Haier (or another member of the group of Qingdao Haier) for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB1,418 million, RMB1,811 million and RMB1,005 million, respectively.

No promotion fees was paid by the Group to the Haier Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018; however the Group expects to have Promotion Works in the coming three years.

The Product R&D Works service fees paid by the Group to the Haier Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB194 million, RMB161 million and RMB67 million, respectively.

The total service fees paid by the Group to the Haier Group for the General Services, during the two years ended 31 December 2017 and the six months ended 30 June 2018 were RMB477 million, RMB438 million and RMB264 million, respectively.

Terms Common to all CCT Agreements

The terms of the CCT Agreements and the Continuing Connected Transactions contemplated therein have been negotiated and conducted on an arm's length basis, on normal commercial terms between the parties involved and/or on terms no less favourable to the Group than those offered by independent third parties to the Group as well as on terms no more favourable to the connected persons than those provided by the Group to independent third parties, with respect to the quality, quantity and number of goods or services at similar time.

Duration

Except for the Logistics Services Agreement, each of the term of CCT Agreements (and in respect of those Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement which are conditional upon the approval of the Independent Shareholders being obtained, where required) shall commence from 1 January 2019 and expire on 31 December 2021. The term of and the Continuing Connected Transactions contemplated under the Logistics Services Agreement shall commence from 1 January 2019 and expire on 31 December 2019.

The Group has an option, in its entire discretion, to renew the relevant CCT Agreement(s) upon expiry (subject to adjustment of fees where necessary) for another term of three years. The Haier Group does not have reciprocal rights under these CCT Agreements. The exercise of such option will be subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders.

Termination

Haier Group cannot terminate the CCT Agreements except in the following situations:

- (i) any member of the Group has committed a material breach of any terms of any of the CCT Agreements (including but not limited to the non-payment of any price of the manufactured electrical and home appliance products/materials/fees due); or
- (ii) Haier Corp and Qingdao Haier collectively cease to be the single largest controlling shareholder of the Company.

Upon the occurrence of item (i) above, Haier Group can only terminate the transactions with the defaulting member(s) of the Group under the relevant agreement(s) by serving not less than six months' written notice to such defaulting member(s) of the Group but the transactions between the Haier Group and other

members of the Group shall not be affected and shall continue. Upon the occurrence of item (ii) above, Haier Corp and Qingdao Haier (or Qingdao Haier if applies) may terminate the CCT Agreements by serving not less than six months' written notice to the Company.

The Company may terminate the CCT Agreements by serving Haier Corp and Qingdao Haier (or Qingdao Haier if applies) not less than six months' written notice.

BACKGROUND AND REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Apart from the traditional business of manufacture of washing machines and water heaters, the Group has in recent years been leveraging on its sales, logistics and after-sales services networks in the PRC, and developed a channel business.

Haier Group, including Qingdao Haier, on the other hand, has its manufacturing activities, such as those for air-conditioners and refrigerators and other home appliance products, and makes use of the channel business platform of the Group for distribution of these products to third and fourth tier markets in the PRC. Haier Group also specializes in platform management for areas including materials procurement, import and export services, promotion, and research and development for achieving economies of scale. Furthermore, Haier Group is involved in providing general services for sharing resources among the users including the Group. The Continuing Connected Transactions enable the Group to enhance its product range, utilize its logistics and business network more effectively, obtain raw materials and conduct research for enhancing product competitiveness at lower costs, effect export sales at lower costs, and share centralized support services of the Haier Group at lower costs. With reference to such background, the CCT Agreements are classified into three categories and described below:

Category A: Internal Sales, Logistics Services and After-sale Services

In terms of Internal Sales, Logistics Services and After-sale Services, the Internal Sales Agreement allows the Group to leverage the centralized procurement and distribution platform managed by the Group to sell not only the Group's Products but also the other electrical products and home appliances procured or manufactured by the Group to members of the Haier Group for their own use or re-sale, and enjoy economies of scale, and thereby promote the Group's business operations. The Internal Sales Agreement enhances sources of income for the Group.

