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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Hisense Home Appliances Group Co., Ltd.**, you should hand this circular at once to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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# Hisense 海信家電

## HISENSE HOME APPLIANCES GROUP CO., LTD.

### 海信家電集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 00921)

#### (1) CONTINUING CONNECTED TRANSACTIONS; AND (2) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

Independent Financial Adviser to the Independent Board Committee  
and the Shareholders



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Capitalised terms used in this cover page have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 9 to 65 of this circular. A letter from the Independent Board Committee is set out on page 66 to 67 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Shareholders is set out on pages 68 to 145 of this circular.

A notice of the EGM to be held on Friday, 17 January 2020 at 3:00 p.m. at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 5 November 2019 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

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## DEFINITIONS

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

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Business Co-operation Framework Agreement”	the Business Co-operation Framework Agreement (業務合作框架協議) entered into between the Company, Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric dated 5 November 2019 in relation to the sale and purchase of electrical appliances, raw materials, parts and components, supply of moulds, equipment and the provision of various services
“Caps”	(A) the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2020, being (1) RMB33,360,000 in respect of the purchase of electrical appliances by the Group from Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (2) RMB659,580,000 in respect of the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (3) RMB1,017,960,000 in respect of the provision of services by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (4) RMB16,473,940,000 in respect of the supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (5) RMB263,140,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries under

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## DEFINITIONS

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the Business Co-operation Framework Agreement; (6) RMB385,220,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (7) RMB6,000,000 in respect of the supply of equipment by the Group to Hisense International and its subsidiaries under the Business Co-operation Framework Agreement; and (8) RMB48,660,000 in respect of the provision of services by the Group to Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement;

(B) the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (1) RMB16,800,000,000 (inclusive of interest) in respect of the maximum daily closing balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (2) RMB11,500,000,000 (inclusive of interest and service fees) in respect of the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (3) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services under the Financial Services Agreement; (4) US\$300,000,000 in respect of the annual amount of foreign currency settled or sold by Hisense Finance for the Group under the Financial Services Agreement; and (5) RMB3,000,000 in respect of the maximum annual amount of service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds under the Financial Services Agreement; and

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## DEFINITIONS

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(C) the annual caps for the transactions contemplated under the Financial Business Framework Agreement during the term of the Financial Business Framework Agreement, being (1) RMB800,000,000 (inclusive of interest) in respect to the maximum daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement; (2) RMB400,000,000 (inclusive of interest) in respect of the maximum annual transaction amount of non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement; and (3) RMB300,000,000 (inclusive of interest) in respect of the maximum daily closing balance of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement

“CBRC”

中國銀行業監督管理委員會 (China Banking Regulatory Commission)

“close associates”

has the meaning ascribed to it under the Hong Kong Listing Rules

“Company”

Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange

“connected person(s)”

has the meaning ascribed to it in the Hong Kong Listing Rules

“controlling shareholder(s)”

has the meaning ascribed to it in the Hong Kong Listing Rules

“Director(s)”

director(s) of the Company

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## DEFINITIONS

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“EGM”	the 2020 first extraordinary general meeting of the Company to be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the PRC on Friday, 17 January 2020 at 3:00 p.m. to, among other things, consider and, if thought fit, approve the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto
“Existing Business Co-operation Framework Agreement”	the business co-operation framework agreement (業務合作框架協議) dated 26 November 2018 entered into between the Company, Hisense Group, Hisense Electric and Hisense Marketing Management in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services, as supplemented by the supplemental agreement (業務合作框架協議之補充協議) dated 21 June 2019 entered into between the Company, Hisense Group and Hisense Electric
“Existing Financial Business Framework Agreement”	the financial business framework agreement (金融業務框架協議) dated 28 November 2017 entered into between the Company and Hisense Financial Holdings in connection with the provision of factoring services by Hisense Financial Holdings to the Group, as supplemented by the supplemental agreement (金融業務框架協議之補充協議) dated 26 November 2018 entered into between the Company and Hisense Financial Holdings
“Existing Financial Services Agreement”	the financial services agreement (金融服務協議) dated 26 November 2018 entered into between the Company and Hisense Finance in relation to the provision of financial services by Hisense Finance to the Group, as supplemented by the supplemental agreement (金融服務協議之補充協議) dated 21 June 2019 entered into between the Company and Hisense Finance
“Financial Business Framework Agreement”	the financial business framework agreement (金融業務框架協議) entered into between the Company and Hisense Financial Holdings dated 5 November 2019 in connection with the provision of factoring services and finance leasing services by Hisense Financial Holdings to the Group

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## DEFINITIONS

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“Financial Services Agreement”	the financial services agreement (金融服務協議) entered into between the Company and Hisense Finance dated 5 November 2019 in connection with the provision of financial services by Hisense Finance to the Group
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
“Hisense Air-conditioning”	Qingdao Hisense Air-conditioning Company Limited* (青島海信空調有限公司), a company incorporated in the PRC with limited liability and indirectly controlled by Hisense Group, which holds approximately 37.92% of the issued shares of the Company as at the Latest Practicable Date
“Hisense Electric”	Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange and is a subsidiary of Hisense Group
“Hisense Finance”	Hisense Finance Co., Ltd* (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Financial Holdings”	Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group, which holds approximately 9.13% of the issued shares of the Company as at the Latest Practicable Date
“Hisense International”	Hisense International Co., Ltd. (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group

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## DEFINITIONS

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“Hisense Marketing Management”	Hisense Marketing Management Co., Ltd.* (海信營銷管理有限公司) (formerly known as Qingdao Hisense Commercial Trading Development Co., Ltd.* (青島海信商貿發展有限公司)), a company incorporated in the PRC with limited liability and owned as to 50% by the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors (namely Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit)
“Independent Financial Adviser”	Yuanta Securities (Hong Kong) Company Limited, a corporation licensed to carry Type 1 (Dealing in securities), Type 2 (Dealing in future contracts), Type 4 (Advising on securities), Type 5 (Advising on future contracts), Type 6 (Advising on corporate finance) and Type 9 (Asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto

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## DEFINITIONS

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“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules; (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Services Agreement under the Shenzhen Listing Rules; and (iii) in respect of the Financial Business Framework Agreement, Shareholders other than Hisense Financial Holdings and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Business Framework Agreement under the Shenzhen Listing Rules
“independent third parties”	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and its connected persons and its ultimate beneficial owner(s) or their respective associates
“Latest Practicable Date”	16 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation (對外貿易經濟合作部), now known as the Ministry of Commerce of the RPC (中華人民共和國商務部)
“PRC”	the People’s Republic of China
“Sale and Purchase Agreement”	the sale and purchase agreement dated 5 March 2019 entered into between the Company as purchaser and the Transferor as vendor in relation to the Transfer of Target Equity Interest
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holder(s) of the Shares

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## DEFINITIONS

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“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所股票上市規則)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Transfer of Target Equity Interest”	the transfer of 0.2% equity interest in Hisense Hitachi from the Transferor to the Company pursuant to the Sale and Purchase Agreement
“Transferor”	Unitecs Corporation (株式會社聯合貿易)
“VAT”	value-added tax
“white goods”	the general term by which white-coloured household electrical appliances are commonly known which include, but not limited to, air-conditioners, refrigerators, freezers, washing machines, other small electrical appliances and kitchen electric products
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*English translations of names in Chinese or another language in this circular which are marked with “\*” are for identification purposes only.*

*References to time and dates in this circular are to Hong Kong time and dates.*

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## LETTER FROM THE BOARD

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# Hisense 海信家電

## HISENSE HOME APPLIANCES GROUP CO., LTD.

### 海信家電集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 00921)

*Executive Directors:*

Mr. Tang Ye Guo  
Mr. Jia Shao Qian  
Mr. Lin Lan  
Mr. Dai Hui Zhong  
Mr. Fei Li Cheng  
Mr. Wang Yun Li

*Registered office:*

No. 8 Ronggang Road  
Ronggui Street  
Shunde District  
Foshan City  
Guangdong Province  
PRC

*Independent non-executive Directors:*

Mr. Ma Jin Quan  
Mr. Zhong Geng Shen  
Mr. Cheung Sai Kit

*Principal place of business in Hong Kong:*

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

20 December 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS; AND  
(2) CONTINUING CONNECTED TRANSACTIONS AND  
MAJOR TRANSACTION**

**BACKGROUND**

Reference is made to the announcement of the Company dated 5 November 2019 in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement.

As disclosed in the announcement of the Company dated 5 November 2019, each of the Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement and the Existing Financial Business Framework Agreement will expire on 31 December 2019 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under each of the agreements from time to time after their expiration. In view of the above and to modify the scope of the transactions between certain parties, on 5 November 2019, the Company entered into the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement.

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## LETTER FROM THE BOARD

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The purpose of this circular is to:

- (a) provide you with further information on the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto;
- (b) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto; and
- (c) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto.

### **PRESENTATION OF HISTORICAL FIGURES OF CONTINUING CONNECTED TRANSACTIONS IN THIS CIRCULAR**

Reference is also made to the announcement of the Company dated 5 March 2019 and the circular of the Company dated 14 August 2019. On 5 March 2019, the Company and the Transferor entered into the Sale and Purchase Agreement, pursuant to which the Transferor agreed to sell, and the Company agreed to buy, 0.2% equity interest of Hisense Hitachi at a consideration of RMB25,000,000.

The Transfer of Target Equity Interest was approved by the Shareholders on 29 August 2019 at the 2019 second extraordinary general meeting of the Company. Completion of the Transfer of Target Equity Interest took place in September 2019, following which the Company holds 49.2% equity interests in Hisense Hitachi. The articles of association of Hisense Hitachi state that the board of directors of Hisense Hitachi shall consist of nine members, out of which the Company is entitled to appoint five members. As such, since 30 September 2019, Hisense Hitachi becomes a subsidiary of the Company and the financial results of Hisense Hitachi are consolidated into that of the Group.

As Hisense Hitachi is now a member of the Group, since October 2019 and under each of the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement, the transactions between Hisense Hitachi and Hisense Group, Hisense International, Hisense Electric, Hisense Marketing Management, Hisense Finance, Hisense Financial Holdings and/or their respective subsidiaries (the “**Connected Entities**”) have/will become continuing connected transactions between the Group and the Connected Entities.

In this circular, historical figures of transactions conducted by the Group (including Hisense Hitachi) for the period commencing from 1 January 2019 to 30 September 2019 (the “**Historical Figures**”) are presented. The Company wishes to clarify that the transactions between Hisense Hitachi and the Connected Entities for the period commencing from 1

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## LETTER FROM THE BOARD

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January 2019 to 30 September 2019, the transaction amounts of which are included in the Historical Figures, were not continuing connected transactions between the Group (excluding Hisense Hitachi) and the Connected Entities during such period. To facilitate Shareholders and investors in understanding the basis of and reasons for the proposed Caps (which have taken into account the continuing connected transactions which may be conducted by Hisense Hitachi), the Historical Figures represent the aggregate of the following actual transaction amounts between the Group (including Hisense Hitachi) and the relevant Connected Entities: (i) the amount of continuing connected transactions between the Group (excluding Hisense Hitachi) and the Connected Entities from 1 January 2019 to 30 September 2019; and (ii) the amount of transactions between Hisense Hitachi and the Connected Entities from 1 January 2019 to 30 September 2019 (which were not continuing connected transactions of the Group (excluding Hisense Hitachi)).

### (A) CONTINUING CONNECTED TRANSACTIONS

#### BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

**Date:** 5 November 2019

**Parties:** The Company;  
Hisense Group;  
Hisense International;  
Hisense Electric; and  
Hisense Marketing Management

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2020 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2020, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any exemption for connected transactions being withdrawn or revoked or becoming invalid and there is non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

**Condition:**

The Business Co-operation Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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### **Subject matters:**

The transactions contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Business Co-operation Framework Agreement does not restrict the rights of the parties (as the case may be) to sell or purchase products or services contemplated under the Business Co-operation Framework Agreement from any other purchasers or suppliers (as the case may be).

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

### **The Company's internal policy regarding continuing connected transactions:**

The Company has established connected transaction management policy (關聯交易管理辦法) (the “**CT Management Policy**”) for the purpose of ensuring that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

According to the rules of the CT Management Policy, before a definitive transaction is conducted, the Company will compare the pricing of similar transactions with or quotations obtained from at least three randomly selected independent third parties. Commencement of the definitive transaction with the connected party/parties is conditional upon the Company’s assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the independent Shareholders as a whole.

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. Before an order or a definitive contract for a transaction is placed, accepted or entered into by the Group, the operation departments of the Group will, depending on the circumstances at that time, either obtain the pricing of similar transactions from at least three independent third parties

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## LETTER FROM THE BOARD

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through public channels, or invite at least three independent third parties who are interested in the transaction to provide or offer their quotations, for the purpose of comparing the pricing of similar transactions. If the operation department of the relevant business sector is of the view that the terms of the proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

The finance and securities department of the Company is responsible for the collection and summarisation of all information in relation to the continuing connected transactions from each operation department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department of the Company is responsible for reviewing and approving the Business Co-operation Framework Agreement and the new transaction agreements contemplated under the Business Co-operation Framework Agreement.

The transactions contemplated under the Business Co-operation Framework Agreement are in connection with the following aspects of business co-operation between the parties:

***(1) Purchase of electrical appliances***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis electrical appliances as it may require from time to time.

**Pricing:**

Pricing for the purchase of electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar electrical appliances offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed purchase (including pricing and other contractual terms taking into account factors such as product quality and stability

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## LETTER FROM THE BOARD

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in supply of the product) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price offered by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the purchase of electrical appliances by the Group from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB279,170,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the purchase of electrical appliances by the Group from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB3,750,000 (exclusive of VAT and unaudited) (of which RMB170,000 was for the purchases from Hisense Group and/or its subsidiaries, RMB3,580,000 was for the purchases from Hisense International and/or its subsidiaries and RMB nil was for the purchases from Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of electrical appliances by the Group from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB33,360,000 (exclusive of VAT), of which:

- (i) RMB3,920,000 will be allocated to the purchase of electrical appliances from Hisense Group and/or its subsidiaries;
- (ii) RMB28,950,000 will be allocated to the purchase of electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB490,000 will be allocated to the purchase of electrical appliances from Hisense Electric and/or its subsidiaries.

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## LETTER FROM THE BOARD

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The above Cap was determined with reference to:

- (i) Similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past, that is, the estimated annualised unaudited amount of the similar transactions for the year 2019 in the amount of approximately RMB13,260,000

The estimated annualised unaudited transaction amount for the year 2019 comprises: (a) the historical transaction amount for the nine months ended 30 September 2019 as mentioned above; and (b) the projected transaction amount from October 2019 to December 2019, having taken into account the current progress of the Group's projects, the contemplated transactions under the contracts already entered into by the Group and the development of the Group's business operations in the first three quarters of 2019 (the composition of the estimated annualised unaudited transaction amount for the year 2019, together with the above projection basis of the transaction amount for the final quarter of 2019, in relation to each type of transactions under the Business Co-operation Framework Agreement as presented in this circular shall hereinafter be referred to as the **“Estimated Annualised Transaction Amount in 2019”**).

- (ii) The projected 25% year-on-year increase in the level of sales scale of the Group for the year ending 31 December 2020 (the **“2020 Projected Sales Increment”**)

Such increase was projected based on: (a) the Group's continual improvement in the structure of its product sale by increasing the sale of mid- to high-end products, which is expected to further increase the average selling price of the Group's products and bring in sales increment; (b) the Group's further effort in promotion and marketing activities with an aim to further increase its market share to boost its sales scale; and (c) the Group's plan to further enhance the competitiveness of its sales channel and the effectiveness of its sales point and sales network, thereby bringing in sales increment.

- (iii) The anticipated percentage increase in the relevant purchase of the Group in 2020

Such anticipated increase includes (a) the projected purchase of electrical appliances from Hisense International and/or its subsidiaries, such as refrigerators, freezers, washing machines and kitchen appliances, in the amount of approximately RMB28,950,000 for the year 2020; and (b) the projected purchase of air-conditioners which are specialised for use in subway trains from Hisense Group and/or its subsidiaries in the amount of RMB3,620,000 in 2020, based on the

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## LETTER FROM THE BOARD

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current progress of the related special air-conditioner procurement projects for subway trains between the Group and Hisense Group and/or its subsidiaries.

(iv) The Group's plan of marketing and product promotion activities for the year 2020

The Group plans to offer electrical appliances as gifts for its marketing and product promotion activities for the year 2020 with an aggregate value of RMB790,000.

### **Reasons and benefits:**

The sales and overall image of the Group can be enhanced by purchasing electrical appliances from Hisense Group, Hisense International, Hisense Electric and/or its subsidiaries as gifts for the Group's marketing and promotion activities which aim at boosting the sale of the Group's electrical appliances. At the same time, the Company has appointed Hisense International to purchase, on its behalf, prototype of electrical appliances such as refrigerators, air-conditioners, kitchen and bathroom appliances etc. from overseas markets for the purpose of conducting analysis and research, and to carry out product market research so as to increase the competitiveness of the Group's products. Since the pricing for the purchase of electrical appliances will be determined with reference to the market price of similar electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain electrical appliances through Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of electrical appliances from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(2) *Purchase of raw materials, parts and components***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as it may require from time to time.

### **Pricing:**

Pricing for the purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components offered by at least three independent third parties.

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The operation department of the relevant business sector of the Group will compare the terms of the proposed purchase (including pricing and other contractual terms taking into account factors such as product quality and stability in supply of the product) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price offered to the Group by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB355,050,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB180,230,000 (exclusive of VAT and unaudited) (of which RMB156,880,000 was for the purchases from Hisense Group and/or its subsidiaries and RMB23,350,000 was for the purchases from Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB659,580,000 (exclusive of VAT), of which:

- (i) RMB584,220,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB75,360,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Group, Hisense Electric and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019 in the amount of approximately RMB320,000,000; (ii) the 2020 Projected Sales Increment; and (iii) the anticipated percentage increase in the relevant purchase of the Group in 2020, including but not limited to (a) the projected amount of relevant purchase of the Group in 2020 of approximately RMB400,000,000 given the historical transaction amount mentioned in (i) above

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## LETTER FROM THE BOARD

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and the projected increase in the level of sales scale as mentioned in (ii) above; (b) the expected increase in the scale of purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries in 2020 with corresponding quota in the amount of approximately RMB60,000,000 given the strong ability of the subsidiaries of Hisense Group in manufacturing raw materials such as electric control boards; and (c) the projected purchase of certain materials by the Group from a subsidiary of Hisense Group, which principally engages in domestic and import and export business in the PRC and has the business advantage in obtaining such materials at a lower cost, in the aggregate amount of RMB200,000,000.

### **Reasons and benefits:**

With the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. The subsidiaries of Hisense Group have better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. The Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group and/or its subsidiaries from the previous course of dealings. Quality of the Group's products is guaranteed by purchasing certain raw materials from Hisense Group and/or its subsidiaries, which, in turn, increases product competitiveness and boosts the sale of products.

The subsidiaries of the Group have the ability in manufacturing plastic parts or sheet metals (such as television backboard, television case and metal plate) required for the production of television products, and such business is carried out by means of supplied raw material processing. The subsidiaries of the Group purchase raw materials of plastic parts or sheet metals for the manufacturing of television backboard and case products from Hisense Electric and/or its subsidiaries, which facilitates the development of the aforementioned business.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(3) *Provision of services***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage (i) Hisense Group and/or its subsidiaries for the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, management consultancy, technical support and information system maintenance services as the Group may require from time to time; (ii) Hisense International and/or its subsidiaries for the provision of agency services and maintenance services as the Group may require from time to time; (iii) Hisense Marketing Management and/or its subsidiaries

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## LETTER FROM THE BOARD

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for the provision of agency services as the Group may require from time to time; and (iv) Hisense Electric and/or its subsidiaries for the provision of property and technical support services as the Group may require from time to time.

### **Pricing:**

The fees payable by the Group for receiving the aforesaid services are determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed services (including pricing and other contractual terms taking into account factors such as service quality and stability in provision of the service) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the service fees are not less favourable than the fees offered by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the provision of services by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB868,340,000. For the nine months ended 30 September 2019, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB507,460,000 (unaudited) (of which RMB441,080,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, RMB2,810,000 was for the provision of relevant services by Hisense International and/or its subsidiaries, RMB52,110,000 was for the provision of relevant services by Hisense Marketing Management and/or its subsidiaries and RMB11,460,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

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### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2020 are subject to the Cap of RMB1,017,960,000, of which:

- (i) RMB782,600,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property (including: (a) property leasing services mostly for office buildings; and (b) property management services in relation to office buildings and factories. Most of the aforementioned properties are located in the Guangdong Province and Shandong Province of the PRC), medical, leasing, design, inspection, agency services, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries;
- (ii) RMB33,460,000 will be allocated to the provision of agency services and maintenance services by Hisense International and/or its subsidiaries;
- (iii) RMB167,000,000 will be allocated to the provision of agency services by Hisense Marketing Management and/or its subsidiaries; and
- (iv) RMB34,900,000 will be allocated to the provision of property and technical support services by Hisense Electric and/or its subsidiaries.

