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Haier 海尔

HAIER ELECTRONICS GROUP CO., LTD.

海爾電器集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1169)

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS
(FINANCIAL SERVICES AGREEMENT)**

FINANCIAL SERVICES AGREEMENT

On 8 December 2010, the Financial Services Agreement was entered into between the Company, Haier Finance, Haier Corp and Haier Investment. Under the Financial Services Agreement, Haier Finance agreed to provide the Financial Services to the Group on terms by reference to the benchmark rates published by the PBOC (if applicable) and no less favourable than those available from independent commercial banks in the PRC. The Provision of Deposit Services, Provision of Loan Services and other Financial Services will be provided by Haier Finance to the Group as a package pursuant to the Financial Services Agreement. 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. Additionally, Haier Corp and Haier Investment unconditionally and irrevocably provide guarantee to the Group in respect of the deposit placed by the Group to Haier Finance.

The guiding principles behinds the Financial Services Agreement are to:

- facilitate the Group to achieve a well deposit mix between independent commercial banks in the PRC and Haier Finance and earn a higher return for the Group, while at the same time retaining sufficient working capital flexibility of the Group through utilizing the efficient intra-group fund transfer and settlement services provided by Haier Finance;
- enhance 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;
- give priority to the operational needs of the Group under the Financial Services Agreement. The initiative to use the deposit and loan services provided by Haier Finance will be entirely at the discretion of the Group;

- ensure that the assets of the Group are well protected. When it issued financial bonds in 2009, Haier Finance was ranked AAA rating by China Lianhe Credit Rating Co., Ltd., the same debt rating as the top five commercial banks in the PRC. For further alleviating the shareholders' concerns of the safety of deposit, Haier Corp and Haier Investment have unconditionally and irrevocably guaranteed the Group in respect of the deposits placed by the Group with Haier Finance. Finally, 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, the Group will have a right to set off such deposits against the outstanding loans extended by Haier Finance to the Group. The Company may terminate the Financial Services Agreement upon the occurrence of the events which exposes or potentially exposes the Group to substantial risks or losses and that the above set-off right would also apply; and
- ensure that the implementation of the Financial Services Agreement is under strict monitoring. Haier Finance shall provide the Company with a copy of every regulatory report it submits to CBRC, the Company will require Haier Finance to appoint an independent accounting firm to audit the internal controls, risk management, completeness and impartiality of the operational system in respect of the transactions with the Group and to provide relevant risk management report and review and assess the internal control measures pursuant to the Financial Services Agreement on an annual basis.

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS

As Haier Corp and Haier Investment are the controlling Shareholders and Haier Finance is a company ultimately controlled by Haier Investment, Haier Corp, Haier Investment and Haier Finance are connected persons 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 is higher than 5% but less than 25% on an annual basis and with an annual consideration of more than HK\$10,000,000, the Provision of Deposit Services under the Financial Services Agreement constitutes a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.48 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 or even more favourable than those offered by independent commercial banks for comparable services in the PRC and is exempted under Rule 14A.65(4) of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements since no security over the assets of the Group was 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.33(3) of the Listing Rules and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

Circular

The Company will send a circular containing, amongst other things, a letter of advice from an independent financial adviser to both the Independent Board Committee and the Independent Shareholders, a letter of advice from the Independent Board Committee to the Independent Shareholders and the details of the SGM to be held to approve the Financial Services Agreement and the Cap on or before 30 December 2010 in accordance with the Listing Rules.

FINANCIAL SERVICES AGREEMENT

Reference is made to the circulars of the Company dated 26 November 2007 and 14 September 2010 and the special general meeting held on 30 September 2010. As the Financial Services Cap under the Services Agreement will soon be expired on 31 December 2010, the Company on 8 December 2010, entered into the Financial Services Agreement with improved terms over the previous Services Agreement in relation to the provisions of the Financial Services, with Haier Finance, Haier Corp and Haier Investment. Under the Financial Services Agreement, Haier Finance agreed to provide the Financial Services to the Group on terms by reference to the benchmark rates published by the PBOC (if applicable) and no less favourable than those available from independent commercial banks in the PRC. Additionally, Haier Corp and Haier Investment undertake, amongst other things, to bear all financial losses incurred by the Group if Haier Finance experiences or foresees to experience any major operational problems or difficulties with liquidity.

