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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
FINANCIAL SERVICES AGREEMENT
AND
REVISION OF 2018 ANNUAL CAP
UNDER THE PRODUCTION AND EXPERIMENTAL EQUIPMENT
PROCUREMENT AGREEMENT**

**CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL
SERVICES AGREEMENT**

On 24 September 2018, a new Financial Services Agreement was entered into between the Company, Haier Finance and Haier Corp, pursuant to which the previous financial services agreement entered into by the Company, Haier Finance and Haier Corp on 11 December 2015 was terminated and replaced. Under the new Financial Services Agreement, Haier Finance agreed to provide the Financial Services (including the Provision of Deposit Services, Provision of Loan Services and other Financial Services) to the Group at a fair and reasonable price and on normal commercial terms.

As Haier Corp is a controlling Shareholder of the Company and Haier Finance is a company ultimately controlled by Haier Corp, Haier Finance is a connected person of the Company. The transactions contemplated under the new Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

* *For identification purposes only*

As one or more of the relevant percentage ratios (except for the profits ratio which is not applicable) for the Provision of Deposit Services exceed 0.1% but all are less than 5%, the Provision of Deposit Services under the Financial Services Agreement is exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements but are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Provision of Loan Services under the Financial Services Agreement represents financial assistance provided by a connected person for the benefit of the Group, which is on normal commercial terms similar to or more favourable than those offered by independent commercial banks for comparable services in the PRC and is fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements since no security over the assets of the Group would be granted in respect of such financial assistance.

As the relevant percentage ratios for the other Financial Services to be provided by Haier Finance under the Financial Services Agreement to the Group on an annual basis are expected to be less than 0.1%, which fall into the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules, they will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under chapter 14A of the Listing Rules.

REVISION OF THE 2018 CAP UNDER THE PRODUCTION AND EXPERIMENTAL EQUIPMENT PROCUREMENT AGREEMENT

Following a review by the Company of the transactions under the existing Production and Experimental Equipment Procurement Agreement, the Board envisages that there will be expected changes in the business plan of the Group with respect to its general factory construction projects, which would result in an increase of equipment procurement by the Group for the financial year ending 31 December 2018. In light of that, the Existing Production and Experimental Equipment Procurement Cap for the same period is expected to be insufficient. Therefore, the Board considers it appropriate to revise the maximum aggregate annual value in relation to the Production and Experimental Equipment Procurement for such period to the Revised Production and Experimental Equipment Procurement Cap as disclosed in this announcement below. The terms of the Production and Experimental Equipment Procurement Agreement remain unchanged.

Reference is made to the announcement of the Company dated 11 December 2015 (the “**Announcement**”). For facilitating the continuing growth and development of the Group, the Company on 24 September 2018, entered into the Financial Services Agreement in relation to the provisions of the Financial Services, with Haier Finance and Haier Corp, pursuant to which the previous financial services agreement entered into on 11 December 2015 as disclosed in the Announcement has been terminated and replaced.

FINANCIAL SERVICES AGREEMENT

Termination of the previous financial services agreement

The previous financial services agreement entered into between the Company, Haier Finance and Haier Corp on 11 December 2015, as disclosed in the Announcement, had an effective term of 3 years, commencing from 11 December 2015 to 10 December 2018. On 24 September 2018, the Company entered into the Financial Services Agreement, pursuant to which the previous financial services agreement was terminated and shall thereafter be no longer effective except for any antecedent breach.

The Financial Services Agreement

Under the new Financial Services Agreement, Haier Finance agreed to provide the Financial Services (including the Provision of Deposit Services, Provision of Loan Services and other Financial Services) to the Group at a fair and reasonable price and on normal commercial terms. The Group is not under any obligation to obtain any or all of the Financial Services from Haier Finance and may obtain such Financial Services based on its business needs.

Date of the agreement

The Financial Services Agreement is dated 24 September 2018.