The Company entered into the Logistics Service Agreement with Haier Corp and Qingdao Haier to provide logistics service to the Haier Group on both supply of raw materials and distribution of its manufactured products and in addition generate an important income source for the Group.

The Group provides After-sale services pursuant to the After-sale Services Agreement. The provision of After-sales services would enable the Group to achieve additional income, and would strengthen the customer services in respect of the Group's products.

Category B: Products Procurement, Materials Procurement, and Production and Experimental Equipment Procurement

In terms of Products Procurement, Materials Procurement and Production and Experimental Equipment Procurement, the Company entered into the Products Procurement Agreement with Haier Corp and Qingdao Haier to secure the supply of products manufactured by the Haier Group for distribution purpose. The Products Procurement Agreement allows the Group to solidify the basis on which the Group may continue to develop its sales operations under its channel services segment in the PRC.

The Materials Procurement Agreement allows the Group to further utilise the procurement platform of the Haier Group for its production operations of washing machine and water heater manufacturing segment and to leverage on the scale and efficiency of the Haier Group material sourcing platform and thereby lowering the Group's procurement costs.

The Production and Experimental Equipment Procurement Agreement would enable the Group to utilise the resources, design and production advantages of Haier Group to obtain production and experimental equipment for production of the Products, and to utilise the import and export platform of Haier Group for procurement of imported equipment. Pursuant to the Production and Experimental Equipment Procurement Agreement, the Group may purchase equipment from the Haier Group for its own use and such arrangement enables the Group to have sufficient time to make well informed decisions on its need for equipment and enjoy a lower transaction cost. In particular, the Group can enjoy a lower cost of import through the import platform of the Haier Group. The volume of purchases of equipment is expected to increase due to (i) the strategic plan of expansion of production capacity of washing machines and water heaters and (ii) further collaboration with certain international manufacturers of home appliances.

Category C: Export, Promotion, Product R&D Works, and General Services

In terms of Export, Promotion, Product R&D Works and General Services, the Export Agreement will allow the Group to utilise the vast and established overseas sales network of Qingdao Haier for its export sales and thereby lowering its costs of export (such as agency fees).

The Promotion Agreement enables the Group to make use of the promotion works platform of the Haier Group and to benefit from participating in the concerted marketing and promotion effort of the Haier Group in promoting the Products under the collective and promotional campaign organized by the Haier Group, including (i) various promotion events with Haier Group's other home electrical appliances products and (ii) marketing exhibitions in various cities in the PRC.

The Product R&D Agreement allows the Group to utilize the product development platform of the Haier Group located in both domestic and overseas regions (including in Japan and the United States of America) which has exposure and access to new and existing technology in the world relevant to the Group's products (for instance, to utilise the research resources of Fisher & Paykel on developing various innovative washing machine products), and thereby enhancing the efficiency of the research and development activities for the Group's products and lowering costs in this area.

Lastly, the entering into of the Services Agreement allows the Group to make use of the general services platform of the Haier Group sharing the resources of the Haier Group on a more cost-effective basis to the Group. The Services Agreement will enable the Group to take advantage of the comprehensive services (particularly for leasing services, the Group may utilise the Haier Group's existing and future properties in reducing the Group's budget on capital expenditure) offered by the Haier Group.

INTERNAL CONTROL AND RISK MANAGEMENT MEASURES

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following guidelines and principles in monitoring the transactions between the Group and Haier Group, namely:

- the Company will report the transactions under the CCT Agreements to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda. The Company shall ensure that such kind of reporting shall be conducted not less than three times in a year;
- the Continuing Connected Transactions contemplated thereunder the CCT Agreements will be reviewed by the auditors and the independent non-executive Directors of the Company every year and reported in the annual report of the Company which provides a check and balance to ensure that the transactions under the CCT Agreements were conducted in accordance with the terms of the CCT Agreements, on normal commercial terms (or terms more favourable than terms available to the independent parties), and in accordance with the pricing principles of the Company pursuant to the Listing Rules;

- the Company will review the transactions with the Haier Group to identify any Continuing Connected Transaction that may be at risk of exceeding the Cap Amounts, and any measures to be taken in respect of such Continuing Connected Transaction. The Group has established a series of measures and policies to ensure that the Continuing Connected Transactions will be conducted in accordance with the terms of the CCT Agreements respectively. Examples of the aforementioned measures and policies include:
 - (i) the Company will have specifically designated personnel from the relevant departments to monitor the transactions under the CCT Agreements and will report to the management of the Company regularly in relation to the transactions;
 - (ii) The Group will also conduct random internal checks to ensure that the internal control measures in respect of the Continuing Connected Transactions remain complete and effective.

