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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) BUSINESS FRAMEWORK AGREEMENT WITH QINGDAO**  
**HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.**  
**(3) PROPOSED APPOINTMENT OF**  
**INDEPENDENT NON-EXECUTIVE DIRECTOR**

**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 6 to 35 of this circular. A letter from the Independent Board Committee is set out on pages 36 to 37 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 38 to 72 of this circular.

A notice of the EGM to be held on 9 January 2017 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 17 November 2016 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.

23 December 2016

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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 17 November 2016 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 2017, being (i) RMB1,600,000 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) RMB118,670,000 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) RMB582,600,000 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) RMB10,241,130,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (v) RMB19,300,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB451,000,000 in respect of the supply of moulds by

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## DEFINITIONS

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	the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (vii) RMB112,090,000 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; (viii) RMB37,280,000 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;
“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 first 2017 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 9 January 2017 at 3:00 p.m. for, among other things, the approval of the Business Co-operation Framework Agreement, the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto and the proposed appointment of Director;
“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 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;
“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 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;
“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 17 November 2016 in relation to the supply of home electrical appliances and moulds and sale and purchase of raw materials, parts and components and provision of products maintenance services;
“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;

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## DEFINITIONS

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“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 and the Caps in relation thereto;
“Independent Shareholders”	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;
“Latest Practicable Date”	19 December 2016, 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;
“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 (深圳證券交易所上市規則);
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

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“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“VAT”	value-added tax;
“white goods”	the general term by which white-coloured household electrical appliances are commonly known which include, but not limited to, air-conditioners, refrigerators, freezers, washing machines, other small 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.

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Tang Ye Guo  
Mr. Liu Hong Xin  
Mr. Lin Lan  
Mr. Dai Hui Zhong  
Mr. Jia Shao Qian  
Mr. Wang Yun Li

*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  
Singa Commercial Centre,  
No. 148 Connaught Road West,  
Hong Kong

23 December 2016

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS  
(2) BUSINESS FRAMEWORK AGREEMENT WITH QINGDAO  
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.  
(3) PROPOSED APPOINTMENT OF  
INDEPENDENT NON-EXECUTIVE DIRECTOR**

**BACKGROUND**

Reference is made to:–

- (a) the announcement of the Company dated 10 November 2015 in relation to, inter alia, the Existing Business Co-operation Framework Agreement; and
- (b) the circular of the Company dated 2 December 2015 in relation to, inter alia, the Existing Business Co-operation Framework Agreement.



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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 17 November 2016, the Existing Business Co-operation Framework Agreement will expire on 31 December 2016 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 17 November 2016, the Business Co-operation Framework Agreement was entered into by the Company.

In addition, on 17 November 2016, the Company has also entered into the Hitachi Business Framework Agreement with Hisense Hitachi. The transactions contemplated under the Hitachi 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 and the Caps in relation thereto;
- (b) provide you with further information on the Hitachi 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;
- (d) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement; and
- (e) provide you with information regarding the ordinary resolution in relation to the election of the independent non-executive Director to be proposed at the EGM.

### **I. CONTINUING CONNECTED TRANSACTIONS**

#### **BUSINESS CO-OPERATION FRAMEWORK AGREEMENT**

Date: 17 November 2016

Parties: The Company;  
Hisense Group; and  
Hisense Electric

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## LETTER FROM THE BOARD

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**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2017 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 2017, 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).

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.

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## LETTER FROM THE BOARD

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

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

Before a definitive transaction is conducted, the Company will compare the price of similar existing transactions with or quotations obtained from at least three 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 at least three independent third parties or quotations offered by at least three 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.

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 the 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.

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## LETTER FROM THE BOARD

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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 offered by at least three independent third parties 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB920,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB120,000 (exclusive of VAT and unaudited) (of which RMB0 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB120,000 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 home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 are subject to the Cap of RMB1,600,000 (exclusive of VAT), of which:–

- (i) RMB1,000,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and

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## LETTER FROM THE BOARD

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- (ii) RMB600,000 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 and laser cinema television from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2017 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.

**(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.

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## LETTER FROM THE BOARD

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### **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 mainly with reference to the market price of similar raw materials, parts and components offered by at least three independent third parties from time to time.

### **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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB35,850,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB9,870,000 (exclusive of VAT and unaudited) (of which RMB4,950,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB4,920,000 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 2017 are subject to the Cap of RMB118,670,000 (exclusive of VAT), of which:–

- (i) RMB104,070,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB14,600,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past (that is, estimated annualised unaudited value of the similar transactions for the year 2016); and (b) the projected level of production

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## LETTER FROM THE BOARD

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and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2017 taking into account its anticipated increase in the relevant purchase of the Group in 2017.

The above Cap was also determined with reference to the Group's constant attempt to optimize the product mix by increasing the production of high-end intelligent electrical appliances, which will increase the Group's purchase for raw materials, parts and components of approximately RMB98.0 million from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017 for the increased production of high-end intelligent electrical appliances. The cost of raw materials, parts and components for production of high-end intelligent electrical appliances are relatively higher compared to those for production of other electrical appliance products. In 2017, the Group will purchase new parts, wifi boards, from Hisense Group, Hisense Electric and/or their respective subsidiaries and it is anticipated that such new purchase will amount to approximately RMB45 million. On the other hand, the Group will stop the production of some of its existing electrical appliances in 2017 which will also lead to the increase of the Group's need to purchase new raw materials, parts and component by approximately RMB15.2 million from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017.

**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, with the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases; Hisense Group has better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. The Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality

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## LETTER FROM THE BOARD

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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, distribution, property, medical, leasing, design, inspection, agency services, 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, technical support and advertisement services as they may require from time to time.

#### **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 offered by at least three independent third parties 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB201,340,000. For the nine months ended 30 September 2016, 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 RMB142,410,000 (unaudited) (of which



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RMB125,440,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB16,970,000 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 2017 are subject to the Cap of RMB582,600,000, of which:–

- (i) RMB548,540,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB34,060,000 will be allocated to the provision of property, technical support and advertisement 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 2017.