Parties

- (i) the Company (as services user);
- (ii) Haier Finance (as services provider); and
- (iii) Haier Corp (as guarantor)

Information of Haier Finance

The principal business activity of Haier Finance is the provision of financial services to the members of the Haier Group (including the Group). Haier Finance is a non-banking financial institution approved by the PBOC and subject to regulations by the PBOC and the CBIRC and its approved business scope comprises general banking services including deposit taking, loan servicing and notes acceptance and discounting, as well as the provision of financial and other advisory services, insurance agency services and investment activities. Unlike many financial institutions in the PRC which adopt a scale-driven strategy, Haier Finance follows and serves the development of the Haier Group specializing in home appliances and related industry.

Financial Services and pricing principles

Haier Finance shall provide the following Financial Services (the consideration of which will be settled by cash forthwith) to the Group in accordance with the following pricing principles pursuant to the Financial Services Agreement:

Types

Pricing principles

Provision of Deposit Services

Pursuant to the Financial Services Agreement, Haier Finance will provide an interest rate on RMB deposits determined by reference to the benchmark rates of similar terms published by PBOC, and on terms no less favourable than those of the best offered by listed and national (joint stock) commercial banks in the PRC for deposits of similar nature and terms to the Group.

In respect of foreign currency deposits, Haier Finance will provide a preferential rate for deposits with reference to the market rates, and on terms no less favourable than those of the best offered by the other banks with which the Group has established relationship for deposits of similar natures and terms to the Group.

Before making a deposit with Haier Finance, the Company would compare the interest rates and/or exchange rates offered by Haier Finance with the interest rates and/or exchange rates offered by two or three major commercial banks or financial institutions with which the Group has established business relationship.

Provision of Loan Services

Haier Finance will provide preferential loan to the Group in accordance with the policy as announced by the PBOC from time to time, and on terms no less favourable than those of the best offered by independent commercial banks in the PRC for loans of similar nature, type and terms to the Group. The entrusted loan services provided by Haier Finance as a financial agent for members of the Group are provided on a free-of-charge basis.

Before seeking a loan from Haier Finance, the Company would compare the interest rates offered by Haier Finance with the interest rates offered by two or three major commercial banks or financial institutions with which the Group has established business relationship.

Other Financial Services including:

- intra-group transfer and settlement services and planning of settlement scheme;
- arranging credit certification; provision of security/ guarantee;
- bill opening, acceptance and discount services; and
- spot sale and purchase of foreign exchange, international trade settlement, trade finance service and financial derivatives trading service

The fees charged by Haier Finance will be at a rate determined by reference to the benchmark rates published by the PBOC from time to time and on terms no less favourable than those offered by independent commercial banks in the PRC to the Group; if there is no such benchmark rates published by the PBOC for that kind of financial service, the fee will be determined with reference to, amongst other factors, the rates charged by other major financial institutions for the same types of services and on terms no less favourable than those offered by independent commercial banks/financial institutions in the PRC to the Group. The internal settlements among members of the Group through the internet banking services (such as payments and remittances) provided by Haier Finance are on a free-of-charge basis.

Before using other Financial Services provided by Haier Finance, the Company would compare the fees charged by Haier Finance with the fees charged by two or three major commercial banks or financial institutions with which the Group has established business relationship.

Term

The Financial Services Agreement shall become effective for a term of 3 years, commencing from 24 September 2018 to 23 September 2021, and is renewable by the Company upon expiry of the Financial Services Agreement, subject to compliance with the applicable requirements under the Listing Rules. Haier Finance does not have such a reciprocal renewal right under the Financial Services Agreement. The Provision of Deposit Services and other Financial Services are to be provided by Haier Finance under the new Financial Services Agreement as a package.

Implementation agreement(s)

Haier Finance and members of the Group may, from time to time and as necessary, enter into separate implementation agreements to supplement the Financial Services Agreement. Any such implementation agreements will be bound by the Financial Services Agreement.