The guiding principles behinds the Financial Services Agreement are to:

- facilitate the Group to achieve a well deposit mix between independent commercial banks in the PRC and Haier Finance and earn a higher return for the Group, while at the same time retaining sufficient working capital flexibility of the Group through utilizing the efficient intra-group fund transfer and settlement services provided by Haier Finance;
- enhance 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;
- give priority to the operational needs of the Group under the Financial Services Agreement. The initiative to use the deposit and loan services provided by Haier Finance will be entirely at the discretion of the Group;
- ensure that the assets of the Group are well protected. When it issued financial bonds in 2009, Haier Finance was ranked AAA rating by China Lianhe Credit Rating Co., Ltd., the same debt rating as the top five commercial banks in the PRC. For further alleviating the shareholders' concerns of the safety of deposits, Haier Corp and Haier Investment have unconditionally and irrevocably guaranteed the Group in respect of the deposits placed by the Group with Haier Finance. 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, the Group will have a right to set off such deposits against the outstanding loans extended by Haier Finance to the Group. The

Company may terminate the Financial Services Agreement upon the occurrence of the events which exposes or potentially exposes the Group to substantial risks or losses and that the above set-off right would also apply; and

- ensure that the implementation of the Financial Services Agreement is under strict monitoring. Haier Finance shall provide the Company with a copy of every regulatory report it submits to CBRC; the Company will require Haier Finance to appoint an independent accounting firm to audit the internal controls, risk management, completeness and impartiality of the operational system in respect of the transactions with the Group and to provide relevant risk management report and review and assess the internal control measures pursuant to the Financial Services Agreement on an annual basis.

The principal terms of the Financial Services Agreement are set out below:

Date

8 December 2010

Parties

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

Information of the parties

The Group is currently engaged in the research, development, manufacture and sale of washing machines and water heaters in the PRC under the brand name of “Haier”. The Group also began to engage in the integrated channel services business for other home appliance products such as refrigerators, televisions and air-conditioners, of both “Haier” and “non-Haier” brands, which is expected to substantially broaden its sources of revenue and drive its profit growth. The principal business activity of the Company is investment holding.

The Haier Group is one of the world’s leading white goods home appliance manufacturers engaging in the research, development, production and sale of a wide variety of household appliances (including the white goods) and consumer goods in the PRC. The principal business activity of each of Haier Corp and Haier Investment is investment holding. According to the latest statistics from the Euromonitor International Limited, in terms of Major Appliance’s retail volume, Haier is the number one brand with 6.1% worldwide market share in 2010.

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 head office of PBOC and subject to regulations by the PBOC and the CBRC 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 other independent commercial banks which generally adopt a scale-driven strategy, Haier Finance follows and serves the development of the Haier Group specializing in home appliance and related industry.

By virtue of its strong corporate governance structure and prudent internal control system, Haier Finance has received top rating from regulatory authorities at all levels each year. When it issued financial bonds in 2009, Haier Finance was ranked AAA rating by China Lianhe Credit Rating Co., Ltd., the same debt rating as the top five commercial banks in the PRC, namely the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications. Since its establishment in 2002, Haier Finance has neither violated any laws and regulations, nor experienced any overdue or non-performing loans. The total registered and paid-up capital of Haier Finance is RMB1,500,000,000 as at the date of this announcement. The total revenue of Haier Finance for the three years ended 31 December 2009 were approximately RMB269,739,000, RMB496,464,000 and RMB501,642,000, respectively. The total assets of Haier Finance as at 31 December 2009 amounted to RMB24,890,841,000.