## LETTER FROM THE BOARD

**Historical figures, proposed Caps, basis of and reasons for determining the proposed Caps are listed in the table below:**

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019	Proposed Cap for the financial year ending 31 December 2020	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2020
Hisense Group and/or its subsidiaries	Material processing services	142,990,000	97,480,000	144,770,000	<p>Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB114,000,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB145,000,000, representing a percentage increase of approximately 28%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its purchase of material processing services from Hisense Group and/or its subsidiaries given the 2020 Projected Sales Increment; and</li> <li>(ii) the Group will increase the purchase of material processing services from Hisense Group and/or its subsidiaries as to ensure the Group's product quality.</li> </ul>
Installation and maintenance services		281,640,000	167,130,000	290,660,000	<p>Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB223,000,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB290,000,000, representing a percentage increase of approximately 30%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its appointment of Hisense Group and/or its subsidiaries to provide installation and maintenance services given the 2020 Projected Sales Increment; and</li> <li>(ii) the Group will increase its appointment of Hisense Group and/or its subsidiaries to provide installation and maintenance services as the Group is satisfied with their high service quality.</li> </ul>

## LETTER FROM THE BOARD

Entities providing services	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
	Types of services provided to the Group	Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019	Proposed Cap for the financial year ending 31 December 2020
Property services (including property management and property leasing)	34,380,000	25,330,000	43,980,000	<p>Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB33,770,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB43,980,000, representing a percentage increase of approximately 30%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the corresponding increase in charges for electricity and water and property management in 2020 in view of the expected increase in the operating revenue of the Group;</li> <li>(ii) in addition to the existing leases, the Group will procure leasing of new properties or expand the size of leasing area to meet its increased leasing needs in view of the expected increase in the operating revenue of the Group; and</li> <li>(iii) the expected increase in property service fees in view of the expected increase in rental fees in the property market in 2020.</li> </ul>
Information system maintenance services	68,710,000	60,870,000	106,130,000	<p>Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB81,160,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB106,000,000, representing a percentage increase of approximately 31%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Estimated Annualised Transaction Amount in 2019 for the provision of information system maintenance services by Hisense Group and/or its subsidiaries to the Group; and</li> <li>(ii) in addition to the existing information system of the Group, in view of the 2020 Project Sales Increment and the increase in the level and demand of informatisation of the Group, in particular, in the areas of “intellectual manufacturing”, “instant communication application”, “sales management” and “warehousing and logistics”, the Group is expected to incur additional information system maintenance fees.</li> </ul>

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap (Unit: RMB)	Proposed Caps (Unit: RMB)
		Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019		
	Equipment inspection services	17,620,000	14,930,000	21,230,000	Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB19,910,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB21,230,000, representing a percentage increase of approximately 7%, taking into account:
				(i) based on the Estimated Annualised Transaction Amount in 2019 for the provision of equipment inspection services by Hisense Group and/or its subsidiaries to the Group, it is expected that the percentage increase in the relevant purchase of the Group in 2020 would be lower than the 2020 Projected Sales Increment; and	
				(ii) the Group will increase its appointment of Hisense Group and/or its subsidiaries to provide equipment inspection services as the Group is satisfied with their high service quality.	
	Distribution medical, leasing, design, agency services, management consultancy and technical support services	105,140,000	75,340,000	175,830,000	Similar transactions between the Group and Hisense Group and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB136,000,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB175,000,000, representing a percentage increase of approximately 29%, taking into account:
				(i) the Group will correspondingly increase its purchase of these services from Hisense Group and/or its subsidiaries given the 2020 Projected Sales Increment; and	
				(ii) the Group will increase its appointment of Hisense Group and/or its subsidiaries to provide technical support services to its “smart appliances”.	
	<b>Total</b>	<b>650,480,000</b>	<b>441,080,000</b>	<b>782,600,000</b>	

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap for the financial year ending 31 December 2020	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2020
		Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019		
Hisense International and/or its subsidiaries	Maintenance services	28,000,000	2,160,000	31,430,000	<p>Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB19,600,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB31,430,000, representing a percentage increase of approximately 60%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Estimated Annualised Transaction Amount in 2019 for the provision of maintenance services by Hisense International and/or its subsidiaries to the Group;</li> <li>(ii) the 2020 Projected Overseas Sales Increment; and</li> <li>(iii) the extension in warranty period of products which leads to the increase in demand for related product maintenance services.</li> </ul>
Agency services		1,000,000	650,000	2,030,000	<p>Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB1,280,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB2,030,000, representing a percentage increase of approximately 59%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its purchase of agency services from Hisense International and/or its subsidiaries given the 2020 Projected Sales Increment; and</li> <li>(ii) the Group will increase the purchase of agency services from Hisense International and/or its subsidiaries as the Group is satisfied with their high quality and efficient service.</li> </ul>
<b>Total</b>		<b>29,000,000</b>	<b>2,810,000</b>	<b>33,460,000</b>	

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap for the financial year ending 31 December 2020	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2020
		Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019		
Hisense Marketing Management and/or its subsidiaries	Agency services	167,250,000	52,110,000	167,000,000	Similar transactions between the Group and Hisense Marketing Management and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB71,160,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB167,000,000, representing a percentage increase of approximately 135%, taking into account:
					<ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase the purchase of agency services from Hisense Marketing Management and/or its subsidiaries given the 2020 Projected Sales Increment; and</li> <li>(ii) in addition to the existing services provided, the Group will appoint Hisense Marketing Management and/or its subsidiaries to provide “customers”, “users” and “market end” service management, in order to unify the Group’s marketing standards, increase the Group’s marketing capability and bring about stronger synergy effects.</li> </ul>
	<b>Total</b>	<b>167,250,000</b>	<b>52,110,000</b>	<b>167,000,000</b>	

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap for the financial year ending 31 December 2020	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2020
		Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2019		
Hisense Electric and/or its subsidiaries	Property services (including property management and property leasing)	16,690,000	10,450,000	24,870,000	<p>Similar transactions between the Group and Hisense Electric and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB18,770,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB24,870,000, representing a percentage increase of approximately 32%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Estimated Annualised Transaction Amount in 2019 for the provision of property services by Hisense Electric and/or its subsidiaries to the Group;</li> <li>(ii) in addition to the existing leases, the Group will procure leasing of new properties or expand the size of leasing area to meet its increased leasing needs in view of the increase in operating revenue of the Group; and</li> <li>(iii) the expected increase in property service fees in view of the increase in rental fees in the property market in 2020.</li> </ul>
Technical support services		4,920,000	1,010,000	10,030,000	<p>Similar transactions between the Group and Hisense Electric and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, amount to approximately RMB11,110,000. It is expected that the anticipated purchase amount in 2020 is approximately RMB10,030,000, representing a percentage increase of approximately 804%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its purchase of technical support services from Hisense Electric and/or its subsidiaries given the 2020 Projected Sales Increment; and</li> <li>(ii) in 2020, the Group anticipates to appoint Hisense Electric and/or its subsidiaries to provide technical support to, among other platform and laboratory development projects, its “intelligent speech interpretation services”.</li> </ul>
<b>Total</b>		<b>21,610,000</b>	<b>11,460,000</b>	<b>34,900,000</b>	

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### **Reasons and benefits:**

The Company is satisfied with the quality of the services provided by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries from the previous course of dealings and considers that Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly.

In response to the needs of customers and the market, Hisense Marketing Management is responsible for the integrated management and organisation of both the online e-commerce and offline sale of the “Hisense smart home product sets (海信智慧家庭成套產品)” in certain markets of Hisense Group’s full-range electrical appliance products (mainly brown and white goods), which is conducive to enhancing the synergy and sharing effect of the Company’s full-range electrical appliance products, improve the Group’s operational efficiency and reduce expense ratio, which would improve the Group’s sales scale.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the engagement of services of Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(4) *Supply of electrical appliances***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis electrical appliances to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

### **Pricing:**

Pricing for the supply of electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar electrical appliances offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of electrical appliances (including pricing and other contractual terms taking into account factors including customers’ credit rating and qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check,

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compare and confirm the price of the product is not less favourable than the price offered by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB15,101,740,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB8,295,520,000 (exclusive of VAT and unaudited) (of which RMB136,210,000 was for the supply to Hisense Group and/or its subsidiaries, RMB7,923,160,000 was for the supply to Hisense International and/or its subsidiaries, RMB235,980,000 was for the supply to Hisense Marketing Management and/or its subsidiaries and RMB170,000 was for the supply to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB16,473,940,000 (exclusive of VAT), of which:

- (i) RMB410,000,000 will be allocated to the supply of electrical appliances by the Group to Hisense Group and/or its subsidiaries;
- (ii) RMB15,392,980,000 will be allocated to the supply of electrical appliances by the Group to Hisense International and/or its subsidiaries;
- (iii) RMB670,000,000 will be allocated to the supply of electrical appliances by the Group to Hisense Marketing Management and/or its subsidiaries; and
- (iv) RMB960,000 will be allocated to the supply of electrical appliances by the Group to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019 in the amount of approximately RMB12,358,220,000; and (ii) the 2020 Projected Sales Increment.

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The above Cap was also determined with reference to the following expected increase in the relevant sales of the Group in 2020: (i) the sales revenue of the overseas market for the year 2020 is expected to be approximately RMB15,400,000,000, representing a year-on-year increase of 30% (the “**2020 Projected Overseas Sales Increment**”), having considered that in 2020, the Group will (a) focus on its major customers to ensure the continual development of its matured markets and customers scale; (b) further improve its management on its business as the outsourced manufacturer of other brands and increase the sales scale of this business; (c) further expand its business by exploring into other potential markets; and (d) continue to develop the potential of the overseas markets and increase the sales revenue of its brand products; (ii) sale of full-range products and set products has become the market development trend and the sales revenue to be generated via the sale plan of the “Hisense full-range electrical appliance products” which is integrated, managed and organised by Hisense Marketing Management is expected to amount to approximately RMB670,000,000; and (iii) as it is expected that in 2020, Hisense Group and/or its subsidiaries will put further effort in bidding for projects to provide air-conditioners, there would be increase in the entrustment of the manufacturing of such air-conditioners by Hisense Group and/or its subsidiaries to the Group and the expected corresponding amount is approximately RMB360,000,000.

### **Reasons and benefits:**

The production and supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which, in turn, enhance the market competitiveness of the Group’s products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. Developing online platform and offline sale of the “Hisense smart home product sets” through Hisense Marketing Management benefits the creation of a synergetic effect, which can further increase the Group’s sales scale and boost the Group’s market share and income.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of electrical appliances to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(5) Supply of moulds**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis moulds to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

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### **Pricing:**

In response to the invitations to tender from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. The bidding price is determined on the basis of a reasonable cost plus reasonable profit margin. For determining reasonable costs, the Company will take into account fixed cost (e.g. depreciation of machinery), cost of raw material, and labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period.

### **Historical figures:**

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB228,320,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB79,170,000 (exclusive of VAT and unaudited) (of which RMB nil was for the supply to Hisense Group and/or its subsidiaries, RMB26,290,000 was for the supply to Hisense International and/or its subsidiaries and RMB52,880,000 was for the supply to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB263,140,000 (exclusive of VAT), of which:

- (i) RMB6,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries;
- (ii) RMB87,140,000 will be allocated to the supply of moulds to Hisense International and/or its subsidiaries; and
- (iii) RMB170,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

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## LETTER FROM THE BOARD

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The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019, of which approximately RMB40,000,000 would be for Hisense International and/or its subsidiaries and approximately RMB67,300,000 would be for Hisense Electric and/or its subsidiaries; and (ii) the projected increase in the level of sales scale of the moulds of the Group for the year 2020, including having taken into account (i) the increases in the business scale and new customers of Hisense International and/or its subsidiaries, which, along with other factors, are expected to further increase their demand for moulds from the Group in the corresponding amount of approximately RMB87,140,000; and (ii) the expected purchase amount of approximately RMB170,000,000 by Hisense Electric and/or its subsidiaries after consultation and negotiation between the Group and Hisense Electric and/or its subsidiaries.

### **Reasons and benefits:**

The manufacture and sale of moulds have become important parts of the business of the Company's subsidiaries, and the sale of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group. Acting as the supplier for moulds of the relevant subsidiaries of Hisense Group, Hisense International and Hisense Electric, the sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with these companies. By maintaining such relationship, the relevant subsidiaries of Hisense Group, Hisense International and Hisense Electric may continue to serve as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group and increasing the sales revenue of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of moulds to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(6) Supply of raw materials, parts and components**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

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## LETTER FROM THE BOARD

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### **Pricing:**

Pricing for the supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components supplied to at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of raw materials, parts and components (including pricing and other contractual terms taking into account factors including customers' credit rating and qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price of similar raw materials, parts and components supplied by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB223,750,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB127,260,000 (exclusive of VAT and unaudited) (of which RMB62,170,000 was for the supply to Hisense Group and/or its subsidiaries, RMB56,290,000 was for the supply to Hisense International and/or its subsidiaries and RMB8,800,000 was for the supply to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB385,220,000 (exclusive of VAT), of which:

- (i) RMB235,030,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries;

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## LETTER FROM THE BOARD

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- (ii) RMB131,090,000 will be allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries; and
- (iii) RMB19,100,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019 in the amount of approximately RMB214,510,000; (ii) the 2020 Projected Sales Increment; and (iii) the anticipated percentage increase in the relevant purchase of the Group in 2020.

The above Cap was also determined with reference to the following expected increase in the relevant sales of the Group in 2020: (i) to meet the Group's production needs in 2020, it is expected that the Group will increase its purchase of raw materials such as electric control boards from the subsidiaries of Hisense Group. The Group will then process the raw materials acquired and it is expected that the purchase of the processed materials by Hisense Group and/its subsidiaries will correspondingly increase to the amount of approximately RMB212,000,000; (ii) the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries is a business incidental to the sale of products by the Group to Hisense International and/or its subsidiaries. Based on the 2020 Projected Overseas Sales Increment, having also taken into account the increase in the quota of spare parts required by overseas customers and the expected increase in the revenue from the sale of spare parts, the upper limit for exporting raw materials, parts and components for the year 2020 is estimated to be approximately RMB131,090,000; and (iii) the subsidiaries of the Group sell raw materials, parts and components to Hisense Electric and/or its subsidiaries, which mainly include the parts and components of television backboard, television case and metal plate etc. produced by the Group for Hisense Electric and/or its subsidiaries, and the expected amount of purchase by Hisense Electric and/or its subsidiaries is approximately RMB19,100,000 after consultation and negotiation between the Group and Hisense Electric and/or its subsidiaries.

### **Reasons and benefits:**

Hisense International has overseas sales channels and high quality customer resources. The supply of raw materials, parts and components of export products by the Group to Hisense International can satisfy the business needs of the Group's export sales and expand the export sales scale of the Group. Further, the provision of raw materials, parts and components to Hisense Electric and its subsidiaries can increase the revenue of the Group.

The subsidiaries of Hisense Group have better ability in manufacturing raw materials (such as electric control boards and Wi-Fi modules) required for manufacturing electrical appliances products with better quality and is beneficial to ensure the quality and performance of the products. The Company is satisfied

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## LETTER FROM THE BOARD

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with the quality of raw materials, parts and components provided by Hisense Group and/or its subsidiaries. Quality of the Group's products is guaranteed by purchasing certain raw materials from Hisense Group and/or its subsidiaries, which, in turn, increases product competitiveness and boosts the sale of products. Such businesses are carried out by means of supplied raw material processing. The Group supplies Hisense Group and/or its subsidiaries with the processed raw materials such as electric control boards and Wi-Fi modules required for their further production, which facilitates the development of the aforementioned businesses.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of raw materials, parts and components to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(7) *Supply of equipment***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense International and/or its subsidiaries on a non-exclusive basis such quantities of equipment as they may require from time to time.

#### **Pricing:**

Pricing for the supply of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar equipment supplied by the Group to at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of equipment (including pricing and other contractual terms taking into account factors including customers' credit rating and qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price of similar equipment supplied by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

#### **Historical figures:**

The annual cap allocated to the supply of equipment by the Group to Hisense International and/or its subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework

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## LETTER FROM THE BOARD

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Agreement is RMB12,500,000 (exclusive of VAT). For the nine months ended 30 September 2019, the aggregate transaction amount for the supply of equipment by the Group to Hisense International and/or their respective subsidiaries amounted to approximately RMB nil (exclusive of VAT and unaudited).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of equipment by the Group to Hisense International and/or its subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB6,000,000 (exclusive of VAT).

The above Cap was determined with reference to (i) the 2020 Projected Sales Increment; (ii) the 2020 Projected Overseas Sales Increment; and (iii) the expected purchase amount of approximately RMB6,000,000 by Hisense International and/or its subsidiaries after consultation and negotiation between the Group and Hisense International and/or its subsidiaries, having considered the anticipated demand for equipment purchase of the overseas customers in 2020.

### **Reasons and benefits:**

The supply of equipment by the Group to Hisense International and/or its subsidiaries will increase the Group's revenue and satisfy the production needs of the overseas clients.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of equipment to Hisense International and/or its subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(8) *Provision of services by the Group***

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, (i) provide processing services, property services and installation services to Hisense Group and/or its subsidiaries; (ii) provide design and property services to Hisense International and/or its subsidiaries; and (iii) provide processing services, property services and installation services to Hisense Electric and/or its subsidiaries.

### **Pricing:**

The fees payable by Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the aforesaid services are determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services offered by at least three independent third parties.

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## LETTER FROM THE BOARD

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The operation department of the relevant business sector of the Group will compare the terms of the proposed services (including pricing and other contractual terms taking into account factors including customers' credit rating and qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the service fees are not less favourable than the fees of similar services offered by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

### **Historical figures:**

The annual cap allocated to the provision of services by the Group to Hisense Group, Hisense International, Hisense Electric and/or its subsidiaries for the financial year ending 31 December 2019 as specified in the Existing Business Co-operation Framework Agreement is RMB47,910,000. For the nine months ended 30 September 2019, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB15,350,000 (unaudited) (of which RMB10,370,000 was for the provision of relevant services by the Group to Hisense Group and/or its subsidiaries, RMB3,510,000 was for the provision of relevant services by the Group to Hisense International and/or its subsidiaries and RMB1,470,000 was for the provision of relevant services by the Group to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2020 are subject to the Cap of RMB48,660,000, of which:

- (i) RMB17,690,000 will be allocated to the provision of processing services, property services and installation services by the Group to Hisense Group and/or its subsidiaries;
- (ii) RMB10,090,000 will be allocated to the provision of design and property services by the Group to Hisense International and/or its subsidiaries; and
- (iii) RMB20,880,000 will be allocated to the provision of processing services, property services and installation services by the Group to Hisense Electric and/or its subsidiaries.

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## LETTER FROM THE BOARD

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The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2019 in the amount of approximately RMB32,400,000; (ii) the 2020 Projected Sales Increment; and (iii) related business needs of Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the year 2020.

The above Cap was also determined with reference to the following expected growth in the businesses of the Group in 2020: (i) property services in the sum of approximately RMB11,720,000 to be provided by the Group; (ii) design services in the sum of approximately RMB6,870,000 to be provided by the Group; (iii) processing services in the sum of approximately RMB13,680,000 to be provided by the Group; and (iv) installation services in the sum of approximately RMB3,840,000 to be provided by the Group.

### **Reasons and benefits:**

The provision of services to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries can improve the utilisation rate of the Group's resources and increase the Group's revenue.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the provision of services to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **(B) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION**

### **FINANCIAL SERVICES AGREEMENT**

**Date:** 5 November 2019

**Parties:** The Company; and  
Hisense Finance

**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2020 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2020, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

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## LETTER FROM THE BOARD

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**Condition:**

The Financial Services Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including without limitation, deposit services, loan and electronic bank acceptance bill services, draft discount services (票據貼現服務) and other businesses which may be carried on by Hisense Finance as approved by the regulatory authorities. Particulars of the services to be provided by Hisense Finance to the Group are as follows:

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill (電子銀行承兌匯票) services;
- (iii) draft discount services (票據貼現服務);
- (iv) settlement and sale of foreign exchange services (結售匯服務); and
- (v) agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest (貼現利息) from the Group for “cashing” the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to the latter which will have the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

The implementation of the provision of particular services contemplated under the Financial Services Agreement shall be subject to the definitive contract(s) to be entered into between the relevant parties within the scope of the Financial Services Agreement.

The Group may obtain financial services contemplated under the Financial Services Agreement from other financial institutions in addition to Hisense Finance, as it sees fit.

**The Company's internal policy regarding continuing connected transactions:**

The Company has established the CT Management Policy to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

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## LETTER FROM THE BOARD

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According to the CT Management Policy, before entering into a definitive transaction, the Company will compare the price of similar transactions with or quotations obtained from independent third parties. Commencement of the definitive transaction with the connected party/parties is subject to the Company's assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the independent Shareholders as a whole.

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly, the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, our finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

If the finance department is of the view that the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are no less favourable to the Group than those offered by commercial banks in the PRC, the Group will not execute the relevant transactions. The designated finance staff responsible for reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management.

The finance and securities department of the Company is responsible for the collection and summarisation of all information in relation to the continuing connected transactions from the finance department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management

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## LETTER FROM THE BOARD

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regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the securities department is the same so that the same information can be reviewed by personnel of different departments whose duties are segregated from each other. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

The Company and Hisense Finance periodically enter into deposit and loan agreements and electronic bank acceptance bill contracts pursuant to the Financial Services Agreement. The approval process of the relevant agreements and contracts is initiated by the finance department and the agreements and contracts can only be executed after the approval by the responsible finance officer in charge of a specific business operation. The finance and securities department will closely monitor the daily balances of the deposit service and the loan and electronic bank acceptance bill service so that the relevant annual caps are not exceeded and the risks involved are under control.

The transactions contemplated under the Financial Services Agreement are in connection with the following aspects of financial services between the parties:

**(1) *Deposit services***

**Pricing:**

The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rates on deposits via conducting online and telephone enquiries.

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## LETTER FROM THE BOARD

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### **Historical figures:**

The maximum daily balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB16,000,000,000 (inclusive of interest). For the period commencing from 1 January 2019 to 30 September 2019, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB11,100,000,000.

### **Proposed Cap:**

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB16,800,000,000 (inclusive of interest) on any given day for the year ending 31 December 2020.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of cash of the Group after taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group, as a result of which the Group will utilise more deposit services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance; and (iii) the level of growth in monetary funds attributable to the projected increase in the sales scale of the Group for the year 2020.

While the Group does not intend to deposit all its cash with Hisense Finance, a buffer in the maximum daily cash balance in the Group's deposit account is required after taking into account: (i) deposit services required during the transition period between the expiry of wealth management products subscribed by the Group and the subscription of new wealth management products by the Group; and (ii) the requirement of temporary deposit of the proceeds of the loans proposed to be provided by Hisense Finance to the Group under the Financial Services Agreement.

The above Cap was also determined with reference to: as at 30 September 2019, the balance of monetary funds held by the Group was RMB10,850,000,000, and the balance of monetary funds from wealth management was RMB2,550,000,000 (the total amount of monetary funds held by the Group and from wealth management was thus RMB13,400,000,000). Based on the 2020 Projected Sales Increment, it is anticipated that the highest daily cash balance held by the Group will correspondingly increase by 25% to approximately RMB16,800,000,000 (inclusive of interest) in 2020.

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## LETTER FROM THE BOARD

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As discussed above, while the Group does not intend to deposit all its cash with Hisense Finance, taking into account the following, a buffer in the maximum daily cash balance of the deposits placed by the Group with Hisense Finance is required:

- (i) although the Group intends to continue to allocate a substantial amount of its cash for subscription of entrusted wealth management products, deposit services are still required for cash involved in the transition period between the expiry of entrusted wealth management products and the subscription of new entrusted wealth management products. The expected amount of cash for subscription of entrusted wealth management products in the year 2020 is approximately RMB9,000,000,000; and
- (ii) the Group will also borrow loans from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. As the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for drawdown, the Group's funding needs in terms of loans will also affect the Group's deposit balances with Hisense Finance.

In view of the above, in order to satisfy the business needs, it is expected that the daily closing balance of deposit will not exceed RMB16,800,000,000 (inclusive of interest) in 2020.

### **(2) *Loan and electronic bank acceptance bill services***

#### **Pricing:**

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The designated finance staff of the Group will review and compare the interest rates for loan offered by Hisense Finance with the major commercial banks regularly. For the purpose of ensuring the sufficiency of independent proceeds raised later, bank transactions that are subject to review, the finance staff will review the interest rates for loan offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rate charged for loans via conducting online and telephone enquiries.

The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. The treasure department of the Group will conduct a monthly review on the service fees charged by external commercial banks, namely the five major

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## LETTER FROM THE BOARD

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commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees for issuing electronic bank acceptance bills via conducting online and telephone enquiries. The monthly review is conducted to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

### **Historical figures:**

The maximum balance of loan and electronic bank acceptance bills which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB11,500,000,000 (inclusive of interest and service fees). For the period commencing from 1 January 2019 to 30 September 2019, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB7,000,000,000.

### **Proposed Cap:**

The Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB11,500,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2020.

The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Finance (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the estimated ratio of payment by means of electronic bank acceptance bills by the Group for the year 2020; and (iii) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the loan and electronic bank acceptance bill services application process by the Group.

In 2020, the Group will further adjust payment terms, increase payment via electronic bank acceptance bills, reduce payments via cash and endorsement of bills receivable. On one hand, the Group can utilise the available capital more efficiently to obtain operational income and increase cash flow. On the other hand, the Group can reduce costs derived from endorsement of bills receivable. As such, it is expected that the Group will continue to use electronic bank acceptance bills services in the future. For the nine months ended 30 September 2019, the maximum daily balance of the loan and electronic bank acceptance bills

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## LETTER FROM THE BOARD

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amounted to approximately RMB7,000,000,000. It is expected that payment by means of electronic acceptance bills will increase from currently 38% to 48% in 2020; coupled with the estimated increase in the amount of purchase payment of 25% (which corresponds with the 2020 Projected Sales Increment), the daily balance of loan and electronic bank acceptance bills are expected to be not exceeding RMB11,500,000,000 (inclusive of interests and service fees) in order to meet business needs.

**(3) *Draft discount services***

**Pricing:**

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

Prior to the execution of the relevant contracts for the draft discount services, the Group's staff will obtain and compare the quotations from Hisense Finance and the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of discount rate via conducting online and telephone enquiries.

**Historical figures:**

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2019 to 30 September 2019, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB600,000.

**Proposed Cap:**

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000 for the year ending 31 December 2020.