Set-off

In respect of the deposits placed by the Group with Haier Finance and in the event that Haier Finance misuses or defaults in using such deposits or in any other circumstances, is unable to repay the Group's deposits (including accrued interests), the Group will have a right to set off such deposits (including accrued interests) against the outstanding loans (including accrued interests) extended by Haier Finance to the Group. However, in the event that the Group fails to repay its loans extended by Haier Finance on time, Haier Finance does not have a right to set off the outstanding loans (including accrued interests) due from the Group against the deposits (including accrued interests) placed by the Group with Haier Finance, except as otherwise provided by the laws and regulations of the PRC.

Termination

Haier Finance cannot terminate the Financial Services Agreement except in the following situations:

- (i) any member of the Group has committed a material breach of any terms of the Financial Services Agreement (including but not limited to the non-payment of any service fee due); or
- (ii) Haier Group cease to be the single largest controlling shareholder of the Company.

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

affected and shall continue. Upon the occurrence of item (ii) above, Haier Finance may terminate the Financial Services Agreement by serving not less than six months' written notice to the Company.

The Company may terminate the Financial Services Agreement by serving Haier Finance not less than one month's written notice upon:

- (i) the occurrence of any of the following which exposes or potentially exposes the Group to substantial risks or losses:
 - breaches or potential breaches of PRC laws and regulations by Haier Finance; or by its non-performance or breach of any terms of the Financial Services Agreement;
 - Haier Finance experiences or foresees to experience any major operational problems or difficulties with liquidity; or
- (ii) breaches or potential breaches of laws and regulations (including the Listing Rules) by the Company as a result of compliance with the Financial Services Agreement.

Upon the termination notice being served by either the Company or Haier Finance, the Company shall have the absolute discretion to immediately withdraw its deposits (including the accrued interests) forthwith, or if it is unable to do so, it may set off its deposits (including the accrued interests) against the loans (including accrued interests) extended by Haier Finance.

Undertakings by Haier Corp

As part of the Financial Services Agreement, Haier Corp has unconditionally and irrevocably guaranteed and undertaken to the Company that, during the term of the Financial Services Agreement, Haier Corp will:

- (i) provide guarantee to the Group in respect of the deposits placed by the Group with Haier Finance;
- (ii) bear all the financial losses incurred by the Group due to the failure in performing the obligations or breach of any obligations or terms under the Financial Services Agreement by Haier Finance or Haier Finance's breaches or potential breaches of PRC laws and regulations, or by it having or potentially having any major operational problems or difficulties with liquidity, including but not limited to, the Group's deposits, interests and the relevant expenses incurred, within ten business days since such failure or problems occur; and
- (iii) use their best endeavours and take all reasonable steps to ensure fulfilment of its obligations by Haier Finance under the Financial Services Agreement.

Deposit Cap

The maximum daily outstanding balance of deposits placed by the Group with Haier Finance under the previous financial services agreement for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 respectively were RMB1.35 billion, RMB1.35 billion and RMB1.34 billion, respectively.

The maximum daily outstanding balance of deposits placed by the Group at any time during the term of the Financial Services Agreement shall not exceed the Deposit Cap of RMB2.1 billion.

The Deposit Cap was determined taking into account the following factors including:

- (i) historical maximum daily outstanding balances mentioned above; and
- (ii) estimation of cash amounts of the Group available for deposit will increase after taking into account the business development plans and the growth profile of the Group.

The Group is not under any obligation to place deposits to Haier Finance pursuant to the Financial Services Agreement. The Directors (including the independent non-executive Directors) are of the view that, through the Financial Services Agreement, the Group can benefit from the flexibility in the allocation of its unrestricted cash should the terms be attractive to the Company, and the Deposit Cap is fair and reasonable.