Major terms

(1) *Financial Services and pricing principles*

Haier Finance shall provide the following Financial Services to the Group in accordance with the following pricing principles pursuant to the Financial Services Agreement:

Types

Pricing principles

Provision of Deposit Services

Haier Finance will provide an interest rate on RMB deposits determined by reference to the benchmark rates published by PBOC from time to time (as required by the PBOC, interest rates for RMB deposits accepted by financial institutions may float within a range not exceeding the benchmark rates of deposits in different categories and deposit rates shall not float upward) and on terms no less favourable than those offered by independent commercial banks in the PRC for deposits of similar nature and terms to the Group. For foreign currency deposits, Haier Finance will provide a preferential rate at the benchmark interest rates for deposits under similar nature and terms as quoted by the Bank of China from time to time plus 10% of such rate to the Group, after taking into account that the Bank of China is currently the most representative foreign currency business banker in PRC.

Provision of Loan Services

Haier Finance will provide a preferential rate at the base lending rate as announced by the PBOC from time to time less 10% of such rate to the Group. The loan entrustment services provided by Haier Finance as a financial agent for members of the Group are provided on a free-of-charge basis

Any 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.

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

(2) *Non-exclusivity*

The Group is not under any obligations to use the Financial Services provided by Haier Finance and the Group has the right to use other financial services providers.

(3) *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 and the applicable annual caps approved at the SGM (if any).

(4) *Term*

The Financial Services Agreement shall become effective for a term of 3 years, commencing from 1 January 2011 to 31 December 2013, upon the approval of the Independent Shareholders being obtained (where required), 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 Financial Services Agreement as a package.

(5) *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.

(6) *Termination*

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

- (i) any members 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 Corp and Haier Investment collectively 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.

(7) *Undertakings by Haier Corp and Haier Investment*

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

- (1) provide guarantee to the Group in respect of the deposits placed by the Group with Haier Finance;
- (2) 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
- (3) use their best endeavors and take all reasonable steps to ensure Haier Finance to fulfill its obligations under the Financial Services Agreement.

Haier Corp and Haier Investment confirm that they have obtained all necessary approvals and authorizations for execution of the abovementioned guarantee and undertaking and such execution does not violate any PRC laws or regulations.

INTERNAL CONTROL AND RISK MANAGEMENT MEASURES

In order to safeguard the interests of the Company and the Shareholders as a whole, the Company will adopt, and will procure Haier Finance pursuant to the Financial Services Agreement to adopt, the following guidelines and principles in monitoring the transactions between the Group and Haier Finance, namely:

- Haier Finance will ensure the safe and stable operation of the funds management information system, which has passed the security test in respect of the online commercial banking interface and has reached the national security standards for commercial banks;
- Haier Finance guarantees that it will strictly comply and operate with risk management control specifications issued by the CBRC for finance companies. The gearing, liquidity and other ratios of Haier Finance should comply with the ratios specified by the CBRC and other PRC laws and regulations as amended from time to time;
- Haier Finance shall provide the Company with, within three Business Days after its submission, a copy of every regulatory report it submits to CBRC;
- the Company will report the transactions with Haier Finance together with other connected transactions of the Company 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 reportings shall be conducted not less than three times in a year;
- the Company will require Haier Finance to appoint an independent accounting firm to audit the internal controls, risk management, completeness and impartiality of the operational system in respect of the transactions with the Group and to provide relevant risk management report and review and assess the internal control measures pursuant to the Financial Services Agreement on an annual basis. The management of the Company will timely report results of the review to the audit committee/independent non-executive Directors upon the occurrence of any material adverse events or changes;
- Haier Finance shall provide its audited annual report to the Company in order to ensure the management of the Company understands the conditions of Haier Finance;
- where Haier Finance misuses or defaults in using the deposits placed by the Group or in any other circumstances, is unable to repay the Group's deposits, 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. Haier Finance will not be entitled to such set-off rights;

- Haier Finance shall at all times monitor its credit risks. If (i) any situations where Haier Finance breaches the laws, regulations, or the terms of the Financial Services Agreement arises or may arise, or (ii) 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;
- Haier Finance shall meet the following key regulatory requirements on financial ratios (with reference to its monthly management accounts):
 - a. the capital adequacy ratio shall not be less than 10%;
 - b. the non-performing assets ratio shall not be more than 4%;
 - c. the non-performing loans ratio shall not be more than 5%;
 - d. the self-owned fixed assets to equity ratio shall not be more than 20%;
 - e. the liquidity ratio shall not be less than 25%;
 - f. the provision for capital loss adequacy ratio shall not be less than 100%;
 - g. the provision for loans loss adequacy ratio shall not be less than 100%; and
- the Company will review the transactions with Haier Finance, summarise the experiences and supplement any inadequacies on an annual basis.