Hisense Group, Hisense Electric and/or their respective subsidiaries will provide new services, including distribution and technical support to the Group in 2017. It is estimated that the transaction amount in respect of the provision of new services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group will amount to approximately RMB28 million. The Group used to procure distribution and technical support services from independent third parties in previous years. As the quality of services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries and their Net Promoter Scores are higher than those offered by independent third parties, the Group plans to procure these services from Hisense Group, Hisense Electric and/or their respective subsidiaries. Furthermore, it is estimated that the relevant transaction amount for the provision of material processing and advertising by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group in 2017 will increase by approximately RMB100 million and RMB4 million respectively. As the Company

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## LETTER FROM THE BOARD

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is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from the previous course of dealing, the Group plans to engage Hisense Group, Hisense Electric and/or their respective subsidiaries to provide more services in 2017, which are originally provided by independent third parties in 2016 leading to the increase in the expected transaction amount for the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries by approximately RMB120 million. In addition, the Group expects that the property service fees will increase in 2017 due to the increment of charges for electricity and water and rent. Moreover, the Group will procure leasing of new properties in addition to the existing properties leased from Hisense Group and/or its subsidiaries and will procure the entering into of new leases between its subsidiaries and Hisense Group and/or its subsidiaries.

**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) *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.

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## LETTER FROM THE BOARD

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### **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 offered to at least three independent third parties 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB3,594,500,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB2,133,970,000 (exclusive of VAT and unaudited) (of which RMB2,133,910,000 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 2017 are subject to the Cap of RMB10,241,130,000 (exclusive of VAT), of which:–

- (i) RMB10,238,990,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB2,140,000 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; (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2017; and (d) in view of the supply of home electrical appliances to Hisense Group and/or its subsidiaries has better profitability than

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## LETTER FROM THE BOARD

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those for sale of electrical appliance via procurement of Hisense Group and/or its subsidiaries' agency services for export of white goods products in the nine months in 2016, the Company has decided to cancel the export agency model and wholly adopt sale and supply model instead commencing from 2017.

The above Cap was also determined with reference to the following expected increase in the relevant sales of the Group in 2017: (i) approximately RMB170 million additional sales attributable from the supply of washing machines by the new subsidiary of the Group; (ii) approximately RMB30 million additional sales attributable from the increase in orders expected to be received from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) an increase of approximately RMB853.6 million (or 30.0%) in the aggregate transaction amount for the supply of home electrical appliances for the year 2016 due to the direct sales to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017. The 30% increase is the targeted growth in overall sales for 2017 in the Group's business plan in 2017 and such growth target was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers.

Moreover, it is expected that the sale transactions between the Group and Hisense Group, Hisense Electric and/or their respective subsidiaries would increase in 2017 due to the supply of white goods by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries in replacement of the existing export of white goods through the agency services provided by Hisense Group and/or its subsidiaries. The revenue derived from the export of white goods through the agency services provided by Hisense Group and/or its subsidiaries for the nine months ended 30 September 2016 and the estimated revenue derived from the export of white goods through the agency services provided by Hisense Group and/or its subsidiaries for the year 2016 was approximately RMB2,886.3 million and RMB4,784.2 million respectively. According to the Group's business plan in 2017, the Group has set a target to increase the relevant sales of white goods through export through the agency services (which will now be conducted through direct sale and supply) for the year 2017 by approximately 17.0% comparing with the year 2016. Therefore, the above Cap would increase by approximately RMB5,597.5 million accordingly. Such growth target was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the

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## LETTER FROM THE BOARD

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Company's communication with downstream distributors and upstream core suppliers. The growth target of the relevant export sales of white goods through the agency services (which will now be conducted through direct sale and supply) for the year 2017 (i.e. 17.0%) is lower than the targeted growth rate of the total export sales through direct sales for the year 2017 (i.e. 30.0%) because the Group planned to focus on promoting its own brand and increase the export sales through direct sale and supply in 2017 when the Group devised its business plan in 2017.

### **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.

### ***(5) 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 mainly with reference to the market price of similar equipment supplied to at least three independent third parties from time to time.

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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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB3,690,000 (exclusive of VAT). For the nine months ended 30 September 2016, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB2,700,000 (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 2017 are subject to the Cap of RMB19,300,000 (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 2017.

Furthermore, the Group will supply equipment to the new subsidiaries of Hisense Group and/or Hisense Electric in 2017 which will increase the aggregated transaction amount by approximately RMB13 million and the Group will supply new equipment model to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017 which will increase the aggregated transaction amount by approximately RMB2 million.

### **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.

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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 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.

**(6) *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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB347,380,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB231,740,000 (exclusive of VAT and unaudited) (of which RMB160,140,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB71,600,000 was for the supply to 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 supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 are subject to the Cap of RMB451,000,000 (exclusive of VAT), of which:–

- (i) RMB331,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (ii) RMB120,000,000 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.

Furthermore, according to the Group's business plan in 2017, the Group has set a target of approximately 30% growth in the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017. As such, the above Cap was set with an increase of approximately 30%. The 30% increase is the targeted growth in the Group's sales for 2017 which was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers.

### **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 serving as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group.



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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 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.

**(7) *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 mainly with reference to the market price of similar raw materials, parts and components supplied to at least three independent third parties from time to time.

**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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB93,340,000 (exclusive of VAT). For the nine months ended 30 September 2016, 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 RMB46,110,000 (exclusive of VAT and unaudited) (of which RMB25,600,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB20,510,000 was for the supply to 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 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 2017 are subject to the Cap of RMB112,090,000 (exclusive of VAT), of which:–

- (i) RMB48,090,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB64,000,000 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.

Although 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 was relatively low in 2016 because the Group's new operation was only started in the second half of 2016 and its production capacity was relatively low in 2016. It is estimated that the relevant production capacity will increase in 2017 and thus the relevant transaction amount will increase in 2017 and the expected transaction amount for such new operation in 2017 is approximately RMB62 million. According to the Group's business plan for 2017, the Group targets to increase relevant sales of the Group in 2017 by approximately 30%, and it is expected that part of such increase can be derived from additional sales attributable from the new types of raw materials, parts and component to be supplied by the Group. The 30% increase is the targeted growth in the Group's overall sales for 2017 which was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers.

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## LETTER FROM THE BOARD

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### **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.

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.

