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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 KELON ELECTRICAL HOLDINGS COMPANY LIMITED**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**Hisense 海信科龙**

**HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**  
**海信科龍電器股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 00921)**

**(1) CONTINUING CONNECTED TRANSACTIONS**

**(2) MAJOR TRANSACTION**

**(3) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO  
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.  
AND HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC  
APPLIANCES CO., LTD.**

**(4) PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR**

**Independent Financial Adviser  
to the Independent Board Committee and the Shareholders**



**VMS Securities Limited**

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A letter from the Board is set out on pages 7 to 50 of this circular. A letter from the Independent Board Committee is set out on page 51 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 52 to 109 of this circular.

A notice of the EGM to be held on 28 December 2015 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 10 November 2015 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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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;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“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 Electric and Hisense Group dated 10 November 2015 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;
“Caps”	the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2016, being (i) RMB920,000 in respect of the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ii) RMB35,850,000 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; (iii) RMB201,340,000 in respect of the provision of services by Hisense Group, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (iv) RMB399,000,000 in respect of the provision of agency services for export of white goods by Hisense Group and its subsidiaries to the Group under the Business Co-operation Framework Agreement; (v) RMB3,594,500,000 in respect of the supply of home electrical appliances by the Group to Hisense Group,

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## DEFINITIONS

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Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB3,690,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vii) RMB347,380,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (viii) RMB93,340,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ix) RMB23,700,000 in respect of the provision of services by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; and the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (a) RMB1,500,000,000 in respect of the maximum daily balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (b) RMB3,000,000,000 in respect of the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (c) 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; and (d) US\$700,000,000 in respect of the annual amount settled or sold by Hisense Finance for the Group under the Financial Services Agreement and (e) 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;

“CBRC”

中國銀行業監管管理委員會(China Banking Regulatory Commission);

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## DEFINITIONS

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“close associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Company”	Hisense Kelon Electrical Holdings Company Limited, 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”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“EGM”	the second 2015 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 28 December 2015 at 3:00 p.m. for, among other things, the approval of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Hitachi Business Framework Agreement, the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto and the proposed appointment of Director and supervisor;
“Existing Business Co-operation Framework Agreement”	the framework agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 2 December 2014 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;
“Existing Financial Services Agreement”	the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 21 November 2013 in connection with the provision of financial services by Hisense Finance to the Group;
“Financial Services Agreement”	the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 10 November 2015 in connection with the provision of financial services by Hisense Finance to the Group;
“Group”	the Company and its subsidiaries;

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## DEFINITIONS

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“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 a subsidiary of Hisense Group;
“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;
“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 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;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hisense Marketing”	青島海信國際營銷股份有限公司 (Hisense International Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hisense Whirlpool”	Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (海信惠而浦(浙江)電器有限公司), a company incorporated in the PRC with limited liability;

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## DEFINITIONS

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“Hitachi Business Framework Agreement”	the business framework agreement 1 (業務框架協議一) entered into between the Company and Hisense Hitachi dated 10 November 2015 in relation to the supply of home electrical appliances and moulds and sale and purchase of raw materials, parts and components;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo;
“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and the Caps in relation thereto;
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, 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, and (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates
“Latest Practicable Date”	30 November 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;

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## DEFINITIONS

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“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;
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳証券交易所上市規則) ;
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“VAT”	value-added tax;
“Whirlpool Business Framework Agreement”	the business framework agreement 2 (業務框架協議二) entered into between the Company and Hisense Whirlpool dated 10 November 2015 in relation to the purchase of home electrical appliances, sale and purchase of raw materials, parts, components and equipment, supply of moulds and reciprocal provision of services;
“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 household 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.

**Hisense 海信科龙**  
**HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**  
**海信科龍電器股份有限公司**  
*(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. Lin Lan  
Mr. Tian Ye  
Mr. Liu Hong Xin  
Mr. Jia Shao Qian

*Registered office:*

No. 8 Ronggang Road  
Ronggui  
Shunde  
Foshan  
Guangdong Province  
The PRC

*Independent non-executive Directors:*

Mr. Xu Xiang Yi  
Mr. Wang Xin Yu  
Mr. Wang Ai Guo

*Principal place of business in  
Hong Kong:*

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

2 December 2015

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS**

**(2) MAJOR TRANSACTION**

**(3) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO  
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.  
AND HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC  
APPLIANCES CO., LTD.**

**(4) PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR**

**BACKGROUND**

Reference is made to:

- (a) the announcement of the Company dated 21 November 2013 in relation to, inter alia, the Existing Financial Services Agreement;
- (b) the circular of the Company dated 18 December 2013 in relation to, inter alia, the Existing Financial Services Agreement;
- (c) the announcement of the Company dated 2 December 2014 in relation to, inter alia, the Existing Business Co-operation Framework Agreement; and

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## LETTER FROM THE BOARD

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- (d) the circular of the Company dated 22 December 2014 in relation to, inter alia, the Existing Business Co-operation Framework Agreement.

As disclosed in the announcement of the Company dated 10 November 2015, the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2015 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 10 November 2015, the following agreements were entered into by the Company:

- (a) the Business Co-operation Framework Agreement; and
- (b) the Financial Services Agreement.

In addition, on 10 November 2015, the Company has also entered into the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement with Hisense Hitachi and Hisense Whirlpool respectively. The transactions contemplated under the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement constitute ordinary connected transactions under the Shenzhen Listing Rules and are subject to the approval at the EGM.

The purpose of this circular is to:

- (a) provide you with further information on the Business Co-operation Framework Agreement, the Financial Services Agreement and the Caps in relation thereto;
- (b) provide you with further information on the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the annual caps in relation thereto;
- (c) 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 and the Financial Services Agreement;
- (d) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement and the Financial Services Agreement; and
- (e) provide you with information regarding the ordinary resolutions in relation to the election of the Director and shareholder representative supervisor to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### I. CONTINUING CONNECTED TRANSACTIONS

#### (A) BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

**Date:** 10 November 2015

**Parties:** The Company;  
Hisense Group; and  
Hisense Electric

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2016 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 2016, 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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## LETTER FROM THE BOARD

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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.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement (other than fees for provision of agency services for export of the white goods products of the Group) shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. As provided in the Business Co-operation Framework Agreement, the fees for the provision of the agency services for export of the white goods products of the Group will be calculated on a monthly basis and the relevant members of the Group should pay the monthly fee for the preceding month by way of telegraphic transfer or bills.

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

Before a definitive transaction is conducted, the Company will compare the price of similar existing transactions with or quotations obtained from 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.

For such purpose, the Company has adopted an internal policy for managing and monitoring continuing connected transactions contemplated under the Business Co-operation Framework Agreement. According to the internal policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar existing 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. If the operation department 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 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.

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## LETTER FROM THE BOARD

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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 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 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 home electrical appliances**

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

**Pricing:**

Pricing for the purchase of home electrical appliances 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 home electrical appliances from time to time.

**Historical figures:**

The annual cap allocated to the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB800,000 (exclusive of VAT). For the nine months ended 30 September 2015, the aggregate transaction amount for the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB250,000 (exclusive of VAT and unaudited) (of which RMB200,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB50,000 was for the purchases from Hisense Electric and/or its subsidiaries).

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## LETTER FROM THE BOARD

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### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB920,000 (exclusive of VAT), of which:

- (i) RMB630,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB290,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2016 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators.

### **Reasons for and benefits of the purchase of home electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The sales and overall image of the Company can be enhanced by purchasing television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances. In addition, the Group intends to procure models for electrical appliances (such as refrigerators and air-conditioners) through Hisense Group and its subsidiaries for the purpose of conducting analysis and research so as to develop the Group's market research functions. Since the pricing for the purchase of home electrical appliances will be determined with reference to the market price of similar home electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain home electrical appliances through Hisense Group, 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 home electrical appliances 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.

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## LETTER FROM THE BOARD

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

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries 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:**

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.

#### **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 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB35,650,000 (exclusive of VAT). For the nine months ended 30 September 2015, 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 RMB13,650,000 (exclusive of VAT and unaudited) (of which RMB9,440,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB4,210,000 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 2016 are subject to the Cap of RMB35,850,000 (exclusive of VAT), of which:

- (i) RMB11,730,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB24,120,000 will be allocated to the purchase of raw materials, parts and components 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 (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016.

**Reasons for and benefits of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries:**

Certain subsidiaries of Hisense Group and/or Hisense Electric are principally engaged in the import and export business. As such, Hisense Group and/or Hisense Electric have broad channels for import of materials and are in an advantageous position to obtain products with better quality and pricing by placing bulk purchase orders. For these reasons, the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will reduce purchase costs, and at the same time, the Group can benefit from the sharing of resources and the maximization of the economies of scale. Further, the Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by importing certain raw materials overseas, which in turn boosts the sales of high-end products and increases product and brand competitiveness.

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 Company and/or its subsidiaries will engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property services as they may require from time to time.

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## LETTER FROM THE BOARD

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### **Pricing:**

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 from time to time.

### **Historical figures:**

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB177,120,000. For the nine months ended 30 September 2015, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB93,580,000 (unaudited) (of which RMB83,840,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB9,740,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2016 are subject to the Cap of RMB201,340,000, of which:

- (i) RMB177,420,000 will be allocated to the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB23,920,000 will be allocated to the provision of property services by Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016.

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## LETTER FROM THE BOARD

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### **Reasons for and benefits of the engagement of services of Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings and considers that Hisense Group, 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. Certain subsidiaries of Hisense Group are outstanding companies in the property development industry in Qingdao and the quality of property construction for the Group can be assured as a result of the professional quality which they can deliver.

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 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) Provision of agency services for export of the white goods**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will engage Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of agency services for export of white goods products of the Group (which include without limitation, refrigerators, air-conditioners, freezers, washing machines, small household electrical appliances, kitchen electric products and their related parts and spare parts which are to be assembled).

The agency services for export of the white goods products of the Group to be provided by Hisense Group and/or its subsidiaries will mainly include the following:

- (i) Hisense Group and/or its subsidiaries shall be responsible for expanding the customer base of the Group in the international market, and shall conduct business negotiation with third party customers in the name of the Company and/or its subsidiaries and accept orders for the goods after obtaining the latter's consent. Contracts for such orders shall be entered into between the Company and/or its subsidiaries and the customers directly.

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## LETTER FROM THE BOARD

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- (ii) Hisense Group and/or its subsidiaries shall provide information in relation to the delivery requirements of the customers to the Group which shall arrange for production. Any amendments proposed by Hisense Group and/or its subsidiaries in relation to the orders for the goods shall be subject to the Group's consent. In case the Group needs to adjust the date of delivery for reasons such as production capacity, Hisense Group and/or its subsidiaries shall negotiate and confirm with the customers on behalf of the Group.
- (iii) The products to be supplied by the Group shall be delivered timely and in accordance with the specifications as per the purchase orders confirmed by the customers. There should not be any deficiencies in the design, raw materials and workmanship, and the quality and packaging shall meet the mandatory standards and requirements in the country of end use of the products. The Group shall provide technological services and warranties according to the agreement with the customers depending on the types of products involved.

### **Pricing:**

The fees payable by the Group for the provision of the agency services for export for the white goods of the Group are calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. This pricing mechanism is a usual commercial practice for determining fees payable for such kind of services. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2016, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below:

<b>Growth rate of the revenue from export subject to the export agency services</b>	<b>Corresponding profit margin for export agency services</b>	<b>Corresponding export agency fee percentage</b>
Below 0%	0%	7.24%
0-5% (inclusive of 5%)	0.5%	7.74%
5-10% (inclusive of 10%)	0.8%	8.04%
10-15% (inclusive of 15%)	1%	8.24%
Above 15%	1.1%	8.34%

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*Note:* Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2016 - the Group's audited revenue from export subject to the export agency services in 2012)/the Group's audited revenue from export subject to the export agency services in 2012.

In the course of provision of agency services for export for the white goods for the Group by Hisense Group and/or its subsidiaries, the Group will engage audit firm to conduct audit once every two years on the rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group. If the difference between the latest audited rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group and 7.24% does not exceed 1 percentage point, the export agency fee percentage shall remain the same as that agreed in the Business Co-operation Framework Agreement. However, if such difference exceeds 1 percentage point, then the parties shall adopt the latest audited rate of the charges actually incurred by Hisense Group and/or its subsidiaries as the base percentage for calculating the fees payable by the Group for the provision of the agency services for export for the white goods of the Group. Such amendment on pricing terms will be made subject to compliance of relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules. An audit on the rate of the charges actually incurred by Hisense Group and/or its subsidiaries in 2014 has been conducted in 2015. The audit shows that rate of the charges actually incurred by Hisense Group and/or its subsidiaries in 2014 for providing agency services for export to the Group and 7.24% does not exceed 1 percentage point.

Furthermore, pursuant to the Business Co-operation Framework Agreement, the charges which may be imposed at the port of inspection in relation to the export of products and the fees for repair and spare parts shall be borne and paid by the Group, and Hisense Group and/or its subsidiaries shall bear and pay other export-related charges.

The Group shall however bear the following costs/ expenses in any of the following circumstances:

- (i) in the event that any liquidated damages, damages, compensation and other compensation costs are claimed by customers due to the failure of the Group to deliver relevant products in time (including without limitation, inability to deliver relevant products, delay in delivering relevant products and deficiency in the quality of the products), Hisense Group and/or its subsidiaries shall negotiate with the customers on the settlement proposal for and on behalf of the Group. The Group shall be responsible if the proposal is agreed to by the Group; and

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## LETTER FROM THE BOARD

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(ii) for reasons such as the Group's need to expand its business, the Group may propose, and Hisense Group and/or its subsidiaries will communicate with the customers on, certain support to be provided to the customers in relation to the expenses for the promotion of sales, etc. The Group shall be responsible for those expenses which have been agreed to by the Group.