The above Cap was determined with reference to (i) the expected financial needs of the Group during the peak season for production for the year 2020; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the draft discount services by

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## LETTER FROM THE BOARD

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Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the draft discount application process by the Group.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2020; and (ii) the Group's plan to enhance its management on its accounts receivables and inventory to expedite the capital turnover rate and reduce unused inventory and capital, it is estimated that the Company's annual sum of money for procurement of draft discount services by the Group to Hisense Finance will be RMB2,000,000,000 in 2020 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be RMB50,000,000 for the year ending 31 December 2020 taking into account the existing market interest level and the financing cycle of draft discount services.

### **(4) Settlement and sale of foreign exchange services**

#### **Pricing:**

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group.

Prior to the execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees via conducting online and telephone enquiries.

#### **Historical figures:**

Under the Existing Financial Services Agreement, the annual amount settled or sold by Hisense Finance for the Group shall not exceed US\$500,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2019 to 30 September 2019, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$42,220,000.

#### **Proposed Cap:**

The Company currently expects that the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$300,000,000 for the year ending 31 December 2020. The above Cap was determined with reference to: (i) the expected volume of export and the expected amount subject to

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settlement and sale of foreign exchange for the year ending 31 December 2020. For the full year of 2019, it is expected that foreign currency received by the Group from its export business would amount to approximately US\$150,000,000, and payments to be made by the Group in foreign currency would amount to US\$60,000,000 (the total amount of foreign currency received and paid by the Group would thus be US\$210,000,000); and (ii) the 2020 Projected Overseas Sales Increment.

Taking into account of all of the above factors, it is estimated that the settlement and sale of foreign exchange services provided by Hisense Finance for 2020 will amount to approximately US\$300,000,000.

### **(5) *Agency services such as settlement services for receipt and payment of funds***

#### **Pricing:**

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period. Hisense Finance announces its scale of charges at the beginning of every year. Currently, the said scale of charges has been lower than those of the major commercial banks in the PRC. The treasure department of the Group conducts monthly review on the service fees charged by external commercial banks, namely the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees via conducting online and telephone enquiries. These monthly reviews are conducted for the provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks. If the expected scale of charges of Hisense Finance is found to be more expensive than that of other major commercial banks, the Company will select the bank with cheaper charging rates.

#### **Historical figures:**

Under the Existing Financial Services Agreement, the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds shall not exceed RMB3,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2019 to 30 September 2019, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds amounted to approximately RMB485,500.

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## LETTER FROM THE BOARD

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### **Proposed Cap:**

The Company currently expects that the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for the year ending 31 December 2020.

The above Cap was determined with reference to the historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue and the charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB5.5 to RMB200 per transaction. As the Company is unable to ensure that the service fees payable by the Group to Hisense Finance will remain to be lower than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC, and taking into account the Group's expected demand for transfer services in 2020 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2019, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3,000,000.

### **Reasons for and benefits of the Financial Services Agreement:**

The main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- (i) the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC;
- (ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and

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(iii) Hisense Finance is regulated by the CBRC and engages in the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are companies within Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard customers' funds more effectively.

Despite the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, the Group is still facing a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the Measures for the Administration of Finance Companies of Enterprise Group (企業集團財務公司管理辦法) issued by the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the Group's deposit arrangement with Hisense Finance and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance, obtain and review the indicator data submitted by Hisense Finance to CBRC on a quarterly basis, assess the operational and financial risks of Hisense Finance, and regularly issue risk assessment reports to the Directors for their consideration and adoption of necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital and to publish announcement timely. As the Company has been reviewing financial reports of Hisense Finance, arranging simulation stress test every year and formulates liquidity stress test report, assessing the operational and financial risks of Hisense Finance and regularly issuing risk assessment reports to the Directors during the period when cash is deposited with Hisense Finance pursuant to the Existing Financial Services Agreement and taking into consideration the information from the aforesaid review and comparing with the risk portfolio of other independent financial service providers, the Board considers that the risk profile of Hisense Finance, as a financial services provider to the Group, is not greater than that of the independent commercial banks in the PRC.

Further, while it is the intention of the Company to continue to use a significant part of its cash in the subscription of entrusted wealth management products, deposit services will still be needed for that part of the Company's cash in the interim period between the expiry of an entrusted wealth management product and the subscription of a new entrusted wealth management product.

Given that (i) the interest rates on deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC; and (ii) Hisense Finance is expected to provide more suitable

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## LETTER FROM THE BOARD

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and efficient service to the Group based on their better understanding of the operations of the Group, the Company prefers to conduct the deposit service under the Financial Services Agreement with Hisense Finance in order to maximise the benefits of the Shareholders, instead of conducting the deposit service under the Financial Services Agreement with commercial banks in the PRC to diversify risk. The transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company. It would in turn strengthen the Company's ability to avoid the risk arising from the change of national monetary policies and ensure that the Company will maintain a stable level of assets for daily operation. It would also further improve capital efficiency of the Company.

It was also set out in the Financial Services Agreement that the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties.

The Board has considered the risks which may be involved in fully utilising the Caps and assessed the possibility of default for Hisense Finance by:

- (i) reviewing the audited reports of Hisense Finance of the previous two financial years to ascertain the amount of its total assets and has found that its total assets has year-on-year increase and such reports are not qualified nor disclaimed by the auditors;
- (ii) preparing 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」(the “**Risk Assessment Reports**”) which has been published by the Company on the website of Shenzhen Stock Exchange dated 29 March 2016, 29 March 2017, 29 March 2018, 29 August 2018, 28 March 2019 and 22 August 2019 respectively and in which it was noted that Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group (企業集團財務公司管理辦法) as at 31 December 2015, 31 December 2016, 31 December 2017, 30 September 2018, 31 December 2018 and 30 June 2019 and the Board has noted that Hisense Finance has been maintaining a relatively higher standard for the weighted average capital adequacy ratio and current ratio; and
- (iii) reviewing the internal regulatory report submitted by Hisense Finance to the Company and the confirmation from Hisense Finance that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment.

Having considered the above findings and the fact that Hisense Finance is only allowed to provide financial services to the group companies of Hisense Group which Hisense Finance shall have better understanding on their financial

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positions and such focus of client base enables Hisense Finance to subject to lower default risk as compared to those commercial banks which with voluminous clients, the Directors are of the view that even with the full utilisation of the Caps, the Company will not be subject to undue default risk by Hisense Finance in light of its relatively sound financial positions and historical compliance with relevant regulatory requirements.

Having reviewed the historical sample deposit rates offered by Hisense Finance and other major commercial banks (for example, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China), the Board has noted that the interest rates offered by Hisense Finance are not less favourable than those offered by major commercial banks for the deposit with the same type and tenure. Moreover, Hisense Finance may offer to the Group tailor-made beneficial loan mix that can specifically cater for the Group's funding needs which may not be readily available from other commercial banks.

As quite a substantial amount of the Group's cash and borrowings will be handled by Hisense Finance under the Financial Services Agreement, the Company has adopted risk control measures to mitigate the risks involved by:

- (i) periodically checking the deposit balance placed with Hisense Finance and reviewing the same by the designated finance staff of the Group;
- (ii) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;
- (iii) requesting the designated finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks; and
- (iv) regularly reviewing the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (such as the financial positions of Hisense Finance is severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement.

The Directors, having taken into consideration of the above matters, are of the view that the Group can be benefited from Hisense Finance's better understanding of the operations of the Group which can provide more suitable and efficient service to the Group comparing with those offered by other commercial banks in the PRC and the risk control measures implemented by the Group are sufficient to mitigate the risks involved should the Group fully utilise the Caps.

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In light of the above, the Directors (including the independent non-executive Directors) are of the view that (i) the transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (ii) the terms of the Financial Services Agreement and the Caps in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### PLEDGING AND OTHER SECURITY

Hisense Finance may require the Group to provide guarantee, security or pledge in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs.

Certain subsidiaries of the Group have provided charges in favour of Hisense Finance in respect of the provision of electronic bank acceptance bills provided by Hisense Finance to such subsidiaries of the Group. Pursuant to these charges, part of the bank acceptance bills held by the Group will be charged to Hisense Finance to form a portfolio of bank acceptance bills. The Group has opened a special account with Hisense Finance for depositing due and charged bank acceptance bills. The pledged amount is the value of the valid bank acceptance bills which have been deposited to form the pledge portfolio multiplied by the pledge rate determined by Hisense Finance pursuant to the relevant regulations set out by the relevant banking supervision department (which is currently 100%). The maximum balance of the bank acceptance bills which Hisense Finance may provide for the Group will then be not lower than such pledged amount from time to time. It is contemplated that if the Group is required to provide security or pledge to Hisense Finance in respect of the provision of electronic bank acceptance bill services, such security or pledge will be on similar terms with the pledge mentioned above.

As at the Latest Practicable Date, the Group did not obtain any loan from Hisense Finance and therefore no guarantee, security or pledge in respect of loan services was provided by the Group to Hisense Finance. In the future, if the Group is required to obtain loan from Hisense Finance exceeding the credit limit, Hisense Finance may require the Group to provide guarantee, security or pledge in relation to the provision of loan services. In such circumstance, the Group will use bank acceptance bills as security and such security or pledge will be on similar terms with the pledge in respect of the electronic bank acceptance bill services mentioned above.

If the Group is required to provide security or pledge to Hisense Finance in respect of the provision of electronic bank acceptance bill services or loan services which will involve pledging or charging of any assets other than electronic bank acceptance bills or if the maximum balance of the electronic bank acceptance bills services or loans which Hisense Finance may provide for the Group up to is less than 100% of the pledge value for the bank acceptance bills which are deposited by the Group as security for such services or loans, the Company will re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules.

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### **FINANCIAL EFFECTS ON THE COMPANY FOR THE USE OF DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT**

The use of deposit services allows the Group to receive interests for its deposits kept in financial institution at a rate that is no less favourable than the interest rates for deposits offered by other commercial banks in the PRC for similar deposits. However, the annual interest income only accounts for a small portion of its profits, assets and liabilities. Therefore, the Company expects that its use of deposit services under the Financial Services Agreement will not have any material impact towards the profit, assets and liabilities of the Company.

### **(C) CONTINUING CONNECTED TRANSACTIONS**

#### **FINANCIAL BUSINESS FRAMEWORK AGREEMENT**

**Date:** 5 November 2019

**Parties:** The Company; and  
Hisense Financial Holdings

**Term:**

The term of the Financial Business Framework Agreement shall commence from 1 January 2020 or the date of approval of the Financial Business Framework Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

**Condition:**

The Financial Business Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

Pursuant to the terms of the Financial Business Framework Agreement, the Group will engage Hisense Financial Holdings and/or its subsidiaries to provide (i) a series of factoring services, including recourse commercial factoring and non-recourse commercial factoring, as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement; and (ii) finance leasing services, the particulars of which are set out as follows:

- (i) direct leasing;
- (ii) sale and leaseback;
- (iii) leveraged leasing;

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- (iv) captive lease; and
- (v) operating leasing.

The implementation of the provision of particular services contemplated under the Financial Business Framework Agreement shall be subject to the definitive contract(s) to be entered into between the Company and Hisense Financial Holdings and/or their respective subsidiaries within the scope of the Financial Business Framework Agreement.

The Company and Hisense Financial Holdings may authorise their respective subsidiaries to perform the Financial Business Framework Agreement and to enter into definitive business contract(s) within the scope of the Financial Business Framework Agreement.

The Financial Business Framework Agreement contains no provision which restricts the Company's right to obtain commercial factoring services contemplated under the Financial Business Framework Agreement from third parties.

**The Company's internal policies regarding continuing connected transactions:**

In relation to the Financial Business Framework Agreement, the Company has adopted various internal control measures.

The Company has established the CT Management Policy to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

In order to ensure the amount of transactions contemplated under the Financial Business Framework Agreement will not exceed the proposed Caps, the Company will monitor, on a daily basis, the daily closing balance of the recourse factoring services and finance leasing services and, on a monthly basis, the total transaction amount of the non-recourse factoring services. Furthermore, the Company will estimate the amount of transactions that may possibly be incurred in the coming months in respect of the recourse factoring services, non-recourse factoring services and finance leasing services under the Financial Business Framework Agreement.

The Company's finance department will ask for quotations and terms from other providers of factoring services and finance leasing services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services and finance leasing services. Before the Group accepts any factoring services or finance leasing services, the Company's finance department will, depending on the circumstances at that time, either obtain the quotations and terms of similar services from at least three independent third parties through public channels, or invite

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at least three independent third parties who are interested in providing the services to offer their quotations and terms, for the purpose of comparing the quotations and terms of similar services. If the finance department is of the view that the terms for factoring services and finance leasing services offered by Hisense Financial Holdings or its relevant subsidiaries to the Company are less favourable to the Group than those offered by other factoring service and finance leasing services providers, it will report to the senior management who will negotiate with Hisense Financial Holdings or its relevant subsidiaries on the terms of the relevant transactions. If, after negotiation, Hisense Financial Holdings or its relevant subsidiaries cannot offer terms which are no less favourable to the Company than those offered by other factoring service and finance leasing services providers, the Company will not execute the relevant transactions.

The legal affairs department of the Company is responsible for reviewing and approving the Financial Business Framework Agreement and the new transaction agreements contemplated under the Financial Business Framework Agreement.

### ***(1) Provision of factoring services***

#### **Pricing:**

The pricing of the factoring services provided by Hisense Financial Holdings and/or its relevant subsidiaries to the Group shall be determined on the basis of the loan interest rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the loan interest rate charged by normal commercial banks in the PRC providing such services to the Group. The transactions under Financial Business Framework Agreement are conducted in the course of normal business of the parties, on normal commercial terms and on terms no less favourable than those obtained from or provided by (as the case may be) independent third parties.

The Company's finance department will ask for quotations and terms from at least three other providers of factoring services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services.

#### **Historical figures:**

The daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Existing Financial Business Framework Agreement shall not exceed RMB800,000,000 (inclusive of interest). For the period from 1 January 2019 to 30 September 2019, the highest daily closing balance of the said services was approximately RMB nil (inclusive of interest).

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The annual cap of the non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB400,000,000 (inclusive of interest). For the period from 1 January 2019 to 30 September 2019, the transaction amount of the non-recourse factoring services was approximately RMB nil (inclusive of interest).

### **Proposed Caps:**

The daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB800,000,000 (inclusive of interest).

The annual Cap for the non-recourse factoring services provided by Hisense Financial Holdings or its subsidiaries to the Group during the term of the Financial Business Framework Agreement shall not exceed RMB400,000,000 (inclusive of interest).

The Caps for each of the years ending 31 December 2020 and 2021 was determined with reference to (i) the projected scale of funds to be received from the settlement of the bills receivable of the Group for the year 2019; and (ii) the projected increase in the level of the scale of funds to be received from the settlement of the bills receivable of the Group in 2020 driven by the projected increase in the sales scale of the Group for the year 2020.

The basis on which the Company determines the Cap for recourse factoring services and non-recourse factoring services are as follows: for the period from 1 January 2019 to 30 September 2019, funds received by the Group from the settlement of bills receivables amounted to RMB16,000,000,000; for the full year of 2019, it is expected that the projected scale of funds to be received from the settlement of bills receivable of the Group would amount to approximately RMB20,000,000,000. Based on the 2020 Projected Sales Increment, the scale of funds to be received from the settlement of bills receivable is expected to increase from approximately RMB20,000,000,000 to RMB25,000,000,000. As of September 2019, payment by way of endorsement of the bills receivable accounted for approximately 33%, and the remaining bills receivable are to be settled upon maturity. Take into account the Group's funding needs during peak season for payments, the bills receivable to be used for financing purposes by the Group will account for approximately 20% of the aforementioned bills receivable to be settled upon maturity, i.e. the scale of bills receivable to be used for financing purposes would be approximately RMB3,300,000,000. Of this RMB3,300,000,000, financing of approximately RMB2,100,000,000 is expected to be obtained from discounting the bills receivable at Hisense Finance and financing of approximately RMB1,200,000,000 is expected to be obtained from factoring at Hisense Financial Holdings. Take into account the situation of the bills receivable of the Group for the year 2019 (such as the quality of the bills receivable and the credit rating of the issuing banks), the expected ratio of recourse factoring services to non-recourse factoring services is approximately 2:1. As such, it is

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expected that the daily closing balance of the recourse factoring services shall not exceed RMB800,000,000 and the annual Cap of the non-recourse factoring services shall not exceed RMB400,000,000.

Notwithstanding that the Group had not obtained any factoring services from Hisense Financial Holdings or its subsidiaries during the period from 1 January 2019 to 30 September 2019, the Caps for each of the years ending 31 December 2020 and 2021 for the recourse factoring services and non-recourse factoring services were determined based on (i) the overall projected scale of funds to be received from the settlement of the bills receivable of the Group in 2020 in the amount of approximately RMB25,000,000,000 as mentioned above; and (ii) the Group's overall funding needs during peak season for payments, for the following reasons:

- (a) whether and to what extent the Group would eventually obtain factoring services from Hisense Financial Holdings or its subsidiaries depend on the actual operation circumstances of the Group and its funding needs from time to time;
- (b) since there would be time difference between product production and product sale, it is necessary for the Group to cater for its funding needs and reserve various financing methods so as to meet its funding needs in the peak season for payments during its production process; and
- (c) determining the Caps based on the overall projected scale of funds and funding needs of the Group would (i) allow the Group to maintain a stable and flexible option in choosing factoring as financing method should the scale of financing requires, (ii) strengthen the Group's ability in facing any risks which may be brought by the change of national monetary policies, (iii) ensure the stability of supply of funds as may be required by the Group's operations from time to time; and (iv) further increase the efficiency in using the Group's capital.

### **(2) *Provision of finance leasing services***

#### **Pricing:**

The pricing of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group shall be determined on the basis of the loan interest rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the loan interest rate charged by normal commercial banks in the PRC providing such services to the Group.

The Company's finance department will ask for quotations and terms from at least three other providers of finance leasing services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its

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relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of finance leasing services.

### **Historical figures:**

The daily closing balance of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group at Hisense Financial Holdings or its subsidiaries during the term of the Existing Financial Business Framework Agreement shall not exceed RMB300,000,000 (inclusive of interest). For the period from 1 January 2019 to 30 September 2019, the highest daily closing balance of the said services was approximately RMB nil (inclusive of interest).

### **Proposed Cap:**

The daily closing balance of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB300,000,000 (inclusive of interest).

The proposed Cap is mainly based on the Group's historical cash outflow on items such as purchasing fixed assets, etc. For the period from 1 January 2019 to 30 September 2019, cash payment made by the Group for purchasing fixed assets, intangible assets and other long-term assets amounted to approximately RMB370,000,000. For the full year of 2019, it is expected that cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets will proportionately increase to the amount of approximately RMB500,000,000. It is expected that cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets in 2020 and 2021 would be of a similar amount when compared to 2019. In order to explore financing channels, it is expected that 60% of the aforementioned purchase amount would be financed by the finance leasing services to be provided by Hisense Financial Holdings and/or its subsidiaries to the Group, and the Cap for commencing finance leasing services through Hisense Financial Holdings during the term of the Financial Business Framework Agreement on any given day would be RMB300,000,000 (inclusive of interest).

Notwithstanding that the Group had not obtained any finance leasing services from Hisense Financial Holdings or its subsidiaries during the period from 1 January 2019 to 30 September 2019, the Cap for each of the years ending 31 December 2020 and 2021 for the finance leasing services was determined based on the overall projected cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets in 2020 and 2021 in the amount of approximately RMB500,000,000 as mentioned above for the following reasons:

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- (a) whether and to what extent the Group would eventually obtain finance leasing services from Hisense Financial Holdings or its subsidiaries depend on the actual operation circumstances of the Group; and
- (b) determining the Cap based on the projected cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets would (i) allow the Group to revitalise its assets in order to obtain capital operation income and increase the efficiency in using its capital; and (ii) provide the Group with quota and flexibility in choosing finance leasing as financing method, and provide convenience to the Group in meeting its financing needs in the coming two years.

### **Reasons for and benefits of the Financial Business Framework Agreement:**

The entering into of the Financial Business Framework Agreement will enable the Group to further increase the liquidity of its assets, to receive income from capital operation, and to increase the efficiency of capital operation. Factoring and finance leasing services provided by Hisense Financial Holdings or its subsidiaries can further revitalise the Group's idle assets. The Group can in turn receive operating income and improve efficiency of the use of capital.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Financial Business Framework Agreement and the Caps in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **INFORMATION RELATING TO THE GROUP, HISENSE ELECTRIC, HISENSE GROUP, HISENSE MARKETING MANAGEMENT, HISENSE INTERNATIONAL, HISENSE FINANCE AND HISENSE FINANCIAL HOLDINGS**

The Group is principally engaged in research and development, manufacturing and marketing of electrical products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines and kitchen appliances.

Hisense Electric was established on 17 April 1997 and has a registered capital of RMB1,308,481,222. Its legal representative is Mr. Liu Hong Xin and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. The scope of business of Hisense Electric includes: the research and development, manufacture, sales, service, repair and recycling of television sets, flat panel display sets, mobile phones, electric refrigerators, electric freezers, washing machines, water heaters, microwave ovens, small household appliance products (such as dishwashers, electric irons, electric hair dryers, electric cookers), broadcasting appliances, electronic computers, communication products, mobile communication appliances, information technology products, household and commercial appliances and electronic products; non-standardised equipment processing, installation and after-sales services; self-operated import and export business (with its operation subject to the list of projects as approved by MOFTEC); production of terrestrial broadcasting receiver equipment for satellite televisions; leasing of houses, leasing of machinery and

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## LETTER FROM THE BOARD

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equipment, property management; general logistics (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). The ultimate beneficial owner of Hisense Electric is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

Hisense Group is a wholly state-owned enterprise incorporated in August 1979 and has a registered capital of RMB806,170,000. Its legal representative is Mr. Zhou Houjian and its registered address is at No. 17 Donghai West Road, Shinan District, Qingdao City. The scope of business of Hisense Group includes: the entrusted operation of state-owned assets; the engagement in foreign investment with its own capital; the manufacture and sale of, and provision of service related to, television sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products; the development of software and the provision of internet services; technology development and provision of consultation services; self-operated import and export business (with its operation subject to the list of projects as approved by MOFTEC); foreign economic and technical cooperation (with its operation subject to the list of projects as approved by MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings; property management; leasing of tangible property, leasing of immovable property; catering management services; catering services; conference services and parking services (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). The ultimate beneficial owner of Hisense Group is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

Hisense Marketing Management was incorporated in July 2017 and has a registered capital of RMB100,000,000. Its legal representative is Mr. Cheng Kai Xun and its registered address is at No. 399, Songling Road, Laoshan District, Qingdao City, Shandong Province. The scope of business of Hisense Marketing Management includes: wholesale, retail, agency sales, after-sale service, warranty extension services for televisions, air conditioners, home appliances and components, electronic products, communication equipment, communication devices (excluding satellite antenna), sensing and control equipment, marketing planning, sales, construction and technical services for security and surveillance equipment, e-commerce technical service, internet information services, internet operation and promotion (commencement of business operations subject to the approval and issue of permits by communication authorities), exhibition display services, design, production, publication, agency of domestic advertisements, logistics design, supply chain management, road freight transport (commencement of business operations subject to the approval and issue of permits by transport management authorities). Hisense Marketing Management is 50% owned by the Company. The ultimate beneficial owner of Hisense Marketing Management is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

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## LETTER FROM THE BOARD

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Hisense International was incorporated in 2008 and has a registered capital of RMB30,000,000. Its legal representative is Mr. Lin Lan and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. The scope of business of Hisense International includes: the operation and agent of import and export of goods, import and export of technology (not permitted to operate business prohibited by law and administrative regulations; if the operation of business is restricted by law and administrative regulations, operation of business is only allowed upon obtaining the necessary permit); planning of corporate marketing; carrying on sino-foreign joint venture and cooperative production business; and carrying on the business of “The Three-plus-one Trading-mix” (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments); production and sale of remote controls, degaussing coils, electrical components, air-conditioner components, etc. Hisense International is 12.67% owned by Hisense Electric and 12.67% owned by the Company. The ultimate beneficial owner of Hisense International is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance is not a banking company as defined in Rule 14A.88 of the Hong Kong Listing Rules. Hisense Finance was established in the PRC on 12 June 2008 and has a registered capital of RMB1,300,000,000. Hisense Finance is owned as to 39.45% by Qingdao Hisense Communications Co., Ltd. (青島海信通信有限公司), 26.92% by Hisense Air-conditioning, 25.24% by Hisense Group and 8.39% by Qingdao Hisense Electronic (Holdings) Company Limited (青島海信電子產業控股股份有限公司). The ultimate beneficial owner of Hisense Finance is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會). The business scope of Hisense Finance includes: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies.