### ***(8) 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 processing 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 offered to at least three independent third parties 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 2016 as specified in the Existing Business Co-operation Framework Agreement is RMB23,700,000. For the nine months ended 30 September 2016, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately

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## LETTER FROM THE BOARD

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RMB13,610,000 (unaudited) (of which RMB13,230,000 was for the provision of relevant services by the Group to Hisense Group and/or its subsidiaries, whereas RMB380,000 was for the provision of relevant services by the Group to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 are subject to the Cap of RMB37,280,000, of which:–

- (i) RMB35,280,000 will be allocated to the provision of design, processing services and property services by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB2,000,000 will be allocated to the provision of processing 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.

Furthermore, the following increase in the relevant sales of the Group in 2017 was also taken into consideration when determining the above Cap: (i) approximately RMB2.9 million additional property services to be provided by the Group; and (ii) approximately RMB15.6 million additional processing services to be provided by the Group.

### **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.

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## LETTER FROM THE BOARD

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### 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; 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.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

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 43.10% of the issued shares of the Company and (ii) Hisense HK holds 7.13% 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 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

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## LETTER FROM THE BOARD

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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 587,316,909 Shares (representing approximately 43.10% of the issued share capital of the Company) and Hisense HK, which held 97,202,000 Shares (representing approximately 7.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

### GENERAL

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

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

## II. BUSINESS FRAMEWORK AGREEMENT WITH HISENSE HITACHI

Date: 17 November 2016

Parties: The Company; and  
Hisense Hitachi

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## LETTER FROM THE BOARD

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**Term:**

The Hitachi Business Framework Agreement shall commence from 1 January 2017 or the date of approval of the Hitachi Business Framework Agreement at the EGM (whichever is the later) until 31 December 2017, 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 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 2016 are set out as follows:

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## LETTER FROM THE BOARD

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

Types of transactions	Annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement	Amount paid/ received in respect of such type of transactions from January to September 2016 <i>(unaudited)</i>
Sale of home electrical appliances	40,000	13,426
Sale of raw materials, parts and components	254	106
Sale of moulds	2,500	700
Provision of product maintenance services	20	Not applicable
Purchase of raw materials, parts and components	1,519	529

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.

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.



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## LETTER FROM THE BOARD

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The price for the provision of product maintenance services by the Company to Hisense Hitachi 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. 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.

#### *Provision of product maintenance services*

The Company provides product maintenance services to Hisense Hitachi. This may enhance the resources utilization ratio and increase revenue of the Company.

#### *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.

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## LETTER FROM THE BOARD

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### 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: FRANZ WOLFGANG CERWINKA, registered capital: US\$46 million, scope of business: 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.

### III. PROPOSED APPOINTMENT OF DIRECTOR

As the term of office of Mr. Wang Ai Guo as an independent non-executive Director is about to expire, the Board nominates Mr. Ma Jinquan (“**Mr. Ma**”) as an independent non-executive Director candidate for the ninth session of the Board to ensure the normal operation of the Board.

Details of the biography of the independent non-executive Director candidate are set out below.

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## LETTER FROM THE BOARD

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### BIOGRAPHIES OF MR. MA

**Mr. Ma Jinquan**, aged 73, graduated from Northwestern Polytechnical University (西北工業大學) and is a senior engineer. He was the executive deputy factory manager of Shanxi Color Picture Tube Plant\* (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Electronics Group Corporation\* (彩虹電子集團公司), the factory manager of Huanghe Machinery Plant\* (黃河機械廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited\* (黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation\* (彩虹集團公司). From November 2006 to June 2012, he was the external director of Panzhihua Iron & Steel (Group) Corporation\* (攀枝花鋼鐵(集團)公司). From April 2008 to April 2014, he acted as the independent director of China XD Electric Co., Ltd.\* (中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange). From May 2009 to May 2015, he acted as the independent director of Hisense Electric Co., Ltd.\* (青島海信電器股份有限公司) (listed on the Shanghai Stock Exchange). From November 2013 to the present, he has been an independent director of Xi'an Future International Information Co., Ltd.\* (西安未來國際信息股份有限公司) (listed on the New Third Board\* (新三板)).

Save as disclosed above, Mr. Ma has not held any directorship in any other 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. Mr. Ma 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 an independent non-executive director of the Company, Mr. Ma is entitled to an annual emolument of RMB140,000 (before taxation) from the Company as the independent non-executive director. Such emolument was determined by the remuneration and appraisal committee of the board of directors after taking into consideration of the scale of operation of the Company and the remuneration level of independent non-executive directors of other listed companies. Mr. Ma will stand for election as an independent non-executive director of the Company. If elected, Mr. Ma'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 of directors (that is, 25 June 2018).

Save as disclosed above, Mr. Ma 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 Listing Rules nor any other matter that needs to be brought to the attention of the shareholders of the Company.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### 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 9 January 2017, Monday at which ordinary resolutions will be proposed to approve, inter alia, the Business Co-operation Framework Agreement, the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto and the proposed appointment of director 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 17 November 2016 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.

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.

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## LETTER FROM THE BOARD

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The register of members of the Company has been closed since 10 December 2016 (Saturday) until 9 January 2017 (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 9 December 2016 (Friday) for registration.

### RECOMMENDATION

The Directors consider that the Hitachi 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 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 resolution to be proposed at the EGM in respect of the appointment of Mr. Ma Jinquan as the independent non-executive Director of the ninth session of the Board is 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 resolution to be proposed at the EGM to approve the same.

### ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement and the transactions contemplated thereunder which are respectively set out on pages 36 to 37 and pages 38 to 72 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)**

23 December 2016

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders dated 23 December 2016 (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 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 6 to 35 and pages 38 to 72 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 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.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Business Co-operation Framework Agreement 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 THE INDEPENDENT FINANCIAL ADVISER

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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 Agreement 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 1210

23 December 2016

*To: The Independent Board Committee and  
the Shareholders of  
Hisense Kelon Electrical Holdings Company Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “**Independent Board Committee**”) and the Shareholders in respect of the Business Co-operation Framework Agreement (the “**Agreement**”), details of which are set out in the circular to the Shareholders dated 23 December (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 Agreement. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Business Co-operation Framework Agreement (the “**Existing Agreement**”) will expire on 31 December 2016 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under the Agreement from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 17 November 2016, the Company entered into the Agreement (details of the Agreement are stated in the section headed “Terms of the Agreement” below).