### **Historical figures:**

The annual cap allocated to the provision by Hisense Group and/or its subsidiaries of agency services for export of white goods products of the Group for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB439,330,000. For the nine months ended 30 September 2015, the aggregate transaction amount for the provision by Hisense Group and/or its subsidiaries of agency services for export of the white goods products of the Group amounted to approximately RMB224,140,000 (unaudited).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of agency services for export of the white goods products of the Group by Hisense Group and/or its subsidiaries to the Group for the financial year ending 31 December 2016 are subject to the Cap of RMB399,000,000.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services.

### **Reasons for and benefits of the engagement of services of Hisense Group and/or its subsidiaries:**

Hisense Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By engaging the export agency services of Hisense Group and/or its subsidiaries which will provide professional management services to the Group for its development of the international market, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business.

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## LETTER FROM THE BOARD

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In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the engagement of agency services for export of the white goods of Hisense Group 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.

### **(5) Supply of home electrical appliances**

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

#### **Pricing:**

Pricing for the supply of home 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 home electrical appliances from time to time.

#### **Historical figures:**

The annual cap allocated to the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB2,985,280,000 (exclusive of VAT). For the nine months ended 30 September 2015, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB1,768,040,000 (exclusive of VAT and unaudited) (of which RMB1,767,980,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB60,000 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 home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB3,594,500,000 (exclusive of VAT), of which:

- (i) RMB3,594,300,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and

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## LETTER FROM THE BOARD

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(ii) RMB200,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016.

**Reasons for and benefits of the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The production and supply of home electrical appliances by the Group to Hisense Group, 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. The Group can also increase market share and boost its sales turnover and revenue by selling products through the online platform of Hisense Group which reduces the product circulation links.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of home electrical appliances to 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.

**(6) Supply of equipment**

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis such quantities of equipment to Hisense Group and/or its subsidiaries 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.

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## LETTER FROM THE BOARD

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### **Historical figures:**

The annual cap allocated to the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB8,000,000 (exclusive of VAT). For the nine months ended 30 September 2015, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB1,960,000 (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 Group and/or its subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB3,690,000 (exclusive of VAT).

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016.

### **Reasons for and benefits of the supply of equipment to Hisense Group and/or its subsidiaries:**

The supply of equipment by the Group to Hisense Group and/or its subsidiaries will increase the Company's revenue and satisfy the production needs of Hisense Group and/or its subsidiaries. At the same time, through the export channels of Hisense Group and/or its subsidiaries, sales to overseas markets will be enhanced to satisfy the demands therein.

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 Group 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.

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### **(7) Supply of moulds**

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

#### **Pricing:**

In response to the invitations to tender from Hisense Group, 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 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.

#### **Historical figures:**

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB350,000,000 (exclusive of VAT). For the nine months ended 30 September 2015, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB169,950,000 (exclusive of VAT and unaudited) (of which RMB110,720,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB59,230,000 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 Electric and/or their respective subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB347,380,000 (exclusive of VAT), of which:

- (i) RMB251,380,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and

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## LETTER FROM THE BOARD

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(ii) RMB96,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

**Reasons for and benefits of the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The sale of moulds by the Group to Hisense Group and Hisense Electric has become an important part of the Group's business. The sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with the relevant subsidiaries of Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group 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.

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 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.

**(8) Supply of raw materials, parts and components**

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

**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.

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### **Historical figures:**

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB67,050,000 (exclusive of VAT). For the nine months ended 30 September 2015, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB19,530,000 (exclusive of VAT and unaudited) (of which RMB15,220,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB4,310,000 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 Electric and/or their respective subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB93,340,000 (exclusive of VAT), of which:

- (i) RMB33,740,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB59,600,000 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 (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

### **Reasons for and benefits of the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

Hisense Group and Hisense Electric have overseas sales channels and high quality customer resources which can enhance the sales of raw materials, parts and components of the Company. Further, the provision of raw materials, parts and components to Hisense Group, Hisense Electric and their respective subsidiaries can increase the revenues of the Group.

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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 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.

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

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

#### **Pricing:**

The fees payable by Hisense Group, 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 from time to time.

#### **Historical figures:**

The annual cap allocated to the provision of services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2015 as specified in the Existing Business Co-operation Framework Agreement is RMB7,190,000. For the nine months ended 30 September 2015, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB4,280,000 (unaudited). There has not been any historical transaction for the provision of 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 Electric and/or their respective subsidiaries for the financial year ending 31 December 2016 are subject to the Cap of RMB23,700,000, of which:

- (i) RMB21,700,000 will be allocated to the provision of design, processing services and property services by the Group to Hisense Group and/or its subsidiaries; and

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## LETTER FROM THE BOARD

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(ii) RMB2,000,000 will be allocated to the provision of labour services by the Group to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services.

**Reasons for and benefits of the provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries:**

The provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries will 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 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) FINANCIAL SERVICES AGREEMENT**

**Date:** 10 November 2015

**Parties:** The Company;  
Hisense Finance

**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2016 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2017, 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.

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## LETTER FROM THE BOARD

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### **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 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.

### **Pricing:**

#### *Deposit service*

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.

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## LETTER FROM THE BOARD

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### ***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 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.

Hisense Finance may require the Group to provide guarantee or 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.

### ***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 (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.

### ***Settlement and sale of foreign exchange***

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.

### ***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 or similar agencies in the PRC during the corresponding period.

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## LETTER FROM THE BOARD

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The basis for the pricing for the aforesaid services shall be the benchmark interest rate for deposits and loans (存貸款基準利率) and the rediscount rate (再貼現利率) prescribed by The People's Bank of China, and the market level of the market interest rates of discounted bill (票據貼現市場利率), the service fee for establishing electronic bank acceptance bill (開立電子銀行承兌匯票手續費) and the service fee for settlement for receipt and payment of funds (資金收支結算手續費) and agency services.

The transactions contemplated under the Financial Services 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.

### **Proposed Caps and Historical figures:**

#### *Deposit service*

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 RMB800,000,000 (inclusive of interest). For the periods commencing from 10 January 2014 to 31 December 2014 and from 1 January 2015 to 30 September 2015, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB795,000,000 and RMB799,000,000 respectively.

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 RMB1,500,000,000 (inclusive of interest) on any given day for each of the two years ending 31 December 2016 and 31 December 2017.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group. The Company expects that as a result of the business development plans on areas relating to research and development, investment, sales and supply of the Group, the Company shall utilise more deposit services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance. As the Group may frequently utilise the loan services to be provided by Hisense Finance if the relevant terms

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## LETTER FROM THE BOARD

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are more favourable than those available from other financial institutions and the proposed 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 withdrawal, the Company also expects to utilise frequently the deposit services to be provided by Hisense Finance.

### *Loan and electronic bank acceptance bill service*

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 RMB2.2 billion (inclusive of interest and service fees). For the periods commencing from 10 January 2014 to 31 December 2014 and from 1 January 2015 to 30 September 2015, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB1,108,000,000 and RMB1,498,000,000 respectively.

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 RMB3,000,000,000 (inclusive of interest and service fees) on any given day for each of the two years ending 31 December 2016 and 31 December 2017.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the years ending 31 December 2017 since the terms for the provision of the loans 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 about the background and financial status of the Company which will facilitate the loan application process by the Company.

### *Draft discount service*

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 periods commencing from 10 January 2014 to 31 December 2014 and from 1 January 2015 to 30 September 2015, the total discount interest paid by

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the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB0 and RMB224,900 respectively.

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 each of the two years ending 31 December 2016 and 31 December 2017.

The above Cap was determined with reference to (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; 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 years ending 31 December 2017 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 about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

### ***Settlement and sale of foreign exchange***

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 periods commencing from 10 January 2014 to 31 December 2014 and from 1 January 2015 to 30 September 2015, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$36,490,000 and US\$146,000,000 respectively.

The Company currently expects that the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$700,000,000 for each of the two years ending 31 December 2016 and 31 December 2017.

The above Cap was determined with reference to the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the years ending 31 December 2017.

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

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 (資金收支結算等代理

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類服務) shall not exceed RMB5,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 10 January 2014 to 31 December 2014 and from 1 January 2015 to 30 September 2015, 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 (資金收支結算等代理類服務) amounted to approximately RMB583,900 and RMB288,300 respectively.

The Company currently expects that 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 (資金收支結算等代理類服務) during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for each of the two years ending 31 December 2016 and 31 December 2017.

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.

### **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 rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;
- (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
- (iii) 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 companies within the Hisense Group. In general, as the risks

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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.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that 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.

### **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 CBRC 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.

### **INFORMATION RELATING TO THE COMPANY, HISENSE ELECTRIC AND HISENSE GROUP**

The Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners.

Hisense Electric was established on 17 April 1997 and has a registered capital of RMB1,308,481,222. Its authorised representative is Mr. Liu Hong Xin and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. It is primarily engaged in the manufacture and sale of television, refrigerators, washing machines, radio and television equipment, communication products, information technology products, home and commercial appliances and electronic products and provision of the related services.

Hisense Group was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. It is primarily engaged in the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small home electrical appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services;

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the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business and property management; Leasing of tangible asset; and leasing of real estate.

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 was established in the PRC on 12 June 2008 with a registered capital of RMB900 million. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Ltd.), 30.89% by Hisense Group and 12.12% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

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.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

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

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 44.93% of the issued shares of the Company and (ii) Hisense HK holds 5.96% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 39.35% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to 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

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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 and 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 and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group 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 and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 612,316,909 Shares (representing approximately 44.93% of the issued share capital of the Company) and Hisense HK, which held 81,160,000 Shares (representing approximately 5.96% 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.

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

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 44.93% of the issued shares of the Company and (ii) Hisense HK holds 5.96% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to 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, loan and electronic bank acceptance bill, draft discount, 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.

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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. Since the consideration ratio for the provision of such deposit services is more than 25% but less than 75%, it 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 and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 612,316,909 Shares (representing approximately 44.93% of the issued share capital of the Company) and Hisense HK, which held 81,160,000 Shares (representing approximately 5.96% 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.

### GENERAL

Mr. Tang Ye Guo, Mr. Lin Lan and Mr. Liu Hong Xin, 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 transactions contemplated thereunder in view of their interest therein as set out below:

- (a) Mr. Tang Ye Guo, Mr. Liu Hong Xin and Mr. Lin Lan are also directors or senior management of Hisense Group and/or some of its subsidiaries;
- (b) Mr. Lin Lan and Mr. Liu Hong Xin are also directors of Hisense Electric and/or some of its subsidiaries; and
- (c) Mr. Tang Ye Guo and Mr. Liu Hong Xin are also directors of Hisense Finance.

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## LETTER FROM THE BOARD

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### **II. BUSINESS FRAMEWORK AGREEMENTS WITH HISENSE HITACHI AND HISENSE WHIRLPOOL**

#### **(A) HITACHI BUSINESS FRAMEWORK AGREEMENT**

**Date:** 10 November 2015

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

**Term:**

The Hitachi Business Framework Agreement shall commence from 1 January 2016 or the date of approval of the Hitachi Business Framework Agreement at the EGM (whichever is the later) until 31 December 2016, 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 and/or the Rules Governing the Listing of Stocks on Shanghai Stock Exchange in respect of connected transactions for any transactions contemplated under the Hitachi Business Framework Agreement, the performance of the Hitachi Business Framework Agreement in respect of such transactions shall be terminated. The Hitachi Business Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

**Condition:**

The Hitachi Business Framework Agreement and the transactions contemplated thereunder are subject to approval at the EGM by the independent Shareholders.

**Subject matters:**

The transactions contemplated under the Hitachi Business 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 Hitachi Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Hitachi Business Framework Agreement with

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any other third parties. The annual caps for the transactions contemplated under the Hitachi Business Framework Agreement and the historical amount of the transactions from January to September 2015 are set out as follows:

*Unit: RMB ('0000) (exclusive of VAT)*

<b>Types of transactions</b>	<b>Annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement</b>	<b>Amount paid/received in respect of such type of transactions from January to September 2015</b>	<b>(unaudited)</b>
Sale of home electrical appliances	19,297	11,602	
Sale of raw materials, parts and components	403	162	
Sale of moulds	1,882	1,019	
Purchase of raw materials, parts and components	870	487	

The parties will enter into definitive contract(s) setting out specific terms including specifications of the home electrical appliances, moulds, raw materials, parts and components, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Hitachi Business Framework Agreement.

### **Pricing and payment term:**

Pricing for the sale of home electrical appliances 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 home electrical appliances from time to time. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

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Pricing for the sale and purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the sale of moulds by the Company to Hisense Hitachi is the market price determined by price comparison by way of open bidding. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

**Reasons for and benefits of the transactions contemplated under the Hitachi Business Framework Agreement:**

*Sale of home electrical appliances*

The sale of home electrical appliances to Hisense Hitachi may expand the sales and increase sales revenue of the Company.

*Reciprocal purchase of raw materials, parts and components*

In order to ensure the supply and after-sale service for products customized by Hisense Hitachi, both parties intend to reciprocally purchase raw materials, parts and components that match the customized products.

*Sale of moulds*

Sale of mould products is an important business component of 青島海信模具有限公司 (Qingdao Hisense Mould Company Limited), the Company's subsidiary. The sale of moulds to Hisense Hitachi to meet its production requirements may expand the sales of the Company and increase the sales revenue of the Company.