PROPOSED CAPS

The historical caps under the Services Agreement for the three years ending 31 December 2010 were RMB700,000,000.

The maximum daily outstanding balance of deposits placed by the Group with Haier Finance for the two years ended 31 December 2009 and for the six months ended 30 June 2010 were RMB507,611,000, RMB699,738,000 and RMB682,018,000, respectively.

The proposed maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with Haier Finance at any time during the life of the Financial Services Agreement shall not exceed the Cap of RMB750,000,000.

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

- (i) historical maximum daily outstanding balances mentioned above; and
- (ii) it is anticipated that 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. Since entering into integrated channel service business, in the first half of 2010 the Group recorded a significant revenue growth amounting to 171.7% compared with the first half of 2009. After the logistics asset acquisition in September 2010, the demand for the Financial Services by the Group might increase further due to the expansion in logistics business and the expected enlargement of the Group's asset size.

Set out below is the calculation comparing the Cap with historical figures of the Group for reference purpose:

	For the six months ended 30 June 2010
	<i>RMB</i>
Proposed Cap	750,000,000
Total amount of cash and cash equivalents of the Group as at the end of the reporting period	1,516,212,000
Percentage of proposed Cap as the total amount of cash and cash equivalents of the Group at the end of the reporting period	49.5%
Total assets of the Group as at the end of the reporting period	7,319,098,000
Percentage of proposed Cap as the total assets of the Group as at the end of the reporting period	10.2%

Set out below is the exposure of deposits placed by the Group with Haier Finance;

	For the six months ended 30 June 2010
	<i>RMB</i>
Proposed Cap	750,000,000
Total amount of deposit taking of Haier Finance at the end of the reporting period	25,436,649,000
Percentage of proposed Cap as the total amount of deposit taking of Haier Finance as at the end of the reporting period	2.9%
Total assets of Haier Finance at the end of the reporting period	32,076,051,000
Percentage of proposed Cap as the total assets of Haier Finance as at the end of the reporting period	2.3%

The summary of historical deposits placed with Haier Finance:

	For the financial year ended 31 December		For the six months ended 30 June
	2008	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Outstanding balance of deposits placed by the Group with Haier Finance as at the end of the reporting period	457,784,000	668,018,000	678,506,000
Total amount of deposit taking of Haier Finance as at the end of the reporting period	12,815,552,000	19,930,189,000	25,436,649,000
Percentage of outstanding balance of deposits placed by the Group as the total amount of deposit taking of Haier Finance as at the end of the reporting period	3.6%	3.4%	2.7%
Total assets of Haier Finance at the end of the reporting period	14,222,002,000	24,890,841,000	32,076,051,000
Percentage of outstanding balance of deposits placed by the Group as the total assets of Haier Finance as at the end of the reporting period	3.2%	2.7%	2.1%

In view of the fact that the Provision of Loan Services is on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks in the PRC, and that no security over the assets of the Group will be required in respect of the Provision of Loan Services, the Provision of Loan Services is exempted under Rule 14A.65(4) of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements. As such, no cap has been set for such services. In future, if the Company provides any guarantee and/or security in respect of any future loans to be provided by Haier Finance to members of the Group, it will comply with the then applicable requirements under the Listing Rules.

The Company expects that each of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the total fees payable by the Company to Haier Finance for those other financial services contemplated under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. As such, no cap has been set for such services.

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, BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE FINANCIAL SERVICES AGREEMENT

As the Financial Services Cap will soon be expired on 31 December 2010, the Company entered into the Financial Services Agreement with improved terms over the previous 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) the formulation of a deposit mix between independent commercial banks in the PRC and Haier Finance, while at the same time retaining sufficient working capital flexibility; (ii) the enhanced cost savings by reducing the amount of finance fees and charges payable to external banks when Haier Finance offers more favourable terms than those offered by external banks; and/or (iii) 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.