The terms of the Financial Services Agreement have been negotiated and conducted on an arm's length basis and on normal commercial terms between the parties involved and/or on terms no less favourable than those offered by independent commercial banks to the Group.

Reasons for and benefits of the transactions under the Financial Services Agreement

The reasons for and the benefits to the Group to continue to use the Financial Services of Haier Finance include, but are not limited to: (i) Haier Finance's better understanding of the operations and development needs of the Group which should allow more expedient and efficient provision of various tailor-made packaged Financial Services to the Group than other external banks in the PRC, and (ii) the enhanced cost savings by reducing the amount of finance fees and charges payable to external banks when Haier Finance can offer more favourable terms than those offered by external banks.

The Directors (including the independent non-executive Directors) believe that there are numerous advantages of utilizing the Financial Services provided as a package by Haier Finance over similar services provided by a single or small number of other independent commercial banks in the PRC on a piecemeal basis as disclosed below. The Directors (including the independent non-executive Directors) consider that it is in the interests of the Group to use the Financial Services offered by Haier Finance under the Financial Services Agreement, on the basis of the following:

- (i) Haier Finance is regulated by the PBOC and the CBIRC and provides its services in accordance with and in compliance of the rules and operational requirements of these regulatory authorities including capital risk guidelines and requisite capital adequacy ratios. The regulation of finance companies (such as Haier Finance) by the CBIRC is more stringent than the regulation of commercial banks in the PRC in certain aspects, such as the requirement for finance companies to have a higher capital adequacy ratio;
- (ii) Haier Finance's knowledge of the Company's business model, its long-term strategic plan and development goals would place it in a position to be very responsive to react to the Company's needs. The Company considers that Haier Finance can play an even greater role as a trusted partner to work closely with the Company in realizing its growth plan, and to serve the Company;
- (iii) the risk of the transactions with Haier Finance is further reduced by (i) the undertakings provided by Haier Corp; and (ii) the Group's right of set-off;
- (iv) the pricing policies of Haier Finance and independent commercial banks in the PRC are subject to guidelines set by the PBOC. The fees charged by Haier Finance for its Financial Services to the Group will be at least equal to or more favourable than those charged by other independent commercial banks in the PRC for similar services, thus enhancing cost savings by reducing the amount of finance fees and charges payable to external banks for similar kinds of financial services when Haier Finance can offer more favourable terms than those offered by external banks and reputable financial institutions;
- (v) the Group can continue to benefit from Haier Finance's better understanding of the operations and settlement needs of the Group as mentioned above, and that Haier Finance could provide the Group with a more efficient and expedient service platform than those from the other commercial banks. Particularly, Haier Finance and the major operation units of the Group have offices at the same location such that the settlement related expenses and other administrative expenses could be minimised; and
- (vi) Haier Finance, as an enterprise finance company specializing in home appliance industry, can provide a chain of various financial solutions to the Group, whereas independent commercial banks may not be able to serve the Group as efficiently and flexible enough as Haier Finance. For example, Haier Finance has been delivering

inventory financing services to the franchisee customers of the Group for accelerating the capital turnover of these customers and hence enhancing the competitiveness of the Group's channel business. Besides, for promoting the sales of the Group, the end-users who purchase the high-end products of the Group could enjoy the payments by installment services provided by Haier Finance.

The Directors (including the independent non-executive Directors) are, therefore, of the view that the Financial Services Agreement (including the Deposit Cap) was entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and on terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Internal Control Measures

In accordance with the Listing Rules, we will comply at all times with the applicable provisions under Rules 14A.34, 14A.51 to 14A.59 of the Listing Rules in respect of the transactions contemplated under the Financial Services Agreement. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Company has adopted the following guidelines and principles in monitoring the transactions between the Group and Haier Finance, namely:

- the Company will report the transactions under the Financial Services Agreement with Haier Finance to the independent non-executive Directors during each of the audit committee meetings (if necessary).
- the transactions contemplated thereunder the Financial Services Agreement 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 Financial Services Agreement were conducted in accordance with the terms of the Financial Services Agreement, 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; and
- the Company will review the transactions with Haier Finance to identify any transactions that may be at risk of exceeding the Cap(s), and any measures to be taken in respect of such transactions. The Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the Financial Services Agreement. Examples of the aforementioned measures and policies include:
 - (i) the Company will have specifically designated personnel from the relevant departments to monitor the transactions and will report to the management of the Company regularly in relation to the transactions;

- (ii) before making a deposit with, seeking a loan from or using other Financial Services provided by Haier Finance, the Company would compare the interest rates offered or fees charged by Haier Finance with the interest rates offered or fees charged by two or three major commercial banks or financial institutions with which the Group has established business relationship;
- (iii) the arrangement between the Company and Haier Finance under the Financial Services Agreement is non-exclusive and the Group has its own discretion in choosing other financial services providers; and
- (iv) the Company may terminate the Financial Services Agreement if Haier Finance fails to satisfy certain financial performance criteria from time to time.

The Group will also conduct random internal checks to ensure that the internal control measures in respect of the transactions remain complete and effective.

Pursuant to the Financial Services Agreement, Haier Finance undertakes to take the following measures to control the capital risks:

- (i) Haier Finance will ensure the safe and stable operation of the fund management information system, which has passed the security test in respect of online commercial banking interface and has reached the national security standard for commercial banks. Haier Finance will protect the safety of the funds of the Group and control the assets and liabilities risks;
- (ii) Haier Finance shall at all times monitor its credit risks. If (a) any situations where Haier Finance breaches the laws, regulations, or the terms of the Financial Services Agreement arises or may arise, or (b) on the occurrence of any other circumstances that may cause serious concern to the security, Haier Finance shall give written notice to the Company within three business days after knowing the happening of such situations or circumstances, and to take measures to avoid or contain any losses. Upon such notice, the Company has the right to immediately withdraw its deposits together with accrued interests forthwith, or if it is unable to do so, it may set off its deposits (including accrued interests) against the loans extended by Haier Finance, except otherwise as provided in the relevant PRC laws and regulations;
- (iii) Haier Finance will provide annual statutory audit report issued by independent auditors to the Group to enable the management of the Group to have a comprehensive knowledge about the financial situation of Haier Finance;
- (iv) Haier Finance will appoint an independent accounting firm to review the completeness and impartiality of its internal controls, risk management and the operation system under the Financial Services Agreement, and provide risk management report to the Group and review and assess the internal control measures pursuant to the Financial Services Agreement on an annual basis;

- (v) the Company will review the transactions with Haier Finance Group, summarise the experiences and supplement any inadequacies on an annual basis.

Listing Rules Implications

As Haier Corp is the controlling Shareholder of the Company and Haier Finance is a company ultimately controlled by Haier Corp, Haier Finance is a connected person of the Company. The transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As each of the relevant percentage ratios (except for the profits ratio which is not applicable) for the Provision of Deposit Services exceeds 0.1% but is less than 5%, the Provision of Deposit Services under the Financial Services Agreement is exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements but are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Provision of Loan Services under the Financial Services Agreement represents financial assistance provided by a connected person for the benefit of the Group, which is on normal commercial terms similar to or more favourable than those offered by independent commercial banks for comparable services in the PRC with no security over the assets of the Group be granted and is fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements.

As each of the relevant percentage ratios for the other Financial Services to be provided by Haier Finance Group under the Financial Services Agreement to the Group on an annual basis is expected to be less than 0.1%, which will fall into the *de minimis* threshold as stipulated under Rule 14A.76(1) of the Listing Rules, they will be fully exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules, where applicable, if the transaction amount of such other Financial Services to be provided by Haier Finance Group to the Group exceeds the *de minimis* threshold stipulated in Rule 14A.76 of the Listing Rules.