The above connected transactions will not prejudice the interests of the Company and will not cause adverse effect on the current and future financial situation and operating results of the Company.

**Information of Hisense Hitachi**

Hisense Hitachi was established on 8 January 2003, registered address: 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, legal representative: Qing Shangong, registered capital: US\$46 million, scope of business:

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research and development of commercial air-conditioning system, manufacture and sale of self-produced products and provision of after-sale services. As at the Latest Practicable Date, the Company held 49% equity interest of Hisense Hitachi.

In view of the above, and based on the business credit and ability of commercial operation of Hisense Hitachi as known by the Company, the Board considers that Hisense Hitachi can honour its obligations, and deliver and pay to the Company the products and payments under the connected transactions.

As Mr. Tang Ye Guo being Director, is also a director of Hisense Hitachi, the transactions contemplated under the Hitachi Business Framework Agreement will constitute ordinary connected transactions under the Shenzhen Listing Rules. The independent non-executive Directors have agreed to put forward the transactions contemplated under the Hitachi Business Framework Agreement for the consideration of the Board and they considered that such transactions would be conducted on normal commercial terms and based on the terms of the Hitachi Business Framework Agreement, and the terms of the transactions as agreed in the Hitachi Business Framework Agreement were fair and reasonable and were in the interests of the Company and its Shareholders as a whole. They also considered that the terms of the Hitachi Business Framework Agreement and the annual caps in relation thereto were fair and reasonable so far as the independent Shareholders were concerned.

Mr. Tang Ye Guo, being Director, is also a director of Hisense Hitachi and has abstained from voting on the relevant board resolution for approving the Hitachi Business Framework Agreement and the transactions contemplated thereunder.

### **(B) BUSINESS FRAMEWORK AGREEMENT WITH HISENSE WHIRLPOOL**

**Date:** 10 November 2015

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

**Term:**

The Whirlpool Business Framework Agreement shall commence from 1 January 2016 or the date of approval of the Whirlpool Business Framework Agreement at the EGM (whichever is the later) until 31 December 2016, which can be terminated before its expiration by mutual agreement of the parties.

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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 and/or the Rules Governing the Listing of Stocks on Shanghai Stock Exchange in respect of connected transactions for any transactions contemplated under the Whirlpool Business Framework Agreement, the performance of the Whirlpool Business Framework Agreement in respect of such transactions shall be terminated. The Whirlpool Business Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

**Condition:**

The Whirlpool Business Framework Agreement and the transactions contemplated thereunder are subject to approval at the EGM by the independent Shareholders.

**Subject matters:**

The transactions contemplated under the Whirlpool Business 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 Whirlpool Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Whirlpool Business Framework Agreement with any other third parties. The annual caps for the transactions contemplated under the Whirlpool Business Framework Agreement and the historical amount of the transactions from January to September 2015 are set out as follows:

*Unit: RMB ('0000) (exclusive of VAT)*

<b>Types of transactions</b>	<b>Annual caps of the transaction amount to be paid/received during the term of the Whirlpool Business Framework Agreement</b>	<b>Amount paid/received in respect of such type of transactions from January to September 2015 (unaudited)</b>
Purchase of home electrical appliances	35,342	13,973
Purchase of raw materials, parts and components	760	366
Purchase of equipment	1,208	—

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<b>Types of transactions</b>	<b>Annual caps of the transaction amount to be paid/received during the term of the Whirlpool Business Framework Agreement</b>	<b>Amount paid/received in respect of such type of transactions from January to September 2015 (unaudited)</b>
Receipt of services	53	Not applicable
Sale of raw materials, parts and components	500	—
Sale of moulds	800	309
Provision of services	232	149
Sale of equipment	600	Not applicable

The parties will enter into definitive contract(s) setting out specific terms including specifications of the home electrical appliances, moulds, raw materials, parts and components, equipment and relevant services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Whirlpool Business Framework Agreement.

**Pricing and payment term:**

Pricing for the purchase of home electrical appliances 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 home electrical appliances from time to time. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

Pricing for the sale and purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) to be signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

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Pricing for the reciprocal purchase of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) to be signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the sale of moulds by the Company to Hisense Whirlpool is the market price determined by price comparison by way of open bidding. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the reciprocal provision of services is determined after commercial negotiation between the parties according to fair and reasonable pricing principles based on the market prices for similar services in the industry, and it shall be stipulated in the definitive service contract(s) to be signed between the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

**Reasons for and benefits of the transactions contemplated under the Whirlpool Business Framework Agreement:**

***Reciprocal purchase of home electrical appliances***

Procuring Hisense Whirlpool to manufacture home electrical appliances may enhance the variety of the Company's high-end products, expand the sales of high-end products, and raise the market share of such products, thereby increasing the Company's income and facilitating the further development of its business.

***Reciprocal purchase of raw materials, parts and components***

Since the Company purchases home electrical appliances such as washing machines from Hisense Whirlpool, to ensure the supply and after-sale service of products customized by the Company, the Company needs to purchase raw materials, parts and components that match the products customized by the Company. Meanwhile, the provision of raw materials, parts and components by the Company to Hisense Whirlpool may help the Company to expand its purchases and lower its procurement costs.

***Reciprocal purchase of equipment***

The purchases of equipment from Hisense Whirlpool can satisfy the Company's production requirements. The sale of equipment to Hisense Whirlpool can expand the sales and increase the sales revenue of the Company.

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### *Sale of moulds*

Sale of mould products is an important business component of 青島海信模具有限公司 (Qingdao Hisense Mould Company Limited), the Company's subsidiary. The sale of moulds to Hisense Whirlpool to meet its production requirements may expand the sales of the Company and increase the sales revenue of the Company.

### *Reciprocal provision of services*

The provision of services to Hisense Whirlpool may enhance asset and resources utilization ratio and increase revenue of the Company. The receipt of services from Hisense Whirlpool can ensure the normal development of the relevant business of the Company.

The above connected transactions will not prejudice the interests of the Company and will not cause adverse effect on the current and future financial situation and operating results of the Company.

### **Information of Hisense Whirlpool**

Hisense Whirlpool was established on 4 November 2008, registered address: Zhongyang Avenue North Side, Changxing Economic Development Zone, Zhejiang Province, legal representative: LEE IAN, registered capital: RMB450 million, scope of business: development, production and assembly of washing machines, refrigerators and their parts, sale of self-manufactured products, provision of after-sale services and technical consultation services related to the above-mentioned products. The substantial shareholders of Hisense Whirlpool are Whirlpool (Hong Kong) Limited and the Company, each holding a 50% equity interest as at the Latest Practicable Date.

In view of the above, and based on the business credit and ability of commercial operation of Hisense Whirlpool as known by the Company, the Board considers that Hisense Whirlpool can honour its obligations, and deliver and pay to the Company the products and payments under the connected transactions.

As Mr. Lin Lan, being Director, is also a director of Hisense Whirlpool, the transactions contemplated under the Whirlpool Business Framework Agreement will constitute ordinary connected transactions under the Shenzhen Listing Rules. The independent non-executive Directors have agreed to put forward the transactions contemplated under the Whirlpool Business Framework Agreement for

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the consideration of the Board and they considered that such transactions would be conducted on normal commercial terms and based on the terms of the Whirlpool Business Framework Agreement, and the terms of the transactions as agreed in the Whirlpool Business Framework Agreement were fair and reasonable and were in the interests of the Company and its Shareholders as a whole. They also considered that the terms of the Whirlpool Business Framework Agreement and the annual caps in relation thereto were fair and reasonable so far as the independent Shareholders were concerned.

Mr. Lin Lan, being Director, is also a director of Hisense Whirlpool and has abstained from voting on the relevant board resolution for approving the Whirlpool Business Framework Agreement and the transactions contemplated thereunder.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Hisense Hitachi and Hisense Whirlpool are not regarded as connected persons of the Company under the Hong Kong Listing Rules and the transactions contemplated under the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement will not constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

### III. PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR

As Ms. Yu Shu Min and Ms. Gao Yu Ling have tendered their resignation as an executive Director and shareholder representative supervisor of the Company on 10 November 2015 respectively, Mr. Wang Zhi Gang (“**Mr. Wang**”) and Mr. Yang Qing (“**Mr. Yang**”) have been nominated by Shareholders to be elected as executive Director and shareholder representative supervisor of the ninth session of the Board and the supervisory committee of the Company, to ensure the normal operation of the Board and the supervisory committee of the Company.

Details of the biographies of the executive Director and shareholder representative supervisor candidates are set out below.

### BIOGRAPHIES OF MR. WANG AND MR. YANG

**Mr. Wang Zhi Gang**, aged 45, holder of a doctorate degree, is currently the vice-president of the Company and has successively served as the department head of the product development department of Hisense Hitachi, the deputy department head of the commercial machines business department of Hisense Air-conditioning, the chief designer of the technical centre of Hisense Group. Mr. Wang was the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd since December 2008.

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As at the Latest Practicable Date, Mr. Wang was interested in 59,400 A shares of the Company (representing approximately 0.004% of the total issued share capital of the Company and approximately 0.006% of the total issued A shares of the Company as at the Latest Practicable Date) and under the first share option incentive scheme of the Company, Mr. Wang was interested in share options to subscribe for 61,200 A Shares of the Company (representing approximately 0.004% of the total issued share capital of the Company and approximately 0.006% of the total issued A shares of the Company as at the Latest Practicable Date).

Mr. Wang has not held any directorship in any other listed companies for the past three years. Save as disclosed above, Mr. Wang does not hold interests in any shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, Mr. Wang does not have any relationship with any directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During the term of his directorship, Mr. Wang will not receive any director's remuneration from the Company, however, Mr. Wang will receive emoluments as the vice-president of the Company in the sum of RMB750,000 (before taxation) per year which was determined by the remuneration and appraisal committee of the Board after taking into consideration the scale of operation of the Company and the remuneration level of senior management members of other listed companies. Mr. Wang will stand for election as an executive director of the Company. If elected, Mr. Wang's term of office will commence from the date of his appointment at the EGM until the expiry of the term of the ninth session of the Board (that is, 25 June 2018).

Save as disclosed above, Mr. Wang confirms that there is no other matter that needs to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules nor any other matter that needs to be brought to the attention of the shareholders of the Company.

**Mr. Yang**, aged 41, holder of a bachelor degree in accounting, has successively served as the finance manager of Hisense Air-conditioning, the finance manager of Qingdao Hisense Marketing Co., Ltd., the assistant of general manager of the marketing company of the Company, the head of the audit department of Hisense Group, the head of the audit department of Hisense Group from June 2013 to May 2014 and the chief accountant of 海信网络科技有限公司 (Hisense Cyber Technology Company Limited\*) since June 2014.

Mr. Yang has not held any directorship in any listed companies for the past three years nor holds interests in any shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, Mr. Yang does not have any relationship with any directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During his term of office as the supervisor of the Company, Mr. Yang will not receive from the Company any remuneration as the supervisor of the Company. Mr. Yang is to stand for election as shareholder representative supervisor of the Company. If elected, Mr. Yang's term of office will commence from the date of his appointment at the EGM until the expiry of the term of the ninth session of the Supervisory Committee (that is, 25 June 2018).

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Save as disclosed above, Mr. Yang confirms that there is no other matter that needs to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules nor any other matter that needs to be brought to the attention of the shareholders of the Company.

### EGM

The EGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC at 3:00 p.m. on 28 December 2015, Monday at which ordinary resolutions will be proposed to approve, *inter alia*, the Business Co-operation Framework Agreement, the Financial Services Agreement, the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto and the proposed appointment of director and supervisor 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 10 November 2015 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

In accordance with article 8.27 of the articles of association of the Company, a poll may be demanded in any general meeting of the Company by:

- (a) the chairman of the meeting; or
- (b) at least two Shareholders in person or by proxy entitled to vote at the general meeting; or
- (c) one or more Shareholder(s) present in person or by proxy and individually or in aggregate representing 10% or more of all Shares carrying the voting rights at the general meeting.

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## LETTER FROM THE BOARD

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Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes casted at the EGM must be taken by poll (except those which relate purely to a procedural or administrative matter) and the chairman of the meeting will make such demand at the EGM and the results of the poll will be announced in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

The register of members of the Company has been closed since 28 November 2015 (Saturday) until 28 December 2015 (Monday) (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 in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 27 November 2015 (Friday) for registration.

### RECOMMENDATION

The Directors consider that the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the same.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Business Co-operation Framework Agreement and the Financial Services Agreement 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 interest of the Company and are fair and reasonable so far as the Shareholders are concerned. The Independent Board Committee therefore recommends the Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

The Board is of the opinion that the ordinary resolutions to be proposed at the EGM in respect of the respective appointment of Mr. Wang Zhi Gang and Mr. Yang Qing as the executive Director and shareholder representative supervisor of the ninth session of the Board and the supervisory committee of the Company are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the same.

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## LETTER FROM THE BOARD

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### 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 and the Financial Services Agreement and the transactions contemplated thereunder which are respectively set out on page 51 and pages 52 to 109 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 of

**Hisense Kelon Electrical Holdings Company Limited**

**Tang Ye Guo**

*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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# Hisense 海信科龙

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

### 海信科龍電器股份有限公司

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

2 December 2015

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 2 December 2015 (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 and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto as to the fairness and reasonableness of the same. VMS Securities 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 7 to 50 and pages 52 to 109 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 and the Financial Services Agreement 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.