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 approximately 43.10% of the issued shares of the Company and (ii) Hisense HK holds approximately 7.13% 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 Co., Ltd (“**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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the 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 Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the 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 Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

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 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. 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 Agreement 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 Agreement 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 Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Hong Kong Listing Rules, and accordingly, qualified to give the independent advice regarding the Agreement (stipulating the Caps). 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.

Since 2015, VMS Securities Limited had been twice engaged as the independent financial adviser for the continuing connected transactions in relation to (i) the Business Co-operation Framework Agreement and the Financial Services Agreement; and (ii) the supplemental agreement on the revised annual caps for certain financial services (see the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company's circulars dated 2 December 2015 and 8 September 2016, respectively, for details). The professional fees for the aforesaid appointment have already been fully settled. We are not aware of the existence of or change in any circumstances that would affect our independence. As such, we consider that we are eligible to give independent advice on the Agreement and the transactions contemplated thereunder.

### **BASIS OF OUR OPINION**

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

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

### **PRINCIPAL FACTORS CONSIDERED**

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### I. Background information and reasons for the Agreement

#### *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 Company's annual report for the year ended 31 December 2015 (the "**2015 Annual Report**"), approximately 65.4% of the Group's turnover for the year ended 31 December 2015 was derived from the PRC market and the rest was derived from overseas markets.

Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2015 Annual Report and the Group's interim report for the six months ended 30 June 2016 (the "**2016 Interim Report**"):

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2014 (Audited)	2015 (Audited)	2015 (Unaudited)	2016 (Unaudited)
Revenues				
– Sales of refrigerators & washing machines	11,864.0	11,555.8	6,136.7	6,041.3
– Sales of air-conditioners	11,342.5	8,986.1	5,793.1	5,416.9
– Sales of others products	<u>1,164.5</u>	<u>1,261.8</u>	<u>558.0</u>	<u>702.7</u>
Revenue from principal operations	24,371.0	21,803.7	12,487.8	12,160.9
Revenue from other operations	<u>2,163.4</u>	<u>1,667.9</u>	<u>1,123.3</u>	<u>962.1</u>
<b>Total operating revenue [a]</b>	<b>26,534.4</b>	<b>23,471.6</b>	<b>13,611.1</b>	<b>13,123.0</b>
Operating costs	(20,784.7)	(18,440.7)	(10,800.7)	(10,044.3)
Business taxes and surcharges	(98.4)	(97.2)	(30.8)	(54.0)
Selling and distribution expenses	(4,388.7)	(4,308.9)	(2,210.8)	(2,172.4)
General and administrative expenses	(856.9)	(905.2)	(430.2)	(458.1)
Financial income	4.0	71.4	24.8	33.4
Impairment losses on assets	<u>(58.6)</u>	<u>(4.7)</u>	<u>(20.9)</u>	<u>14.0</u>
<b>Total operating costs [b]</b>	<b>(26,183.3)</b>	<b>(23,685.3)</b>	<b>(13,468.6)</b>	<b>(12,681.4)</b>
(Loss)/gain from changes in fair value [c]	(74.3)	(2.5)	53.1	9.1
Investment income [d]	<u>375.5</u>	<u>530.2</u>	<u>290.5</u>	<u>190.6</u>
<b>Operating profits [a+b+c+d]</b>	<b><u>652.3</u></b>	<b><u>314.0</u></b>	<b><u>486.1</u></b>	<b><u>641.3</u></b>
Non-operating income	124.3	326.9	101.7	56.9
Non-operating expenses	<u>(5.4)</u>	<u>(17.2)</u>	<u>(9.4)</u>	<u>(1.6)</u>
<b>Profit before tax</b>	<b>771.2</b>	<b>623.7</b>	<b>578.4</b>	<b>696.6</b>
Income tax expenses	<u>(59.7)</u>	<u>(79.4)</u>	<u>(64.3)</u>	<u>(106.0)</u>
<b>Net profit for the year/period</b>	<b><u>711.5</u></b>	<b><u>544.3</u></b>	<b><u>514.1</u></b>	<b><u>590.6</u></b>
Attributable to:				
– Owners of the Company	672.5	580.3	505.7	559.3
– Minority interests	39.0	(36.0)	8.4	31.3

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	<b>As at 31 December 2015</b>	<b>As at 30 June 2015</b>	<b>2016</b>
<i>In RMB million, approximately</i>	(Audited)	(Unaudited)	(Unaudited)
Non-current assets	5,760.3	5,548.8	5,677.5
Current assets	8,532.5	10,629.8	11,919.4
Non-current liabilities	373.1	430.8	333.6
Current liabilities	<u>9,446.0</u>	<u>11,300.5</u>	<u>12,425.1</u>
Total shareholders' equity	<u><u>4,473.8</u></u>	<u><u>4,447.3</u></u>	<u><u>4,838.2</u></u>

The Group's total operating revenue decreased by approximately 11.5% from approximately RMB26,534.4 million for the year ended 31 December 2014 to approximately RMB23,471.6 million for the year ended 31 December 2015. According to the 2015 Annual Report, the decrease was mainly due to the decrease in sales of air-conditioners, refrigerators and washing machines. Total operating costs for the year ended 31 December 2015 decreased roughly in the same line with the decrease in the total operating revenue for the same year. Investment income for the year ended 31 December 2015, however, increased by approximately RMB154.7 million (or 41.2%). Such increase was due to the gain recognized for the disposal of a long-term listed equity investment. Also, non-operating income for the year ended 31 December 2015 increased by approximately RMB202.6 million (or 163.0%) which was mainly due to the increase in the government grants.

For the six months ended 30 June 2016, the Group's export sales increased to approximately RMB4,628.3 million, representing a year-on-year increase of approximately 13.3% which partially offset the slight decrease of domestic sales during the same period. The Group's unaudited net profit for the six months ended 30 June 2016 was approximately RMB590.6 million, representing an increase of approximately 14.9% from approximately RMB514.1 million for the corresponding period in 2015.

The Group's net current liabilities position was improved from approximately RMB913.5 million as at 31 December 2015 to approximately RMB505.7 million as at 30 June 2016 which was mainly driven by the increase in cash at bank and on hand as well as the accounts and notes receivable resulted from better collection of capital from the customers during the first half of 2016. Its total equity was further strengthened by roughly the amount of the net profit earned for the period and adjusted by the dividend payables of approximately RMB204.4 million for the year ended 31 December 2015 of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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which the balance increased from approximately RMB4,473.8 million as at 31 December 2015 to approximately RMB4,838.2 million as at 30 June 2016, representing an increase of approximately 8.1%.