Hisense Financial Holdings was established in Qingdao City of the PRC with limited liability under the Company Law of the PRC. The Company holds 24% equity interest in Hisense Financial Holdings. The ultimate beneficial owner of Hisense Financial Holdings is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會). The business scope of Hisense Financial Holdings includes: engaging in asset management,

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## LETTER FROM THE BOARD

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investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of debt investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). Hisense Commercial Factoring Co., Ltd\* (青島海信商業保理有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Financial Holdings, is principally engaged in the businesses of commercial factoring services and supply chain management consultation services.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

#### (A) Business Co-operation Framework Agreement

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company and (ii) each of Hisense International and Hisense Electric is a subsidiary of Hisense Group, Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Since Hisense Electric holds more than 30% of the issued shares of Hisense Marketing Management, Hisense Marketing Management is an associate of Hisense Electric and Hisense Marketing Management and its subsidiaries are also connected persons of the Company under the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will

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## LETTER FROM THE BOARD

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abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

### **(B) Financial Services Agreement**

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company and (ii) Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company under the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit services, loan and electronic bank acceptance bill services, draft discount services, settlement and sale of foreign exchange services and agency services such as settlement services for receipt and payment of funds by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although certain applicable percentage ratios for the provision of such deposit services exceed 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, since the other applicable percentage ratios for the provision of such deposit services are more than 25% but less than 75%, the transaction will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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## LETTER FROM THE BOARD

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### (C) Financial Business Framework Agreement

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; and (ii) Hisense Financial Holdings is a subsidiary of Hisense Group, Hisense Financial Holdings is a connected person of the Company under the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Business Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

The transactions under the Financial Business Framework Agreement and the Financial Services Agreement will be aggregated under the Hong Kong Listing Rules. As the applicable percentage ratios as defined under Rule 14.07 of the Hong Kong Listing Rules in respect of the Financial Business Framework Agreement and the Financial Services Agreement on an aggregate basis exceed 5%, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Financial Holdings in the Company, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Business Framework Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

The Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement are not inter-conditional on each other.

## GENERAL

Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement and the transactions contemplated thereunder in view of their interest therein as set out below:

- (i) Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong are also directors or senior management of Hisense Group and/or some of its subsidiaries;
- (ii) Mr. Lin Lan and Mr. Dai Hui Zhong are also directors of Hisense Electric and/or some of its subsidiaries;
- (iii) Mr. Tang Ye Guo and Mr. Jia Shao Qian are also directors of Hisense Finance; and

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## LETTER FROM THE BOARD

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(iv) Mr. Tang Ye Guo is also a director of Hisense Financial Holdings.

### EGM

The EGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC on Friday, 17 January 2020 at 3:00 p.m., at which resolutions will be proposed for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto by poll.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 5 November 2019 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip to The Securities Department, Hisense Home Appliances Group Co., Ltd. by personal delivery, post or fax during hours between 8:30 a.m. and 11:00 a.m., 1:30 p.m. and 4:30 p.m. on every business day on or before Friday, 27 December 2019. Failure to complete or return the reply slip will not preclude eligible Shareholders from attending the EGM should they so wish.

The vote of the Shareholders at the EGM will be taken by poll in accordance with Rule 13.39(4) of the Listing Rules and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

In order to determine the holders of Shares who are eligible to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 18 December 2019 to Friday, 17 January 2020 (both days inclusive). In order to qualify for attending the EGM, all transfer documents of H Shares together with the relevant share certificates must have been lodged with the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 17 December 2019 for registration.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that each of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

### ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto which are respectively set out on page 66 and pages 145 of this circular. Additional information is also set out in the appendices to this circular for your information.

Yours faithfully,  
By order of the Board  
**Hisense Home Appliances Group Co., Ltd.**  
**Tang Ye Guo**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**Hisense** 海信家電

**HISENSE HOME APPLIANCES GROUP CO., LTD.**

**海信家電集團股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 00921)*

20 December 2019

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders dated 20 December 2019 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto as to the fairness and reasonableness of the same. Yuanta Securities (Hong Kong) Company Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

**RECOMMENDATION**

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 9 to 65 and pages 68 to 145 of the Circular respectively. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto.

Yours faithfully,  
For and on behalf of the Independent Board Committee  
**Ma Jin Quan   Zhong Geng Shen   Cheung Sai Kit**  
*Independent non-executive Directors*  
Hisense Home Appliances Group Co., Ltd.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from Yuanta Securities (Hong Kong) Company Limited to the Independent Board Committee and the Shareholders in relation to the Agreements prepared for the purpose of incorporation in this circular.*



Yuanta Securities (Hong Kong) Company Limited  
23/F, Tower 1, Admiralty Centre,  
18 Harcourt Road, Admiralty, Hong Kong  
香港金鐘夏慤道18號海富中心1座23樓  
Tel/電話: (852) 3555 7888  
Fax/傳真: (852) 3555 7889

13 December 2019

To: The Independent Board Committee and  
the Shareholders of  
Hisense Home Appliances Group Company Limited

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “**Independent Board Committee**”) and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement (collectively the “**Agreements**”), details of which are set out in the circular to the Shareholders dated around 17th December 2019 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Shareholders in respect of the Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement and the Existing Financial Business Framework Agreement will expire on 31 December 2019 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under each of the agreements from time to time after their expiration. In view of the above and to revise the Caps for the transactions between certain parties, on 5 November 2019, the Company entered into the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement.

The purpose of this circular is to: (a) provide you with further information on the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto; (b) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the

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## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto; and (c) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto.

### **Business Co-operation Framework Agreement**

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company and (ii) each of Hisense International and Hisense Electric is a subsidiary of Hisense Group, Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Since Hisense Electric holds more than 30% of the issued shares of Hisense Marketing Management, Hisense Marketing Management is an associate of Hisense Electric and Hisense Marketing Management and its subsidiaries are also connected persons of the Company under the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

### **Financial Services Agreement**

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company and (ii) Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company under the Hong Kong Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit services, loan and electronic bank acceptance bill services, draft discount services, settlement and sale of foreign exchange services and agency services such as settlement services for receipt and payment of funds by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although one of the applicable percentage ratios for the provision of such deposit services is more than 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, since certain applicable percentage ratios for the provision of such deposit services are more than 25% but less than 75%, the transaction will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

The Business Co-operation Framework Agreement and the Financial Services Agreement are not inter-conditional on each other.

### **Financial Business Framework Agreement**

As at the Latest Practicable Date, as (i) Hisense Group (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; and (ii) Hisense Financial Holdings is a subsidiary of Hisense Group, Hisense Financial Holdings is a connected person of the Company under the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Business Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The transactions under the Financial Business Framework Agreement and the Financial Services Agreement will be aggregated under the Hong Kong Listing Rules. As the applicable percentage ratios as defined under Rule 14.07 of the Hong Kong Listing Rules in respect of the Financial Business Framework Agreement and the Financial Services Agreement on an aggregate basis exceed 5%, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Financial Holdings in the Company, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Business Framework Agreement, the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

The Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement are not inter-conditional on each other.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit, has been established to advise the Shareholders on whether or not the Agreements and the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to (i) whether the Agreements and the transactions contemplated thereunder and the Caps in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Agreements and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) how the Shareholders should vote in respect of the resolution(s) to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

During the past year, Yuanta had been engaged as the independent financial adviser for the continuing connected transactions in relation to the Business Co-operation Framework Agreement, Financial Services Agreement and Financial Business Framework Agreement (see Company's circular dated 7 January 2019 and 14 August 2019 for details). The professional fees for the aforesaid appointment have already been fully settled. We are not aware of the existence of or change in any circumstances that would affect our independence. As such, we consider that we are eligible to give independent advice on the Agreements (stipulating the Proposed Annual Caps).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the “**Management**”) and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the Latest Practicable Date. We have assumed that all the opinions and representations made or provided by the Management contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group or Hisense Group.

### PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Agreements, we have taken into consideration the following principal factors:

#### I. BACKGROUND INFORMATION AND REASONS FOR THE AGREEMENTS

##### 1. *Information on the Group*

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, are principally engaged in research and development, manufacturing and marketing of electrical products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances, etc. As stated in the Company’s annual report for the year ended 31 December 2018 (the “**2018 Annual Report**”), approximately 61.2% of the Group’s turnover for the year ended 31 December 2018 was derived from the PRC market and the rest was derived from overseas markets.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2018 Annual Report and the Group's interim report for the six months ended 30 June 2019 (the “**2019 Interim Report**”):

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2017 (Audited)	2018 (Audited)	2018 (Unaudited)	2019 (Unaudited)
<b>Revenues</b>				
– Sales of refrigerators & washing machines	14,110.9	16,073.0	7,922.8	7,659.7
– Sales of air-conditioners	14,587.6	14,891.5	9,648.5	8,914.8
– Sales of other products	1,731.6	1,826.6	868.4	754.9
Revenue from principal operations	30,430.1	32,791.1	18,439.7	17,329.4
Revenue from other operations	3,057.5	3,228.6	1,931.1	1,620.8
<b>Total operating revenue</b>	<b>33,487.6</b>	<b>36,019.6</b>	<b>20,370.8</b>	<b>18,950.3</b>
Operating costs	(26,969.8)	(29,171.5)	(16,624.6)	(15,091.0)
Business taxes and surcharges	(325.3)	(311.6)	(161.1)	(150.7)
Selling and distribution expenses	(4,771.8)	(5,005.9)	(2,643.9)	(2,624.9)
General and administrative expenses( <i>Note 1</i> )	–	–	(214.1)	(241.0)
Research and development expenses	(618.5)	(686.8)	(319.5)	(377.2)
Financial income/finance cost	(9.8)	(34.6)	(13.3)	(14.8)
Impairment (losses)/gains on assets	(38.0)	(2.6)	3.5	2.5
Credit impairment loss	–	(2.4)	1.4	(8.5)
<b>Total operating costs</b>	<b>(33,159.4)</b>	<b>(35,641.1)</b>	<b>(19,971.4)</b>	<b>(18,505.6)</b>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2017 (Audited)	2018 (Audited)	2018 (Unaudited)	2019 (Unaudited)
Other income	125.5	302.6	90.4	107.5
(Loss)/gain from changes in fair value	(10.0)	(2.3)	(2.4)	2.3
Investment income	1,562.4	828.7	407.4	498.0
Gains on disposal of assets	4.1	1.2	0.5	0.6
<b>Operating profits</b>	<b>2,030.8</b>	<b>1,508.7</b>	<b>895.1</b>	<b>1,053.0</b>
Non-operating income	237.7	74.0	47.0	66.7
Non-operating expenses	(15.6)	(17.8)	(11.9)	(10.8)
<b>Profit before tax</b>	<b>2,252.9</b>	<b>1,564.9</b>	<b>930.2</b>	<b>1,108.9</b>
Income tax expenses	(181.1)	(141.8)	(111.7)	(122.4)
<b>Net profit for the year/period</b>	<b>2,071.8</b>	<b>1,423.1</b>	<b>818.6</b>	<b>986.5</b>
Attributable to:				
– Owners of the Company	2,018.1	1,377.5	791.6	959.7
– Minority interests	53.7	45.6	26.9	26.8

<i>In RMB million, approximately</i>	As at 31 December		As at 30 June	
	2017 (Audited)	2018 (Audited)	2018 (Unaudited)	2019 (Unaudited)
Non-current assets	6,759.8	7,531.1	6,987.3	7,189.7
Current assets	14,847.6	14,296.8	17,489.7	17,519.3
Non-current liabilities	411.2	432.0	422.5	509.5
Current liabilities	14,109.1	13,506.5	16,886.4	15,753.4
Total shareholders' equity	7,087.2	7,889.4	7,168.0	8,446.1

*Note:*

1. Research and development expenses was included in General and administrative expenses for the year ended 31 December 2017 and year ended 31 December 2018

The Group's total other income increased by approximately 141.12% from approximately RMB125.5 million for the year ended 31 December 2017 to approximately RMB302.6 million for the year ended 31 December 2018. According to the 2018 Annual Report, the increase was due to the increase in immediate refund of value-added tax and other government grants related to daily operation.

The Group's total operating revenue increased by approximately 7.56% from approximately RMB33,487.6 million for the year ended 31 December 2017 to approximately RMB36,019.6 million for the year ended 31 December 2018. According to the 2018 Annual Report, the increase was due to the increase in sales of

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air-conditioners, refrigerators, freezers and washing machines. Total operating costs for the year ended 31 December 2018 increased roughly in the same line with the increase in the total operating revenue for the same year.

In addition, the Group's non-operating income increased approximately 42% from approximately RMB47 million for the six months ended 30 June 2018 to approximately RMB66.7 million for the six months ended 30 June 2019. According to the 2019 Interim Report, the increase was due to the gain from scrapping of non-current assets including fixed assets and the government grants not related to daily operation of the enterprise.

### ***2. Information on Hisense Electric***

Hisense Electric was established on 17 April 1997 and has a registered capital of RMB1,308,481,222. Its legal representative is Mr. Liu Hong Xin and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. The scope of business of Hisense Electric includes: the research and development, manufacture, sales, service, repair and recycling of television sets, flat panel display sets, mobile phones, electric refrigerators, electric freezers, washing machines, water heaters, microwave ovens, small household appliance products (such as dishwashers, electric irons, electric hair dryers, electric cookers), broadcasting appliances, electronic computers, communication products, mobile communication appliances, information technology products, household and commercial appliances and electronic products; non-standardised equipment processing, installation and after-sales services; self-operated import and export business (with its operation subject to the list of projects as approved by MOFTEC); production of terrestrial broadcasting receiver equipment for satellite televisions; leasing of houses, leasing of machinery and equipment, property management; general logistics. (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). The ultimate beneficial owner of Hisense Electric is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

### ***3. Information on Hisense Group***

Hisense Group was a wholly state-owned enterprise incorporated in August 1979 and has a registered capital of RMB806,170,000. Its legal representative is Mr. Zhou Houjian and its registered address is at No. 17 Donghai West Road, Shinan District, Qingdao City. The scope of business of Hisense Group includes: the entrusted operation of state-owned assets; the engagement in foreign investment with its own capital; the manufacture and sale of, and provision of service related to, television sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products; the development of software and the provision of internet services; technology development and provision of consultation services; self-operated import and export business (with its operation subject to the list of projects as approved by MOFTEC); foreign economic and technical cooperation (with its operation subject to the list of projects as approved by

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MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings; property management; leasing of tangible property, leasing of immovable property; catering management services; catering services; conference services and parking services (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). The ultimate beneficial owner of Hisense Group is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

### ***4. Information on Hisense Marketing Management***

Hisense Marketing Management was incorporated in July 2017 and has a registered capital of RMB100,000,000. Its legal representative is Mr. Cheng Kai Xun and its registered address is at No. 399, Songling Road, Laoshan District, Qingdao City, Shandong Province. The scope of business of Hisense Marketing Management includes: wholesale, retail, agency sales, after-sale service, warranty extension services for televisions, air conditioners, home appliances and components, electronic products, communication equipment, communication devices (excluding satellite antenna), sensing and control equipment, marketing planning, sales, construction and technical services for security and surveillance equipment, e-commerce technical service, internet information services, internet operation and promotion (commencement of business operations subject to the approval and issue of permits by communication authorities), exhibition display services, design, production, publication, agency of domestic advertisements, logistics design, supply chain management, road freight transport (commencement of business operations subject to the approval and issue of permits by transport management authorities). Hisense Marketing Management is 50% owned by the Company. The ultimate beneficial owner of Hisense Marketing Management is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

### ***5. Information on Hisense International***

Hisense International was incorporated in 2008 and has a registered capital of RMB30,000,000. Its legal representative is Mr. Lin Lan and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. The scope of business of Hisense International includes: the operation and agent of import and export of goods, import and export of technology (not permitted to operate business prohibited by law and administrative regulations; if the operation of business is restricted by law and administrative regulations, operation of business is only allowed upon obtaining the necessary permit); planning of corporate marketing; carrying on sino-foreign joint venture and cooperative production business; and carrying on the business of “The Three-plus-one Trading-mix” (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments); production and sale of remote controls, degaussing coils, electrical components, air-conditioner components, etc. Hisense International is 12.67% owned by Hisense Electric and 12.67% owned by the

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Company. The ultimate beneficial owner of Hisense International is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

### 6. *Information on Hisense Finance*

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance is not a banking company as defined in Rule 14A.88 of the Hong Kong Listing Rules. Hisense Finance was established in the PRC on 12 June 2008 and has a registered capital of RMB1,300,000,000. Hisense Finance is owned as to 39.45% by Qingdao Hisense Communications Co., Ltd. (青島海信通信有限公司), 26.92% by Hisense Air-conditioning, 25.24% by Hisense Group and 8.39% by Qingdao Hisense Electronic (Holdings) Company Limited (青島海信電子產業控股股份有限公司). The ultimate beneficial owner of Hisense Finance is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會). The business scope of Hisense Finance includes: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies.

### 7. *Information on Hisense Financial Holdings*

Hisense Financial Holdings is established in Qingdao City of the PRC with limited liability under the Company Law of the PRC. The Company holds 24% equity interest in Hisense Financial Holdings. The ultimate beneficial owner of Hisense Financial Holdings is State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會). The business scope of Hisense Financial Holdings includes: engaging in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of debt investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments). Hisense Commercial Factoring Co., Ltd\* (青島海信商業保理有限公司), a company incorporated

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in the PRC with limited liability and a subsidiary of Hisense Financial Holdings, is principally engaged in the businesses of commercial factoring services and supply chain management consultation services.

### 8. *Prevailing market conditions about the demand for electrical appliances*

According to the State Council Information Office of the People's Republic of China, the PRC government estimated its gross domestic product (“GDP”) growth target up to 6.5% for 2019. In October 2019, it indicated that the GDP in the first three quarters of 2019, being approximately RMB69.78 trillion, has achieved a year-on-year increase of approximately 6.2%.

For total retail sales of consumer goods, according to the National Bureau of Statistics of China, for the nine months ended 30 September 2019, it rose approximately 8.2 % year-on-year to approximately RMB29,667.4 billion and the retail sales of consumer goods excluding automobiles reached RMB26,814.6 billion yuan, increased by 9.1 percent. Among the above, the retail sales of consumer goods in urban areas was RMB25,352.4 billion yuan in the first three quarters of 2019, up by 8.0 percent year-on-year, while that in rural areas was RMB4,315.0 billion yuan, up by 9.0 percent year-on-year.

For the white goods industry export market, according to the General Administration of Customs of the People's Republic of China, for the nine months ended 30 September 2019, the cumulative retail value of the refrigerator industry recorded a year-on-year increase of approximately 6.9%. The cumulative export volume of the air-conditioner industry recorded a year-on-year increase of approximately 21.4%, respectively.

White goods enterprises strive to offer products with better user experience through unceasing technological upgrades and innovations as well as refined management, and continue to optimize the product structure of white goods and upgrade industrial consumption by shifting to air-cooled products from two-door and three-door refrigerators, broadening product offerings with high-end French-style products, and upgrading air-conditioners products with inverter technology, energy efficiency, health and comfort and stronger cooling capacity.

Stock Code	Company Name	Revenue for the year ending 2017 (CNY million)	Revenue for the year ending 2018 (CNY million)	The year-on-year growth rate in 2018 compared to 2017
000333	MIDEA GROUP CO-A	241,900	261,820	8.2%
600690	HAIER SMART HOME C-A	159,254	183,317	15.1%
000651	GREE ELECTRIC-A	150,000	200,024	33.3%
000921	HISENSE H.A-A	33,488	36,020	7.6%
000521	CHANGHONG MEIL-A	16,797	17,490	4.1%

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As part of our due diligence, we compared the revenues of the listed major Chinese white goods companies in the past year. The year-on-year growth rates of listed major Chinese white goods companies in 2018 are up to 33% with reference to 2017. When taking into account the fact that the revenue growth rates of listed major Chinese white goods companies can be up to 33%, thus, as aimed to be the market leader and compared with the maximum revenue growth rate of listed major Chinese white goods companies, the Group sets the growth target of revenue to be 25% in 2020 less than the maximum year-on-year growth rates of listed major Chinese white goods companies in 2018 with reference to 2017 will be fair and reasonable.

According to the Management, Hisense Hitachi is included in the scope of the consolidated financial statement of the Group, the scale of the Group's operating income will increase significantly, and as Hisense Hitachi's operating income has maintained a rapid growth, the increase in operating income in the past three years in 2017 and 2018 was 44% and 17% respectively, the rapid growth of Hisense Hitachi's operating income will drive the increase in the growth rate of the group's operating income. Thus, it is fair and reasonable for the Group to grow its revenue by 25% in 2020.

In addition, the total operating revenue for the six months ended 30 June 2018 and for the six months ended 30 June 2019 were amounted to approximately RMB20,370.8 million and RMB18,950.3 million with a year-on-year decrease of approximately 6.9%. The main reason for the reduction of revenue for the six months ended 30 June 2019 is due to the US-China trade war with the increase of the tariff. However, China may have other solutions at its disposal, including monetary and fiscal stimulus. According to the State Taxation Administration of the People's Republic of China, it cut taxes and fees totaling around RMB170 billion in the first half of the year. The tax cut will be expected to go into effect in September and the People's Bank of China (PBOC) has already reduced its reserve requirement ratio twice in the past four months. As such, some of the negative GDP impact can be partially offset and we expect the situation will have an improvement in 2020. Therefore, without the impact of US-China trade war, the revenue growth 25% of the Group in 2020 will be fair and reasonable.

We consider that for success of the business, as implied by the prevailing market conditions, it is essential for the market players to excel itself by increasing market competitiveness in the domestic market and riding on the opportunities lied ahead for the export market. We consider that the entering of the Agreements, which targets to strengthen the Group's cost effectiveness, is one of strategies for this purpose.

According to the above statistic, the refrigerator industry, air-conditioner industry, the country's retail sales of consumer goods and the competitive landscape have recorded an increased demand in 2018. Overall, the above market data on GDP consumption and retail sales indicate a positive economic landscape for the industry.

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### 9. *Reasons for the Agreements*

#### a. *The Business Co-operation Framework Agreement*

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may enter into certain transactions with the respective subsidiaries of Hisense Group and Hisense Electric in respect of the supply and purchase of electrical appliances, raw materials, parts and components, provision of services, and supply of moulds (particulars and terms of each category of the aforesaid transactions are discussed in the section headed “Terms of the Agreements” below), we consider that the business arrangements under the Business Co-operation Framework Agreement serve essentially to assist the Group’s operations as a manufacturer of electrical appliances. Given the similar principal activities between the Group and Hisense International or their subsidiaries in respect of the supply of electrical appliances, raw materials, parts and components, purchase of electrical appliances, provision of services, supply of equipment and moulds. The Company has also agreed that it may enter into certain transactions with the respective subsidiaries of Hisense Marketing Management in respect of the provision of services and supply of electrical appliances.

In view of the substantial interest of Hisense Group in the Company, the Group believes that it is in the commercial interest of Hisense Group to assist the Group in its business conditions and improving its profitability. In addition, certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of electrical appliances, equipment, moulds, raw materials parts and components and provision of services by the Group, when take place, will continue being recognised by the Group as its sales or other income, and the overall revenue of the Group will therefore be increased as a result of such transactions.