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 and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Xu Xiang Yi    Wang Xin Yu    Wang Ai Guo**

*Independent non-executive Directors*

**Hisense Kelon Electrical Holdings Company Limited**

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## LETTER FROM VMS SECURITIES LIMITED

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



VMS Securities Limited  
49/F, One Exchange Square  
8 Connaught Place, Central, HK  
香港中環康樂廣場8號交易廣場1期49樓  
Tel/ 電話: (852) 2996 2100  
Fax/ 傳真: (852) 2996 2102

2 December 2015

To: *The Independent Board Committee and  
the Shareholders of  
Hisense Kelon Electrical Holdings 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 and the Financial Services Agreement (collectively the “**Agreements**”), details of which are set out in the circular to the Shareholders dated 2 December 2015 (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 and the Existing Financial Services Agreement will expire on 31 December 2015 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 10 November 2015, the Company entered into the Business Co-operation Framework Agreement and the Financial Services Agreement (details of the Agreements are stated in the section headed “Terms of the Agreements” below).

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## LETTER FROM VMS SECURITIES LIMITED

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

As at the Latest Practicable Date, Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 44.93% of the issued shares of the Company, and Hisense HK holds approximately 5.96% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to approximately 39.35% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to 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 and 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 and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group 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 and the transactions contemplated thereunder and the relevant Caps at the EGM.

### **Financial Services Agreement**

As at the Latest Practicable Date, Hisense Finance is a subsidiary of Hisense Group and therefore, is a connected person of the Company according to 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, loan and electronic bank acceptance bill (電子銀行承兌匯票), draft discount (票據貼現), settlement and sale of foreign exchange (結售匯) services and agency services such as settlement services for receipt and payment of funds (資金收支結算服務等代理類服務) by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions

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## LETTER FROM VMS SECURITIES LIMITED

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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. Since the consideration ratio for the provision of such deposit services is more than 25% but less than 75%, it 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.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo, 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 two years, VMS had no past engagement with the Company. Also, as at the Latest Practicable Date, we were independent from and not connected with the Group. Accordingly, pursuant to Rule 13.84 of the Listing Rules, VMS is qualified to give independent advice to the Independent Board Committee and the Shareholders regarding the Agreements and the transactions contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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## LETTER FROM VMS SECURITIES LIMITED

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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, Hisense Group or Hisense Electric.

### 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, is principally engaged in the manufacture of refrigerators and air-conditioners. As stated in the Group’s annual report for the year ended 31 December 2014 (the “**2014 Annual Report**”), approximately 70.5% of the Group’s turnover for the year ended 31 December 2014 was derived from the PRC market and the rest was derived from overseas markets.

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## LETTER FROM VMS SECURITIES LIMITED

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Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2014 Annual Report and the Group's interim report for the six months ended 30 June 2015 (the “**2015 Interim Report**”):

<i>In RMB million, approximately</i>	For the year ended		For the six months	
	31 December		ended 30 June	
	2013	2014	2014	2015
Revenues				
— Sales of refrigerators & washing machines	11,984.9	11,864.0	6,287.8	6,136.7
— Sales of air-conditioners	9,233.8	11,342.5	7,214.9	5,793.1
— Sales of others	968.2	1,164.5	529.7	558.0
Revenue from principal operations	22,186.9	24,371.0	14,032.4	12,487.8
Revenue from other operations	2,173.1	2,163.4	1,365.1	1,123.3
<b>Total operating revenue</b>	<b>24,360.0</b>	<b>26,534.4</b>	<b>15,397.5</b>	<b>13,611.1</b>
Operating costs	19,039.8	20,784.7	12,062.8	10,800.7
Business taxes and surcharges	99.7	98.4	47.4	30.8
Selling and distribution expenses	3,678.1	4,388.7	2,290.2	2,210.8
General and administrative expenses	814.5	856.9	403.9	430.2
Financial expenses	(27.5)	(4.0)	(15.0)	(24.8)
Impairment losses on assets	(66.4)	58.6	7.1	20.9
<b>Total operating costs</b>	<b>23,538.2</b>	<b>26,183.3</b>	<b>14,796.4</b>	<b>13,468.6</b>

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## LETTER FROM VMS SECURITIES LIMITED

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	For the year ended		For the six months	
	31 December		ended 30 June	
	2013	2014	2014	2015
<i>In RMB million, approximately</i>	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Gain/(loss) from changes in fair value	56.6	(74.3)	(90.5)	53.1
Investment income	323.7	375.5	186.8	290.5
<b>Total gain from changes in fair value and investment income</b>	<b>380.3</b>	<b>301.2</b>	<b>96.3</b>	<b>343.6</b>
Operating profits	1,202.1	652.3	697.4	486.1
Non-operating income	114.8	124.3	47.8	101.7
Non-operating expenses	17.5	5.4	3.7	9.4
<b>Profit before tax</b>	<b>1,299.4</b>	<b>771.2</b>	<b>741.5</b>	<b>578.4</b>
Income tax expenses	53.6	59.7	103.1	64.3
Net profit for the year/ period	1,245.8	711.5	638.4	514.1
Attributable to:				
— Owners of the Company	1215.7	672.5	609.8	505.7
— Minority interests	30.1	39.0	28.6	8.4
As at 31 December				
	2013	2014	2014	2015
<i>In RMB million, approximately</i>	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Non-current assets	4,217.3	5,225.7	4,587.3	5,548.8
Current assets	7,990.7	8,041.1	11,006.7	10,629.8
Non-current liabilities	417.2	464.8	430.7	430.8
Current liabilities	8,607.5	8,861.4	11,295.6	11,300.5
Total shareholders' equity	3,183.3	3,940.6	3,867.7	4,447.3

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## LETTER FROM VMS SECURITIES LIMITED

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For the year ended 31 December 2014, the Group recorded an audited total operating turnover of approximately RMB26,534.4 million (representing an increase of approximately 8.9% from approximately RMB24,360.0 million for the preceding year). It recorded a net profit for the year of approximately RMB711.5 million (representing a decrease of approximately 42.9% from the net profit of approximately RMB1,245.8 million for the preceding year). The increase in turnover for the Group was mainly due to the increase in sales of air-conditioners in the first half year of 2014 which was in line with the promising air-conditioner market in the same period. On the other hand, the overall household appliances industry experienced a downturn in 2014, in particular, both of the domestic refrigerator industry and air-conditioner industry recorded a year-to-year decrease in retail volume. Having said that, the Company strictly adhered to its operating strategies of “building product advantages, reforming marketing models, enhancing per capita efficiency”, and thereby successfully maintained a stable growth in the principal businesses for the Group which outperformed the market. It was stated in the 2014 Annual Report that the decrease in the net profit in 2014 was attributable to the decrease in the gross profit margin of the refrigerator business, increase in sales expenses, losses from changes in fair value due to fluctuation in the exchange rates and decrease in non-operating revenue.

For the six months ended 30 June 2015, the Group recorded an unaudited total operating turnover of approximately RMB13,611.1 million (representing a decrease of approximately 11.6% from approximately RMB15,397.5 million for the corresponding period). The Group’s unaudited net profit was approximately RMB514.1 million (representing a decrease of approximately 19.5% from approximately RMB638.4 million for the corresponding period). The decrease in turnover for the Group was mainly due to the decrease in sales of air-conditioners during the period which followed the downturn trend in the air-conditioner market since second half of 2014. As stated in the 2015 Interim Report, there was insufficient demand in the market, slow improvement in the qualities of the Company’s channel, inadequate product mix optimization and the decline in effects of economies of scale of the Company, therefore, both of the operating turnover and net profit decreased in the period.

As at 30 June 2015, the Group’s net current liabilities position was improved with the balance decreased to approximately RMB670.7 million from approximately RMB820.3 million as at 31 December 2014. Its total equity was further strengthened by roughly the amount of the net profit earned for the period of which the balance increased to approximately RMB4,447.3 million from approximately RMB3,940.6 million as at 31 December 2014.

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## LETTER FROM VMS SECURITIES LIMITED

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### 2. *Information on Hisense Group*

Based on the information available from the website of Hisense Group, Hisense Group, a wholly state-owned enterprise is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has production bases in South Africa, Algeria, Egypt, and sales offices in the USA, Europe, Australia, Middle East, and Southeastern Asia and sells its products to over 130 countries and regions around the world. It is primarily engaged in (i) the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small home electrical appliances, DVD/VCD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; (ii) the development of software and the provision of internet services; (iii) the technological development and the provision of consultation services; (iv) the self-operated import and export business and property management; and (v) leasing of tangible assets and real estates. In 2014, Hisense Group made sales revenue of approximately RMB98.0 billion. According to the information disclosed in the website Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) (<http://www.miit.gov.cn>), Hisense Group ranked the 5th among top 100 electronic information enterprises in the PRC.

Hisense Electric Co., Ltd. (“**Hisense Electric**”) has been listed on the Shanghai Stock Exchange since 1997 (stock code: 600060). According to the third quarterly report for the nine months ended 30 September 2015 of Hisense Electric, Hisense Group and its party acting in concert was interested in approximately 39.35% of the issued share capital of Hisense Electric as at 30 September 2015. Hisense Electric is primarily engaged in the manufacture and sale of television, refrigerators, washing machines, radio and television equipment, communication products, information technology products, home and commercial appliances, electronic products and provision of the related services. The following financial results of Hisense Electric for each of the two years ended 31 December 2014 and the nine months ended 30 September

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## LETTER FROM VMS SECURITIES LIMITED

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2015 were extracted from its annual report for the year ended 31 December 2014 and the third quarterly report for the nine months ended 30 September 2015:

	<b>For the nine months</b>		
	<b>For the year ended 31 December</b>	<b>ended 30 September</b>	
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)
Turnover	28,479.9	29,007.1	22,129.6
Net Profit attributable to its owners	1,582.9	1,400.0	928.0
Total assets as at year/period end	20,003.4	20,703.5	20,183.9

As stated in its annual report for the year ended 31 December 2014, sales of televisions contributed to approximately 90.9% of Hisense Electric's turnover and approximately 67.1% of its sales was generated from domestic sales in the PRC. According to its third quarterly report for the nine months ended 30 September 2015, Hisense Electric had total shareholders' equity of approximately RMB11,640.0 million and a net profit of approximately RMB943.1 million.

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 was established in the PRC on 12 June 2008 with a registered capital of RMB900 million. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Limited), 30.89% by Hisense Group and 12.12% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.88 of the Hong Kong Listing Rules.

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

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## LETTER FROM VMS SECURITIES LIMITED

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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.

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

The PRC government estimated its gross domestic product (“GDP”) growth target at approximately 7.0% for 2015. In October 2015, it indicated that the GDP in the first three quarters of 2015, being approximately RMB48,777.4 billion, has achieved a year-on-year increase of approximately 6.9%.

For retail sales of consumer goods, according to the National Bureau of Statistics of China, for the nine months ended 30 September 2015, it rose approximately 10.5% year-on-year to approximately RMB21,608.0 billion. Among the above, (i) retail sales in cities increased approximately 10.3% to approximately RMB18,584.3 billion; and (ii) retail sales at and below county level increased approximately 11.7% to approximately RMB3,023.7 billion.

For the white goods industry domestic market, according to the China Market Monitor Company Limited, for the nine months ended 30 September 2015, the cumulative retail volume and the cumulative retail value of the refrigerator industry recorded a year-on-year decrease of approximately 7.19% and approximately 2.11%, respectively. The cumulative retail volume and the cumulative retail value of the air conditioner industry recorded a year-on-year decrease of approximately 4.42% and approximately 8.46%, respectively.

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 2015, the cumulative export volume and the cumulative retail value of the refrigerator industry recorded a year-on-year decrease of approximately 4.2% and approximately 0.7%, respectively. The cumulative export volume and the cumulative retail value of the air-

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## LETTER FROM VMS SECURITIES LIMITED

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conditioner industry recorded a year-on-year decrease of approximately 8.6% and approximately 2.4%, respectively. In this relation, we understand from the Management that the Group has recorded an approximately 4.23% growth in export sales for the nine months ended 30 September 2015 as compared to that in the same period of 2014, which outpaced the growth rate of the overall home appliances export market.

The above statistics show that historically in 2015, the white goods industry which the Group focused on, has recorded a decreased demand whereas the country's retail sales of consumer goods has shown an increased demand. Overall, the GDP in the PRC market was in the track with the government's planning and estimation which was kept at an upward trend with a controlled pace.

The contraction in the home appliances industry in 2015 is, to a great extent, related to the withdrawal of the state's policies for stimulation of home appliance consumption and continued sluggish real estate market caused by the tightening credit control. Barring any new policies targeted for the industry to boost its immediate domestic sales in recent years, such as the "Home Appliances to the Countryside" (家電下鄉政策) and the "Energy-saving Policy" (節能惠民補貼政策) which ended in January and May 2013, respectively, it is expected that the market players will have a challenging year ahead. However, in the medium to long run, the industry in the domestic market will benefit from the economic growth driven by consumption caused by the abolishment of country's decades long one child policy as announced by the central government in October 2015. On its export side, China's going out policy such as the plan of "One Belt, One Road" ("一带一路") will bring in more opportunities for the industry which brings a prosperous future, though it has to take times to realize the benefit brought from the opening up of this modern Silk Road.

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. The entering of the Agreements, which target to strengthen the Group's cost effectiveness and take advantage of the marketing resources and overseas distribution channel of Hisense Group, seems one of strategies for this purpose.

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## LETTER FROM VMS SECURITIES LIMITED

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### 4. *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 home electrical appliances, raw materials, parts and components, provision of agency and other services and supply of equipment and moulds (particulars and terms of each category of the aforesaid transactions are discussed in the section headed “Terms of the Business Co-operation Framework Agreement” below).

Given the similar principal activities between the Group, Hisense Group and Hisense Electric which include the manufacture of home electrical appliances and the provision of related services and the substantial interest of Hisense Group in the Company, 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 home electrical appliances.