### 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 2015, Hisense Group made sales revenue of approximately RMB99.0 billion. According to the information disclosed in the website of the 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 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 2016 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 2016. 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 2015 and the nine months ended 30 September 2016 were extracted from its annual report for the year ended 31 December 2015 and the third quarterly report for the nine months ended 30 September 2016:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	For year ended		For nine months
	31 December		ended 30
	2014	2015	September
	RMB	RMB	RMB
	million	million	million
	(Audited)	(Audited)	(Unaudited)
Turnover	29,007.1	30,190.0	22,075
Net profit attributable to its owners	1,400.0	1,488.8	1,139.8
Total assets as at year/period end	20,703.5	20,921.3	21,863.8

As stated in its annual report for the year ended 31 December 2015, sales of televisions contributed to approximately 91.4% of Hisense Electric's turnover and approximately 66.8% of its sales was generated from domestic sales in the PRC. According to its third quarterly report for the nine months ended 30 September 2016, Hisense Electric had total shareholders' equity of approximately RMB12,579.3 million and a net profit of approximately RMB1,139.8 million.

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

The PRC government estimated its gross domestic product ("GDP") growth target at approximately 6.7% for the third quarter of 2016. In October 2016, it indicated that the GDP in the first three quarters of 2016, being approximately RMB52,997.1 billion, has achieved a year-on-year increase of approximately 6.7%.

For retail sales of consumer goods, according to the National Bureau of Statistics of China, for the nine months ended 30 September 2016, it rose approximately 10.4% year-on-year to approximately RMB23,848.2 billion. Among the above, (i) retail sales in cities increased approximately 10.3% to approximately RMB20,494.0 billion; and (ii) retail sales at and below county level increased approximately 10.9% to approximately RMB3,354.2 billion.

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 2016, the cumulative export volume and the cumulative retail value of the refrigerator industry recorded a year-on-year increase of approximately 11.9% and approximately 1.5%, respectively. The cumulative export volume and the cumulative retail value of the air-conditioner industry recorded a year-on-year increase

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of approximately 3.2% and a year-on-year decrease approximately 4.3%, respectively. In this relation, we understand from the Management that the Group has recorded an approximately 13% growth in export sales for the nine months ended 30 September 2016 as compared to that in the same period of 2015, which outpaced the growth rate of the overall home appliances export market.

According to the above statistic, the refrigerator industry, air-conditioner industry and the country's retail sales of consumer goods have recorded an increased demand in 2016. Overall, the above market data on GDP consumption and retail sales indicate a positive economic landscape for the industry.

The expansion in the refrigerator industry and air-conditioner industry in the third quarter of 2016 are mainly due to the significant increase in the export sales, a lower base from last year and the new energy efficiency standards which took effect in 2016.

According to the Measures for the Administration of Energy Efficiency Labels (2016 Revision) (能源效率標識管理辦法(2016修訂)) issued by the National Development and Reform Commission (國家發展和改革委員會) and the General Administration of Quality Supervision, Inspection and Quarantine (國家品質監督檢驗檢疫總局), all household air-conditioners and refrigerators manufactured and sold in or imported into China must be affixed with a label showing the "China Energy Label" from 1 June 2016 onwards, which indicates the energy efficiency grade, energy consumption and other indices of energy-using products. In addition, the revised national standard The Maximum Allowable Values of the Energy Consumption and Energy Efficiency Grade for Household Refrigerators (家用電冰箱耗電量限定值及能源效率等級) took effect on 1 October 2016, which requires that refrigerators labelled with energy efficiency stickers which specify the energy efficiency grades, including five energy efficiency grades with grade 1 the most energy efficient and estimate that the energy consumption rate of grade 1 product is about 40% lower than the grade 1 product of the old version. Base on the standard implementation, it helps consumers to obtain the information they need in making purchasing decisions. According to the research in relation to the consumption of small home appliances (kitchen appliances) in eight mainland cities performed by the Hong Kong Trade Development Council in 2014, it showed that in future purchases, 88% of the consumers focus on factors such as environmental protection and energy efficiency, to a great extent, the new standards for the industry may boost its domestic sales in the near future.

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. *Reasons for the Agreement*

Under the 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 Agreement) may enter into certain transactions with Hisense Group, Hisense Electric, and/or their respective subsidiaries in respect of the supply and purchase of home electrical appliances, raw materials, parts and components, provision of 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 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 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 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 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 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 Agreement has become an

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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 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 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 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 and responsiveness of the Group's products may therefore increase.

In 2017, instead of engaging Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of agency services for export for the white goods of the Group, the Group will sell the white goods (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) to Hisense Group, Hisense Electric and/or their respective subsidiaries directly from time to time.

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

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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.

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) help lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products; (ii) bring benefit to the Group from the sharing of resources and the maximization of the economies of scale; and (iii) continue to provide quality services to the Group due to their familiarity of the operations of the Group and help reduce the operational risk exposure of the Group.

Based on the nature of the transactions to be contemplated under the Agreement and the benefits expected to be brought by such transactions as discussed above, we consider that the transactions to be contemplated under the 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 Agreement is in the interests of the Company and the Shareholders as a whole.

### **II. Terms of the Agreement**

The Agreement shall commence on 1 January 2017 or the date of approval of the Agreement by the Shareholders at the EGM (whichever is the later) until 31 December 2017 (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/or 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 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 Agreement, in the event that the terms (including the price) of the transactions

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contemplated under the 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 Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

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

*a. Purchase of home electrical appliances*

Under the 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 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 principle of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances offered by at least three independent third parties 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 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 Agreement and will be determined in accordance with the principle 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

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under the 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 same terms in the past with an actual aggregate transaction amount of RMB120,000 for the nine-month ended 30 September 2016, which the amount was relatively small and immaterial, we are of the view that the terms of the 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*

Under the 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 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 mainly with reference to the market price of similar raw materials, parts and components offered by at least three independent third parties from time to time.

The 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.

In order to assess the fairness and reasonableness of the terms of the transactions in connection with the purchase of raw materials, parts and components contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent third parties.

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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 Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the 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 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 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*

Under the 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 Agreement) may engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of material processing, installation and maintenance, distribution, 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, technical support and advertisement services 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 offered by at least three independent third parties from time to time.