The Directors (excluding members of the Independent Board Committee, who will give their opinion after considering the advice from the independent financial adviser) are of the view that the terms of the Financial Services Agreement are improved over the previous Services Agreement in relation to the provisions of the Financial Services due to the various additional protective measures in place which are in favour of the Company, such as: (i) the undertakings provided by Haier Corp and Haier Investment; (ii) the enhanced internal control and risk management measures to be implemented by Haier Finance and the Group; and (iii) the Company's right to unilaterally terminate the Financial Services Agreement. The entering into the Financial Services Agreement provides the Group with an additional choice to obtain relevant financial services on terms which is no less favourable than those available from other independent commercial banks in the PRC.

The Directors (excluding members of the Independent Board Committee, who will give their opinion after considering the advice from the independent financial adviser) believe that the risk profile of Haier Finance is no greater than those of other independent commercial banks in the PRC, whilst 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 (excluding members of the Independent Board Committee, who will give their opinion after considering the advice from the independent financial adviser) consider that it is in the interests of the Group to use the Financial Services offered by Haier Finance under the Financial Services Agreement.

- Haier Finance is regulated by the PBOC and the CBRC 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 CBRC 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;
- the internal control system of Haier Finance in place has been assessed to be up to the highest industry standard by various regulatory authorities in the PRC. During the past eight years, Haier Finance's operation has been stable, its financial performance has been excellent and no violation of any rules has occurred, Haier Finance has been elected as a "Deputy Chairman Level" finance company by the Chinese Finance Company Association for three consecutive years. The general manager of Haier Finance has been the deputy chairman of the above association since 2007;
- 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 going forward. As advised to the Shareholders previously, the Company is expanding its logistics activities and extending its business footprint to 3rd and 4th tier markets in the PRC. 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;
- the financial bond issued by Haier Finance in 2009 was accredited with the highest "AAA" rating by China Lianhe Credit Rating Co., Ltd., being the same bond issue accreditation achieved by the five commercial banks (namely, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications);
- the risk of the transactions with Haier Finance is further reduced by (i) the undertakings provided by Haier Corp and Haier Investment; and (ii) the Group's right of set-off;
- in addition, the capital risks are reduced through the introduction of risk control measures as disclosed above and the Board (excluding the members of the Independent Board Committee) believes that the risk profile of Haier Finance, as financial services provider to the Group, is no greater than those of other independent commercial banks in the PRC;
- currently, PRC laws do not permit companies, including their subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loans must be directed through a regulated financial institution or agency. Haier Finance is a non-banking financial institution subject to regulations by the PBOC and the CBRC, and is authorised to provide various kinds of financial services to the Haier Group (including the Group), including deposit-taking and loan services. Haier Finance can serve as the financial intermediary through which the funds of the members of the Group may be deposited with Haier Finance and channelled efficiently to be used by one another, thereby reducing the level of external borrowings and finance costs, which in turn would lead to improved profitability of the Group;

- the pricing policy of Haier Finance and independent commercial banks in the PRC is 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 as described below:
 - **Preferential lending rate and foreign currency deposit rate**
 - Haier Finance will provide a preferential rate at the base lending rate as announced by the PBOC from time to time less 10% of such rate to the Group;
 - For foreign currency deposits, Haier Finance will provide a preferential rate at the benchmark interest rates for deposits of similar nature and terms as quoted by the Bank of China from time to time plus 10% of such rate to the Group.
 - **Exemption of services fees for the entrustment loan services**
 - The loan entrustment services provided by Haier Finance, as a financial agent for members of the Group, are on a free-of-charge basis;
 - **Lowering of services fees for the settlement services**
 - Internal settlements: The 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, while the same services from other independent commercial banks are chargeable;
 - External settlements: Haier Finance leverages on the integration of resources and manages to lower the fees chargeable to the Group by other banks for various kinds of settlements with other banks handled through Haier Finance;
 - **Exemption of services fees for other financial services**
 - The Group can also enjoy the convenience of miscellaneous financial services from Haier Finance on a free-of-charge basis, such as account management and certification, internet banking, and deposit certification, etc.