As regards the purchase of electrical appliances, the sales and overall image of the Group can be enhanced by purchasing electrical appliances from Hisense Group, Hisense Electric and/or its subsidiaries as gifts for the Group’s marketing and promotion activities which aim at boosting the sale of the Group’s electrical appliances. At the same time, the Group has appointed Hisense International to purchase, on its behalf, prototype of electrical appliances such as refrigerators, air-conditioners, kitchen and bathroom appliances etc. from overseas markets for the purpose of conducting analysis and research, and to carry out product market research so as to increase the competitiveness of the Group’s products. Since the pricing for the purchase of electrical appliances will be determined with reference to the market price of similar electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain electrical appliances through Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries.

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As regards the purchase of raw materials, parts and components stated in the Letter from the Board, the purchase of raw materials, parts and components with the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. The subsidiaries of Hisense Group have better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. The Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group and/or its subsidiaries from the previous course of dealings. Quality of the Group's products is guaranteed by purchasing certain raw materials from Hisense Group and/or its subsidiaries, which, in turn, increases product competitiveness and boosts the sale of products. The subsidiaries of the Group have the ability in manufacturing plastic parts or sheet metals (such as television backboard, television case and metal plate) required for the production of television products, and such business is carried out by means of supplied raw material processing. The subsidiaries of the Group purchase raw materials of plastic parts or sheet metals for the manufacturing of television backboard and case products from Hisense Electric and/or its subsidiaries, which facilitates the development of the aforementioned business.

As regards the engagement of services, The Company is satisfied with the quality of the services provided by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries from the previous course of dealings and considers that Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly. In response to the needs of customers and the market, Hisense Marketing Management is responsible for the integrated management and organisation of both online e-commerce and offline sale of the "Hisense smart home product sets (海信智慧家庭成套產品)" in certain markets of Hisense Group's full-range electrical appliance products (mainly brown and white goods), which is conducive to enhancing the synergy and sharing effect of the Group's electrical appliance products, improve the Group's operational efficiency and reduce expense ratio, which would improve the Group's sales scale.

As regards the supply of electrical appliances stated in the Letter from the Board, the production and supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which, in turn, enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance competitiveness and awareness through supply electrical appliances to Hisense International. Developing online platform and offline sale of the "Hisense smart home product sets" through Hisense Marketing Management benefits the creation of a synergistic effect, which can further increase the Group's sales scale and boost the Group's market share and income.

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As regards the supply of moulds, the manufacture and sale of moulds have become important parts of the business of the Group's subsidiaries, and the sale of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group. Acting as the supplier for moulds of the relevant subsidiaries of Hisense Group, Hisense International and Hisense Electric, the sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with these companies. By maintaining such relationship, the relevant subsidiaries of Hisense Group, Hisense International and Hisense Electric may continue to serve as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group and increasing the sales revenue of the Group.

As regards the supply of raw materials, parts and components stated in the Letter from the Board, Hisense International has overseas sales channels and high quality customer resources. The supply of raw materials, parts and components of export products by the Group to Hisense International can satisfy the business needs of the Group's electrical appliances export sales and expand the export sales scale of the Group. Further, the provision of raw materials, parts and components to Hisense Electric and its subsidiaries can increase the revenue of the Group. In addition, the subsidiaries of Hisense Group have better ability in manufacturing raw materials (such as electric control boards and Wi-Fi modules) required for manufacturing electrical appliances products with better quality and is beneficial to ensure the quality and performance of the products. The Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group and/or its subsidiaries. Quality of the Group's products is guaranteed by purchasing certain raw materials from Hisense Group and/or its subsidiaries, which, in turn, increases product competitiveness and boosts the sale of products. Such businesses are carried out by means of supplied raw material processing. The Group supplies Hisense Group and/or its subsidiaries with the raw materials such as electric control boards and Wi-Fi modules required for production which facilitates the development of the aforementioned businesses.

As regards to the supply of equipment by the Group to Hisense International and/or its subsidiaries will increase the Group's revenue and satisfy the production needs of the oversea clients.

As regards the provision of services by the Group stated in the Letter from the Board, the provision of services to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries can improve the utilisation rate of the Group's resources and increase the Group's revenue.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of electrical appliances, purchase of raw materials, parts and component, supply of electrical appliances, provision of services to the Group, supply of moulds, supply of raw materials,

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parts and components, supply of equipment, provision of services to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries.

In summary, we are of the view that the respective co-operation between the Group and each of Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their subsidiaries, which have a wide range of advantageous resources, channels or professional ability, experience, etc. for purchase of materials and are in an advantageous position to obtain products with better quality and pricing, can (i) help lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products; (ii) bring benefit to the Group from the sharing of resources and the maximization of the economies of scale; and (iii) continue to provide quality services to the Group due to their familiarity of the operations of the Group and help reduce the operational risk exposure of the Group.

Based on the nature of the transactions to be contemplated under the Business Co-operation Framework Agreement and the benefits expected to be brought by such transactions as discussed above, we consider that the transactions to be contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the Group and we concur with the view of the Group that the entering into of the Business Co-operation Framework Agreement is in the interests of the Group and the Shareholders as a whole.

*b. The Financial Services Agreement*

As set out in the Letter from the Board, the main reasons for the election by the Group to use Hisense Finance for the provision of the relevant financial services are as follows:

- the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC;
- the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and
- Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are Hisense Group and its subsidiaries. In general, as the risks exposed to Hisense Finance are lesser than those exposed

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard customers' funds more effectively.

Furthermore, as stated in the Letter from the Board, the transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Group. It would in turn strengthen the Group's ability to avoid the risk arising from the change of national monetary policies and ensure that the Group will maintain a stable level of assets for daily operation. It would also further improve capital efficiency of the Group.

According to the Letter from the Board, the Group is of the view that the default risk associated with placing deposits with Hisense Finance can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC. The asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the "Measures for the Administration of Finance Companies of Enterprise Group" issued by the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the Group's deposit arrangement with Hisense Finance and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance, obtains and reviews the indicator data submitted by Hisense Finance to the CRBC on a quarterly basis, assess the operational and financial risks of Hisense Finance, regularly issue risk assessment reports to the Directors for their consideration and adoption of necessary measures to prevent the risks identified and ensure the safety and liquidity of the Group's capital and to publish announcement timely.

In order to assess the possibility of default for Hisense Finance, we have carried out the followings:

- (i) We have reviewed the PRC audited reports of Hisense Finance for the two years ended 31 December 2017 and 2018 and the PRC unaudited reports for six months ended 30 June 2018 and 2019 (the "**PRC Financial Reports**"). Based on the PRC Financial Reports, the total assets of Hisense Finance increased by approximately 14.6% from approximately RMB19,914.9 million for the six months ended 30 June 2018 to approximately RMB22,824.5 million for the six months ended 30 June 2019. We had also noted from the PRC audited reports that the auditor of Hisense Finance did not issue any qualified or disclaimer audit opinion regarding Hisense Finance's financial positions and operation results for the two years ended 31 December 2017 and 2018.

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The highlight of PRC Financial Reports is set out as below:

<em>(approximate RMB million)</em>	<b>For the year ended</b> <b>31 December</b> <b>2017</b>		<b>For the six months</b> <b>ended 30 June</b> <b>2018</b>	
	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>436.0</b>	<b>573.8</b>	<b>293.5</b>	<b>278.3</b>
<b>Operating revenue</b>				
– Net interest income	376.7	509.7	259.1	222.7
<b>Net profit</b>	<b>276.8</b>	<b>357.7</b>	<b>181.3</b>	<b>187.9</b>
<b>Total assets</b>	<b>18,357.8</b>	<b>19,853.4</b>	<b>19,914.9</b>	<b>22,824.5</b>
– <i>Cash and money deposited into central bank</i>	980.5	1,283.6	1,099.5	1,263.1
– <i>Deposits placed into same industry and other financial companies</i>	10,560.4	7,204.0	10,239.6	7,020.6
– <i>Loans and advances granted</i>	5,516.7	8,702.6	7,573.0	9,511.9
– <i>Available for sales of financial assets</i>	1,193.9	860.2	570.0	4,539.3
– <i>Interest receivable</i>	64.2	74.4	91.2	125.7
<b>Total liabilities</b>	<b>16,201.2</b>	<b>16,524.3</b>	<b>17,576.9</b>	<b>19,306.9</b>
– <i>Deposits received</i>	16,017.3	16,176.8	17,374.6	19,055.1
– <i>Inter-bank borrowing</i>	–	–	–	–
– <i>Tax payables</i>	58.9	45.0	31.6	35.1
– <i>Interest payables</i>	105.3	190.5	143.9	187.5
– <i>Other liabilities</i>	16.0	105.7	24.2	24.8

In view of the above financial highlights, given that (i) the revenue and profit of Hisense Finance for the year 2018 had been increased to approximately RMB573.8 million and RMB357.7 million, respectively, representing a year-on-year increase of approximately 31.6% and 29.2%, respectively, indicating a growing trend of business; (ii) the total asset had been increased from approximately RMB18,357.8 million for the year 2017 to approximately RMB19,853.4 million for the year 2018; and (iii) the current ratio of Hisense Finance was approximately 118.2% for the six months ended 30 June 2019, which is far exceeded the statutory requirement of 25%, we have no reason to believe that the credit risk to be exposed to the Group in relation to the deposits placed with Hisense Finance would be higher than the credit risk associated with other finance companies.

(ii) We reviewed the reports entitled “關於在海信集團財務有限公司開展存款金融業務的風險評估報告” (the “**Risk Assessment Reports**”) 29 March 2017, 29 March 2018, 29 August 2018, 28 March 2019 and 22 August 2019 respectively, issued and published by the Company on the website of Shenzhen Stock Exchange and noticed from the Risk Assessment Reports, Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019 respectively. The details are set out below:

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Relevant indicators	Requirements for finance companies	Hisense	Hisense	Hisense	Hisense
		Finance as at 31 December 2016	Finance as at 31 December 2017	Finance as at 31 December 2018	Finance as at 30 June 2019
Capital adequacy ratio	Shall not be lower than 10%	19.08%	22.69%	22.47%	22.22%
Current ratio	Shall not be lower than 25%	59.76%	55.53%	65.91%	54.57%
Inter-bank borrowing balances over the total registered capital of relevant finance company	Shall not exceed the total registered capital	12.10% (not higher than the registered capital)	0.00% (not higher than the registered capital)	0.00% (not higher than the registered capital)	0.00% (not higher than the registered capital)
Investment to total capital ratio	Shall not be higher than 70%	65.55%	52.61%	6.64%	13.69%
Outstanding guaranteed amount over the total capital	Shall not exceed the total capital	79.10% (not higher than the total capital)	43.06% (not higher than the total capital)	53.80% (not higher than the total capital)	68.25% (not higher than the total capital)
Self-owned fixed assets to total capital ratio	Shall not be higher than 20%	0.04%	0.05%	0.05%	0.05%
Non-performing Asset Ratio	Shall not be higher than 4%	–	–	–	–
Bad Loan Ratio	Shall not be higher than 5%	–	–	–	–

As illustrated above, Hisense Finance has been continuously maintaining the requisite ratios at a higher standard than the regulatory requirements as at 31 December 2016, 31 December 2017, 31 December 2018, and 30 June 2019, respectively.

- (iii) Upon our enquiry with the Management, we understand that Hisense Finance is required to comply with all the rules and operational requirements of the CBRC. We have reviewed the internal regulatory report submitted by Hisense Finance to the Company and Hisense Finance confirmed that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment; and
- (iv) Based on our discussions with the Management, Hisense Finance provides financial services primarily to Hisense Group and its subsidiaries which Hisense Finance shall have better understanding on their financial positions. The focus of clients enables Hisense Finance subject to lower default risk as compared to those commercial banks which with voluminous clients.

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Given the above factors, we concur with the Board's views that the default risk by Hisense Finance may not be high in light of its relatively sound financial positions and historical compliance with relevant regulatory requirements.

In assessing the risk control measures adopted by the Group for utilising the deposit service and loan and electronic bank acceptance bill services with Hisense Finance, we have also reviewed the Risk Assessment Reports and discussed with the Management. Based on our review and discussions, we understand that the Group had established the following risk control measures:

- (i) periodically checking the deposit balance placed with Hisense Finance and reviewing the same by the designated finance staff of the Group;
- (ii) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;
- (iii) requesting the designated finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks. In particular, for deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, the treasure department of the Group will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks;
- (iv) request the finance department to view the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group. If such rates and service fee are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are no less favourable to the Group than those

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offered by commercial banks in the PRC, the Group will not execute the relevant transactions. The designated finance staff responsible for reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management;

- (v) regularly review the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (such as the financial positions of Hisense Finance is severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement;
- (vi) the finance department and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and securities department is the same. The same information can be reviewed by personnel of different departments whose duties are segregated from each other. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group;
- (vii) The legal affairs department of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

As part of our due diligence, we have reviewed the quotations and terms from at least three other commercial banks about service fees for agency services such as settlement services for receipt and payment of funds and the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by the Group. The service charges and interest rates provided by Hisense Finance to the Group are no less favourable to the Group when compared with those commercial banks.

In view that (i) the above risk control measures and the internal procedures to ensure the terms that are no less favourable to the Group such as request quotations from other commercial banks before execution; (ii) the continuous compliance of regulatory requirements by Hisense Finance in the past; and (iii) those transactions contemplated pursuant to the Financial Services Agreement had been reviewed by the independent non-executive Directors and the auditor of the Company who had confirmed that they (a) were conducted in the ordinary course of business of the Group and on normal commercial terms; (b) were on terms not

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less favorable to the Company than terms available to/from (as appropriate) independent third parties; and (c) have not exceeded the annual caps, we concur with the executive Directors' views that the risk control measures implemented by the Group are sufficient to mitigate the default risk arising from the transactions with Hisense Finance.

In light of the existing financial position of the Group, the credit and risk control measures as discussed above, we consider that the transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and we concur with the view of the Company that the entering into of the Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

*c. Financial Business Framework Agreement*

As set out in the Letter from the Board, the reason for entering into of the Financial Business Framework Agreement will enable the Group to further increase the liquidity of its assets, to receive income from capital operation, and to increase the efficiency of capital operation. Factoring and finance leasing services provided by Hisense Financial Holdings or its subsidiaries can further revitalise the Group's idle assets. The Group can in turn receive operating income and improve efficiency of the use of capital.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Financial Business Framework Agreement and the Caps in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Based on our review of the principal terms of the Agreements as stated in the Letter from the Board, we consider (i) the non-exclusivity of the financial services to be provided (i.e. the Group has option to obtain such financial services from other financial institutions as it sees fit); and (ii) the condition that the actual terms of such financial services shall not be less favourable than those offered by other normal financial leasing companies to be the most important terms in safeguarding the interests of the Company and the Shareholders.

In relation to the Financial Business Framework Agreement, the Company has adopted various internal control measures. The Company has established the CT Management Policy to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

As part of our due diligence, we have reviewed the Company's internal control policies regarding continuing connected transactions and CT Management Policy. In order to ensure the amount of transactions contemplated under the Financial Business Framework Agreement will not exceed the Proposed Cap, the Company will periodically monitor the daily closing balance of the recourse factoring services, finance leasing services and total transaction amount of the

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non-recourse factoring services. Furthermore, the Group will estimate the amount of transactions that may possibly be incurred in the coming months in respect of the recourse factoring services, non-recourse factoring services and finance leasing services under the Financial Business Framework Agreement.

The Group's finance department will ask for quotations and terms from other providers of factoring services and finance leasing services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services and finance leasing services. If the finance department is of the view that the terms for factoring services and finance leasing services offered by Hisense Financial Holdings or its relevant subsidiaries to the Group are less favourable to the Group than those offered by other factoring service and finance leasing services providers, it will report to the senior management who will negotiate with Hisense Financial Holdings or its relevant subsidiaries on the terms of the relevant transactions. If, after negotiation, Hisense Financial Holdings or its relevant subsidiaries cannot offer terms which are no less favourable to the Company than those offered by other factoring service and finance leasing services providers, the Company will not execute the relevant transactions.

The legal affairs department of the Company is responsible for reviewing and approving the Financial Business Framework Agreement and the new transaction agreements contemplated under the Financial Business Framework Agreement.

In view that (i) the Group will be able to access more flexible and convenient financing tools to enhance the fund management level of the Group; (ii) the above risk control measures and the internal procedures to ensure the terms that are no less favourable to the Group such as request quotations from independent third parties before execution; (iii) the non-exclusivity of the financial services to be provided (i.e. the Group has option to obtain such financial services from other financial institutions as it sees fit); and (iv) those transactions contemplated pursuant to the Financial Business Framework Agreement had been reviewed by the independent non-executive Directors and the auditor of the Company who had confirmed that they (a) were conducted in the ordinary course of business of the Group and on normal commercial terms; (b) were on terms not less favorable to the Company than terms available to/from (as appropriate) independent third parties; and (c) have not exceeded the annual caps, we concur with the Directors' views that the entering into of the Financial Business Framework Agreement is in the interests of the Company and the Shareholders as a whole.

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### II. TERMS OF THE AGREEMENTS

#### 1. *The Business Co-operation Framework Agreement*

**Date:** 5 November 2019

**Parties:** The Company;  
Hisense Group;  
Hisense International;  
Hisense Marketing Management; and  
Hisense Electric

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2020 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2020, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any exemption for connected transactions being withdrawn or revoked or becoming invalid and there is non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

**Condition:**

The Business Co-operation Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

The transactions contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Business Co-operation Framework Agreement does not restrict the rights of the parties (as the case may be) to sell or purchase products or services contemplated under the Business Co-operation Framework Agreement from any other purchasers or suppliers (as the case may be).

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The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

In addition, payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

### **The Company's internal policy regarding continuing connected transactions**

The Company has established connected transaction management policy (關聯交易管理辦法), (the “**CT Management Policy**”) for the purpose of ensuring that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

According to the rules of the CT Management Policy, before a definitive transaction is conducted, the Company will compare the pricing of similar transactions with or quotations obtained from at least three selected randomly independent third parties. Commencement of the definitive transaction with the connected party/parties is conditional upon the Company’s assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the Independent Shareholders as a whole.

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. Before an order or a definitive contract for a transaction is placed, accepted or entered into by the Group, the operation departments of the Group will, depending on the circumstances at that time, either obtain the pricing of similar transactions from at least three independent third parties through public channels, or invite at least three independent third parties who are interested in the transaction to provide or offer their quotations, for the purpose of comparing the pricing of similar transactions. If the operation department of the relevant business sector is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot

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offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from each operation department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department of the Company is responsible for reviewing and approving the Business Co-operation Framework Agreement and the new transaction agreements contemplated under the Business Co-operation Framework Agreement.

In particular, the Business Co-operation Framework Agreement covers the following aspects of business co-operation between the contracting parties:

*a. Purchase of electrical appliances*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis electrical appliances as they may require from time to time.

The pricing for the purchase of electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market prices of similar electrical appliances offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed purchase (including pricing and other contractual terms taking into account factors such as the product quality and the stability in supply of the product) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price offered by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

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The purchase of electrical appliances by the Group will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties. The Business Co-operation Framework Agreement will not restrict the Group from purchasing electrical appliances from other suppliers apart from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries, nor will it restrict Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries from selling their electrical appliances to any other third parties.

On the basis that (i) the purchase of electrical appliances by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of the similar electrical appliances and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of transaction records and our discussion with the Management that there is no indication the terms of the transactions between the Group and Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third party suppliers, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of electrical appliances by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*b. Purchase of raw materials, parts and components*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

Pricing for the purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed purchase (including pricing and other contractual terms taking into account factors such as the product quality and the

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stability in supply of the product) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price offered to the Group by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict the Group from purchasing raw materials, parts and components from suppliers other than Hisense Group, Hisense Electric and/or their respective subsidiaries, nor will it restrict Hisense Group, Hisense Electric and/or their respective subsidiaries from selling their raw materials, parts and components to any other third parties.

On the basis that (i) the purchase of raw materials, parts and components by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of transaction records and our discussion with the Management that there is no indication the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third party suppliers, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of raw materials, parts and components by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*c. Provision of services*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage (i) Hisense Group and/or its subsidiaries for the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, management consultancy, technical support and information system maintenance services as the Group may require from time to time; (ii) Hisense International and/or its subsidiaries for the provision of agency services and maintenance services as the Group may require from time to time; (iii) Hisense Marketing Management and/or its subsidiaries for the provision of agency services as the

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Group may require from time to time; and (iv) Hisense Electric and/or its subsidiaries for the provision of property and technical support services as the Group may require from time to time.

The fees payable by the Group for the provision of the aforesaid services are determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed services (including pricing and other contractual terms taking into account factors such as the service quality and the stability in provision of the service) to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the service fees are not less favourable than the fees offered to the Group by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict the Group from engaging services providers other than Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries, nor will it restrict Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries from providing their services to any other third parties.

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of similar services from time to time and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective subsidiaries as well as those entered into between the Company and independent third party suppliers and our discussion with the Management that there is no indication the terms of the transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third party

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suppliers, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*d. Supply of electrical appliances*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis electrical appliances to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

The pricing for the supply of electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar electrical appliances offered by at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of electrical appliances (including pricing and other contractual terms taking into account factors including the customers' credit rating and the qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price offered by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries from purchasing electrical appliances from suppliers other than the Group, nor will it restrict the Group from selling its electrical appliances to any other third parties.

On the basis that (i) the sale and supply of electrical appliances by the Group to Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries will increase the revenue of the Group; (ii) such transactions will be able to utilise the Group's resources so as to help to lower the production costs by lowering the fixed costs per unit of product as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's product; (iii) such transactions will be conducted in the ordinary and usual course of business of the Group and on terms according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the similar electrical appliances from time to time; and (iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on

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our review of the relevant sample of the transaction records as well as our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries are in the interests of the Group and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*e. Supply of moulds*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis moulds to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

Pursuant to the Business Co-operation Framework Agreement and in response to the invitations to tender from Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. The bidding price is determined on the basis of a reasonable cost plus reasonable profit margin. For determining reasonable costs, the Company will take into account fixed cost (e.g. depreciation of machinery), cost of raw material, and labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period.

The Business Co-operation Framework Agreement will not restrict the Group from supplying its moulds to any other third parties, nor will it restrict Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries from purchasing moulds from suppliers other than the Group.

In view of (i) the moulds are customised as per the customers' requirements; (ii) the pricing for the supply of moulds will be determined by open bidding process, which is a transparent pricing mechanism; (iii) the bidding price is determined on the basis of a reasonable cost plus reasonable profit margin, which is subjected to the level of its capacity and the market condition from time to time according to the management; and (iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense International,

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Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of moulds by the Group to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*f. Supply of raw materials, parts and components*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

Pricing for the supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components supplied to at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of raw materials, parts and components (including pricing and other contractual terms taking into account factors including the customers' credit rating and the qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price of similar raw materials, parts and components supplied by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict the Group from selling its raw materials, parts or components to any other third parties, nor will it restrict Hisense Group, Hisense Electric and/or their respective subsidiaries from purchasing raw materials, parts or components from suppliers other than the Group.

On the basis that (i) the sale and supply of raw materials, parts and components by the Group to Hisense Group, Hisense International, Hisense Electric and/ or their respective subsidiaries will increase the revenue of the Group; (ii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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than terms available to or from (as appropriate) independent third parties; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense International, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the supply of raw materials, parts and components to Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

g. *Supply of equipment*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense International and/or its subsidiaries on a non-exclusive basis such quantities of equipment as they may require from time to time.

Pricing for the supply of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar equipment supplied by the Group to at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed supply of equipment (including pricing and other contractual terms taking into account factors including the customers' credit rating and the qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the price of the product is not less favourable than the price of similar equipment supplied by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict the Group from selling its equipment to any other third parties nor will it restrict Hisense International and/or its subsidiaries from purchasing equipment from suppliers other than the Group.