The 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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In order to assess the fairness and reasonableness of the terms of the transactions in connection with the provision of services contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent third parties.

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of similar services from time to time and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the 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 Agreement in the past and based on our review of the relevant sample of the definitive contract(s) 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 Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*d. Supply of home electrical appliances*

Under the 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 Agreement) may supply on a non-exclusive basis such quantities of home electrical (appliances including white goods) 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 principle of fairness and



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reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances offered to at least three independent third parties from time to time.

The 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.

In order to assess the fairness and reasonableness of the terms of the transactions in connection with the supply of home electrical appliances contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent 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 principle 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 Agreement 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 Group and independent third parties, we are of the view that the terms of the 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.



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*e. Supply of equipment*

Under the 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 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 mainly with reference to the market price of similar equipment supplied to at least three independent third parties from time to time.

The 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.

In order to assess the fairness and reasonableness of the terms of the transactions in connection with the supply of equipment contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent third parties.

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 Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iv) the Group has conducted similar transactions under the Existing Agreement in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group 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 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.

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*f. Supply of moulds*

Under the 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 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 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 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 order to assess the fairness and reasonableness of the terms of the transactions in connection with the supply of moulds contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent third parties.

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 Agreement in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the 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.

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

Under the 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 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 mainly with reference to the market price of similar raw materials, parts and components supplied to at least three independent third parties from time to time.

The 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.

In order to assess the fairness and reasonableness of the terms of the transactions in connection with the supply of raw materials, parts and components contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and independent third parties.

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 Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) the Group has conducted similar transactions under the Existing Agreement in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Agreement with respect to the supply of raw materials, parts and

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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.

*h. Provision of services by the Group*

Under the 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 offered to at least three independent third parties from time to time.

The 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.

In order to assess the fairness and reasonableness of the terms of the transactions in connection with the provision of services by the Group contemplated under the Agreement, we have attempted to review any similar transactions entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed the transactions records between the Group and other independent third parties. According to the selected samples, we noted that terms of the relevant transactions contemplated under the Agreements are comparable to, or no less favourable than, the terms of the similar transactions entered into between the Group and the independent third parties.

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price for the provision of such services from time to time; (ii) the transactions, when taken place, will increase the revenue of the Group; (iii) the non-exclusive arrangement under the 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 Agreement in the past and based on our review of the relevant sample of the definitive contract(s) entered into between the Company and Hisense Group and its subsidiaries as well as those entered into between the Company and independent third parties and our discussion with the Management that there is no indication that the terms of the transactions between the

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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 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.

### **III. Rationale for determining the maximum value of the transactions contemplated under the Agreement**

Pursuant to Rule 14A.53 of the Hong Kong Listing Rules, the transactions contemplated under the Agreement during the year commencing from the date of approval of the Agreement by the Shareholders until 31 December 2017 will be subject to an annual cap for the financial year ending 31 December 2017 of the Company. The annual caps for the year ending 31 December 2016, being the proposed maximum aggregate values, of the transactions contemplated under the Agreement for the year ending 31 December 2017 and the estimated unaudited value of similar transactions between the relevant parties in the first nine months of 2016 are summarised below:

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	Annual caps for the year ending 31 December 2016	Proposed Caps for the year ending 31 December 2017	Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2016	Estimated utilisation of the caps for the year ending 31 December 2016 based on the estimated annualised unaudited value of the similar transactions for the year 2016 based on their unaudited value for the nine months ended 30 September 2016 (“2016 Deemed Actual Utilisation Rate”)
	(‘000)	(‘000)	(‘000)	(%)
Maximum aggregate value of purchase of home electrical appliances:	RMB920	RMB1,600	RMB120	17.4%
Maximum aggregate value of purchase of raw materials, parts and components:	RMB35,850	RMB118,670	RMB9,870	36.7%
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	RMB201,340	RMB582,600	RMB142,410	94.3%
Maximum aggregate value of supply of home electrical appliances:	RMB3,594,500	RMB10,241,130	RMB2,133,970	79.2%
Maximum aggregate value of supply of equipment:	RMB3,690	RMB19,300	RMB2,700	97.6%
Maximum aggregate value of supply of moulds:	RMB347,380	RMB451,000	RMB231,740	88.9%
Maximum aggregate value of supply of raw materials, parts and components:	RMB93,340	RMB112,090	RMB46,110	65.9%
Maximum aggregate value of the provision of services by the Group:	RMB23,700	RMB37,280	RMB13,610	76.6%

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The basis for the proposed maximum value for each category of transactions contemplated under the Agreement is set out in the Letter from the Board. The table below summaries the basis for each category of the transactions:

<i>Category</i>	<i>Basis for the proposed Caps</i>
<b>The Agreement:</b>	
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 2017 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 (that is, estimated annualised unaudited value of the similar transactions for the year 2016); 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 2017 taking into account its anticipated increase in the relevant purchase of the Group in 2017
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 2017

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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; (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2017 and (d) in view of the supply of home electrical appliances to Hisense Group and/or its respective subsidiaries has better profitability than those for sale of electrical appliance via procurement of Hisense Group or its subsidiaries' agency services for export of white goods in the nine months in 2016; the Company has decided to cancel the export agency model and wholly adopt sale and supply model instead commencing from 2017
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 2017
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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For assessing the proposed Caps, we have reviewed and discussed with the Management the respective value of the historical transactions, the underlying assumptions and calculation in arriving at proposed Caps, details of which are elaborated in the following:

*Purchase of home electrical appliances by the Group*

As regards the purchase of home electrical appliances, we note that the 2017 annual cap of RMB1.6 million involves a revised upward of approximately 73.9% as compared to that of 2016. As advised by the Management, the Group plans to increase the purchase of home appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries because of the projected need to purchase television sets and laser cinema television from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2017 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. 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 component by the Group*

As regards the purchase of raw materials, parts and components, the Group has to certain extent formulated its production plan with 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 increase the product and brand competitiveness.