REVISION OF THE 2018 CAP UNDER THE PRODUCTION AND EXPERIMENTAL EQUIPMENT PROCUREMENT AGREEMENT

Following a review by the Company of the transactions under the Production and Experimental Equipment Procurement Agreement, which was entered into between the Company, Haier Corp, Qingdao Haier and Qingdao Haier Investment and Development Co., Ltd., the Company envisages that there will be expected changes in the business plan of the Group with respect to its general factory construction projects, which would result in an increase of equipment procurement by the Group for the financial year ending 31 December 2018. In light of that, the Existing Production and Experimental Equipment

Procurement Cap for the year ended 31 December 2018 is expected to be insufficient. Therefore, the Board considers it appropriate to revise the maximum aggregate annual value in relation to the Production and Experimental Equipment Procurement for such period to the Revised Production and Experimental Equipment Procurement Cap as disclosed in this announcement below.

The terms of the Production and Experimental Equipment Procurement Agreement, the Company's pricing policy and internal control measures relating to it, as disclosed in the announcement of the Company dated 20 July 2015, have not been changed.

The terms of the Production and Experimental Equipment Procurement Agreement and the transactions contemplated by it 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, on which the independent non-executive Directors have previously confirmed as disclosed in the announcement of the Company dated 20 July 2015.

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 washing machines and water heaters and the related components manufactured by the Group, 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 of payment will be negotiated upon the parties entering into individual contracts pursuant to the Production and Experimental Equipment Procurement Agreement.

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.

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 price (at least two quotations from independent third parties would be obtained for similar transactions for comparison) and in any event, the consideration for such procurement shall be no less favourable than terms offered by independent third parties to the Group; and (iii) imported through the Haier Group, at a price representing the purchase price of such imported production and experimental equipment plus a fixed service fee margin on the purchase price for covering the selling expenses (relevant operational and administrative expenses) of the member of the Haier Group and 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%

In accordance with the Listing Rules, the Company shall at all times comply with the applicable provisions under Rules 14A.34, 14A.51 to 14A.54 and 14A.59 of the Listing Rules in respect of the transactions. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted guidelines and principles in monitoring the transactions between the Group and Haier Group, including:

- the Company will report the transactions 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 Company will review the transactions with the Haier Group to identify any continuing connected transaction that may be at risk of exceeding the relevant cap, 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 relevant agreement. The Group will conduct random internal checks to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective.

Existing and Revised Production and Experimental Equipment Procurement Cap

Set out below are the Existing Production and Experimental Equipment Procurement Cap in relation to the Production and Experimental Equipment Procurement under the Production and Experimental Equipment Procurement Agreement for the financial years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the Revised Production and Experimental Equipment Procurement Cap for the financial year ending 31 December 2018:

Transaction(s)	Maximum aggregate annual value for the years ended/ending 31 December (RMB Million)		
	2016	2017	2018
Production and Experimental Equipment Procurement			
● Existing Production and Experimental Equipment Procurement Cap	194	316	131
● Revised Production and Experimental Equipment Procurement Cap (if applicable)	Not applicable	Not applicable	460

Historical figures

The historical figures relating to the Production and Experimental Equipment Procurement, during the two financial years ended 31 December 2017 and the six months ended 30 June 2018, were as follows:

	Aggregate annual value in relation to Production and Experimental Equipment Procurement (RMB Million)
For the year ended 31 December 2016	93
For the year ended 31 December 2017	103
For the half year ended 30 June 2018	13

As at the date of this announcement, the historical aggregate transaction value has not exceeded the Existing Production and Experimental Equipment Procurement Cap in relation to the financial year ending 31 December 2018.