On the basis that (i) the sale and supply of equipment by the Group to Hisense International and/or its subsidiaries will increase the revenue of the Group due to meet the production needs for overseas customers; and (ii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of equipment to Hisense International and/or its subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*h. Provision of services by the Group*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, (i) provide processing services, property services and installation services to Hisense Group and/or its subsidiaries; (ii) provide design and property services to Hisense International and/or its subsidiaries; and (iii) provide processing services, property services and installation services to Hisense Electric and/ or its subsidiaries.

The fees payable by Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the aforesaid services are determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services offered at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed services (including pricing and other contractual terms taking into account factors including the customers' credit rating and the qualification of the customers such as their asset scale) to those of the similar transactions with independent third parties or the terms offered to independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check, compare and confirm the service fees are not less favourable than the fees of similar services offered by the Group to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

The Business Co-operation Framework Agreement will not restrict the Group from providing its services to any other third parties, nor will it restrict Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries from engaging services providers other than the Group.

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price for the provision of such services from time to time; (ii) the transactions, when taken place, will increase the utilization rate of the Group's resources and the revenue of the Group; (iii) the non-exclusive arrangement under the Business Co-operation

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided; and (iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group and its subsidiaries as well as those entered into between the Company and independent third parties and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group and its subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Group and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

We also note from respective annual reports of the Company in 2017 and 2018, the auditor confirmed that the relevant continuing connected transactions of the Group had been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements. In addition, the Company has engaged its auditor to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2017 and 31 December 2018, the Company has maintained effective internal control related to financial reporting in accordance with "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material aspects. Moreover, it was stated in these annual reports that in both years 2017 and 2018, the independent non-executive Directors had reviewed the Continuing Connected Transactions in the relevant years and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them.

Given the on-going review by the independent non-executive Directors and auditors of the Company in relation to the terms and annual caps of the Continuing Connected Transactions and no non-compliance matter relating to connected transactions was noted in the past years, we consider that appropriate internal control measures are in place by the Company to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

As part of our due diligence, there are eight Connected Transaction categories under the Business Cooperation Framework Agreement and we requested at least one sample for each Connected Transaction category. As such, we are on a randomly selected sampling basis, reviewed at least three samples for major and majority type of transactions, including "Purchase of raw materials, parts and components", "Provision of services", "Supply of electrical appliances" and "Provision of services by the Group", for the nine months ended 30 September 2019 to justify the price under the Business Co-operation Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For those transactions which are customised as per the customers' requirements, we discussed with the management and understood that (i) regarding "Supply of equipment", no transaction was conducted for the nine months ended 30 September 2019, therefore, there is no sample for reference. However, the price will be determined as same with the mechanism of the rest of the categories and it is in compliance with the CT Management Policy procedures and the terms under the Business Co-operation Framework Agreement so we assume the transaction of supply of equipment will be fair and reasonable in 2020; (ii) regarding "Purchase of electrical appliances", We obtained cell phones purchasing transaction records conducted in the nine months ended 30 September 2019. It shows that the pricing is no less favorable than purchasing from the independent third parties, to justify the price under the Business Co-operation Framework Agreement; (iii) regarding "Supply of moulds", the price was determined through a transparent bidding process and the bidding price is determined on the basis of a reasonable cost plus reasonable profit margin. We obtained at least three sample transactions' profit margin to justify the profit margin under the Business Co-operation Framework Agreement; and (iv) regarding "Supply of raw materials, parts and components", the raw materials, parts and components supplied are customized and no direct comparable product is available. We reviewed at least three sample transactions' gross margin and compared them to the similar transactions' gross margin to justify the gross margin and pricing under the Business Co-operation Framework Agreement. We have compared the past samples entered into between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries, and those between the Group and the independent third parties.

Based on the review of the samples, we note that (i) the prices for the products and services offered by Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries were no less favourable than those offered by the independent third party; and (ii) the prices paid by the Group to Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and/or their subsidiaries were no more favourable than those to the independent third parties. Based on the above, we consider that interests of the Group can be safeguarded. As regards those transactions which are customised as per the customers' requirements, based on our discussion with the Management that there is no indication that the terms of the transactions between the Group, Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties.

We considered the samples are representative, and noted that the CT Management Policy procedures mentioned above were properly followed, we are not aware of any violation of the terms under the Business Co-operation Framework Agreement after reviewing the samples for similar type of transactions at the relevant time and discussing with the management. The Management of the Company confirmed us that the above-mentioned internal control policies were, and would be, consistently applied to all connected transactions and on terms no

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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less favourable to the Group than those made available from independent third parties. We are of the view that the samples provided, together with the aforesaid CT Management Policy control measures adopted by the Group, are sufficient to support our abovementioned conclusion.

For the sake of evaluating the pricing mechanism under the Business Co-operation Framework Agreement, in connection with the our work performed, we have discussed with the Management and reviewed (i) the CT Management Policy; (ii) an internal price decision assessment process on the proposed continuing connected transactions; (iii) samples of each service for the nine months ended 30 September 2019 with both connected parties and independent third parties which set out the prices, except for those transactions which are customised as per the customers' requirements; (iv) summary report prepared by finance and securities department regarding the conduct of continuing connected transactions on a regular basis; and (v) monthly review process on terms of continuing connected transaction comparing to independent third parties.

Furthermore, as set out in the "Letter from the Board" contained in the Circular, the pricing mechanism under the Business Co-operation Framework Agreement adopted by the Group was supervised by the operation departments and the finance department. Given that (i) the terms of the proposed transaction are compared to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts; (ii) the price of similar transactions of other companies in the industry is reviewed by the finance department of the Group regularly to ensure that the price of such purchase is market-oriented, fair and reasonable; (iii) results of our discussion with the Management and review on samples for each type of transactions, except for those transactions which are customised as per the customers' requirements, that the prices of transactions are no less favourable than quotation offered by independent third party; and (iv) the Company has established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate.

### 2. *The Financial Services Agreement*

**Date:** 5 November 2019

**Parties:** The Company;  
Hisense Finance

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**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2020 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2020, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

**Condition:**

The Financial Services Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including without limitation, deposit services, loan and electronic bank acceptance bill services, draft discount services and other businesses which may be carried on by Hisense Finance as approved by the regulatory authorities. Particulars of the services to be provided by Hisense Finance to the Group are as follows:

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill services;
- (iii) draft discount services;
- (iv) settlement and sale of foreign exchange services; and
- (v) agency services such as settlement services for receipt and payment of funds.

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest from the Group for “cashing” the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to the latter which will have the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

The implementation of the provision of particular services contemplated under the Financial Services Agreement shall be subject to the definitive contract(s) to be entered into between the relevant parties within the scope of the Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group may obtain financial services contemplated under the Financial Services Agreement from other financial institutions in addition to Hisense Finance, as it sees fit.

### **The Company's internal policy regarding continuing connected transactions**

As mentioned above, the Company has established the CT Management Policy to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

According to the CT Management Policy, before entering into a definitive transaction, the Company will compare the price of similar transactions with or quotations obtained from independent third parties. Commencement of the definitive transaction with the connected party/parties is subject to the Company's assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the Independent Shareholders as a whole.

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly, the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, our finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

If the finance department is of the view that the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are no less favourable to the Group than those offered by commercial banks in the PRC, the Group will not execute the relevant transactions. The designated finance staff responsible for reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management.

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the securities department is the same. The same information can be reviewed by personnel of different departments whose duties are segregated from each other. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

The Company and Hisense Finance periodically enter into deposit and loan agreements and electronic bank acceptance bill contracts pursuant to the Financial Services Agreement. The approval process of the relevant agreements and contracts is initiated by the finance department and the agreements and contracts can only be executed after the approval by the responsible finance officer in charge of a specific business operation. The finance and securities department will closely monitor the daily balances of the deposit service and the loan and electronic bank acceptance bill service so that the relevant annual caps are not exceeded and the risks involved are under control.

The transactions contemplated under the Financial Services Agreement are in connection with the following aspects of financial services between the parties:

*a. Pricing of deposit service*

The interest rate for the Group's deposits with Hisense Finance shall not be lower than the rate by normal commercial banks in the PRC for comparable deposits. The designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly). For the purpose of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rates on deposits via conducting online and telephone enquiries.

*b. Pricing of loan and electronic bank acceptance bill service*

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The designated finance staff of the Group will review and compare the interest rates for loan offered by Hisense Finance with the major commercial banks regularly. For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates for loan offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rate charged for loans via conducting online and telephone enquiries.

The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. The treasure department of the Group will conduct a monthly review on the service fees charged by external commercial banks, namely the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees for issuing electronic bank acceptance bills via conducting online and telephone enquiries. The monthly review is conducted to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

*c. Pricing of draft discount service*

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services.

Prior to the execution of the relevant contracts for the draft discount services, the Group's staff will obtain and compare the quotations from Hisense Finance and the five major commercial banks in the PRC, namely, China

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Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of discount rate via conducting online and telephone enquiries.

*d. Pricing of settlement and sale of foreign exchange services*

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group.

Prior to the execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees via conducting online and telephone enquiries.

*e. Price of agency services such as settlement services for receipt and payment of funds*

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks in the PRC during the corresponding period. Hisense Finance announces its scale of charges at the beginning of every year. Currently, the said scale of charges has been lower than those of the major commercial banks in the PRC. The treasure department of the Group will conduct a monthly review on the service fees charged by external commercial banks, namely the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees via conducting online and telephone enquiries. These monthly reviews are conducted for the provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

If the expected scale of charges of Hisense Finance is found to be more expensive than that of other major commercial banks, the Company will select the bank with cheaper charging rates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on our review of the principal terms of the Financial Services Agreement as stated above, we consider (i) the non-exclusivity of the financial services to be provided under the Financial Services Agreement (i.e. the Group is free to obtain such financial services from other financial institutions as it sees fit); and (ii) the condition that the actual terms of such financial services shall not be less favourable than those offered by other normal commercial banks and financial institutions to be the most important terms in safeguarding the interests of the Company.

We also note from respective annual reports of the Company in 2017 and 2018, the auditor confirmed that the relevant continuing connected transactions of the Group had been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements. In addition, the Company has engaged its auditor to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2017 and 31 December 2018, the Company has maintained effective internal control related to financial reporting in accordance with "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material aspects. Moreover, it was stated in these annual reports that in both years 2017 and 2018, the independent non-executive Directors had reviewed the Continuing Connected Transactions in the relevant years and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them.

Given the on-going review by the independent non-executive Directors and auditors of the Company in relation to the terms and annual caps of the Continuing Connected Transactions and no non-compliance matter relating to connected transactions was noted in the past years, we consider that appropriate internal control measures are in place by the Company to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders. We have obtained and reviewed all interest rates and financial service fees offered by Hisense Finance for "deposit services" and "loan and electronic bank acceptance bill services" for the nine months ended 30 September 2019 and compared them to those provided or charged by other commercial banks in PRC to justify the pricing under the Financial Services Agreement. We, on a randomly selected sampling basis, obtained at least three transaction record samples of "settlement and sale of foreign exchange services", "agency services such as settlement services for receipt and payment of funds", and one transaction record of "draft discount services" for the nine months ended 30 September 2019. We reviewed and compared the above mentioned deposit interest rate and financial service fee to those provided or charged by other commercial banks in PRC to justify the pricing under the Financial Services Agreement. Based on our comparison, we note that the interest rate and the prices for the services offered by Hisense Finance were no less favourable than those offered by the independent third party. Based on the above, we consider that interests of the Group can be safeguarded.

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We considered the samples are representative, and noted that the CT Management Policy procedures mentioned above were properly followed, and the interest rates offered by Hisense Finance were comparable to other banks in the PRC and in compliance with the relevant interest rate policies imposed by PBOC for similar type of deposits at the relevant time. The Management of the Company confirmed us that the above-mentioned internal control policies were, and would be, consistently applied to all financial services and on terms no less favourable to the Group than those made available from independent third parties. We were also given to understand that finance department of the Company would monitor the risk associated with the financial service by assessing the financial position of Hisense Finance regularly with reference to the latest management accounts and annual audited financial statements of Hisense Finance and the Risk Assessment Reports.

Having considered the internal control measures implemented by the Group and the fact that Hisense Finance is a regulated non-bank financial institution subject to the regulations of the PBOC and the CBRC, we are of the view that the samples provided are sufficient to support our abovementioned conclusion.

For the sake of evaluating the pricing mechanism under the Financial Services Agreement, in connection with our work performed, we have discussed with the Management and reviewed (i) the CT Management policy with respect to connected transactions; (ii) summary report prepared by finance and securities department regarding the conduct of continuing connected transactions on a regular basis; and (iii) monthly review process conducted by finance staff on the terms charged by both connected parties and external commercial banks.

Furthermore, as set out in the “Letter from the Board” contained in the Circular, the pricing mechanism under the Financial Services Agreement adopted by the Group was supervised by the finance department. Given that (1) the designated finance staff of the Group will review and compare the interest rates, services fees and quotations from Hisense Finance with the major commercial banks, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China, based on the nature and tenure of each transaction; (2) results of our review on sample record for each type of transactions that the interest rate and service fees of the transactions are no less favourable than quotation offered by major commercial banks; and (3) the Company has established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate, we are of the view that the pricing basis relating to the Financial Services Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On the basis that (i) the transactions under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Group and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment or obligation for the Company to obtain such services from Hisense Finance; and (iii) the Group has conducted similar transactions in the past, we are of the view that the terms of the Financial Services Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

### 3. *Financial Business Framework Agreement*

**Date:** 5 November 2019

**Parties:** The Company;  
Hisense Financial Holdings

**Term:**

The term of the Financial Business Framework Agreement shall commence from 1 January 2020 or the date of approval of the Financial Business Framework Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

**Condition:**

The Financial Business Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

**Subject matters:**

Pursuant to the terms of the Financial Business Framework Agreement, the Group will engage Hisense Financial Holdings and/or its subsidiaries to provide (i) a series of factoring services, including recourse commercial factoring and non-recourse commercial factoring, as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement; and (ii) finance leasing services, the particulars of which are set out as follows:

- (a) direct leasing;
- (b) sale and leaseback;
- (c) leveraged leasing;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (d) captive lease; and
- (e) operating leasing.

The implementation of the provision of particular services contemplated under the Financial Business Framework Agreement shall be subject to the definitive contract(s) to be entered into between the Company and Hisense Financial Holdings and/or their respective subsidiaries within the scope of the Financial Business Framework Agreement. The Company and Hisense Financial Holdings may authorise their respective subsidiaries to perform the Financial Business Framework Agreement and to enter into definitive business contract(s) within the scope of the Financial Business Framework Agreement. The Financial Business Framework Agreement contains no provision which restricts the Company's right to obtain commercial factoring services contemplated under the Financial Business Framework Agreement from third parties.

**The Company's internal control policies regarding continuing connected transactions:**

In relation to the Financial Business Framework Agreement, the Company has adopted various internal control measures.

The Company has established the CT Management Policy to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders.

In order to ensure the amount of transactions contemplated under the Financial Business Framework Agreement will not exceed the proposed Caps, the Company will periodically monitor the daily closing balance of the recourse factoring services and finance leasing services and total transaction amount of the non-recourse factoring services.

The Company's finance department will ask for quotations and terms from other providers of factoring services and finance leasing services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services and finance leasing services. If the finance department is of the view that the terms for factoring services and finance leasing services offered by Hisense Financial Holdings or its relevant subsidiaries to the Company are less favourable to the Group than those offered by other factoring service and finance leasing services providers, it will report to the senior management who will negotiate with Hisense Financial Holdings or its relevant subsidiaries on the terms of the relevant transactions. If, after negotiation, Hisense Financial Holdings or its relevant

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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subsidiaries cannot offer terms which are no less favourable to the Company than those offered by other factoring service and finance leasing services providers, the Company will not execute the relevant transactions.

The legal affairs department of the Company is responsible for reviewing and approving the Financial Business Framework Agreement and the new transaction agreements contemplated under the Financial Business Framework Agreement.

*a. Price of provision of factoring services*

The pricing of the factoring services provided by Hisense Financial Holdings and/or its relevant subsidiaries shall be determined on the basis of the loan interest rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the loan interest rate charged by normal commercial banks in the PRC providing such services to the Group. The transactions under Financial Business Framework Agreement are conducted in the course of normal business of the parties, on normal commercial terms and on terms no less favourable than those obtained from or provided by (as the case may be) independent third parties. The Company's finance department will ask for quotations and terms from at least three other providers of factoring services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services.

*b. Price of provision of finance leasing services*

The pricing of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries shall be determined on the basis of the loan interest rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the loan interest rate charged by normal commercial banks in the PRC providing such services to the Group. The Company's finance department will ask for quotations and terms from at least three other providers of finance leasing services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of finance leasing services.

As part of our due diligence, we found that there was no transactions for the recourse factoring services, non-factoring services and the provision of finance leasing services conducted for the nine months ended 30 September 2019, therefore, there is no sample available for review. The pricing will be determined as same with the mechanism of the rest of the categories and it is in compliance

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## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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with the terms under the Financial Business Framework Agreement so we assume the transactions for the recourse factoring services, non-factoring services and the provision of finance leasing services will be fair and reasonable in 2020.

On the basis that all the terms and conditions (except for the Proposed Cap) under the Agreements shall remain unchanged that (i) the transactions under the Agreements will be conducted in the ordinary and usual course of business of the Group and on terms no less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement provides the Company with flexibility without any commitment or obligation for the Company to procure such services from Hisense Financial Holdings; (iii) as regard the recourse factoring services and non-factoring services, the Group has conducted similar transactions in the past and based on our review of the relevant sample of the transaction records as well as our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Financial Holdings and its respective subsidiaries were less favourable than those between the Group and independent third parties; and (iv) as regard the finance leasing services, the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Agreements and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to independent third parties, we are of the view that the terms of the Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

### **III. RATIONALE FOR DETERMINING THE MAXIMUM VALUE OF THE TRANSACTIONS CONTEMPLATED UNDER THE AGREEMENTS**

Pursuant to Rule 14A.53 of the Hong Kong Listing Rules, the transactions contemplated under (1) the Business Co-operation Framework Agreements during the year commencing from the date of approval of the Business Co-operation Framework Agreement by the Shareholders until 31 December 2020 will be subject to an annual cap for the financial year ending 31 December 2020 of the Company; (2) the Financial Services Agreement during the year commencing from the date of approval of the Financial Services Agreement by the Shareholders until 31 December 2020 will be subject to an annual cap for the financial year ending 31 December 2020 of the Company; and (3) the Financial Business Framework Agreement during the year commencing from the date of approval of the Financial Business Framework Agreement by the Shareholders until 31 December 2021 will be subject to an annual cap for the two financial year ending 31 December 2020 and ending 31 December 2021 of the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Agreements for the year ending 31 December 2020 and the year ending 31 December 2021, and the estimated unaudited value of similar transactions between the relevant parties in 2019 are summarised below:

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<i>All currency will be RMB unless specify</i>	<b>Annual caps for the year ending 31 December 2019</b> <i>RMB('000)</i>	<b>Proposed caps during the term of the Agreements</b> <i>RMB('000)</i>	<b>Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2019</b> <i>RMB('000)</i>
<b>The Business Co-operation Framework</b>			
<b>Agreement:</b>			
Maximum aggregate value of purchase of electrical appliances:	279,170	33,360	3,750
Maximum aggregate value of purchase of raw materials, parts and components:	355,050	659,580	180,240
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	868,340	1,017,960	507,460
Maximum aggregate value of supply of electrical appliances:	15,101,740	16,473,940	8,295,520
Maximum aggregate value of supply of equipment:	12,500	6,000	–
Maximum aggregate value of supply of moulds:	228,320	263,140	79,170
Maximum aggregate value of supply of raw materials, parts and components:	223,750	385,220	127,260
Maximum aggregate value of the provision of services by the Group:	47,910	48,660	15,350
<b>The Financial Services Agreement:</b>			
Maximum daily balance of the deposits to be placed by the Group with Hisense Finance in respect of the deposit services:	16,000,000	16,800,000	11,100,000
Maximum daily balance of the loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services:	11,500,000	11,500,000	7,000,000

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<i>All currency will be RMB unless specify</i>	<b>Annual caps for the year ending 31 December 2019</b> <i>RMB('000)</i>	<b>Proposed caps during the term of the Agreements</b> <i>RMB('000)</i>	<b>Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2019</b> <i>RMB('000)</i>
Maximum aggregate value of the annual discount interest payable by the Group to Hisense Finance in respect of the draft discount services:	50,000	50,000	600
Maximum aggregate value payable by the Group to Hisense Finance in respect of settlement and sale of foreign exchange services:	USD500,000	USD300,000	USD42,220
Maximum aggregate value payable by the Group to Hisense Finance in respect of agency services:	3,000	3,000	486
Maximum daily balance of the recourse factoring to be placed by the Group with Hisense Financial Holdings or its relevant subsidiaries in respect of the recourse factoring services:	800,000	800,000	0
Maximum aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company:	400,000	400,000	0
Maximum daily closing balance of the transactions conducted for the financial leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company:	300,000	300,000	0

The basis for the proposed maximum value for each category of transactions contemplated under the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement is set out in the Letter from the Board. The table below summaries the basis for each category of the transactions:

<b>Category</b>	<b>Basis for the proposed Caps</b>
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**The Business Co-operation Framework Agreement:**

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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<b>Category</b>	<b>Basis for the proposed Caps</b>
Purchase of electrical appliances	(i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the projected increase in the level of sales scale of the Group for the year ending 31 December 2020; (iii) the anticipated percentage increase in the relevant purchase of the Group in 2020; and (iv) the Group's plan of marketing and product promotion activities for the year 2020.
Purchase of raw materials, parts and components	(i) similar transactions between the Group and Hisense Group, Hisense Electric and/or their respective subsidiaries in the past (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the projected increase in the level of sales scale of the Group for the year ending 31 December 2020 by 25% year-on-year; and (iii) the anticipated percentage increase in the relevant purchase of the Group in 2020.
Provision of services	(i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries in the past; and (ii) the projected increase in the level of sales scale of the Group for the year 2020. (iii) the Group will appoint Hisense Group and/or its subsidiaries to provide more installation and maintenance services. (iv) in view of the increase in business scale of the Group, in addition to the existing leases, the Group will expand the size of leasing area to meet the increased leasing needs. (v) the extension in warranty period of products. (vi) the expected increase in charges for electricity and water in 2020 of the Group.
Supply of electrical appliances	(i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries in the past; and (ii) the projected increase in the level of sales scale of the Group for the year 2020.

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Category	Basis for the proposed Caps
Supply of moulds	(i) similar transactions between the Group with Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past; and (ii) the projected increase in the level of sales scale of the moulds of the Group for the year 2020.
Supply of raw materials, parts and components	(i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the projected increase in the level of sales scale of the Group for the year 2020; and (iii) the anticipated percentage increase in the relevant purchase of the Group in 2020.
Supply of equipment	the anticipated demand for equipment purchase of the overseas customers in 2020.
Provision of services by the Group	(i) similar transactions between the Group and Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries in the past; and (ii) related business needs of Hisense Group, Hisense International, Hisense Electric and/or their respective subsidiaries for the year 2020.

### **The Financial Services Agreement:**

Deposit service	(i) the historical cashflow figures of the Group; and (ii) the level of growth in monetary funds attributable to the projected increase in the sales scale of the Group for the year 2020.
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Category	Basis for the proposed Caps
Loan and electronic bank acceptance bill service	(i) similar transactions between the Group and Hisense Finance (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the estimated ratio of payment by means of electronic bank acceptance bills by the Group for the year 2020; and (iii) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the loan and electronic bank acceptance bill services application process by the Group.
Draft discount service	(i) the expected cash needs of the Group during the peak season for production for the year 2020; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the draft discount application process by the Group.
Settlement and sale of foreign exchange	(i) the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the year ending 31 December 2020. ; and (ii) the sales scale increment plan of the Group for the year 2020, the sales revenue of the overseas market of the Group for the year 2020 is expected to increase by 30% year-on-year.