We note that (i) the 2016 Deemed Actual Utilisation Rate is approximately 36.7%; and (ii) the 2017 annual cap of approximately RMB118.7 million increases approximately RMB82.8 million (or 231.0%) from the 2016 annual cap of approximately RMB35.9 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that

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the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. As advised by the Management, the amount for such 2017 annual cap is based on the estimated annualised unaudited value of the similar transactions for the year 2016 (the “2016 Deemed Actual Amount Incurred”) adjusted with the anticipated increase in the relevant sales of the Group in 2016. The Management advised that the amount for such 2017 annual cap is based on (i) 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 2017. Although the 2016 Deemed Actual Utilisation Rate is relatively low (i.e. 36.7%), the Management expects that the actual utilisation rate of the 2016 annual cap will be higher than the 2016 Deemed Actual Utilisation Rate because the transaction amounts in the last quarter of 2016 should be higher as compared to that of the first three quarters of 2016. With the Group constantly attempting to optimize the product mix and increasing the production of the high-end electric appliances, it is expected that the Group will additionally purchase more raw materials, parts and component of approximately RMB98.0 million from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017 for the production of the high-end intelligent electrical appliances such as the wifi modules. The cost of raw materials, parts and components for production of high-end intelligent electrical appliances are relatively higher compared to those for production of other electrical appliance products. In 2017, the Group will purchase new parts, wifi boards, from Hisense Group, Hisense Electric and/or their respective subsidiaries and it is anticipated that such new purchase will amount to approximately RMB45 million. On the other hand, as advised by the Management, the Group will stop the production of some electric appliances which will set-off the increase of the purchase of the raw materials, parts and component by approximately RMB15.2 million. Therefore, the 2017 annual cap of approximately RMB118.7 million increases by approximately RMB82.8 million (or 231.0%) from the 2016 annual cap of approximately RMB35.9 million.

Based on (i) the above discussions with the Management and our analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management’s view that the 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 their respective subsidiaries will provide to the Group, among others, material processing, property services and etc. We note that (i) the 2016 Deemed Actual Utilisation Rate is approximately 94.3%; and (ii) the 2017 annual cap of approximately RMB582.6 million

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increases sharply by approximately RMB381.3 million (or 189.4%) from the 2016 annual cap of approximately RMB201.3 million. The 2016 Deemed Actual Utilisation Rate of approximately 94.3% is close to its full capacity.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. Pursuant to the Agreement and as advised by the Management, Hisense Group, Hisense Electric and/or their respective subsidiaries will provide new services (i.e. distribution and technical support), which were provided by the independent third party in the previous years, to the Group in 2017. The Group used to procure distribution and technical support services from independent third parties in previous years. As the quality of services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries and their Net Promoter Scores are higher than those offered by independent third parties, the Group plans to procure these services from Hisense Group, Hisense Electric and/or their respective subsidiaries. The Management estimates that the relevant sales for the provision of new services contemplated under the Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group amounts to approximately RMB28.0 million. Also, the Management estimated that the relevant sales for the provision of material processing and advertising in 2017 will increase approximately RMB100.0 million and RMB4.0 million, respectively. As advised by the Management, the Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from the previous course of dealing; therefore, the Group plans to engage Hisense Group, Hisense Electric and/or their respective subsidiaries to provide more services in 2017, which are originally provided by the independent third parties in 2016 and the expected transaction amount for these services will increase by approximately RMB120.0 million. In addition, the Group expects that the property service fees will increase in 2017 due to the increment of charges for electricity and water and rent. Moreover, the Group will procure leasing of new properties in addition to the existing properties leased from Hisense Group and/or its subsidiaries and will procure the entering into of new leases between its subsidiaries and Hisense Group and/or its subsidiaries.

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

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

As regards the supply of home electric appliances, we note that (i) the 2016 Deemed Actual Utilisation Rate is approximately 79.2%; (ii) the 2016 Deemed Actual Amount Incurred is approximately RMB2,845.2 million; and (iii) the 2017 annual cap of approximately RMB10,241.1 million increases approximately RMB6,646.6 million (or 184.9%) from the 2016 annual cap of approximately RMB3,594.5 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. The Management advised that, according to its business plan, the amount of the 2017 annual cap for the supply of home electrical appliances by the Group is based on the 2016 Deemed Actual Amount Incurred after catering for the anticipated increase in the relevant sales of the Group in 2017. The Management further advised that it expects the following increase in the relevant sales of the Group in 2017: (i) approximately RMB170.0 million of the additional sales attributing from the supply of washing machines by the new subsidiary of the Group; (ii) approximately RMB30.0 million of the additional sales attributing from the increased orders expected from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) approximately RMB853.6 million (or 30.0%) increase from the 2016 Deemed Actual Amount Incurred due to the increase of the direct sales to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017. As advised by the Management, the 30% increase is the targeted growth in overall sales for 2017 in the Group's business plan in 2017 and such growth target was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers.

Furthermore, the substantial increase in the 2017 annual cap is mainly due to the fact that the historical export of the Group's white goods through the agency services provided by Hisense Group and/or its subsidiaries would be captured as direct sales under the supply of home electrical appliances by the Group to Hisense Group and/or its respective subsidiaries from 2017 onwards. As advised by the Management, in the previous years, the Group engaged Hisense Group and/or its subsidiaries for provision of agency services for export of the white goods. However, as explained in the Letter from the Board, with the view that the supply of home electrical appliances to Hisense Group and/or its respective subsidiaries has better profitability than those for sale of electrical appliance via procurement of Hisense Group and/or its subsidiaries' agency

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services for export of white goods in the nine months in 2016, the Company has decided to cancel the export agency model and wholly adopt sale and supply model instead commencing from 2017. Pursuant to the Existing 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. Regarding the details of the provision of agency services for export of the white goods, please refer to the Company's circular dated 2 December 2015. As advised by the Management, the revenue derived from the export of white goods through the agency services provided by Hisense Group and/or its subsidiaries for the nine months ended 30 September 2016 and the estimated revenue derived from the export of white goods through the agency services provided by Hisense Group and/or its subsidiaries for the year 2016 should be approximately RMB2,886.3 million and RMB4,784.2 million, respectively. According to its business plan in 2017, the Group has set a target to increase the relevant export sales of white goods through the agency services (which will now be conducted through direct sale and supply) for the year 2017 by approximately 17.0% comparing with the year 2016. Therefore, the Management estimated that the 2017 annual cap will increase approximately RMB5,597.5 million due to the supply of white goods by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017. Such growth target was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers. As advised by the Management, the growth target of the relevant export sales of white goods through the agency services (which will now be conducted through direct sale and supply) for the year 2017 (i.e. 17.0%) is lower than the expected growth rate of the total export sales for the year 2017 (i.e. 30.0%) because the Group plans to focus on promoting its own brand and increase the export sales through direct sale and supply.