In view of the substantial interest of Hisense Group in the Company and the fact that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we are of the view that it is in the commercial interest of Hisense Group to assist the Group in its business conditions and improving its profitability. As Hisense Group and Hisense Electric have the relevant expertise in the domestic electrical appliances market in the PRC as well as network in broad overseas markets and are therefore able to assist the Group, we are of the view that it is in the commercial interest of the Company to continue entering into the Business Co-operation Framework Agreement to co-operate with Hisense Group and Hisense Electric. Furthermore, as noted in the Letter from the Board, Hisense Marketing, a subsidiary of Hisense Group, has over 10 years’ experience in overseas operations, professional expertise and mature market network and channels in overseas market. By leveraging on the overseas sales platform of Hisense Group and its subsidiaries, the Group can largely reduce costs which

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## LETTER FROM VMS SECURITIES LIMITED

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would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business.

Certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of home electrical appliances, equipment, moulds, raw materials, parts and components and provision of design and property 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 stated in the Letter from the Board, the sale of moulds under the Business Co-operation Framework Agreement has become an important part of the Group's business and facilitate the Group to maintain an important existing relationship with the relevant subsidiaries of Hisense Group and Hisense Electric. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may continue to serve as stable customers of the Group in respect of the sale of moulds and thereby further expanding the sales of the Group.

As regards the sale and supply of home electrical appliances, since certain subsidiaries of the Company currently possess production capacity and they will incur fixed costs such as depreciation of machinery and rent regardless of the production level, the sale and supply of home electrical appliances to the respective subsidiaries of Hisense Group and Hisense Electric can help to utilise their capacity and reduce the products' per-unit fixed costs as a result of the increase in the production level. The competitiveness of the Group's products in terms of costing may therefore increase.

As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the sale and purchase of raw materials, parts and components and purchase of home electrical appliances between the Group and the respective subsidiaries of Hisense Group and Hisense Electric, we understand that as the Group, Hisense Group and Hisense Electric combine the purchase of raw materials, bulk purchase orders can be placed in order to negotiate for a more favourable price for the purchasing of raw materials. Accordingly, the total cost of sales of the Group may be reduced and the competitiveness of the Group's products may therefore increase.

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## LETTER FROM VMS SECURITIES LIMITED

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As regards the provision of agency services by Hisense Group and/or its subsidiaries to the Group, the Company agreed that it and/or its subsidiaries will engage Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of agency services for export for the white goods products of the Group (which include without limitation, refrigerators, air-conditioners, freezers, washing machines, small household electrical appliances, kitchen electric products and their related parts and spare parts which are to be assembled) from time to time. We understand from the Management that it is one of the Group's strategies to increase the weight of its self-owned brand export and reinforce the effort of development for key export markets and in the absence of the necessary internal resources capable of fulfilling the agency services which Hisense Marketing has been providing, it is essential for the Group to rely on external parties to further stabilise and expand the Group's sales in the international market and avoid risks in export business. As stated in the Letter from the Board, Hisense Marketing has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. In addition, we understand from the Management that the Group's profit level for export agency business has increased steadily as a result of Hisense Marketing's effort in adjusting customer structures through negotiation during the period when Hisense Marketing provided agency services for export to the Group. Furthermore, the Group can also largely reduce fixed costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business.

As regards the provision of other services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group, we understand that both Hisense Group and Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of the relevant services and the Group is very satisfied with the quality of services provided by both Hisense Group and Hisense Electric and/or their respective subsidiaries from their previous course of dealings. We also understand that the Group requires expertise to perform the abovementioned services and therefore, by leveraging on the expertise of Hisense Group and Hisense Electric and/or their respective subsidiaries, the Group can be assured that the relevant services essential to its daily operation can be carried out smoothly and thereby reducing the operational risk exposure of the Group.

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## LETTER FROM VMS SECURITIES LIMITED

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In summary, we are of the view that the respective co-operation between the Group and Hisense Group and Hisense Electric, which have broad channels for import of materials and are in an advantageous position to obtain products with better quality and pricing, can (i) benefit the Group in the development of its overseas sales channels, reduce setup costs for overseas market and reduce expenses in relation to export businesses; (ii) 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; (iii) bring benefit to the Group from the sharing of resources and the maximization of the economies of scale; and (iv) 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 Company that the entering into of the Business Co-operation Framework Agreement is in the interests of the Company 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 Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;
- 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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## LETTER FROM VMS SECURITIES LIMITED

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- 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 companies within Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to other financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively.

Based on our discussion with the Management, we understand that the Group has been occasionally utilising financial services rendered by PRC commercial banks (such as deposit services, loan and electronic bank acceptance bill services, draft discount services and agency services such as settlement services for receipt and payment of funds) in the usual and ordinary course of its business. As advised by the Management, due to the fluctuation of energy and raw materials prices in recent years, the market of refrigerating and air-conditioning products was subject to unprecedented challenges and the competition in the PRC household appliances market would continue to intensify in the foreseeable future. In light of the expected intense competition in the household appliances market and the increase in the prices of raw materials and energy, the Directors are of the view that in order to compete successfully, it is important for the Company to have effective cost control measures including but not limited to strengthening its existing cost management as well as the tracking and analysis of the uses of the costs. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilisation efficiency, the Group may be able to increase its profitability as well as competitiveness by lowering the financing costs and improving the liquidity position.

As at 30 June 2015, the Group had unaudited total liabilities of approximately RMB11,731.3 million with borrowings from financial institutions of approximately RMB2,522.7 million (including secured borrowings and notes payables). Its unaudited net current liabilities position was approximately RMB670.7 million. Based on the existing financial position of the Group, we consider that the Group's ongoing operations have been to a significant extent relied on the availability of the banking facilities from financial institutions. Should the Group be unable to renew its existing banking facilities with the relevant financial institutions, it is likely that the Group would not have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due.

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## LETTER FROM VMS SECURITIES LIMITED

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Furthermore, given the significant amount of borrowings from financial institutions utilised by the Group to finance its operations, the Group incurred substantial amount of finance costs in the past. For the six months ended 30 June 2015, the Group incurred total finance costs of approximately RMB24.8 million, representing approximately 4.8% of the Group's net profit for the period and an increment from approximately RMB15.0 million or approximately 2.3% of the Group's net profit for the six months ended 30 June 2014.

In addition, as discussed with the Management, we understand that the Group expects to extend its customer networks in the existing overseas markets as well as to the new overseas markets, details of which are set out below under heading "Rationale for determining the maximum value of the transactions contemplated under the Agreements". It is expected that the Group will use more settlement and sale of foreign exchange services in coming years.

Pursuant to the Financial Services Agreement, the Group will be able to obtain certain 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 from Hisense Finance, the terms of which cannot be less favourable to the Company than those available from other normal commercial banks and financial institutions. As there is a possibility that the financing costs of the transactions under the Financial Services Agreement may be lower (but in any event cannot be higher) than the financing costs of the relevant transactions with other normal commercial banks and financial institutions (particulars of which are discussed under the section headed "Terms of the Agreement"), the Group may be able to reduce its total finance costs, which is currently one of the cost control measures of the Company aiming to improve its competitiveness. In light of the existing financial position of the Group 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 Directors that the entering into of the Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VMS SECURITIES LIMITED

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### II. Terms of the Agreements

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

The Business Co-operation Framework Agreement shall commence on 1 January 2016 or the date of approval of the Business Co-operation Framework Agreement by the Shareholders at the EGM (whichever is the later) until 31 December 2016 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement) and covers several aspects of business co-operation between the Group and the respective subsidiaries of Hisense Group and Hisense Electric. The contracting parties have also agreed to 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 terms of the pricing policy, as stated in the Letter from the Board, during the commercial negotiations of the aforesaid definitive contract(s) between the parties, the Company will make reference to the relevant then prevailing market prices, whereby the eventual price(s) will be not less favourable to the Group than terms available to or from (as appropriate) independent third parties. We also noted that, given the non-exclusive basis of the Business Co-operation Framework Agreement, in the event that the terms (including the price) of the transactions contemplated under the Business Co-operation Framework Agreement is less favourable to that available to or from (as appropriate) independent third parties, the Group has the flexibility of not entering into a definitive contract with the respective subsidiaries of Hisense Group and Hisense Electric.

In addition, payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement (other than fees for provision of agency services for export of the white goods products of the Group) shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. As provided in the Business Co-operation Framework Agreement, the fees for the provision of the agency services for export of the white goods products of the Group will be calculated on a monthly basis and the relevant members of the Group should pay the monthly fee for the preceding month by way of telegraphic transfer or bills.

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## LETTER FROM VMS SECURITIES LIMITED

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

a. *Purchase of home electrical appliances by the Group*

Under the Business Co-operation Framework Agreement, Hisense Group, Hisense Electric and/or their respective subsidiaries have agreed to supply on a non-exclusive basis such quantities of home electrical appliances as the Company (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may require from time to time.

The purchase price of home electrical appliances supplied by the relevant subsidiaries of Hisense Group and Hisense Electric to the Group will be determined by commercial negotiations between the contracting parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time.

The purchase of home 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 home electrical appliances from other suppliers apart from 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 home electrical appliances to any other third parties.

On the basis that (i) the purchase of home 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 principles of fairness and reasonableness with reference to the market price of the similar home 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

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## LETTER FROM VMS SECURITIES LIMITED

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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 same terms in the past with an actual aggregate transaction amount of RMB250,000 for the nine months ended 30 September 2015, which the amount was relatively small and immaterial, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of home 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 by the Group*

Under the Business Co-operation Framework Agreement, Hisense Group, Hisense Electric and/or their respective subsidiaries have agreed to supply on a non-exclusive basis such quantities of raw materials, parts and components as the Company (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may require from time to time.

Pricing for the purchase of raw materials, parts and components is determined principally by commercial negotiations between the contracting parties according to the principles of fairness and reasonableness.

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 principles 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

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## LETTER FROM VMS SECURITIES LIMITED

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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 to the Group*

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 engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property as they may require from time to time.

The fees payable by the Group to Hisense Group, Hisense Electric and/or their subsidiaries for the provision of the aforesaid services will be determined principally 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 from time to time.

The Business Co-operation Framework Agreement will not restrict the Group from engaging services providers 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 providing their services to any other third parties.

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## LETTER FROM VMS SECURITIES LIMITED

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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 principles 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 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 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 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 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. Provision of agency services to the Group for export of the white goods*

Under the Business Co-operation Framework Agreement, the Company has agreed that it and/or its relevant subsidiaries will engage Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of agency services for export of the white goods products of the Group (which include without limitation, refrigerators, air-conditioners, freezers, washing machines, small household electrical appliances and their related parts and spare parts which are to be assembled) from time to time.

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## LETTER FROM VMS SECURITIES LIMITED

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As set out in the Letter from the Board, the agency services for export of the white goods products of the Group to be provided by Hisense Group and/or its subsidiaries will mainly include the following:—

- (i) Hisense Group and/or its subsidiaries shall be responsible for expanding the customer base of the Group in the international market, and shall conduct business negotiation with third party customers in the name of the Company and/or its subsidiaries and accept orders for the goods after obtaining the latter's consent. Contracts for such orders shall be entered into between the Company and/or its subsidiaries and the customers directly.
- (ii) Hisense Group and/or its subsidiaries shall provide information in relation to the delivery requirements of the customers to the Group which shall arrange for production. Any amendments proposed by Hisense Group and/or its subsidiaries in relation to the orders for the goods shall be subject to the Group's consent. In case the Group needs to adjust the date of delivery for reasons such as production capacity, Hisense Group and/or its subsidiaries shall negotiate and confirm with the customers on behalf of the Group.
- (iii) The products to be supplied by the Group shall be delivered timely and in accordance with the specifications as per the purchase orders confirmed by the customers. There should not be any deficiencies in the design, raw materials and workmanship, and the quality and packaging shall meet the mandatory standards and requirements in the country of end use of the products. The Group shall provide technological services and warranties according to the agreement with the customers depending on the types of products involved.

Furthermore, pursuant to the Business Co-operation Framework Agreement, the charges which may be imposed at the port of inspection in relation to the export of products and the fees for repair and spare parts shall be borne and paid by the Group, and Hisense Group and/or its subsidiaries shall bear and pay other export-related charges.

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## LETTER FROM VMS SECURITIES LIMITED

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The Group shall however bear the following costs/expenses in any of the following circumstances:-

- (i) in the event that any liquidated damages, damages, compensation and other compensation costs are claimed by customers due to the failure of the Group to deliver relevant products in time (including without limitation, inability to deliver relevant products, delay in delivering relevant products and deficiency in the quality of the products), Hisense Group and/or its subsidiaries shall negotiate with the customers on the settlement proposal for and on behalf of the Group. The Group shall be responsible if the proposal is agreed to by the Group; and
- (ii) for reasons such as the Group's need to expand its business, the Group may propose, and Hisense Group and/or its subsidiaries will communicate with the customers on, certain support to be provided to the customers in relation to the expenses for the promotion of sales, etc. The Group shall be responsible for those expenses which have been agreed to by the Group.

The relevant parties will enter into definitive contract(s) setting out specific terms, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Pursuant to the Business Co-operation Framework Agreement, the fees payable by the Group for the provision of the agency services for export of the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage.