Reasons and basis for the Revised Production and Experimental Equipment Procurement Cap

The Group has been engaged in the development of factory construction projects in the recent years, which has been the main reason for the Group to procure production and experimental equipment from the Haier Group. It has come to the attention of the Group that the progress of the factory construction projects is not in accordance with the original timeframe set forth by the management of the Group. As a business decision of the Group, it intends to speed up the progress of the factory construction projects in order to meet the Group's internal schedule and business plans regarding the factory construction projects. In that regard and with reference to existing Cap and the historical figures aforesaid, the Group expects that there will be a strong demand for production and experimental equipment by the Group that the procurement of production and experimental equipment from the Haier Group would also increase in the second half of 2018. In view of the aforesaid, the Board determined the Revised Production and Experimental Equipment Procurement Cap for the year ending 31 December 2018.

The Directors (including the independent non-executive Directors) are of the view that the Revised Production and Experimental Equipment Procurement Cap for the financial year ending 31 December 2018 is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

As Haier Corp and Qingdao Haier is a controlling Shareholder and a connected person of the Company, the transactions contemplated under the Production and Experimental Equipment Procurement Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Revised Production and Experimental Equipment Procurement Cap under the Production and Experimental Equipment Procurement Agreement are all less than 5% but some of them are more than 0.1% and the transactions have an annual consideration of more than HK\$3,000,000, the Production and Experimental Equipment Procurement Agreement and the Revised Production and Experimental Equipment Procurement Cap will be subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 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.

The Directors (including the independent non-executive Directors) are of the view that the Financial Services Agreement, the Production and Experimental Equipment Procurement Agreement and the transactions contemplated under these agreements are entered into in the ordinary course of business, 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 Finance Services Agreement and the related Cap, the Revised Production and Experimental Equipment Procurement Cap, the Production and Experimental Equipment Procurement Agreement and the transactions contemplated thereunder respectively.

DEFINITIONS

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

“associate”, “connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder”	have the same meaning ascribed to them respectively in the Listing Rules
“Board”	the board of Directors
“Cap”	the cap(s) for transactions contemplated under Financial Services Agreement for the period from 24 September 2018 to 23 September 2021
“CBIRC”	China Banking and Insurance Regulatory Commission

“Company”	Haier Electronics Group Co., Ltd., a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
“Deposit Cap”	the maximum daily balance of deposits placed by the Group (including the corresponding interests accrued thereon) on any given day during the term of the Financial Services Agreement
“Directors”	the directors of the Company
“Existing Production and Experimental Equipment Procurement Cap”	the maximum amount regarding the procurement of production and experimental equipment by the Group from Haier Corp and Qingdao Haier under the Production and Experimental Equipment Procurement Agreement for the period from 1 January 2016 to 31 December 2018 as disclosed in the announcement of the Company dated 21 July 2015
“Financial Services”	the financial services described in the section “Financial Services and pricing principles” in this announcement
“Financial Services Agreement”	the financial services agreement dated 24 September 2018 entered into between the Company, Haier Finance and Haier Corp in respect of the provision of the Financial Services
“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 Finance”	Haier Group Finance Co., Ltd. (海爾集團財務有限責任公司), a company established in the PRC, a non-banking financial institution approved by the PBOC
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBOC”	the People’s Bank of China, the central bank of the PRC

“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
“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 20 July 2015 entered into between the Company, Haier Corp, Qingdao Haier Investment and Development Co., Ltd. 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
“Provision of Deposit Services”	the provision of deposit of money services by Haier Finance to the Company pursuant to the Financial Services Agreement
“Provision of Loan Services”	the provision of loan services (including entrusted loan services) by Haier Finance to the Company pursuant to the Financial Services Agreement
“Qingdao Haier”	青島海爾股份有限公司 (Qingdao Haier Company Limited*), a company listed on the Shanghai Stock Exchange (under stock code: 600690.SH) in the PRC
“Revised Production and Experimental Equipment Procurement Cap”	The revised cap for transactions contemplated under the Production and Experimental Equipment Procurement Agreement for the financial year ending 31 December 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“%”

per cent.

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 only*