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

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### *Supply of equipment by the Group*

As regards the supply of equipment, we note that (i) the 2016 Deemed Actual Utilisation Rate is approximately 97.6%; and (ii) the 2017 annual cap of approximately RMB19.3 million increases approximately RMB15.6 million (or 423.0%) from the 2016 annual cap of RMB3.7 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. The Management advised that the increase of the 2017 annual cap is because (i) the Group will supply equipment to the new subsidiaries of Hisense Group and/or Hisense Electric in 2017 which will increase the aggregated transaction amount by approximately RMB13.0 million; and (ii) the Group will supply new equipment model to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2017 which will increase the aggregated transaction amount by approximately RMB2.0 million. The 2016 Deemed Actual Utilisation Rate of approximately 97.6% is close to its full capacity.

Based on (i) the above discussions with the Management and our analyses; and (ii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the 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 2016 Deemed Actual Utilisation Rate is approximately 88.9%; and (ii) the 2017 annual cap of approximately RMB451.0 million increases approximately RMB103.6 million (or 29.8%) from the 2016 annual cap of approximately RMB347.4 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. The Management advised that, according to its business plan in 2017, the Management expects that there will be approximately 30.0% growth of the relevant transaction value for 2017 as compared to that of 2016. The Management advised that the 30% increase is the targeted growth in the Group's sales for 2017 which was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the



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prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers. As such, the 2017 annual cap increases approximately 30.0% as compared to that of 2016.

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

### *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 2016 Deemed Actual Utilisation Rate is approximately 65.9%; and (ii) the 2017 annual cap of approximately RMB112.1 million increases approximately RMB18.8 million (or 20.1%) from the 2016 annual cap of approximately RMB93.3 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. The Management advised that the 2016 Deemed Actual Utilisation Rate of approximately 65.9% is relatively low because the production capacity of the Group's new operation which started in the second half of 2016 was not sufficient. The Management estimated that the relevant production capacity will increase in 2017, thus, the relevant transaction amount will increase in 2017. The Management further advised that it expects the relevant sales of the Group in 2017 will increase by approximately 30.0% as compared to the 2016 Deemed Actual Amount Incurred because the additional sales will be attributed from the new types of raw materials, parts and component to be supplied by the Group. As advised by the Management, the 30% increase is the targeted growth in the Group's overall sales for 2017 which was set by the Company based on the Company's prediction and projection on the overall scale of the industry for the year 2017 and its targeted market share after considering the prediction of the overall scale of the industry for the year 2017 made by third parties and the relevant information obtained in the course of the Company's communication with downstream distributors and upstream core suppliers.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *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 2016 Deemed Actual Utilisation Rate is approximately 76.6%; and (ii) the 2017 annual cap of approximately RMB37.3 million increases approximately RMB13.6 million (or 57.3%) from the 2016 annual cap of approximately RMB23.7 million.

In order to assess whether the 2017 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2017 annual cap. We concur that the underlying assumptions, basis and calculation of the 2017 annual cap are fair and reasonable. The Management advised that, according to its business plan, the amount of the 2017 annual cap for the provision of services by the Group is based on the 2016 Deemed Actual Amount Incurred after catering for the anticipated increase in the relevant sales of the Group in 2017. As such, the Management further advised that it expects the following increase in the relevant sales of the Group in 2017: (i) approximately RMB2.9 million of the additional property services will be provided by the Group; and (ii) approximately RMB15.6 million of the anticipated additional processing services will be provided by the Group.

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

### **IV. Conditions of the annual caps under the Agreement**

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 Agreement 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 Agreement are conducted in accordance with the terms of the relevant Agreement 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 Agreement and safeguard the interests of the Shareholders.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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;
- (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.;
- (iv) Certain transactions contemplated under the Agreement will increase the sales of the Group, so it is in the interest of the Company to enter into such transactions;
- (v) The terms of the definitive contract(s) to be entered into by the Group pursuant to the Agreement will be determined in accordance with the principle of fairness and reasonableness with reference to the market price, and the proposed transactions contemplated under the Agreement 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 Agreement are to be conducted on a non-exclusive basis, so the Agreement will not restrict the Group from engaging in the similar transactions with other parties; and
- (vi) The value of, and the basis for determining, the annual caps under the Agreement 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 Agreement”.

Based on the above, we are of the opinion that the Agreement is in the interests of the Company and the Shareholders as a whole, the transactions to be contemplated under the Agreement 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 Agreement, 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 THE INDEPENDENT FINANCIAL ADVISER

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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 Agreement 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. 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 enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

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

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

#### *Long position in the Shares*

Name of Director/ Supervisor	Nature of interest	Number of A Shares	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Tang Ye Guo	Beneficial owner	831,600	0.092	0.061
Mr. Jia Shao Qian	Beneficial owner	539,060	0.060	0.040

Name of Director/ Supervisor	Nature of interest	Number of A Shares	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Wang Yun Li	Beneficial owner	52,120	0.006	0.004

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisor or chief executive was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered into the register maintained by the Company referred to therein or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

#### Other interests

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2015, 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, Mr. Liu Hong Xin and Mr. Dai Hui Zhong, being Directors, are also directors or senior management of Hisense Group or some of its subsidiaries. Hisense Group was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. SERVICE AGREEMENTS

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

### 4. COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors or their respective close associates had 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 or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management

<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. Dai Hui Zhong	Hisense Group or Hisense Electric	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, proposed Director 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 2015 (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 2015, 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, Singa Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up to and including 9 January 2017:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Financial Adviser dated 23 December 2016;
- (c) the letter from the Independent Board Committee dated 23 December 2016;
- (d) the Business Co-operation Framework Agreement;
- (e) the Hitachi Business Framework Agreement;
- (f) the resolutions passed by the ninth session of the Board on 17 November 2016;
- (g) the prior approval and independent opinion of the independent non-executive Directors dated 17 November 2016 in relation to the connected transaction;
- (h) the Existing Business Co-operation Framework Agreement;
- (i) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed "Expert" in this appendix; and
- (j) this circular.