The Directors including the independent non-executive Directors (except that in respect of Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement, and the Export Agreement, the independent non-executive Directors reserve their views pending receipt of advice from the Independent Financial Adviser) are of the view that the CCT Agreements and the Continuing Connected Transactions contemplated therein are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, which are arrived at after arm's length negotiations and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As Mr. Zhou Yun Jie, Mr. Liang Hai Shan, Ms. Tan Li Xia and Mr. Sun Jing Yan have positions with the Haier Group and related interests, they have abstained from voting on the resolutions of the Board approving the CCT Agreements and the transactions contemplated thereunder.

CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group on normal commercial terms and/or on terms no less favourable than those offered by independent third parties to the Group as well as on terms no more favourable to the connected persons than those provided by the Group to the independent third parties for the term of the relevant CCT Agreements and subject to the following conditions as appropriate under the Listing Rules:

- (a) the total annual revenue and expenditure in respect of each category of the Continuing Connected Transactions will not exceed the Cap Amounts as described in each of the CCT Agreements above; and

- (b) The Company will comply with the requirements under Chapter 14A of the Listing Rules for each of the Continuing Connected Transactions.

The commencement of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement are conditional upon the passing of resolutions by the Independent Shareholders at the SGM approving such Continuing Connected Transactions, each of their respective CCT Agreements and the respective Cap Amounts contemplated therein.

CATEGORISATION OF THE CONTINUING CONNECTED TRANSACTIONS ACCORDING TO THE LISTING RULES

As Haier Corp and Qingdao Haier are the controlling Shareholders and connected person of the Company, the transactions contemplated under each of the CCT Agreements constitute continuing connected transactions of the Company under the Listing Rules.

By applying the size tests as specified in Chapter 14 of the Listing Rules to the Cap Amounts set out in the table below under paragraph headed “The Continuing Connected Transactions”, the Directors have categorized the Continuing Connected Transactions into (1) non-exempt Continuing Connected Transactions which are subject to the reporting, announcement, independent financial advice and annual review requirements and which require Independent Shareholders’ approval; (2) exempted Continuing Connected Transactions which are subject to the reporting, announcement and annual review requirements only under the Listing Rules; and (3) fully exempted Continuing Connected Transactions under the Listing Rules.

Each of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) for those Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement, is expected to be higher than 25% on an annual basis, or, where the relevant applicable percentage ratio is higher than 5% but less than 25% on an annual basis, it is expected to have an annual consideration of higher than HK\$10,000,000. Accordingly, each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement, and the relevant Cap Amounts under each respective CCT Agreements will be subject to the reporting, announcement, independent financial advice, annual review and Independent Shareholders’ approval requirements under the Listing Rules. Haier Corp and Qingdao Haier and their respective associates are required to abstain from voting on the resolutions relating to, among other things, the approval of these transactions at the SGM. The Company will disclose relevant details in the annual report and accounts of the Company to be published in the corresponding years pursuant to the relevant requirement under Rule 14A.71 of the Listing Rules.

The applicable percentage ratios for each of the transaction amounts under the Continuing Connected Transactions contemplated under the Internal Sales Agreement, the Production and Experimental Equipment Procurement Agreement, the After-sale Services Agreement, the Promotion Agreement, the Product R&D Agreement, and the Services Agreement are expected to be, on an annual basis, higher than 0.1% but less than 5% for each of the three consecutive financial years ending 31 December 2021 and has an annual consideration of more than HK\$3,000,000.

