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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

On 11 December 2015, the Financial Services Agreement was entered into between the Company, Haier Finance, and Haier Corp to replace the existing financial services agreement entered into by Haier Finance, Haier Corp and Haier Investment on 18 December 2013. Under the 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 the controlling Shareholder 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% and has an annual consideration of more than HK\$3,000,000, the Provision of Deposit Services under the Financial Services Agreement is exempted 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 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 was granted in respect of such financial assistance.

* For identification purposes only

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.

References are made to the announcement of the Company dated 18 December 2013 (the “**Announcement**”). For facilitating the continuing growth and development of the Group, the Company on 11 December 2015, entered into the Financial Services Agreement in relation to the provisions of the Financial Services, with Haier Finance and Haier Corp, to replace the existing financial services agreement entered into by Haier Finance, Haier Corp and Haier Investment on 18 December 2013 as disclosed in the Announcement.

FINANCIAL SERVICES AGREEMENT

Under the 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.

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

Date

11 December 2015

Parties

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

Information of the parties

The Group is currently engaged in the integrated channel services business under brand “Goodaymart” for home appliances and other household products of both “Haier” and other brands. The Group is also engaged in the research, development, manufacture and sale of washing machines and water heaters in the PRC under the brand name of “Haier”. 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 Haier Corp is investment holding.

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 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 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 appliance and related industry.

According to 2014 finance company industry grading performed by China Finance Company Association, Haier Finance was rated as A級創新型財務公司 (Grade A Innovative Finance Company*). Haier Finance has been in compliance with relevant requirements laid out by the regulatory authorities to establish a comprehensive risk management system.

From 2011 to 2014, with its quality and efficient financial service, Haier Finance was awarded the 中國金融機構金牌榜 — 金龍獎 (年度最佳財務公司) (Chinese Financial Institution Gold Medal List — Golden Dragon Prize (Best Finance Company of the year) *) jointly organized by Financial News and the Institute of Finance and Banking of the Chinese Academy of Social Sciences in four successive years.

In November 2012, Haier Finance successfully passed the certification approval of British Standards Institution (BSI) for ISO27001. In October 2013, Haier Finance also passed the 國標等級保護三級評測 (Third Grade Assessment on the National Standard Security*), and became the first financial company with both ISO27001 International Information Security Management System Certification and 國標等級保護三級評測 (Third Grade Assessment on National Standard Security*) in the PRC. The certifications earmarked Haier Finance's international standards on information security management, which help raise the confidence of customers and users in the financial service products of Haier Finance.

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 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 relationship banks for deposits of similar natures and terms to the Group.

Before making a deposit with 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.

Provision of Loan Services

Haier Finance will provide a preferential lending 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 and terms 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.

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.

Types

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, international trade settlement, trade finance service and financial derivatives trading service.

Pricing principles

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 11 December 2015 to 10 December 2018, and is renewable by the Company upon expiry of the Financial Services Agreement, subject to compliance with the applicable requirements under the Listing Rules.

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.

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 endeavors and take all reasonable steps to ensure fulfilment of its obligations by Haier Finance under the Financial Services Agreement.

PROPOSED CAPS

The historical cap under the existing financial services agreement for each of the three years ending 31 December 2016 were RMB900,000,000.

The maximum daily outstanding balance of deposits placed by the Group with Haier Finance for the two years ended 31 December 2014 and for the eleven months ended 30 November 2015 were RMB749,326,000, RMB890,469,000 and RMB887,336,000, 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 RMB1,350,000,000.

The 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 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 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, BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED 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 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 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 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:

- 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;
- 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 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;
- 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 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.

The Directors (including the independent non-executive Directors) 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.

INTERNAL CONTROL MEASURES ON CONTINUING CONNECTED TRANSACTIONS

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 continuing connected 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 the Haier Finance 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; and
- the Company will review the transactions with the Haier Finance to identify any continuing connected transactions that may be at risk of exceeding the Cap, and any measures to be taken in respect of such continuing connected transactions. 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 Financial Services Agreement. Examples of the aforementioned measures and policies include:
 - (i) the Company will have specifically designated personnel from the finance department 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 continuing connected transactions remain complete and effective.

LISTING RULES IMPLICATIONS

As Haier Corp is the controlling Shareholder 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% and has an annual consideration of more than HK\$3,000,000, the Provision of Deposit Services under the Financial Services Agreement is exempted 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 or even 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 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.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.

Mr. Zhou Yunjie, Mr. Liang Haishan, Ms. Tan Lixia and Mr. Li Huagang (alternate to Mr. Liang Haishan) have positions with Haier Corp and have abstained from voting on the resolutions of the Board approving the Finance Services Agreement and the transactions contemplated thereunder.

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”	the financial services described in the section “Financial Services and pricing principles” in this announcement
“Financial Services Agreement”	the financial services agreement dated 11 December 2015 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”	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
“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
“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
“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

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

Hong Kong, 11 December 2015

As at the date of this announcement, the executive Director is Mr. Zhou Yunjie (Chairman); the non-executive Directors are Mr. Liang Haishan, Ms. Tan Lixia, Dr. Wang Hanhua and Mr. Zhang Yong; the independent non-executive Directors are Mr. Yu Hon To, David, Mrs Eva Cheng Li Kam Fun and Ms. Tsou Kai-Lien, Rose; the alternate Director is Mr. Li Huagang (alternate to Mr. Liang Haishan).

* For identification purpose only