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## LETTER FROM VMS SECURITIES LIMITED

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The table below sets out the export agency fee percentage with respect to various level of growth rate of the revenue from export subject to the export agency services:

<b>Growth rate of the revenue from export subject to the export agency services</b>	<b>Corresponding profit margin for export agency services</b>	<b>Corresponding export agency fee percentage</b>
Below 0%	0%	7.24%
0-5% (inclusive of 5%)	0.5%	7.74%
5-10% (inclusive of 10%)	0.8%	8.04%
10-15% (inclusive of 15%)	1%	8.24%
Above 15%	1.1%	8.34%

We understand from the Management that the abovementioned export agency fee percentage covers the major cost items involved in running of such export agency services including logistic and labour costs. We also understand that the export agency fee percentage was determined with reference to (i) the actual costs and expenses incurred by Hisense Group and/or its subsidiaries for providing agency services in 2014, i.e. the actual rate of charges, of which as stated in the Letter from the Board and according to the audit conducted by Ruihua Certified Public Accountants (“**Ruihua**”), remained fairly stable at approximately 7.24% with difference not exceeding 1 percentage point; and (ii) a build in incentive, i.e. profit margin for export agency services, which links the export agency fee percentage to the growth rate of the revenue from export subject to the export agency services.

In relation to the abovementioned export agency fee percentage, having considered that (i) based on the Management’s estimation, it would cost the Group more than the export agency fee percentage payable to Hisense Group and/or its subsidiaries should the Group run the operation by itself; (ii) the Group had explored the possibility of procuring the similar export agency services from independent third parties but noted that the export agency services offered by Hisense Group and/or its subsidiaries is the most comprehensive with terms no less favourable to the Group than terms available from independent third parties; and (iii) as confirmed by Ruihua, the starting point of the export agency fee percentage of 7.24% is the actual costs and expenses incurred by Hisense

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## LETTER FROM VMS SECURITIES LIMITED

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Group and/or its subsidiaries for providing agency services during the period from March 2011 to June 2012 and in 2014, the percentage kept fairly stable with difference not exceeding 1 percentage point of 7.24%, we are of the view that it is fair and reasonable to adopt 7.24% as the starting point of the export agency fee percentage.

We also understand from the Management that the profit margin (which ranges from 0% to 1.1%) for export agency services to be added to the initial 7.24% is in line with the profit margin of approximately 0.5% to 1.4% observed in the China import and export business and is no less favourable to the Group than terms available from independent third parties. In addition, such profit margin shall provide sufficient incentive for Hisense Group and/or its subsidiaries to help growing the Group's export revenue and is therefore in the interests of the Company and the Shareholders as a whole. Based on the above, we are of the view that such profit margin is fair and reasonable.

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 principles 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 transactions, when taken place, will increase the revenue of the Group; (iii) the export agency fee percentage payable to Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement is fair and reasonable; (iv) 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 and/or its subsidiaries; and (v) the Group has conducted similar transactions in the past and we have reviewed the relevant sample of the definitive agreements entered into between the Company and the relevant subsidiary of Hisense Group and the relevant sample of transaction records, 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.

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## LETTER FROM VMS SECURITIES LIMITED

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e. *Supply of home electrical appliances by the Group*

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 supply on a non-exclusive basis such quantities of home electrical appliances as Hisense Group, Hisense Electric and/or their respective subsidiaries may require from time to time.

The pricing for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries will be determined principally by commercial negotiations according to the principles of fairness and reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances from time to time.

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

On the basis that (i) the sale and supply of home electrical appliances by the Group to Hisense Group, 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 principles of fairness and reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances from time to time; and iv) 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 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 Electric and their respective subsidiaries were less favourable than those between the

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## LETTER FROM VMS SECURITIES LIMITED

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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 home electrical appliances by the Group to Hisense Group, 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 equipment by the Group*

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 supply on a non-exclusive basis such quantities of equipment as Hisense Group and/or its subsidiaries may require from time to time.

Pricing for the sale and supply of equipment is determined by commercial negotiations between the contracting parties according to the principles of fairness and reasonableness.

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 Group 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 Group and/or its subsidiaries will increase the revenue of the Group; (ii) the equipment are customised as per the customers' requirements; (iii) 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 principles of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and iv) 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 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 and its subsidiaries were less favourable than those between the Group and independent third

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## LETTER FROM VMS SECURITIES LIMITED

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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 Group 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.

g. *Supply of moulds by the Group*

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 manufacture and supply on a non-exclusive basis such quantities of moulds as Hisense Group, Hisense Electric and/or their respective subsidiaries 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 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 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 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 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; 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 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 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

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## LETTER FROM VMS SECURITIES LIMITED

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of the Business Co-operation Framework Agreement with respect to the sale and supply of moulds by the Group to Hisense Group, 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.

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

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

Pricing for the sale and supply of raw materials, parts and components is determined by commercial negotiations between the contracting parties according to the principles of fairness and reasonableness.

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 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 principles of fairness and reasonableness and not less favourable to the Group 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 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 Electric and their respective subsidiaries

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## LETTER FROM VMS SECURITIES LIMITED

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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 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.

i. *Provision of services by the Group*

Under the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will provide design, processing services and property services to Hisense Group and/or its subsidiaries on a non-exclusive basis from time to time.

The fees payable by Hisense Group and/or its subsidiaries for the aforesaid services is determined by commercial negotiations according to the principles of fairness and reasonableness between the contracting parties with reference to the market price for the provision of similar services from time to time.

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 and/or its 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 principles 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 revenue of the Group; (iii) 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; and (iv) 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 and its subsidiaries as well as those entered into between the Company and independent

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## LETTER FROM VMS SECURITIES LIMITED

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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 Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

### **2. *The Financial Services Agreement***

The term of the Financial Services Agreement shall commence from 1 January 2016 or the date of approval of the Financial Services Agreement by the Shareholders at the EGM (whichever is the later) until 31 December 2017, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

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 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.

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## LETTER FROM VMS SECURITIES LIMITED

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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.

*a. Pricing of deposit service*

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.

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

The interest rate charged on 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 service fees charged on the provision of electronic bank acceptance bill services by Hisense Finance to the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services.

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

*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 ("PBOC") 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.

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## LETTER FROM VMS SECURITIES LIMITED

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

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

*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 or similar agencies in the PRC during the corresponding period.

The basis for the pricing for the aforesaid services shall be the benchmark interest rate for deposits and loans and the rediscount rate prescribed by the PBOC, and the market level of the market interest rates of discounted bill, the service fee for establishing electronic bank acceptance bill and the service fee for settlement for receipt and payment of funds and agency services.

The transactions contemplated under the Financial Services 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.

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.

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## **LETTER FROM VMS SECURITIES LIMITED**

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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.

### **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 Agreement during the year commencing from the date of approval of the Business Co-operation Framework Agreement by the Shareholders until 31 December 2016 will be subject to an annual cap for the financial year ending 31 December 2016 of the Company; and 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 2017 will be subject to an annual cap for each of the two financial years ending 31 December 2016 and 2017 of the Company. The annual caps for the year ending 31 December 2015, the proposed maximum aggregate values, or “Caps”, of the

## LETTER FROM VMS SECURITIES LIMITED

transactions contemplated under the Agreements during their respective term and the estimated unaudited value of similar transactions between the relevant parties in the first nine months of 2015 are summarised below:

Annual caps for the year ending 31 December 2015 ('000)	Proposed Caps during the term of the Agreements ('000)	Unaudited value of the similar transactions between the relevant parties 30 September 2015 (%)	Estimated utilisation of the caps for the year ending 31 December 2015 based on the estimated annualised unaudited value of the similar transactions for the year 2015 based on their the similar transactions between the relevant parties 30 September 2015 ("2015 Deemed Actual Utilisation Rate") (%)
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### The Business Co-operation Framework

#### Agreement:

Maximum aggregate value of purchase of home electrical appliances:	RMB800	RMB920	RMB250	41.7%
Maximum aggregate value of purchase of raw materials, parts and components:	RMB35,650	RMB35,850	RMB13,650	51.1%
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	RMB177,120	RMB201,340	RMB93,580	70.4%
Maximum aggregate value of the provision of agency services for export of the white goods by Hisense Group and/or its subsidiaries:	RMB439,330	RMB399,000	RMB224,140	68.0%

## LETTER FROM VMS SECURITIES LIMITED

Annual caps for the year ending 31 December 2015	Proposed Caps during the term of the 30 September 2015 ('000)	for the nine months ended 30 September 2015 ('000)	Unaudited value of the similar transactions between the relevant parties 30 September 2015 (%)	Estimated utilisation of the caps for the year ending 31 December 2015 based on the estimated annualised unaudited value of the similar transactions for the year 2015 based on their the similar transactions value for the nine months ended 30 September 2015 ("2015 Deemed Actual Utilisation Rate") (%)
Maximum aggregate value of supply of home electrical appliances:	RMB2,985,280	RMB3,594,500	RMB1,768,040	79.0%
Maximum aggregate value of supply of equipment:	RMB8,000	RMB3,690	RMB1,960	32.7%
Maximum aggregate value of supply of moulds:	RMB350,000	RMB347,380	RMB169,950	64.7%
Maximum aggregate value of supply of raw materials, parts and components:	RMB67,050	RMB93,340	RMB19,530	38.8%
Maximum aggregate value of the provision of services by the Group:	RMB7,190	RMB23,700	RMB4,280	79.4%
<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:	RMB800,000	RMB1,500,000	RMB799,000 ( <i>Note 1</i> )	99.9% ( <i>Note 2</i> )

## LETTER FROM VMS SECURITIES LIMITED

	Annual caps for the year ending 31 December 2015	Proposed Caps during the term of the Agreements ('000)	for the nine months ended 30 September 2015	Unaudited value of the similar transactions between the relevant parties ('000)	Estimated utilisation of the caps for the year ending 31 December 2015 based on the estimated annualised unaudited value of the similar transactions for the year 2015 based on their the similar transactions value for the nine months ended 30 September 2015 ("2015 Deemed Actual Utilisation Rate") (%)
					(Note 1) (Note 2)
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:		RMB2,200,000	RMB3,000,000	RMB1,498,000 (Note 1)	68.1% (Note 2)
Maximum aggregate value of the annual discount interest payable by the Group to Hisense Finance in respect of the draft discount services:		RMB50,000	RMB50,000	RMB224.9	0.6%
Maximum aggregate value payable by the Group to Hisense Finance in respect of settlement and sale of foreign exchange services:		USD500,000	USD700,000	USD146,000	38.9%
Maximum aggregate value payable by the Group to Hisense Finance in respect of agency services:		RMB5,000	RMB3,000	RMB288.3	7.7%

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## LETTER FROM VMS SECURITIES LIMITED

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*Notes:*

1. Being the maximum daily balance of deposits and loan and electronic bank acceptance bills, respectively, recorded from 1 January to 30 September 2015.
2. The maximum daily balance of deposits and loan and electronic bank acceptance bills recorded from 1 January to 30 September 2015 were used for comparison purpose without annualizing the closing balance.

The basis for the proposed maximum value for each category of transactions contemplated under the Business Co-operation Framework Agreement and the Financial Services 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 annual cap</b>
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**The Business Co-operation Framework Agreement:**

Purchase of home electrical appliances	(a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2016 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators
Purchase of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016
Provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016

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## LETTER FROM VMS SECURITIES LIMITED

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<b>Category</b>	<b>Basis for the proposed annual cap</b>
Provision of agency services for export of the white goods by Hisense Group and/or its subsidiaries	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services
Supply of home electrical appliances	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016
Supply of equipment	(a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2016
Supply of moulds	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC
Supply of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC
Provision of services by the Group	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services

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## LETTER FROM VMS SECURITIES LIMITED

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Category	Basis for the proposed annual cap
<b>The Financial Services Agreement:</b>	
Deposit service	(a) the historical cashflow figures of the Group; and (b) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group
Loan and electronic bank acceptance bill service	(a) the historical cashflow figures of the Group; (b) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (c) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for each of the two years ending 31 December 2016 and 31 December 2017 since the terms for the provision of the loans 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 about the background and financial status of the Company which will facilitate the loan application process by the Company
Draft discount service	(a) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (b) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for each of the two years ending 31 December 2016 and 31 December 2017 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 about the background and financial status of the Company which will facilitate the draft discount application process by the Company

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## LETTER FROM VMS SECURITIES LIMITED

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<b>Category</b>	<b>Basis for the proposed annual cap</b>
Settlement and sale of foreign exchange	the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for each of the two years ending 31 December 2016 and 31 December 2017
Agency services (such as settlement services for receipt and payment of funds)	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

The Cap for each of the financial services is the same for each of the two years ending 31 December 2016 and 31 December 2017 which is formulated by the Management based on the business plan and their best estimation at present on the needs for funding and other financial services in the coming two years. According to the business plan, the Management anticipates that there will not be any material fluctuation in the needs for the financial services in 2016 and 2017 after revisiting the relevant Caps in 2015. If there would be unexpected whelming needs in the future, it could always resort to other third-party sources for the services as the Financial Services Agreement is non-exclusive in nature. The Management advised that the constant amount of the respective Cap for each of the financial services not only cater for the expected fairly stable demand for the financial services in the coming two years but also keep the administrative cost low in maintaining a single Cap for each of the financial services in 2016 and 2017 of which the amount has been neutralized for the anticipated minor fluctuations, if any. As the constant amount of the Cap for each of the financial services is formulated with reasonable bases after factoring in the commercial reality, we concur with the Management that it is fair and reasonable to maintain a stable Cap for each of the financial services in both 2016 and 2017.

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## LETTER FROM VMS SECURITIES LIMITED

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

For assessing the proposed annual caps of the transactions contemplated under the Business Co-operation Framework Agreement, we have reviewed and discussed with the Management the respective value of the historical transactions, the underlying assumptions and calculation in arriving at the respective Caps, details of which are elaborated in the following:

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

As regards the purchase of home electrical appliances, we note that the Cap of approximately RMB0.9 million is low which only involves a revised upward of approximately 15% compared with that of 2015. In light of the immateriality, we are of the view that the proposed annual cap for the purchase of home electrical appliances is not excessive.