The Group will monitor the transactions under the Logistics Services Agreement during the term from 1 January 2019 to 31 December 2019. In the event that any of the applicable percentage ratios for the aggregate transaction amount under the Logistics Services Agreement is expected to exceed 5% within such term, the Company shall take such action as necessary to seek the approval by the Independent Shareholders of the continuation of the transactions under the Logistics Services Agreement, and would comply with the reporting, announcement, independent financial advice and annual review requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions under the Internal Sales Agreement, Logistics Services Agreement, After-sale Services Agreement, Production and Experimental Equipment Procurement Agreement, Promotion Agreement, Production R&D Agreement and Services Agreement are only subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reporting, Announcement, Independent Financial Advice, Annual Review and Independent Shareholders' Approval Required under Chapter 14A of the Listing Rules

Transactions	Cap Amounts			Counter-party(ies)
	For years ending 31 December			
	<i>(RMB Million)</i>			
	2019	2020	2021	
Products Procurement (Item B.1)	67,650	82,533	99,865	Haier Corp and Qingdao Haier
Materials Procurement (Item B.2)	26,925	32,310	38,772	Haier Corp and Qingdao Haier
Export (Item C.1)	3,220	4,190	5,430	Qingdao Haier

Reporting, Announcement and Annual Review Required under Chapter 14A of the Listing Rules

Transactions	Cap Amounts			Counter-party(ies)
	For years ending 31 December			
	<i>(RMB Million)</i>			
	2019	2020	2021	
Internal Sales (Item A.1)	345	466	623	Haier Corp and Qingdao Haier
After-sale Services (Item A.3)	291	331	373	Haier Corp and Qingdao Haier
Production and Experimental Equipment Procurement (Item B.3)	490	300	280	Haier Corp and Qingdao Haier
Promotion (Item C.2)	104	134	172	Haier Corp and Qingdao Haier
Product R&D Works (Item C.3)	388	465	553	Haier Corp and Qingdao Haier
General Services (Item C.4)	799	962	1,147	Haier Corp and Qingdao Haier
Logistics Services (Item A.2)	2,000	—	—	Haier Corp and Qingdao Haier

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors has been formed to consider the terms of, and the respective Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement, and the Export Agreement so far as the interests of the Company and the Independent Shareholders are concerned as a whole. The Company has appointed China Everbright Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same which do not include any other Continuing Connected Transactions. At the same time, China Everbright Capital Limited was also appointed as the independent financial adviser to advise on the Asset Swap disclosed in the Asset Swap Announcement. The letter from the Independent Board Committee and the letter from the Independent Financial Adviser will be included in the circular to be despatched to the Shareholders with respect to the Continuing Connected Transactions and the SGM.

CIRCULAR

A circular containing, among other things, (1) particulars of each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement; (2) a notice of the SGM; (3) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (4) a letter of recommendation from the Independent Board Committee to the Independent Shareholders is expected to be despatched to the Shareholders on or around 30 October 2018, taking into consideration the detailed information to be included in the circular.

GENERAL

The Group is mainly engaged in the research, development, manufacture and sale of washing machines and water heaters in the PRC. The Group has been continuously developing its distribution platform of household appliances in the third and fourth tier markets in the PRC and become the distribution channel for products of Haier Group in the third and fourth tier markets in the PRC. The Group is also engaged in logistics services business for large-item home appliances and other household products of both “Haier” and other brands. The principal business activity of the Company is investment holding.

Haier Group (including Qingdao Haier) is one of the world’s leading white goods home appliance manufacturer engaging in the research, development, production and sale of a wide variety of household appliances (including the white goods) and consumer electronics goods in the PRC. The products of Haier Group are now sold in over 100 countries. The principal business of Haier Corp is investment holding.

DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

- | | |
|---------------------------------|---|
| “After-sale Services” | the after-sale services and value-added consumer services to be provided by the Group pursuant to the terms of the After-sale Services Agreement |
| “After-sale Services Agreement” | the after-sale services agreement dated 24 September 2018 entered into between the Company, Haier Corp and Qingdao Haier, pursuant to which the Company agreed to procure members of the Group to provide after-sale services and value-added consumer services, such as installation, repair and maintenance, to members of the Haier Group on a non-exclusive basis |

“After-sale Services Cap”	the respective amounts regarding After-sale Services as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Asset Swap”	as defined and described in the Asset Swap Announcement
“Asset Swap Announcement”	the announcement of the Company dated 30 August 2018
“associate”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Cap(s)”	the proposed cap(s) for Continuing Connected Transactions contemplated under the Internal Sales Agreement, Logistics Services Agreement, After-sale Services Agreement, Products Procurement Agreement, Materials Procurement Agreement, Production and Experimental Equipment Procurement Agreement, Export Agreement, Promotion Agreement, Product R&D Agreement and Services Agreement, as appropriate
“Cap Amounts”	the amounts of Internal Sales Cap, Logistics Services Cap, After-sale Services Cap, Products Procurement Cap, Materials Procurement Cap, Production and Experimental Equipment Procurement Cap, Export Cap, Promotion Cap, Product R&D Cap, and General Services Cap, as appropriate
“CCT Agreements”	the Internal Sales Agreement, Logistics Services Agreement, After-sale Services Agreement, Products Procurement Agreement, Materials Procurement Agreement, Production and Experimental Equipment Procurement Agreement, Export Agreement, Promotion Agreement, Product R&D Agreement and Services Agreement as appropriate
“Company”	Haier Electronics Group Co., Ltd., a company incorporated in the Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1169)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the CCT Agreements
“Directors”	the directors of the Company
“Export”	the export of Products pursuant to the Export Agreement

“Export Agreement”	the export agreement dated 24 September 2018 entered into between the Company and Qingdao Haier, pursuant to which the Company agreed to procure members of the Group to sell the Products to Qingdao Haier (or another exporter within the group of Qingdao Haier) for export purpose
“Export Cap”	the respective amounts regarding Export as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“General Services”	<p>the general services provided by members of the Haier Group to the Group pursuant to the Services Agreement, including:</p> <ul style="list-style-type: none"> (i) utilities services, such as the supplies of water and electricity, energy supply supporting services, namely, the supply of compressed air and steam and the provision of sewage treatment services; (ii) conferencing and travel agency services; (iii) product certification and testing services for procuring certification and testing of the Group’s products and components; (iv) software services; (v) catering services; (vi) property furnishing services; (vii) leasing services; and (viii) other services as may be required by the Group from time to time in the future
“General Services Cap”	the respective amounts regarding the General Services as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Group”	the Company and its subsidiaries and associates
“Haier Corp”	Haier Group Corporation* (海爾集團公司), a company established in the PRC and a Substantial Shareholder of the Company

“Haier Group”	Haier Corp and Qingdao Haier together with their respective subsidiaries and associates but excluding the Group, where appropriate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the independent non-executive Directors formed for advising the Independent Shareholders in respect of the terms of, and the Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement, and the Export Agreement
“Independent Financial Adviser”	China Everbright Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of, and the Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement. It has also been appointed as the independent financial adviser in relation to the Asset Swap of the Company as disclosed in the Asset Swap Announcement
“Independent Shareholders”	the shareholders of the Company other than the Haier Group and its associates who are required to abstain from voting on resolutions to approve the terms of, and the Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement at the SGM pursuant to the Listing Rules
“Internal Sales”	the internal sales between the Company and Haier Group pursuant to the Internal Sales Agreement

“Internal Sales Agreement”	the internal sales agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which the Group will sell electrical, water and home appliance products to members of the Haier Group for their internal consumption and resale
“Internal Sales Cap”	the respective amounts regarding the Internal Sales as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Logistics Services”	the logistics and distribution services provided by members of the Group
“Logistics Services Agreement”	the logistics services agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which the Company agreed to procure members of the Group to provide Logistic Services to the Haier Group
“Logistics Services Cap”	the respective amounts regarding Logistic Services as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Materials”	the materials and parts (including but without limitation moulds) required in the production of the Products pursuant to the Materials Procurement Agreement
“Materials Procurement”	the selling of Materials to the Group pursuant to the Materials Procurement Agreement
“Materials Procurement Agreement”	the materials procurement agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to sell the Materials to the Group from time to time and the Group agreed to purchase the Materials from the Haier Group on a non-exclusive basis
“Materials Procurement Cap”	the respective amounts regarding Materials Procurement as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“PRC”	the People’s Republic of China and, for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan region