Set out is cost savings to the Group for the two years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, including (i) the estimated cost saving attributable to the preferential lending rate under the Financial Services Agreement, had it been put in place since 1 January 2008; and (ii) the actual cost saving attributable to the lowering of services fees for the settlement services brought to the Group, which would continue to be enjoyed by the Group under the Financial Services Agreement:

	Cost saving to the Group:		
	For the year ended 31 December 2008	For the year ended 31 December 2009	For the six months ended 30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Estimated cost saving attributable to the preferential lending rate (<i>Note 1</i>)	920.1	465.5	465.5
Actual cost saving attributable to the lowering of services fees for the settlement services (<i>Note 2</i>)	132.0	2,956.0	1,689.7
Total	1,052.1	3,421.5	2,155.2

- Notes:*
- 1. The estimated cost saving figures are calculated with reference to the difference between the then prevailing lending rates applicable to the Group's borrowings and the lending rates after a 10% discount as mentioned above assuming the 10% discount had been available to the Group since 1 January 2008.*
 - 2. The actual cost saving figures are calculated with reference to the difference between the actual fees charged by Haier Finance and the fees that would be charged to the Group had the relevant services been provided by external commercial banks since 1 January 2008.*

As shown in the table above, if the Financial Services had been put in place since 1 January 2008, the cost saving to the Group for the two years ended 31 December 2008 and 2009 and six months ended 30 June 2010 would be approximately RMB6.6 million in aggregate.

- 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;
- 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; and

- there has been a recent credit squeeze in the PRC meaning that it is generally more difficult or costly to obtain loans from commercial banks in the PRC. Haier Finance provides an additional financing platform to the Group which can reduce the potential adverse impact of the credit squeeze measures that the Group may experience.

The Directors (excluding members of the Independent Board Committee, who will give their opinion after considering the advice from the independent financial adviser) are, therefore, of the view that the Financial Services Agreement (including the 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.

SHAREHOLDING STRUCTURE OF HAIER FINANCE

Set out below are the shareholders and their respective shareholding in Haier Finance as at the date of this announcement.

Shareholders	Shareholding (%)
Haier Corp	5
青島海爾電子有限公司(Qingdao Haier Electronics Co., Ltd.), a 95.27% owned subsidiary of Haier Investment	53
青島海爾空調器有限總公司(Qingdao Haier Air-Conditioner Co., Ltd.), a 99.95% owned subsidiary of Qingdao Haier	30
青島海爾空調電子有限公司 (Qingdao Haier Air-Conditioner Electronics Co., Ltd.), a 75% owned subsidiary of Qingdao Haier	12
Total	100%

LISTING RULES IMPLICATIONS

As Haier Corp and Haier Investment are the controlling Shareholders and Haier Finance is a company ultimately controlled by Haier Investment, Haier Corp, Haier Investment and Haier Finance are connected persons 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 is higher than 5% but less than 25% on an annual basis and with an annual consideration of more than HK\$10,000,000, the Provision of Deposit Services under the Financial Services Agreement constitutes a non-exempt continuing connected transaction under Rule 14A.35

of the Listing Rules and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules. Further, the Provision of Deposit Services constitutes the provision of financial assistance under Rule 14.04(1)(e) of the Listing Rules and thus a discloseable transaction under Chapter 14 of the Listing Rules and also an advance to an entity which is subject to the requirements under Rule 13.13 of the Listing Rules.

The Provision of Loan Services under the Financial Services Agreement represents the provisions of financial assistance by a connected person for the benefit of the Group, which are on normal commercial terms similar or even more favourable than those offered by independent commercial banks for comparable services in the PRC and which is exempted under Rule 14A.65(4) of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements since no security over the assets of the Group was 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.33(3) of the Listing Rules and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

Haier Corp, Haier Investment and their respective associates are required to abstain from voting on the resolution relating to, amongst other things, the approval of the Financial Services Agreement and the Cap.