#### Purchase of raw materials, parts and components by the Group

As regards the purchase of raw materials, parts and components, it will be centrally managed by Hisense Group, Hisense Electric and/or their respective subsidiaries. The Management advised that the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will allow the Group benefiting from the sharing of resources and the maximization of the economies of scale and thus reduce the Group's cost of sales. Further, the Group is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by importing certain raw materials overseas, which in turn boosts the sales of the Group's high-end products and increases the product and brand competitiveness.

We note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 51.1%; and (ii) the Cap of approximately RMB35.9 million remains fairly stable with the 2015 annual cap of approximately RMB35.7 million.

The Management advised that the amount for such Cap is based on the estimated annualised unaudited value of the similar transactions for the year 2015 (the “2015 Deemed Actual Amount Incurred”) adjusted with the anticipated increase in the relevant sales of the Group in 2016. The Management advised that according to its business plan, there will be new business for the Group. It will additionally purchase

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## LETTER FROM VMS SECURITIES LIMITED

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more raw materials of approximately RMB19.2 million from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2016. This gives the Cap remaining roughly stable with that of 2015.

Based on (i) the above our discussions with the Management and analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for the purchase of raw materials, parts and components from Hisense Group and Hisense Electric is prepared on a fair and reasonable basis.

### Provision of services to the Group

As regards the provision of services, Hisense Group, Hisense Electric and/or its subsidiaries will provide to the Group, among others, material processing, property services and etc. We note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 70.4%; and (ii) Cap of approximately RMB201.3 million increases approximately RMB24.2 million (or 13.7%) from the 2015 annual cap of approximately RMB177.1 million.

The Management advised that it (i) targets to increase the Group's turnover by approximately 30% which the demand for material processing service will increase accordingly; and (ii) expects that the rental in the property market will increase which the price for property services will be adjusted in line with the increasing rental accordingly.

Based on (i) the above our discussions with the Management and the analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for the provision of services to the Group is prepared on a fair and reasonable basis.

### Provision of agency services for export of the white goods to the Group

As regards the provision of agency services for export of the white goods, we understand from the Management that the export agency fee percentage was determined with reference to (i) the actual costs and expenses incurred by Hisense Marketing for providing agency services in 2014 of 7.24%, i.e. the actual rate of charges; and (ii) a build in incentive which links the export agency fee percentage to the growth rate of the revenue from export. We understand that the actual rate of charge of 7.24% has been audited by Ruihua with less than 1% deviation. We also understand from the Management that this pricing mechanism is a usual commercial practice for determining fees payable for such kind of services.

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## LETTER FROM VMS SECURITIES LIMITED

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We note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 68.0%; and (ii) the Cap of RMB399.0 million decreases approximately RMB40.3 million (or 9.2%) from the 2015 annual cap of approximately RMB439.3. The Management advised that the decrease in the cap is to adjust the Cap in line with the decrease in actual aggregate transaction amount for the nine months ended 30 September 2015. The purpose is to have better cap management. In this regard, we note that the actual aggregate transaction amount for the nine months ended 30 September 2015 was approximately RMB224.1 million whereas the actual amount incurred during the same period in 2014 was approximately RMB247.7 million with approximately 9.5% decrease which roughly matched with the approximately 9.2% decrease in the Cap.

The Management advised that the amount for such Cap is based on the 2015 Deemed Actual Amount Incurred adjusted with the anticipated increase in the relevant export sales of the Group in 2016. The Management expects that there will be an approximately 3x% growth for the export revenue in 2016 as compared to that in 2015 in light of the Company's organic growth target of the export sales tentatively with more export sales going through agency channel. Therefore, the corresponding export agency fee percentage for 2016 is expected to increase as compared to 2015. As such, the Management plans to have an increased Cap of RMB399.0 million compared with the 2015 Deemed Actual Amount Incurred of approximately RMB298.9 million with approximately 33.4% increment.

Based on (i) the above our discussions with the Management and the analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for the provision of agency services to the Group is prepared on a fair and reasonable basis.

### Supply of home electrical appliances by the Group

As regards the supply of home electric appliances, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 79.0%; and (ii) the Cap of approximately RMB3,594.5 million increases approximately RMB609.2 million (or 20.4%) from the 2015 annual cap of approximately RMB2,985.3 million. As advised by the Management, (i) the Group is planning to expand the home electrical appliances market in the US to capitalise on the continuing recovery of the US economy through the cooperation with Hisense Group, Hisense Electric and/or their respective subsidiaries where the Group currently has relatively small market share. Therefore, the transaction value for 2016 is expected to increase accordingly. In this regard, we note that the Cap has been revised upward of approximately 20.4% compared to that of the 2015.

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## LETTER FROM VMS SECURITIES LIMITED

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Based on (i) the above our discussions with the Management and the analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for the supply of home electrical appliances by the Group is prepared on a fair and reasonable basis.

### Supply of equipment by the Group

As regards the supply of equipment, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 32.7%; and (ii) the Cap of approximately RMB3.7 million decreases approximately RMB4.3 million (or 53.9%) from the 2015 annual cap of RMB8.0 million. The Management advised that the relatively low utilisation rate in 2015 is attributed to the decrease in the order placed by the overseas customers. Therefore, the Cap is adjusted downward after taking into account the low utilisation rate in 2015.

Based on (i) the above our discussions with the Management and the analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for supply of equipment by the Group is prepared on a fair and reasonable basis.

### Supply of moulds by the Group

As regards the supply of moulds, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 64.7%; and (ii) the Cap of approximately RMB347.4 million decreases approximately RMB2.6 million (or 0.7%) from the 2015 annual cap of RMB350.0 million. The Management advised that, according to its business plan, the Cap is based on the actual amount incurred for the nine months ended 30 September 2015 after adjusting for the expected relevant sales for the 15 months ending 31 December 2016. The Management advised that based on the orders on hand for supply of moulds by the Group, there will be increased transaction amount in the fourth quarter of 2015 making the expected 2015 total relevant sales to exceed the 2015 Deemed Actual Amount Incurred. Also, the Management expected that there will be approximately 30% growth of the relevant transaction value for 2016 compared with that of in 2015. As such, although the 2015 Deemed Actual Utilisation Rate is less than 65%, the Cap still remains stable with that of 2015.

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

As regards the supply of raw materials, parts and components, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 38.8%; and (ii) Cap of RMB93.3 million increases approximately RMB26.2 million (or 39.0%) from the

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## LETTER FROM VMS SECURITIES LIMITED

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2015 annual cap of approximately RMB67.1 million. We also note that there is a significant increase of approximately 258.4% of the Cap compared with the 2015 Deemed Actual Amount Incurred. This is a result of the relatively low Deemed Actual Utilisation Rate of approximately 38.8% together with a relatively substantial increase in the Cap of approximately 39.0% compared with that of the 2015 annual cap.

The Management advised that, according to its business plan, the amount of the Cap for the supply of raw materials, parts and components is based on the 2015 Deemed Actual Amount Incurred topped up with the anticipated increase in the relevant sales of the Group in 2016 after allowing for additional 2x% buffer. As such, the Management further advised that it expects the following increase in the relevant sales of the Group in 2016: (i) approximately 30% (or RMB10 million) of the additional sales will be attributed from the new types of the raw materials, parts and component to be supplied by the Group; and (ii) approximately 205% (or RMB53 million) of the additional sales will be attributed from the increased orders expected from the respective connected parties, which are located in the same production facilities as the Group, in light of their expected capacity expansion in 2016.

Based on (i) the above our discussions with the Management and the analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the supply of raw materials, parts and components by the Group is prepared on a fair and reasonable basis.

### Provision of services by the Group

As regards the provision of services, the Group will provide design, processing services and property services to Hisense Group and/or its subsidiaries. We note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 79.4%; and (ii) the Cap of RMB23.7 million increases approximately RMB16.5 million (or 229.2%) from the 2015 annual cap of approximately RMB7.2 million. The latter is the main contributor to the significant increase of approximately 315.3% of the 2015 Deemed Actual Amount Incurred compared with the Cap.

The Management advised that, according to its business plan, the amount of the Cap for the provision of services by the Group is based on the 2015 Deemed Actual Amount Incurred after catering for the anticipated increase in the relevant sales of the Group in 2016. As such, the Management further advised that it expects the following increases in the relevant sales of the Group in 2016: (i) approximately 53% (or RMB3 million) of the additional design services will be rendered; and (ii) approximately 263% (or RMB15 million) of the anticipated additional processing services and property services will be provided by the Group.

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## LETTER FROM VMS SECURITIES LIMITED

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Based on (i) the above our discussions with the Management and the 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 balance of the deposits to be placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the respective Cap of RMB1,500,000,000 (inclusive of interest) on any given day for each of the two years ending 31 December 2016 and 31 December 2017. Such Cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

We note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 99.9%; and (ii) the Cap of RMB1,500 million (inclusive of interest) on any given day for each of the two years ending 31 December 2016 and 31 December 2017 increases RMB700 million (or 87.5%) from the 2015 annual cap of RMB800 million.

We understand that the Group will maintain deposit balances with Hisense Finance and also borrow loans from Hisense Finance. As advised by the Management, the proposed loans to be provided by Hisense Finance to the Group will be firstly be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal. As such, the Group's funding needs in terms of loans will also affect the Group's deposits balance with Hisense Finance.

We have discussed with the Management of the Company about its business development plans on areas relating to research and development, investment, sales and supply of the Group. In particular, we understand that the Company intends to strengthen its research and development capacity so as to shorten the lead time for its products which requires more funding. Also, it is noted from the interim report that as at 30 June 2015, the Group had total liabilities amounted to approximately RMB11,731.3 million, among which the borrowings from financial institutions (including secured borrowings and notes payables) was of approximately RMB2,522.7 million as at 30 June 2015. Its net current liabilities position was approximately RMB670.7 million as at 30 June 2015. In light of the above business

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## LETTER FROM VMS SECURITIES LIMITED

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plans and the financial position, to satisfy the financial needs for the operation and the existing development plans of the Group, the Management expects that the Group may have to frequently utilise the loan services from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. Accordingly, the Management also expects the Group will utilise more frequently the deposit services from Hisense Finance.

It is also noted from the interim report that as at 30 June 2015, there was cash and cash equivalents of RMB879.0 million (including the deposits with other financial institutions). According to the Management, the corresponding balance has reached RMB1,090 million (including the deposits with other financial institutions) as at 30 August 2015. The above relatively high balances compared with the 2015 annual cap of RMB800 million may imply that the Group is in need of a higher amount of the deposit service from Hisense Finance. Also, the 2015 Deemed Actual Utilisation Rate of approximately 99.9% is reaching its full capacity. All the above indicates its necessity to substantially adjust the Cap upward.

As stated in the Letter from the Board, Hisense Finance is regulated by the CBRC and engaged in the provision of financial services in compliance with the relevant regulations and operation requirements. Its primary customers are the subsidiaries of Hisense Group. We have discussed with the Management on their view on credibility of Hisense Finance. The Management has advised that Hisense Finance only provides the services to the subsidiaries of the Hisense Group, so the risks of those companies are fully monitored by the management of Hisense Group. In order to minimise the risk associated with Hisense Finance in relation to the deposit services, as a prerequisite of utilising such deposit services, each time the Company would assess the business and financial risks of Hisense Finance by reviewing its latest available financial statements and such assessment is required to be reported to the Directors for their approvals. In addition, the Management considers that Hisense Finance has honoured its business commitments and obligations in the past. Therefore, the Directors are of the view that the above measurement could minimise the risk exposed to Hisense Finance and is sufficient for the risk control purpose. Based on above and taking into account the additional regulatory and monitoring mechanism by CBRC, we concur with the view of the Management that the risk associated with Hisense Finance in relation to the deposit placed/to be placed by the Company is low and the relevant risk controlling mechanism is sufficient. Furthermore, the proposed transactions contemplated in relation to the deposit services will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and the terms will not be less favourable to the Company than terms available from other normal commercial banks and financial institutions, we are of the view that the proposed transactions in relation to the deposit services under the Financial Services Agreement are fair and reasonable.

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## LETTER FROM VMS SECURITIES LIMITED

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As set out above, it is proposed that the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will be firstly transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal. Given the proposed maximum amount of loan and electronic bank acceptance bill services of RMB3,000 million on any given day for each of the two years ending 31 December 2016 and 31 December 2017, to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services (which is 100% higher than the proposed maximum daily balance of the deposit to be placed by the Group with Hisense Finance), we do not consider the Cap of RMB1,500 million on any given day for each of the two years ending 31 December 2016 and 31 December 2017, in respect of the deposit services under the Financial Services Agreement to be excessive.

Given that (i) the proposed transactions contemplated 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; and (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values, we are of the view that the Cap of RMB1,500 million on any given day for each of the two years ending 31 December 2016 and 31 December 2017, in respect of the deposit services under the Financial Services Agreement is fair and reasonable.

### 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 to be provided by Hisense Finance to the Group shall not exceed the Cap of RMB3,000 million (inclusive of interest and service fees) on any given day for each of the two years ending 31 December 2016 and 31 December 2017, during the term of the Financial Services Agreement. Such Cap has been determined based on (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the next two financial years since the terms for the provision of the loans 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 about the background and financial status of the Company which will facilitate the loan application process by the Company.