“Product R&D Agreement”	the product research and development agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to provide the Product R&D Works to the Group under the Haier Group’s collective products development programme and the Company agreed to procure the Group to engage the Product R&D Works provided by the Haier Group on a non-exclusive basis
“Product R&D Cap”	the respective amounts regarding Product R&D Works as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Product R&D Works”	the product research and development works provided by members of the Haier Group pursuant to the Product R&D Agreement
“Production and Experimental Equipment Procurement”	the production and experimental equipment procurement pursuant to the terms of the Production and Experimental Equipment Procurement Agreement
“Production and Experimental Equipment Procurement Agreement”	the production and experimental equipment procurement agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which the Company agreed to procure members of the Group to purchase and Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to sell the production and experimental equipment used, idled and/or tailor-made by members of the Haier Group and/or imported production and experimental equipment from Haier Group on a non-exclusive basis
“Production and Experimental Equipment Procurement Cap”	the respective amounts regarding Production and Experimental Equipment Procurement as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Products”	the electrical, water and home appliance products and related components manufactured by the Group
“Products Procurement”	the selling of electrical, water and home appliance products pursuant to the Products Procurement Agreement

“Products Procurement Agreement”	the products procurement framework agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which the Company agreed to procure members of the Group to purchase and Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to sell the electrical and home appliance products, including but not limited to, refrigerators, televisions and air conditioners, manufactured by the Haier Group
“Products Procurement Cap”	the respective amounts regarding Products Procurement as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Promotion”	the provision of Promotion Works pursuant to the Promotion Agreement
“Promotion Agreement”	the promotion agreement dated 24 September 2018 entered into between the Company and Haier Corp and Qingdao Haier, pursuant to which Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to provide the Promotion Works to the Group for the Products under the Haier Group’s collective promotional campaigns and the specific business projects of the Group and the Company agreed to procure the Group to engage the Promotion Works by the Haier Group on a non-exclusive basis
“Promotion Cap”	the respective amounts regarding Promotion as set out under the paragraph headed “The Continuing Connected Transactions” of this announcement
“Promotion Works”	the advertising, promotional and marketing works in respect of the Products under the collective promotional campaigns of the Haier Group and the specific business projects of the Group and separate from the advertising, promotional and marketing activities currently organised by the Group itself
“Qingdao Haier”	Qingdao Haier Company Limited (青島海爾股份有限公司), a company listed on the Shanghai Stock Exchange (under stock code: 600690.SH) in the PRC, and a Substantial Shareholder of the Company
“RMB”	Renminbi, the lawful currency of the PRC

“Services Agreement”	the services agreement dated 24 September 2018 entered into between the Company, Haier Corp and Qingdao Haier, pursuant to which Haier Corp and Qingdao Haier agreed to procure members of the Haier Group to provide the General Services to the Group on a non-exclusive basis
“SGM”	a special general meeting of the Company to be convened for, among other things, considering, and, if thought fit, approving, <i>inter alia</i> , the Continuing Connected Transactions to be carried out by the Company pursuant to the terms of, and the Cap Amounts for each of the Continuing Connected Transactions contemplated under the Products Procurement Agreement, the Materials Procurement Agreement and the Export Agreement
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subsidiary”	has the same meaning ascribed to it in the Listing Rules
“Substantial Shareholder”	has the same meaning ascribed to it in the Listing Rules
“%”	per cent.

By Order of the Board of
Haier Electronics Group Co., Ltd.
Zhou Yun Jie
Chairman

Hong Kong, 24 September 2018

As at the date of this announcement, the executive Directors are Mr. Zhou Yun Jie (Chairman) and Mr. Sun Jing Yan; the non-executive Directors are Mr. Liang Hai Shan, Ms. Tan Li Xia, Dr. Wang Han Hua and Mr. Yang Guang; the independent non-executive Directors are Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun and Mr. Gong Shao Lin.

* *For identification purpose only*