The Independent Board Committee comprising all three independent non-executive Directors has been formed to consider the terms of the Financial Services Agreement and the Cap so far as the interests of the Company and the Independent Shareholders are concerned as a whole. The Group will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The Company will send a circular containing, amongst other things, a letter of advice from an independent financial adviser to both the Independent Board Committee and the Independent Shareholders, a letter of advice from the Independent Board Committee to the Independent Shareholders and the details of the SGM to be held to approve the Financial Services Agreement and the Cap on or before 30 December 2010 in accordance with the Listing Rules.

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”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Cap”	the maximum daily balance of deposits placed by the Group (including the corresponding interests accrued thereon) on any given day during the life of the Financial Services Agreement
“CBRC”	China Banking 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
“Directors”	the directors of the Company
“Financial Services”	<p>the financial services of the acceptance of deposit, lending of monies and other financial services provided to the Group by Haier Finance pursuant to the Financial Services Agreement or the Services Agreement (as the case may be), including, inter alia:</p> <ul style="list-style-type: none">• 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
“Financial Services Agreement”	the financial services agreement dated 8 December 2010 entered into between the Company, Haier Finance, Haier Corp and Haier Investment in respect of the provision of the Financial Services

“Financial Services Cap”	collectively, the maximum daily outstanding balance of deposits placed by the Group, the maximum outstanding loans owing by the Group to Haier Finance and the Other Financial Services Cap, the respective amounts as set out under the sub-paragraph headed “Proposed annual caps and rationale” in the paragraph headed “Services Agreement” of the announcement of the Company dated 2 November 2007
“Group”	the Company and its subsidiaries and associates
“Haier Corp”	海爾集團公司(Haier Group Corporation), a company established in the PRC which is acting in concert with Haier Investment and a substantial shareholder of the Company
“Haier Finance”	海爾集團財務有限責任公司(Haier Group Finance Co., Ltd.), a company established in the PRC and a non-banking financial institution approved by the PBOC
“Haier Group”	Haier Corp and Haier Investment together with their respective subsidiaries and associates but excluding the Group, where appropriate
“Haier Investment”	青島海爾投資發展有限公司(Qingdao Haier Investment and Development Co., Ltd.), a company established in the PRC, a substantial shareholder of the Company and a party acting in concert with Haier Corp
“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 all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Financial Services Agreement and the Cap
“Independent Shareholders”	the Shareholders other than Haier Corp and Haier Investment and their respective associates who are required to abstain from voting on the resolution to approve, inter alia, the Financial Services Agreement and the Cap at the SGM pursuant to the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Other Financial Services Cap”	the respective amounts as set out under the sub-paragraph headed “Proposed annual caps and rationale” in the paragraph headed “Services Agreement” of the announcement of the Company dated 2 November 2007
“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
“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 entrustment of 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
“RMB”	Renminbi, the lawful currency of the PRC
“Services Agreement”	the services agreement dated 2 November 2007 entered into between the Company, Haier Corp and Haier Investment, pursuant to which Haier Corp and Haier Investment will procure members of the Haier Group to provide various services (including the Financial Services) to the Group on a non-exclusive basis
“SGM”	a special general meeting of the Company to be convened for, amongst other things, considering, and, if thought fit, approving the Financial Services Agreement and the Cap
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company

“Shareholder(s)” holder(s) of the Share(s)

“Stock Exchange” The Stock Exchange of Hong Kong Limited

By Order of the Board of
Haier Electronics Group Co., Ltd.
Yang Mian Mian
Chairman

Hong Kong, 8 December 2010

As at the date of this announcement, the executive Directors are Ms. Yang Mian Mian (Chairman), Mr. Zhou Yun Jie, Mr. Li Hua Gang and Mr. Sun Jing Yan; the non-executive Director are Mr. Wu Ke Song (Deputy Chairman) and Mr. Liang Hai Shan; the independent non-executive Directors are Mr. Wu Yinong, Mr. Yu Hon To, David and Dr. Liu Xiao Feng.

* *for identification purposes only*