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Category	Basis for the proposed Caps
Agency services such as settlement services for receipt and payment of funds	(i)The historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue; and (ii) the charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

### **The Financial Business Framework Agreement:**

Provision of factoring services	(i) the projected increase in the sales scale of the Group for the year 2020; and (ii) The Group's expected demand for financing through bills receivable in 2020.
Provision of finance leasing services	the Group's historical cash outflow on items such as purchasing fixed assets, etc.

### **The Business Co-operation Framework Agreement**

As Hisense Hitachi is now a member of the Group, since October 2019 and under the Business Co-operation Framework Agreement, the transactions between Hisense Hitachi and Hisense Group, Hisense International, Hisense Marketing Management, Hisense Electric and/or their respective subsidiaries have/will become continuing connected transactions between the Group and the above connected parties. we believe that it is more accurate to use the estimated annualized unaudited value for the similar transactions for 2019 based on their unaudited value for the nine months ended in 2019 as a base to analyze the Proposed Caps for 2020 while the estimated annualized unaudited value is calculated by the sum of the unaudited actual value occurred from January to September 2019 and the predicted value from October to December 2019 which is estimated by the Management based on the business conditions.

For assessing the Proposed Cap, we have reviewed and discussed with the Management the respective value of the historical transactions, the underlying assumptions and calculation in arriving at proposed Caps, details of which are elaborated in the following:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Purchase of electrical appliances by the Group*

As regards the purchase of electrical appliances by the Group, we note that the proposed 2020 annual cap of RMB33,360,000 involves an upward of approximately 151.7% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB13,250,000.

In assessing the reasonableness of the proposed 2020 annual cap of the purchase of electrical appliances under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the Transactions between the Group and Hisense Group, Hisense International and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB 3,920,000 will be allocated to the purchase of electrical appliances from Hisense Group and/or its subsidiaries;
- (ii) RMB 28,950,000 million will be allocated to the purchase of electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB 490,000 will be allocated to the purchase of electrical appliances from Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB3,920,000 with an increase of 230.1% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB1,190,000.

As further discussed with the Management, the above Cap is mainly for the projects to purchase the air-conditioners which are specialised for use in subway trains in 2020 with an aggregate value of RMB3,620,000 based on the current progress of the related special air-conditioners procurement projects between the Group and Hisense Group and/or its subsidiaries.

### **Transaction between the Group and Hisense International**

The transaction amount of the purchase of electrical appliances between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB28,950,000 with an increase of 143.2% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB11,910,000.

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As further discussed with the Management, the transaction amount of the purchase of electrical appliances by the Group is mainly due to the purchase of sample machines from Hisense International and/or its subsidiaries for analysis. The Group has appointed Hisense International to purchase, on its behalf, prototype of electrical appliances such as refrigerators, freezers, washing machines and kitchen appliances etc. from overseas markets for the purpose of conducting analysis and research, and to carry out product market research so as to increase the competitiveness of the Group's products. As the Group will purchase those samples through Hisense International and/or its subsidiaries, thus the transaction amount of the purchase of electrical appliances by the Group from Hisense International and/or its subsidiaries will be increased. The Group will purchase more electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries as gifts for the Group's marketing and product promotion activities with an aggregate value of RMB790,000 in order to increase the sale of the Group's electrical appliances.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the purchase of electrical appliances between the Group, Hisense Group and Hisense International, Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the purchase of electrical appliances.

### ***Purchase of raw materials, parts and component by the Group***

As regards the purchase of raw materials, parts and component by the Group, we note that the proposed 2020 annual cap of RMB659,580,000 involves an upward of approximately 108.9% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB315,680,000.

In assessing the reasonableness of the proposed 2020 annual cap of the purchase of raw materials, parts and component under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB584,220,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB75,360,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

### ***Transaction between the Group and Hisense Group***

The transaction amount of the purchase of raw materials, parts and component between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB584,220,000 with an increase of 115.4% as compared to the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB271,230,000.

As further discussed with the Management, the Management also expects to expand the purchase of raw materials, parts and components in the coming year. As the sales revenue of the Group is projected to increase by 25% year-on-year for the year ending 31 December 2020, the procurement scale of the Group will also be increased and amounted to approximately RMB400 million in 2020. Besides, it is estimated that the Group will further increase the procurement of raw materials such as the raw material of “Electronic Master Control Board” from the subsidiaries of Hisense Group. It is expected that the ratio of the procurement of raw materials, parts and components from Hisense Group and/or its subsidiaries will be raised and it leads to the increase of the transaction amount of approximately RMB60 million in 2020.

In addition, a subsidiary of Hisense Group is mainly engaged in the domestic trading business of import and export. In order to reduce the cost of procurement, it is estimated that the Group will purchase certain materials with procurement advantages from the subsidiaries and the estimated amount will be approximately RMB200 million in the year 2020.

### **Transaction between the Group and Hisense Electric**

The transaction amount of the purchase of raw materials, parts and component between the Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB75,360,000 with an increase of 69.5% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB44,450,000.

As further discussed with the Management, the transaction amount of the purchase of raw materials, parts and component by the Group will be increased as the Company will enter into more contracts for such transactions about the processing business of raw material of television with the aggregate transaction amount of approximately RMB15,000,000. After reviewed the discussion letters provided by the Company, the transaction amount of the purchase of raw materials, parts and component between the Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap is fair and reasonable.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the purchase of raw materials, parts and component between the Group, Hisense Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the purchase of raw materials, parts and component.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Provision of services to the Group*

As regards the purchase of provision of services to the Group, we note that the proposed 2020 annual cap of RMB1,017,960,000 involves an upward of approximately 41.5% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB719,450,000.

In assessing the reasonableness of the proposed 2020 annual cap of the purchase of provision of services to the Group under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB782,600,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property (including: (a) property leasing services mostly for office buildings; and (b) property management services in relation to office buildings and factories. Most of the aforementioned properties are located in the Guangdong Province and Shandong Province of the PRC), medical, leasing, design, inspection, agency services, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries;
- (ii) RMB33,460,000 will be allocated to the provision of agency services and maintenance services by Hisense International and/or its subsidiaries;
- (iii) RMB167,000,000 will be allocated to the provision of agency services by Hisense Marketing Management and/or its subsidiaries; and
- (iv) RMB34,900,000 will be allocated to the provision of property and technical support services by Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the provision of services to the Group from Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB782,600,000 with an increase of 28.8% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB607,530,000.

As we mentioned in the Prevailing market conditions about the demand for electrical appliances, we prepared a list of revenues of the listed major Chinese white goods companies in the past year. Since the year-on-year growth rates of listed major Chinese white goods companies are up to 33% with reference to the revenue and the growth rate of the provision of services to the Group from Hisense Group and/or its subsidiaries will be 28.8% which is not more than the year-on-year growth rates of listed major Chinese white

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goods companies. Therefore, we believe the revenue growth target of the provision of services to the Group from Hisense Group and/or its subsidiaries of the proposed 2020 annual cap is fair and reasonable.

### **Transaction between the Group and Hisense International**

The transaction amount of the provision of services to the Group from Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB33,460,000 with an increase of 60.2% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB20,880,000.

As further discussed with the Management, the extension in warranty period of products leads to the increase in demand for related product maintenance services so that the maintenance service fees for Hisense International and/or its subsidiaries will be increased. Taking into account the projected increase in the overseas business scale of the Group and that the Group will increase the purchase of agency services from Hisense International and/or its subsidiaries. Thus, the transaction amount of the provision of services to the Group from Hisense International and/or its subsidiaries of the proposed 2020 annual cap has an upward growth.

To sum up, the transaction amount of the provision of services to the Group from Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB33,460,000 is with reference with the transaction amount of the provision of services to the Group from Hisense International and/or its subsidiaries of the proposed 2019 annual cap amounted to approximately RMB29,000,000, thus the transaction amount of the provision of services to the Group from Hisense International and/or its subsidiaries of the proposed 2020 annual cap will be fair and reasonable..

### **Transaction between the Group and Hisense Marketing Management**

The transaction amount of the provision of services to the Group from Hisense Marketing Management and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB167,000,000 with an increase of 134.7% as compared to the transaction amount of the provision of services to the Group from Hisense Marketing Management and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB71,160,000.

After further discussions with the Management, the Group expects to enhance the synergy effect through the integrated services provided by Hisense Marketing Management, which will effectively promote the growth of the domestic sales business of the Group. The transaction amount of the services provided by Hisense Marketing Management to the Group is estimated to be approximately RMB166 million in 2020. This is determined by reference to the Group's expected growth in domestic sales in 2020.

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### Transaction between the Group and Hisense Electric

The transaction amount of the provision of services to the Group from Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB34,900,000 with an increase of 75.6% as compared to the transaction amount of the provision of services to the Group from Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB19,880,000.

As further discussed with the Management, the expected increase in the transaction amount of the provision of services to the Group from Hisense Electric and/or its subsidiaries is mainly due to the technical support to its “intelligent speech interpretation services” which expected to generate a technology support service fee and the Group will increase the purchase of technical support services from Hisense Electric and/or its subsidiaries. Therefore, the transaction amount of the provision of technology support services to the Group from Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB10,030,000 with an increase of 804.3% as compared to the transaction amount of the provision of technology support services to the Group from Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB1,110,000.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the provision of services to the Group between Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the provision of services to the Group.

### *Supply of electrical appliances by the Group*

As regards the purchase of supply of electrical appliances by the Group, we note that the proposed 2020 annual cap of RMB16,453,940,000 involves an upward of approximately 33.3% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB12,358,210,000.

In assessing the reasonableness of the proposed 2020 annual cap of the purchase of supply of electrical appliances under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB410,000,000 will be allocated to the supply of electrical appliances by the Group to Hisense Group and/or its subsidiaries;

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- (ii) RMB15,392,980,000 will be allocated to the supply of electrical appliances by the Group to Hisense International and/or its subsidiaries;
- (iii) RMB670,000,000 will be allocated to the supply of electrical appliances by the Group to Hisense Marketing Management and/or its subsidiaries; and
- (iv) RMB960,000 will be allocated to the supply of electrical appliances by the Group to Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the supply of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB410,000,000 with an increase of 61.1% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB254,490,000.

As further discussed with the Management, the number of transactions for the supply of electrical appliances between the Group and Hisense Group and/or its subsidiaries will be increased as Hisense Group and/or its subsidiaries will put further effort in bidding for projects to provide air-conditioners, there would be increase in the entrustment of the manufacturing of such air-conditioners by Hisense Group and/or its subsidiaries to the Group so the corresponding amount of the supply of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap will also be increased and amounted to approximately RMB358,490,000 with an upward of 72.4% as compared to the transaction amount of the supply of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB207,950,000.

According to the Management, the bidding projects under the Hisense Group participated by the Group will increase, as a result, the transaction amount of the supply of electrical appliances between the Group and Hisense Group and/or its subsidiaries will increase as well. Therefore, the proposed 2020 annual cap is necessary to increase for the growing numbers of bidding projects.

### **Transaction between the Group and Hisense International**

The transaction amount of the supply of electrical appliances between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB15,392,980,000 with an increase of 30.6% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB11,790,170,000.

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As we mentioned before, we prepared a list of revenues of the listed major Chinese white goods companies in the past year. Since the year-on-year growth rates of listed major Chinese white goods companies are up to 33% with reference to the revenue and the growth rate of the supply of electrical appliances to Hisense International and/or its subsidiaries will be 33.3% which is similar to the year-on-year growth rates of listed major Chinese white goods companies.

Therefore, we believe the growth target of the supply of electrical appliances to Hisense International and/or its subsidiaries of the proposed 2020 annual cap is fair and reasonable.

### **Transaction between the Group and Hisense Marketing Management**

The transaction amount of the supply of electrical appliances between the Group and Hisense Marketing Management and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB670,000,000 with an increase of 115.2% as compared to the transaction amount of the supply of electrical appliances between the Group and Hisense Marketing Management and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB311,330,000.

After further discussions with management, the supply of electrical appliances by the Group to Hisense Marketing Management is mainly through the sale method of supplying Hisense products as full-range products and set products, in order to increase the revenue of the Group with online sale and offline sale. Nowadays, the sale of full-range products and set products become the market development trend. In order to meet the needs of customers and the market, the Group promotes the sales of “Hisense full-range electrical appliance products” through Hisense Marketing Management, making it more convenient for customers to purchase Hisense white goods and black household appliances at the same time, in line with the interests of the Group. Therefore, the Group expects that more customers will purchase home appliances through the sale method of “Hisense full-range electrical appliance products” and the transaction amount will also increase.

In conclusion, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the supply of electrical appliances between the Group, Hisense Group, Hisense International, Hisense Marketing Management and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the supply of electrical appliances.

### ***Supply of moulds by the Group***

As regards the supply of moulds by the Group, we note that the proposed 2020 annual cap of RMB263,140,000 involves an upward of approximately 145% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB107,300,000.

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In assessing the reasonableness of the proposed 2020 annual cap of the supply of moulds by the Group under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB6,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries;
- (ii) RMB87,140,000 will be allocated to the supply of moulds to Hisense International and/or its subsidiaries;
- (iii) RMB170,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the supply of moulds between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB6,000,000 and the transaction amount of the supply of moulds between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to zero.

Although there was no transaction conducted for the nine months ended 30 September 2019, therefore, there is no sample available for reference. However, the pricing will be determined as same with the mechanism of the rest of the categories and it is in compliance with the CT Management Policy procedures and the terms under the Business Co-operation Framework Agreement so we agreed that it is necessary to the Group for reserving the transaction amount of the supply of moulds as the transactions may be occurred in 2020, thus the proposed 2020 annual cap for the supply of moulds between the Group and Hisense Group will be fair and reasonable in 2020.

### **Transaction between the Group and Hisense International**

The transaction amount of the supply of moulds between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB87,140,000 with an increase of 118% as compared to the transaction amount of the supply of moulds between the Group and Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB40,000,000.

As part of our due diligence, we noticed that the revenue growth target with a substantial increase of 118% so we requested and reviewed the confirmation evidence provided by the connected parties of the Group for the estimated transaction amount of the supply of moulds between the Group and Hisense International in the year 2020. As further discussed with the Management, the Group expects the increase in the business scale and

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new customers as some transactions for the supply of moulds are under discussion with Hisense International and there are three potential customers that may enter into contracts after discussion. These transactions are amounted of approximately RMB 33,700,000, RMB27,620,000 and RMB25,820,000 respectively. Therefore, the transaction amount of the supply of moulds between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB87,140,000 is fair and reasonable.

### **Transaction between the Group and Hisense Electric**

The transaction amount of the supply of moulds between the Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB170,000,000 with an increase of 153% as compared to the transaction amount of the supply of moulds between the Group and Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB67,300,000.

As part of our due diligence, we have requested and reviewed the confirmation evidence provided by the connected parties of the Group for the estimated transaction amount of the supply of moulds between the Group and Hisense Electric in the year 2020. As further discussed with the Management, the transaction of the supply of moulds is under discussion with Hisense Electric and it may enter into contracts after consultation and negotiation. Therefore, we believe the revenue growth target of the supply of moulds to Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap is reasonable.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the supply of moulds between the Group, Hisense Group, Hisense International and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the supply of moulds.

### ***Supply of raw materials, parts and components by the Group***

As regards the supply of raw materials, parts and components by the Group, we note that the proposed 2020 annual cap of RMB385,220,000 involves an upward of approximately 79.6% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB214,510,000.

In assessing the reasonableness of the proposed 2020 annual cap of the supply of raw materials, parts and components under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

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- (i) RMB235,030,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries;
- (ii) RMB131,090,000 will be allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries; and
- (iii) RMB19,100,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the supply of raw materials, parts and components between the Group and Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB235,030,000 with an increase of 95.0% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB120,530,000.

As further discussed with the Management, the Management also expects to expand the supply of raw materials, parts and components in the coming year. As the sales revenue of the Group is projected to increase by 25% year-on-year for the year ending 31 December 2020, the procurement scale of the Group will also increase and amount to approximately RMB400 million in 2020. Besides, it is estimated that the Group will further increase the procurement of raw materials such as the raw material of “Electronic Master Control Board” from the subsidiaries of Hisense Group in order to meet the Group’s production needs. The Group will then process the raw materials acquired and it is expected that the purchase of the processed materials by Hisense Group and/its subsidiaries will correspondingly increase to the amount of approximately RMB212,000,000. It is expected that the ratio of the procurement of raw materials, parts and components from Hisense Group and/or its subsidiaries will be raised and it leads to the increase of the transaction amount of approximately RMB60 million in 2020. As the procurement of raw materials related to processing business with Hisense Group will increase, the transaction amount for the supply of raw materials by the Group to Hisense Group and/or its subsidiaries will also increase accordingly.

### **Transaction between the Group and Hisense International**

The transaction amount of the supply of raw materials, parts and component between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB131,090,000 with an increase of 58.6% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB82,630,000.

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As further discussed with the Management and considering the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries is a business incidental to the sale of products by the Group to Hisense International and/or its subsidiaries. Based on the 2020 Projected Overseas Sales Increment, having also taken into account the increase in the quota of spare parts required by overseas customers and the expected increase in the revenue from the sale of spare parts, the upper limit for exporting raw materials, parts and components for the year 2020 is expected to have a substantial increase amounted to approximately RMB 131 million.

### **Transaction between the Group and Hisense Electric**

The transaction amount of the supply of raw materials, parts and component between the Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB19,100,000 with an increase of 68.3% as compared to the transaction amount of the purchase of electrical appliances between the Group and Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB11,350,000.

As further discussed with the Management, the transaction amount of the supply of raw materials, parts and component by the Group will be increased as the Company will enter into more contracts about the processing business of raw material of television backboard, television case and metal plate etc. produced by the Group for Hisense Electric and/or its subsidiaries, with the aggregate transaction amount of approximately RMB15,000,000 which is in respect of the purchase of raw materials, parts and component by the Group. Since the related processing business adopts the method of selling materials, thus, after purchased the raw materials, parts and component from Hisense Electric, the Group will supply it to Hisense Electric after processed.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the supply of raw materials, parts and component between the Group, Hisense Group, Hisense International and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the supply of raw materials, parts and component.

### ***Supply of equipment by the Group***

As regards the supply of equipment by the Group, we note that the proposed 2020 annual cap of RMB6,000,000 and there is no transaction amount of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended.

In assessing the reasonableness of the proposed 2020 annual cap of the supply of equipment under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense International.

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As part of our due diligence, we have requested and reviewed the confirmation evidence provided by the Management for the estimated transaction amount of the supply of equipment between the Group and Hisense International in the year 2020. As further discussed with the Management, the transaction of the supply of equipment is under discussion with Hisense International and it may enter into contracts after discussion.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the supply of equipment between the Group and Hisense International and/or its subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the supply of equipment.

### *Provision of services by the Group*

As regards the provision of services by the Group, we note that the proposed 2020 annual cap of RMB48,660,000 involves an upward of approximately 50% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted as RMB32,400,000.

In assessing the reasonableness of the proposed 2020 annual cap of the provision of services by the Group under the Business Co-operation Framework Agreement for the year ending 31 December 2020, we consider the transactions between the Group and Hisense Group, Hisense International and Hisense Electric. As advised by the Management, the proposed annual caps are composed as follow:

- (i) RMB17,690,000 will be allocated to the provision of processing services, property services and installation services by the Group to Hisense Group and/or its subsidiaries;
- (ii) RMB10,090,000 will be allocated to the provision of design and property services by the Group to Hisense International and/or its subsidiaries; and
- (iii) RMB20,880,000 will be allocated to the provision of processing services, property services and installation services by the Group to Hisense Electric and/or its subsidiaries.

### **Transaction between the Group and Hisense Group**

The transaction amount of the provision of services by the Group to Hisense Group and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB17,690,000 with an decrease of 27% as compared to the transaction amount of the provision of services by the Group to Hisense Group and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB24,220,000.

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According to the Management, it is mainly due to the decrease of the expected installation service as the transactions of the signed contracts in 2019 for the installation service in 2020 is decreased.

### Transaction between the Group and Hisense International

The transaction amount of the provision of services by the Group to Hisense International and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB10,090,000 with an increase of 131% as compared to the transaction amount of the provision of services by the Group to Hisense International and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB4,370,000. As further discussed with the Management, the increase of the provision of services by the Group to Hisense International and/or its subsidiaries of the proposed 2020 annual cap is mainly due to the increase of design fee amounted as approximately RMB6,870,000.

### Transaction between the Group and Hisense Electric

The transaction amount of the provision of services by the Group between the Group and Hisense Electric and/or its subsidiaries of the proposed 2020 annual cap amounted to approximately RMB20,880,000 with an increase of 448% as compared to the transaction amount of the provision of services by the Group to Hisense Electric and/or its subsidiaries of the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value for the nine months ended amounted to approximately RMB3,810,000.

As further discussed with the Management, the transaction amount of the provision of services by the Group is mainly due to the transaction of processing service for Hisense Electric amounted to approximately RMB13,200,000. As part of our due diligence, we have requested and reviewed the confirmation evidence provided by the connected parties of the Group for the estimated transaction amount of the provision of services by the Group to Hisense Electric in the year 2020. As further discussed with the Management, the transaction of the provision of services by the Group is under discussion with Hisense Electric and it will enter into contracts after discussion.

Therefore, taking into account the facts and reasons discussed above as well as the estimated annualized unaudited value, we consider that it is reasonable for the transaction amount of the provision of services by the Group to Hisense Group, Hisense International, and Hisense Electric and/or their respective subsidiaries of the proposed 2020 annual cap in response to the expected significant increase in transaction amounts under the Business Co-operation Framework Agreement for the year ending 31 December 2020 as a result of the increasing transaction amounts for the provision of services by the Group.

In conclusion, we note that the total proposed 2020 annual cap under Business Co-operation Framework Agreement will be amounted to approximately RMB18,881,860,000 involves an upward of approximately 37.2% as compared to the estimated annualized unaudited value of the similar transactions for the year 2019 based on their unaudited value

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for the nine months ended amounted as RMB13,760,820,000. Based on (i) the above discussions with the Management and our analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the provision of services by the Group is prepared on a fair and reasonable basis

### **The Financial Services Agreement**

#### *Deposit Services to the Group*

As set out in the Letter from the Board, The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB16,800,000,000 (inclusive of interest) on any given day for the year ending 31 December 2020. The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of cash of the Group after taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group, as a result of which the Group will utilise more deposit services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance; and (iii) the level of growth in monetary funds attributable to the projected increase in the sales scale of the Group for the year 2020.

Services provided by Hisense Finance	Proposed Cap for the Group for the year ending 31 December 2019	Proposed Cap for the Group for the year ending 31 December 2020	Maximum daily closing balance of the Group for the period from 1 January 2019 to 30 September 2019	The increase of the proposed cap in 2020 is with reference to the proposed cap in 2019	2019 Deemed Actual Utilisation Rate
Deposit Services	16,000,000,000	16,800,000,000	11,100,000,000	5%	69.4%

We note that (i) the 2019 Deemed Actual Utilisation Rate is approximately 69.4%; and (ii) the 2020 annual cap of RMB16,800,000,000 increased RMB800,000,000 (or 5%) from the 2019 annual cap of RMB16,000,000,000.

It is noted from the 2019 Interim Report, the Group had cash and cash equivalents of RMB5,060 million (including the deposits with other financial institutions) on 30 June 2019. According to the Management, as at 30 September 2019, the highest daily balance of cash and cash equivalents (including entrusted wealth management product) held by the Group was approximately RMB11,100,000,000.

According to the Management, the above Cap was also determined with reference to: as at 30 September 2019, the balance of monetary funds held by the Group was RMB10,850,000,000, and the balance of monetary funds from wealth management was RMB2,550,000,000 (the total amount of monetary funds held by the Group and from wealth

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management was thus RMB13,400,000,000). According to the sales scale increment plan of the Group for the year 2020, the sales revenue of the Group is projected to increase by 25% year-on-year. As such, it is anticipated that the highest daily cash balance held by the Group will correspondingly increase by 25% to approximately RMB16,800,000,000 (inclusive of interest) in 2020.