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## LETTER FROM VMS SECURITIES LIMITED

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We note that the maximum daily balance of loan and electronic bank acceptance bills to be placed by the Group with Hisense Finance was approximately RMB1,108 million in 2014 and approximately RMB1,498 million in the first nine months of 2015 which are approximately 36.9% and 49.9% of the Cap of RMB3,000 million on any given day for each of the two years ending 31 December 2016 and 31 December 2017, respectively. As understand from the Management, (i) the PRC credit market has become more tightened since 2013; (ii) it was difficult to borrow money from the PRC commercial banks; (iii) the Group has not taken any loan from Hisense Finance in 2015; and (iv) the maximum daily balance of RMB1,498 million recorded in the nine months ended 30 September 2015 was solely attributed to electronic bank acceptance bills.

The Group also did not take any loan from Hisense Finance in 2013 and 2014 where the latest loan granted from the Hisense Finance was taken in 2012. According to the statistics from the PBOC, the guideline interest rate between January and December 2012 was between 6.00% and 6.56% while the Group's borrowings with Hisense Finance bore interest rates ranging from 4.376% to 6.560% in 2012 as advised by the Management. Furthermore, we also note from the 2012 annual report and the 2013 interim report of Bank of China Limited ("BOC") that the respective average interest rate of domestic corporate loans provided by BOC was 6.77% for 2012 and 6.49% for the first six months of 2013. As such, the interest rates for the loans provided by Hisense Finance were considered favourable to the Group and in the interests of the Company and the Shareholders as a whole.

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

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 Cap in respect of the loan and electronic bank acceptance bill services under the Financial Services Agreement is fair and reasonable.

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## LETTER FROM VMS SECURITIES LIMITED

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### 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 Company to Hisense Finance for draft discount services shall not exceed RMB50 million for each of the two years ending 31 December 2016 and 31 December 2017 during the term of the Financial Services Agreement. Such cap has been determined based on (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use more draft discount services from Hisense Finance instead of from other financial institutions for the next two financial years ending 31 December 2017 since the terms for such services provided by Hisense Finance shall be no less favourable than those of other financial institutions. Also, Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

As regards the draft discount services, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 0.6%; and (ii) the Cap of RMB50 million for each of the two years ending 31 December 2016 and 31 December 2017 is the same as the 2015 annual cap.

As advised by the Management, there was no historical service fees paid by the Company for the draft discount services provided by Hisense Finance in 2014. For the nine months period ended 30 September 2015, the historical service fees paid by the Company for the draft discount services provided by Hisense Finance to the Group was approximately and RMB0.2 million. As advised by the Management, the discount interest rates (thus the costs to the Group) were quite high in 2014. Therefore, in order to reduce the finance cost of the Company, the Company did not use the draft discount service in 2014. In the Management's view, the future discount interest rates in PRC are difficult to predict, leading to uncertainty for the transactions in relation to draft discount services utilised by the Group. In this regard, we note that such payments of services fees had been fluctuating during the past several financial years. However, with the expectation of increase of export sales by the Group, the Company expects that it shall utilise more draft discount services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance if the cost is acceptable.

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## LETTER FROM VMS SECURITIES LIMITED

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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 for each of the two years ending 31 December 2016 and 31 December 2017 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 of foreign exchange settled or sold by Hisense Finance for the Group shall not exceed US\$700 million for each of the two years ending 31 December 2016 and 31 December 2017. Such Cap has been determined based on the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for each of the next two financial years ending 31 December 2017.

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\$36.5 million in 2014 and approximately US\$146 million for the first nine months of 2015. The Management advised that since the Group commenced utilizing the settlement and sale of foreign exchange services provided by Hisense Finance in 2013, the Group is satisfied with the quality of services provided by it and in particular, the relevant financial expenses has been reduced notably. Hence, the Group keeps increasing the usage of the services in 2015.

As regards the settlement and sale of foreign exchange services, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 38.9%; and (ii) the Cap of US\$700 million for each of the two years ending 31 December 2016 and 31 December 2017 increases US\$200 million (or 40%) from the 2015 annual cap of US\$500 million.

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## LETTER FROM VMS SECURITIES LIMITED

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We understand from the Management that currently, the Group uses the short-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. After considering the trend of the exchange rate in the coming two years which the Management considers to be volatile, the Management expects that the Company may use more short-term settlement and sale of foreign exchange services, which the Management considers easier and more efficient to manage the exchange rate risk. Also, the demand for the services depends on the Group's exports volume in the coming year which the Management expects to increase over 30%. Hence, the Company plans to increase the usage of settlement and sale of foreign exchange services provided by Hisense Finance and shall utilise more settlement and foreign exchange services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance. Accordingly, the Cap is increased.

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 volume of export and the expected amount subject to settlement and sale of foreign exchange for the next two financial years ending 31 December 2017.

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; 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 settlement and sale of foreign exchange payable so as to provide for its expected increase in export sales for the coming financial years, we are of the view that the Cap of US\$700 million for each of the two years ending 31 December 2016 and 31 December 2017 in respect of the settlement and sale of foreign exchange to be payable under the Financial Services Agreement is fair and reasonable.

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## LETTER FROM VMS SECURITIES LIMITED

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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 the annual amount payable for the agency services such as settlement services for receipt and payment of funds to Hisense Finance by the Group shall not exceed the Cap of RMB3 million for each of the two years ending 31 December 2016 and 31 December 2017. Such Cap has been determined based on 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.

As regards the agency services, we note that (i) the 2015 Deemed Actual Utilisation Rate is approximately 7.7%; and (ii) the Cap of RMB3 million for each of the two years ending 31 December 2016 and 31 December 2017 decreases RMB2 million (or 40%) from the 2015 annual cap of RMB5 million. The Group recorded the historical expenses for agency services of approximately RMB0.6 million in 2014 and 0.3 million for the first nine months of 2015, which is approximately 11.7% and 5.8% of the annual caps for the two year ending 31 December 2015. From the above, we note a trend of relatively low utilisation rate.

Advised by the Management, due to the low utilisation rate of the annual caps in 2014 and the first 9 months of 2015, the Company reduces the Caps by RMB2 million for the next two financial years.

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 agency services based on the expected scale of the Group's revenue.

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

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## **LETTER FROM VMS SECURITIES LIMITED**

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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 the scale of the Group's revenue for the coming financial years, we are of the view that the Cap of RMB3 million for each of the two years ending 31 December 2016 and 31 December 2017 in respect of agency services fees to be payable under the Financial Services Agreement is fair and reasonable.

### **IV. 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 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**

In formulating our recommendation to the Independent Board Committee and the Shareholders, we have considered the above principal factors and reasons, in particular, the following:-

- (i) The manufacture and sale of home electrical appliances is one of the principal businesses of the Group;

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## LETTER FROM VMS SECURITIES LIMITED

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- (ii) Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has the relevant expertise in the domestic electric appliances market in the PRC as well as strong financial resources. Accordingly, Hisense Group and Hisense Electric are in a good position to assist the Group in its domestic business development;
- (iii) By engaging Hisense Group and/or its subsidiaries, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business, while the basis in determining the export agency fee percentage, including the profit margin for export agency services are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, it is in the commercial interest of the Company and Hisense Group is in a good position to assist the Group in its export related business development;
- (iv) By engaging Hisense Finance, the Group can largely reduce the financial costs. Accordingly, it is in the commercial interest of the Company;
- (v) Certain transactions contemplated under the Agreements will increase the sales of the Group, so it is in the interest of the Company to enter into such transactions;
- (vi) The terms of the definitive contract(s) to be entered into by the Group pursuant to the Agreements will be determined in accordance with the principles of fairness and reasonableness with reference to the market price, and the proposed transactions contemplated under the Agreements will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms. In addition, all the transactions contemplated under the Agreements are to be conducted on a non-exclusive basis, so the Agreements will not restrict the Group from engaging in the similar transactions with other parties; and
- (vii) The value of, and the basis for determining, the annual caps under the Agreements are fair and reasonable, details of which are set out in the section headed “Rationale for determining the maximum value of the transactions contemplated under the Agreements”.

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## LETTER FROM VMS SECURITIES LIMITED

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Based on the above, we are of the opinion that each of the Agreements and their respective terms are in the interests of the Company and the Shareholders as a whole, the transactions to be contemplated under the Agreements are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholder as a whole. We are also of the opinion that the terms of the Agreements, are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Shareholders that the Shareholders should vote in favour of the ordinary resolutions to approve the Agreements at the EGM.

Yours faithfully  
For and on behalf of  
**VMS Securities Limited**  
**Nick Man**  
*Managing Director*  
*Corporate Finance*

*Note:* Mr. Nick Man is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of VMS Securities Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nick Man has over 10 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for connected transactions involving companies listed in Hong Kong.

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 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 64 to 190 of the annual report of the Company for the year ended 31 December 2012 published on 23 April 2013;
- (b) on pages 61 to 191 of the annual report for the year ended 31 December 2013 published on 24 April 2014;
- (c) on pages 63 to 203 of the annual report of the Company for the year ended 31 December 2014 published on 22 April 2015; and
- (d) on pages 1 to 136 of the interim report of the Company for the six months ended 30 June 2015 published on 16 September 2015.

**2. INDEBTEDNESS**

As at the close of business on 31 October 2015, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the printing of this circular, the Group had outstanding bank loan of approximately RMB196,370,000, of which RMB196,370,000 is secured bank loan and RMB0 is unsecured bank loan.

On 31 October 2015, the Group had bank loan of RMB196,370,000 which is charged against certain factories, machinery and land use rights of the Group and the assets of the subsidiaries of the Company. The unsecured bank loan of the Group was RMB0, of which RMB0 was guaranteed by Hisense Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorized 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), 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 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. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

As at 30 June 2015, the white goods industry continued the declined development since 2014. Insufficient demand in domestic market and weak or even contracted growth continued to exist. The Company adhered to the operating direction of “building product advantages, enhancing marketing capabilities, improving service quality, enhancing system efficiency and ensuring scale and efficiency” laid down in the beginning of the year to implement various tasks. Nevertheless, because of various factors such as insufficient market demand, reduction of growth in channel quality of the Company and inadequate improvement in product structure, the economy of scale of the Company experienced a reduction.

In the second half of 2015, the Company will use its best endeavor to carry out the following tasks to ensure operation stability,

Enhance the promotion of high-ended products, continuously increase the portion of high-ended products in order to improve product sales structure and increase gross profit brought by the products. Accelerate the development of core channels; promote the flattening of such channels to shift the management focus to the lower level and give faster market response; enhance its training and guiding mechanism, encourage the marketing team to take a more proactive approach, strengthen the execution power of the branch offices; enhance the input-output ratio of our stores and optimize the points of distribution. Eliminate non-performing models, reduce under-performing models and improve product efficiency; continuously exploring rooms for profit improvement from manufacturing process to uplift production efficiency; further implementation in workflow enhancement such as process optimization, automation and digitalization to uplift management efficiency. Strengthen cost control capability to further improve costs-to-production ratio. Expedite the turnover of inventories and receivables by relentless clearance of overdue account receivables and abnormal accumulation of inventories; improve capital efficiency by increasing the application of electronic bank acceptance.

## 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 total issued share capital	Approximate percentage of the Company (%)
			of issued A Shares (%)	of the Company (%)
Mr. Tang Ye Guo	Beneficial owner	831,600	0.092	0.061
Mr. Jia Shao Qian	Beneficial owner	539,060	0.060	0.040
Mr. Wang Zhi Gang (proposed Director)	Beneficial owner	59,400	0.006	0.004

*Long position in the share options of the Company*

Name of Director	Number of A Shares which may be subscribed under the options	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Tang Ye Guo	428,400 <sup>(Note)</sup>	0.047	0.031
Mr. Jia Shao Qian	288,940 <sup>(Note)</sup>	0.032	0.021
Mr. Wang Zhi Gang (proposed Director)	61,200 <sup>(Note)</sup>	0.006	0.004

*Note:* These share options were granted on 31 August 2011 pursuant to the first A share share option incentive scheme of the Company and are exercisable at RMB7.65 per A Share after a restriction period of 2 years from the grant date until the trading day falling on the fifth anniversary of the grant date, subject to the exercise arrangements and conditions as set out in the scheme.

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 2014, 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. Lin Lan and Mr. Liu Hong Xin, 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 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 air-conditioning/ electrical products	Director
Mr. Lin Lan	Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Liu Hong Xin	Hisense Group/ The subsidiaries of Hisense Group	Production of air-conditioning/ 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. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up).

**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>
VMS Securities Limited	a corporation licensed under the SFO to carry on Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser:

- (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 2014, 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.

The letter of advice given by the Independent Financial Adviser to the Independent Board Committee and the Shareholders are given as of the date of this circular for incorporation herein.

**8. GENERAL**

- (a) The registered office of the Company is at No. 8 Ronggang Road, Ronggui, Shunde, Foshan , 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 has been the chief financial controller of DIAMOND DRAGON FASHION LTD (星薈亞洲有限公司) since December 2010.
- (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 28 December 2015:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Financial Adviser dated 2 December 2015;
- (c) the letter from the Independent Board Committee dated 2 December 2015;

- (d) the Business Co-operation Framework Agreement;
- (e) the Financial Services Agreement;
- (f) the Hitachi Business Framework Agreement;
- (g) the Whirlpool Business Framework Agreement;
- (h) the resolutions passed by the ninth session of the Board on 10 November 2015;
- (i) the prior approval and independent opinion of the independent non-executive Directors dated 10 November 2015 in relation to the connected transaction;
- (j) the Existing Business Co-operation Framework Agreement;
- (k) the Existing Financial Services Agreement;
- (l) the annual reports and consolidated audited accounts of the Company for the two years ending 31 December 2014;
- (m) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert” in this appendix; and
- (n) this circular.