As part of our due diligence, we prepared a list of revenues of the listed major Chinese white goods companies in the past year under the prevailing market conditions about the demand for electrical appliances, since the year-on-year growth rates of listed major Chinese white goods companies in 2018 are up to 33%, we believe the revenue growth target of the Company 25% is reasonable and fair. We concur that the underlying assumptions, basis and calculation of the growth rate are fair and reasonable.

Based on the above, we are of the view that the proposed maximum daily closing balance for the Group for the financial year ending 31 December 2020 of deposit services under the Financial Services Agreement is determined by the Directors after due and careful consideration which is fair and reasonable so far as the Independent Shareholders are concerned.

### ***Loan and electronic bank acceptance bill services to the Group***

As set out in the Letter from the Board, the Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB11,500,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2020.

The above Cap was determined with reference to (i) similar transactions between the Group and Hisense Finance (that is, the estimated annualised unaudited amount of the similar transactions for the year 2019); (ii) the estimated ratio of payment by means of electronic bank acceptance bills by the Group for the year 2020; and (iii) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the loan and electronic bank acceptance bill services application process by the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Services provided by Hisense Finance	Proposed Cap for the Group for the year ending 31 December 2019	Proposed Cap for the Group for the year ending 31 December 2020	Maximum daily closing balance of the Group for the period from 1 January 2019 to 30 September 2019	The percentage increase of the proposed cap in 2020 with reference to the proposed cap in 2019	2019 Deemed Actual Utilisation Rate
Loan and electronic bank acceptance bill services	11,500,000,000	11,500,000,000	7,000,000,000	-	60.9%

In 2020, the Group wants to continuously improve its efficiency of capital utilisation. The Group plans to adjust payment terms, increase payment via electronic bank acceptance bills, reduce payments via cash and endorsement of bills receivable. The Group can utilize the available capital to obtain income and improve cash flow; and reduce costs derived from endorsement of bills receivable. Therefore, the Group expects that it will continue to increase its use of the electronic bank acceptance bill service in 2020, taking into account the fact that, as understood from the Management, the expected amount of purchase payment for the year ending 31 December 2020 is expected to have a 25% growth and the percentage of payment in form of electronic bills is expected to increase to 48% in 2020 from 38% in 2019.

According to the Management, the transaction amount of purchase payment for the year ending 31 December 2019 was approximately RMB32.1 billion. With the 25% growth rate in the year 2020, the expected amount of purchase payment for the year ending 31 December 2020 will be approximately RMB40.1 billion. As the efficiency and convenience of using the electronic bills, the percentage of payment in form of electronic bills is expected to be increased to 48% in the year ending 2020, thus, the expected maximum daily closing balance of the Group for the loan and electronic bank acceptance bill services for the year ending in 2020 will be RMB11.5 billion.

As part of our due diligence, we prepared a list of revenues of the listed major Chinese white goods companies in the past year under the prevailing market conditions about the demand for electrical appliances, since the year-on-year growth rates of listed major Chinese white goods companies in 2018 are up to 33% with reference to the revenue in 2017, we believe the revenue growth target of the Company 25% is reasonable and fair. Therefore, the expected amount of purchase payment for the year ending 31 December 2020 with the 25% growth rate is fair and reasonable.

In addition, we understand from the Management that the service charge for electronic bank acceptance bills by Hisense Finance is at par or lower than those charged by any of the independent commercial banks.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In light of the above, we consider that it is beneficial for the Group to continue utilising such loan and electronic bank acceptance bills services from Hisense Finance as the Group will be able to reduce its finance costs and service charges. We also consider that it is of the Group's interest to maximise the relevant annual cap so as to capture the potential interest and cost savings to the greatest extent.

Given that the loan and electronic bank acceptance bill services under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions, we are of the view that the 2020 annual cap in respect of the loan and electronic bank acceptance bill services under the Financial Services Agreement is fair and reasonable.

### ***Draft discount services to the Group***

As set out in the Letter from the Board, the Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000 for the year ending 31 December 2020. As regards the draft discount services, we noted that the 2019 Deemed Actual Utilisation Rate is approximately 1.2%.

The above Cap was determined with reference to (i) the expected financial needs of the Group during the peak season for production for the year 2020; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2020 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the draft discount application process by the Group.

According to the Letter from the board, for the full year of 2019, it is expected that the projected scale of funds to be received from the settlement of bills receivable of the Group would amount to approximately RMB20,000,000,000. According to the sales scale increment plan of the Group for the year 2020, the sales revenue of the Group is projected to increase by 25% year-on-year. As part of our due diligence, we prepared a list of revenues of the listed major Chinese white goods companies in the past year under the prevailing market conditions about the demand for electrical appliances, since the year-on-year growth rates of listed major Chinese white goods companies in 2018 are up to 33% with reference to the revenue in 2017, we believe the growth rate target of sales revenue of the Group 25% is reasonable and fair. As such and based on the 2020 Projected Sales Increment, the scale of funds to be received from the settlement of bills receivable is expected to increase from approximately RMB20,000,000,000 to RMB25,000,000,000.

As of September 2019, payment by way of endorsement of the bills receivable accounted for approximately 33%, and the remaining bills receivable are to be settled upon maturity. Take into account the Group's funding needs during peak season for payments, the bills receivable to be used for financing purposes by the Group will account for approximately 20% of the aforementioned bills receivable to be settled upon maturity, i.e.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the scale of bills receivable to be used for financing purposes would be approximately RMB3,300,000,000. Of this RMB3,300,000,000, financing of approximately RMB2,100,000,000 is expected to be obtained from discounting the bills receivable at Hisense Finance and financing of approximately RMB1,200,000,000 is expected to be obtained from factoring at Hisense Financial Holdings. With the interest rate of 4.35% and the period of six months financing, the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be amounted to RMB50,000,000 for the year ending 31 December 2020 taking into account the existing market interest level and the financing cycle of draft discount services. Therefore, We concur that the total amount of provision of draft discount services is fair and reasonable.

In view of the fact that (i) the proposed draft discount services to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the amount of service fees payable so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the cap of RMB50 million in respect of the draft discount service fees to be payable under the Financial Services Agreement is fair and reasonable.

### ***Settlement and sale of foreign exchange services to the Group***

As set out in the Letter from the Board, the Company currently expects that the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$300,000,000 for the year ending 31 December 2020.

As regards the settlement and sale of foreign exchange services, we note that (i) the historical transaction value for the provision of settlement and sale of foreign exchange services by Hisense Finance to the Group was amounted to approximately US\$42.2 million for the first nine months of 2019; (ii) the 2019 Deemed Actual Utilisation Rate is approximately 8.4%; and (iii) the 2020 annual cap of US\$300 million which is decreased US\$200 million while comparing with the 2019 annual cap of US\$500 million.

According to the Management, we understand from the Management that the Group currently uses the current term settlement and sale of foreign exchange services provided by Hisense Finance while the long-term settlement and sale of foreign exchange services are provided by other financial institutions. Meanwhile, the expected amount of the foreign currency remittances for the year ending 2019 by the Group will be approximated US\$210 million while the receivable amount of the foreign currency will be US\$150 million and the amount of foreign currency payment by the Group will be US\$60 million separately. Taking into account of the estimated export scale by the Group, the growth rate will be 30% in 2020, it is expected that the foreign exchange settlement and sales volume will be US\$300 million by 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of the fact that (i) the proposed settlement and sale of foreign exchange services to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values. Therefore, we are of the view that the annual amount settled or sold by Hisense Finance for the Group of US\$300 million in respect of the settlement and sale of foreign exchange to be payable under the Financial Services Agreement is fair and reasonable.

### *Agency services such as settlement services for receipt and payment of funds to the Group*

As set out in the Letter from the Board, the Company currently expects that the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for the year ending 31 December 2020.

As regards the agency services, we note that (i) the 2019 Deemed Actual Utilisation Rate is approximately 16.2%; and (ii) the 2020 annual cap of RMB3 million remains the same as the 2019 annual cap of RMB3 million. For the period commencing from 1 January 2019 to 30 September 2019, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds amounted to approximately RMB485,500. From the above, we note a relatively low utilisation rate.

Advised by the Management, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB1 to RMB20 per transaction. As the Company cannot guarantee that the standard service fees will maintain at the current low level for a long period, and taking into account the Group's expected demand for transfer services in 2020 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2019, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be remained to RMB3 million as same as the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services in 2019.

In order to determine the fairness and reasonableness of the cap, we, for the purpose of ensuring the accuracy of the Company's computation of the cap, have reviewed the basis and assumptions on calculation in respect of the expected agency services such as settlement services for receipt and payment of funds for the coming one financial year.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of the fact that (i) the proposed agency services such as settlement services for receipt and payment of funds to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) the business development plans of the Company to be implemented in the future, it is generally in the interest of the Company to maximise the amount of agency services fees payable so as to provide for its expected increase in sales for the coming financial years, we are of the view that the cap of RMB3 million in respect of agency services fees to be payable under the Financial Services Agreement is fair and reasonable.

### **Financial Business Framework Agreement**

#### **1. *Provision of factoring services***

##### **Recourse factoring service**

As set out in the Letter from the Board, the daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB800,000,000 (inclusive of interest). As regards the recourse factoring services, we note that (i) the 2019 Deemed Actual Utilisation Rate is none; and (ii) the 2020 annual cap of RMB800 million remain unchanged with the 2019 annual cap.

##### **Non-recourse factoring services**

As set out in the Letter from the Board, the annual Cap for the non-recourse factoring services provided by Hisense Financial Holdings or its subsidiaries to the Group during the term of the Financial Business Framework Agreement shall not exceed RMB400,000,000 (inclusive of interest). As regards the non-recourse factoring services, we note that (i) the 2019 Deemed Actual Utilisation Rate is none; and (ii) the 2020 annual cap of RMB400 million will remain unchanged with the 2019 annual cap.

The Caps for each of the years ending 31 December 2020 and 2021 was determined with reference to (i) the projected scale of funds to be received from the settlement of the bills receivable of the Group for the year 2019; and (ii) the projected increase in the level of the scale of funds to be received from the settlement of the bills receivable of the Group in 2020 driven by the projected increase in the sales scale of the Group for the year 2020.

According to the Letter from the board, the basis on which the Company determines the Cap for recourse factoring services and non-recourse factoring services are as follows: for the period from 1 January 2019 to 30 September 2019, funds received by the Group from the settlement of bills receivables amounted to RMB16,000,000,000; for the full year of 2019, it is expected that the projected scale of funds to be received from the settlement of bills receivable of the Group would amount

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to approximately RMB20,000,000,000. Based on the 2020 Projected Sales Increment, the scale of funds to be received from the settlement of bills receivable is expected to increase from approximately RMB20,000,000,000 to RMB25,000,000,000. As of September 2019, payment by way of endorsement of the bills receivable accounted for approximately 33%, and the remaining bills receivable are to be settled upon maturity. Take into account the Group's funding needs during peak season for payments, the bills receivable to be used for financing purposes by the Group will account for approximately 20% of the aforementioned bills receivable to be settled upon maturity, i.e. the scale of bills receivable to be used for financing purposes would be approximately RMB3,300,000,000. Of this RMB3,300,000,000, financing of approximately RMB2,100,000,000 is expected to be obtained from discounting the bills receivable at Hisense Finance and financing of approximately RMB1,200,000,000 is expected to be obtained from factoring at Hisense Financial Holdings. Take into account the situation of the bills receivable of the Group for the year 2019 (such as the quality of the bills receivable and the credit rating of the issuing banks), the expected ratio of recourse factoring services to non-recourse factoring services is approximately 2:1. As such, it is expected that the daily closing balance of the recourse factoring services shall not exceed RMB800,000,000 and the annual Cap of the non-recourse factoring services shall not exceed RMB400,000,000.

As part of our due diligence, we reviewed the basis by the Management and discussed with the Management on the underlying assumptions of the 2020 annual cap. To satisfy the financial needs for the operation and the existing development plans of the Group, the Management expects that the Group may remain the use of the recourse factoring services and non-recourse factoring services from Hisense Financial Holdings if the relevant terms are more favourable than those available from other financial institutions.

In view of the fact that (i) the proposed recourse factoring services to be provided by Hisense Financial Holdings to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Business Framework Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the daily closing balance of the recourse factoring services so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the cap of RMB800 million in respect of the recourse factoring services to be payable under the Agreements is fair and reasonable.

### ***Provision of finance leasing services***

As set out in the Letter from the Board, the daily closing balance of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB300,000,000 (inclusive of interest).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Management, the provision of financial leasing services under the Financial Business Framework Agreement is beneficial to the Company (i) broaden its financing channels and optimise its debt structure; (ii) reduce its capital costs given the not lower-than-market interest rates offered in the transactions under the Agreements; and (iii) in the case of direct leasing, reduce the cash outlay to purchase required equipment, thereby increasing financial resources for other business development activities.

According to the Letter from the Board, the cash payment made by the Group for purchasing fixed assets, intangible assets and other long-term assets amounted to approximately RMB370 million for the nine months ended 30 September 2019 and the cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets will proportionately increase to the amount of approximately RMB500 million for the financial year ended 31 December 2019, respectively. It is expected that cash payment by the Group for purchasing fixed assets, intangible assets and other long-term assets in 2020 and 2021 would be of a similar amount when compared to 2019. In order to explore financing channels, it is expected that 60% of the aforementioned purchase amount would be financed by the finance leasing services to be provided by Hisense Financial Holdings and/or its subsidiaries to the Group, and the Cap for commencing finance leasing services through Hisense Financial Holdings during the term of the Financial Business Framework Agreement on any given day would be RMB300,000,000 (inclusive of interest). In light of the above information, to improve its capital usage efficiency, decrease the financing cost and the financing risks of the Group, the Management expects the maximum daily closing balance of the leasing services could reach RMB300,000,000 (inclusive of interest) in 2020 and 2021, taking into account the fact that the Group may have to frequently utilise the financial leasing services from Hisense Financial Holdings if the relevant terms are more favourable than those available from other financial institutions.

In view of the fact that (i) the proposed financial leasing services to be provided by Hisense Financial Holdings to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties; (ii) the non-exclusive arrangement under the Financial Business Framework Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the daily closing balance of the financial leasing services so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the cap of RMB300 million in respect of the financial leasing services to be payable under the Financial Business Framework Agreement is fair and reasonable.

### Conditions of the annual caps under the Agreements

There are certain conditions of the annual cap pursuant to the Hong Kong Listing Rules, in particular, the restriction of the value of the transactions contemplated under the Agreements by way of the annual cap for each of the relevant financial years and the annual review by the independent non-executive Directors of the terms of such transactions and the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Hong Kong Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Agreements are conducted in accordance with the terms of the relevant Agreements and that the relevant annual caps not being exceeded. In addition, pursuant to the Hong Kong Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the transactions to be contemplated under the Agreements and safeguard the interests of the Shareholders.

### **Recommendation**

Based on the above, we are of the opinion that the proposed Annual Caps, the transactions and terms contemplated under the Business Co-operation Framework Agreement, the Financial Services Agreement and Financial Business Framework Agreement are (i) with fair and reasonable terms; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee advising the Shareholders to vote in favour of the relevant resolution to approve the Agreements (stipulating the Proposed Cap) and the transactions contemplated thereunder at the relevant general meeting of the Company.

Yours faithfully  
For and on behalf of  
**Yuanta Securities (Hong Kong) Company Limited**  
**Lei Hsi Wei**  
*Executive Director*  
*Investment Banking*

*Note: Mr. Lei Hsi Wei is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Yuanta Securities (Hong Kong) Company Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Lei has over 10 years of experience in the corporate finance industry.*

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company (<http://www.kelon.com>):

- (a) on pages 68 to 191 of the annual report of the Company for the year ended 31 December 2016 published on 4 May 2017  
(<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0504/LTN20170504861.pdf>);
- (b) on pages 61 to 189 of the annual report of the Company for the year ended 31 December 2017 published on 27 April 2018  
(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804272902.pdf>); and
- (c) on pages 64 to 205 of the annual report of the Company for the year ended 31 December 2018 published on 26 April 2019  
(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0426/LTN201904261930.pdf>).

**2. INDEBTEDNESS**

As at the close of business on 20 December 2019, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowing (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, any other mortgages and charges or any other material contingent liabilities or guarantees.

**3. WORKING CAPITAL**

The Directors are of the opinion that, after due and careful enquiry, taking into account the effect of the transactions contemplated under the Financial Services Agreement and the Financial Business Framework Agreement, the cash flow generated from the operating activities, financial resources available to the Group, including internally generated funds and the available credit financing, the Group has sufficient working capital to meet its requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

#### 4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the section headed “5. Businesses acquired after 31 December 2018” in this appendix, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up).

#### 5. BUSINESSES ACQUIRED AFTER 31 DECEMBER 2018

As disclosed in the announcement of the Company dated 5 March 2019 and the circular of the Company dated 14 August 2019, on 5 March 2019, the Company and the Transferor entered into the Sale and Purchase Agreement, pursuant to which the Transferor agreed to sell, and the Company agreed to acquire, 0.2% equity interests of Hisense Hitachi (“**Transfer of Target Equity Interests**”) at a consideration of RMB25,000,000 which was settled in the following manner:

- (i) the Company paid 50% of the consideration to the Transferor in cash as deposit within 20 business days of the board of directors of Hisense Hitachi having approved the Sale and Purchase Agreement by way of written resolutions; and
- (ii) the Company paid the remaining 50% of the consideration to the Transferor within 20 business days from the date on which the business registration procedure in respect of the Transfer of Target Equity Interests having been completed.

Hisense Hitachi was established in the PRC in 2003 and the scope of business of Hisense Hitachi includes: research and development, manufacturing and sales of air-conditioners, heat pumps, refrigeration equipment, heating equipment, ventilation equipment, air purification equipment, intelligent electrical equipment and supporting facilities, electric water heaters and related parts; provision of installation, after-sales, technical testing services; and import and export of the above goods and technologies.

After the completion of the Transfer of Target Equity Interests, the Company holds 49.2% equity interests in Hisense Hitachi. The articles of association of Hisense Hitachi states that the board of directors of Hisense Hitachi shall consist of nine members, out of which the Company is entitled to appoint five members. As such, the financial results of Hisense Hitachi will be consolidated into that of the Group.

Details of the financial information of Hisense Hitachi for each of the three years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 have been set out in the circular of the Company dated 14 August 2019 (from pages II-1 to II-130), which has been posted on the websites of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0814/ltn20190814474.pdf>) and the Company (<http://www.kelon.com>).

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors are not varied in consequence of such acquisition.

Save as disclosed above, no business or interest in the share capital of a company whose profits or assets make or will make a material contribution to the financial results of the Group was acquired, agreed to be acquired or proposed to be acquired by the Group after 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group was made up.

#### **6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

In the first three quarters of 2019, the Group continued to adhere to its business philosophy of “making good and high quality products” and implemented various of its business plans, achieving operating revenue of RMB27.01 billion; net profits attributable to the Shareholders of RMB1.349 billion, representing a year-on-year increase of 17.62%; and basic earnings per share of RMB0.99. Net cash flow from operating activities amounted to RMB2.484 billion, representing a year-on-year increase of 35.12%. The operations of the Company continued to maintain a steadily and positive developing trend.

Starting from 30 September 2019, the Company consolidates the financial results of Hisense Hitachi into that of the Group. Since its establishment, Hisense Hitachi has maintained a steadily and positive developing trend in its operations, and has strong competitiveness in the central air-conditioner market. With the consolidation of Hisense Hitachi, the assets, income and cash flow of the Company will be significantly improved, and the Company’s value and overall capability will also be further enhanced.

Looking ahead, in 2020, the Company will continue to focus on its business philosophy of “making good and high quality products”, leverage on its ability to offer “comprehensive category of household appliances” and endeavor to achieve sustainable and healthy development of the Company.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Interests of Directors, supervisors and chief executive of the Company in the securities of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

#### *Long position in the Shares*

Name of Director/ Supervisor	Nature of interest	Number of A Shares	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Tang Ye Guo	Beneficial owner	831,600	0.092	0.061
Mr. Jia Shao Qian	Beneficial owner	404,360	0.045	0.030
Mr. Wang Yun Li	Beneficial owner	52,120	0.006	0.004

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisor or chief executive was taken or deemed to have under such

provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered into the register maintained by the Company referred to therein or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

**Other interests**

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (c) Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong, being Directors, are also directors or senior management of Hisense Group or some of its subsidiaries. Hisense Group was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. SERVICE AGREEMENTS**

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

**4. COMPETING BUSINESS**

As at the Latest Practicable Date, the following Directors or their respective close associates had relevant interests in the following businesses which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Hong Kong Listing Rules:

<b>Name of Director</b>	<b>Name of entity which business is considered to compete or likely to compete with the business of the Group</b>	<b>Description of business of the entity which is considered to compete or likely to compete with the business of the Group</b>	<b>Nature of interest of the Director in the entity</b>
Mr. Tang Ye Guo	The subsidiaries of Hisense Group	Production of electrical products	Director and/or senior management
Mr. Jia Shao Qian	The subsidiaries of Hisense Group	Production of electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or Hisense Electric	Production of electrical products	Director and/or senior management
Mr. Dai Hui Zhong	Hisense Group or Hisense Electric	Production of electrical products	Director and/or senior management

As at the Latest Practicable Date, save as disclosed above, none of the Directors or their respective close associates had interests in the businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

**5. LITIGATION**

As at the Latest Practicable Date, there was no litigation, arbitration or claims of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

**6. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (i) the capital increase agreement dated 5 December 2018 entered into between the Company and Hisense Electric pursuant to which each of the Company and Hisense Electric will contribute RMB47,500,000 in cash to Hisense Marketing Management to increase its registered capital, details of which are set out in the announcement of the Company dated 6 December 2018; and
- (ii) the Sale and Purchase Agreement, details of which are set out in the announcement of the Company dated 5 March 2019 and the circular of the Company dated 14 August 2019.

**7. EXPERT**

The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Yuanta Securities (Hong Kong) Company Limited	a corporation licensed to carry Type 1 (Dealing in securities), Type 2 (Dealing in future contracts), Type 4 (Advising on securities), Type 5 (Advising on future contracts), Type 6 (Advising on corporate finance) and Type 9 (Asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto

As at the Latest Practicable Date, Yuanta Securities (Hong Kong) Company Limited:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

- (b) did not have any interest, direct or indirect, in any assets which have been, since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they are included.

**8. GENERAL**

- (a) The registered office of the Company is at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC. The Company's head office and principal place of business in Hong Kong is situated at Room 3101-05, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong.
- (b) The secretary of the Company is Ms. Wong Tak Fong, who is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. since November 1994 to May 2014. She was the chief financial controller of DIAMOND DRAGON FASHION LTD (鑽龍時裝有限公司) from December 2010 to March 2019.
- (c) In case of inconsistency, the Chinese text of this circular shall prevail over its English text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (a) the articles of association of the Company;
- (b) the letter from the Independent Board Committee dated 20 December 2019;
- (c) the letter from the Independent Financial Adviser dated 13 December 2019;
- (d) the resolutions passed by the tenth session of the Board on 5 November 2019;
- (e) prior approval and independent opinion of the independent non-executive Directors dated 5 November 2019 in relation to the continuing connected transactions and major transaction;

- (f) the material contracts referred to in the section headed “6. Material contracts” in this appendix;
- (g) the Existing Business Co-operation Framework Agreement;
- (h) the Existing Financial Services Agreement;
- (i) the Existing Financial Business Framework Agreement;
- (j) the Business Co-operation Framework Agreement;
- (k) the Financial Services Agreement;
- (l) the Financial Business Framework Agreement;
- (m) the consent letter issued by Yuanta Securities (Hong Kong) Company Limited referred to in the paragraph headed “7. Expert” in this appendix;
- (n) the annual reports and consolidated audited accounts of the Company for the three years ended 31 December 2018;
- (o) the circulars of the Company dated 7 January 2019 and 14 August 2019; and
- (p) this circular.