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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)*

MAJOR AND CONTINUING CONNECTED TRANSACTIONS – REVISED ANNUAL CAPS AND SECOND SUPPLEMENTAL AGREEMENT

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

VMS Securities Limited

A letter from the Board is set out on pages 4 to 19 of this circular. A letter from the Independent Board Committee is set out on page 20 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 21 to 40 of this circular.

A notice of the AGM to be held on 28 June 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 AGM and a reply slip have been despatched by the Company on 16 May 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>) on 10 May 2017. 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 AGM 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 AGM or any adjournment thereof (as the case may be) if you so wish.

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DEFINITIONS

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;
“AGM”	the 2016 annual general meeting of the Company to be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the PRC on 28 June 2017 at 3:00 p.m.;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“CBRC”	中國銀行業監管管理委員會 (China Banking Regulatory Commission);
“close associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Company”	Hisense 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 under the Hong Kong Listing Rules;
“Financial Services Agreement”	the agreement (金融服务協議) entered into between the Company and Hisense Finance dated 10 November 2015 in connection with the provision of financial services by Hisense Finance to the Group;
“Group”	the Company and its subsidiaries;
“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;

DEFINITIONS

“Hisense Finance”	Hisense Finance Co., Ltd.* (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hisense Group”	Hisense Company Limited* (海信集團有限公司), a company incorporated in the PRC with limited liability;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Ma Jin Quan;
“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry out 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, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Shareholders in respect of the Second Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder;
“Independent Shareholders”	Shareholders other than Hisense Finance and its associates;
“Latest Practicable Date”	5 June 2017, 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;

DEFINITIONS

“Relevant Transactions”	certain continuing connected transactions of the Group contemplated under the Financial Services Agreement (as amended and supplemented by the Supplemental Agreement and the Second Supplemental Agreement) as set out in the section headed “The Second Supplemental Agreement” in this circular;
“Revised Annual Caps”	the revised annual caps for the Relevant Transactions pursuant to the Second Supplemental Agreement for the year ending 31 December 2017;
“Second Supplemental Agreement”	the supplemental agreement (金融服務協議之補充協議(一)) to the Financial Services Agreement entered into between the Company and Hisense Finance dated 10 May 2017, which amends and supplements the Financial Services Agreement (as supplemented by the Supplemental Agreement);
“SFO”	Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong);
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳証券交易所上市規則);
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Supplemental Agreement”	the supplemental agreement (金融服務協議之補充協議) to the Financial Services Agreement entered into between the Company and Hisense Finance dated 3 August 2016, which amends and supplements the Financial Services Agreement;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“%”	per cent.

LETTER FROM THE BOARD

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. Ma Jin Quan
Mr. Xu Xiang Yi
Mr. Wang Xin Yu

Principal place of business

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

8 June 2017

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS – REVISED ANNUAL CAPS AND SECOND SUPPLEMENTAL AGREEMENT

BACKGROUND

Reference is made to the announcements of the Company dated 10 November 2015 and 3 August 2016, and circulars of the Company dated 2 December 2015 and 8 September 2016 in respect of, amongst others, the Financial Services Agreement and the Supplemental Agreement. The Financial Services Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (subject to the related caps) were approved by the Independent Shareholders at the extraordinary general meetings of the Company held on 28 December 2015 and 26 September 2016.

As disclosed in the announcement of the Company dated 10 May 2017, in view of substantial improvement of the Company's capital condition due to accelerated capital circulation, reduction of inventories and the better receivable collection in the year of 2016, for the purpose of facilitating business development, the Company has entered into the Second Supplemental Agreement with Hisense Finance to revise the annual caps for the year ending 31 December 2017 for some of the transactions contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement).

LETTER FROM THE BOARD

The purpose of this circular is to:

- (a) provide you with further information on Revised Annual Caps and the Second Supplemental Agreement;
- (b) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Revised Annual Caps and the Second Supplemental Agreement; and
- (c) set out the recommendation from the Independent Board Committee in relation to the Revised Annual Caps and the Second Supplemental Agreement.

THE SECOND SUPPLEMENTAL AGREEMENT

Date: 10 May 2017

Parties: The Company;
Hisense Finance

Revision of annual caps:

(1) Deposit service

Pursuant to the Financial Services Agreement (as supplemented by the Supplemental Agreement), the Company has agreed that the Group shall engage Hisense Finance to provide deposit services as may be required by the Group from time to time upon the terms and conditions of the Financial Services Agreement (as supplemented by the Supplemental Agreement).

Original annual cap

The existing maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement (as supplemented by the Supplemental Agreement) shall not exceed the annual cap of RMB3,000,000,000 (inclusive of interest) on any given day for the year ending 31 December 2017.

Revised annual cap

Pursuant to the Second Supplemental Agreement and upon the approval by the Independent Shareholders, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance on any given day for the year ending 31 December 2017 shall be revised to RMB6,000,000,000 (inclusive of interest).

LETTER FROM THE BOARD

Historical figures

For the periods commencing from 10 January 2014 to 31 December 2014, from 1 January 2015 to 31 December 2015 and from 1 January 2016 to 31 December 2016, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB795,000,000, RMB799,000,000 and RMB2,234,000,000 respectively.

(2) *Loan and electronic bank acceptance bill service*

Pursuant to the Financial Services Agreement (as supplemented by the Supplemental Agreement), the Company has agreed that the Group shall engage Hisense Finance to provide loan and electronic bank acceptance bill (電子銀行承兌匯票) services as may be required by the Group from time to time upon the terms and conditions of the Financial Services Agreement (as supplemented by the Supplemental Agreement).

Original annual cap

The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement (as supplemented by the Supplemental Agreement) shall not exceed the annual cap of RMB4,500,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2017.

Revised annual cap

Pursuant to the Second Supplemental Agreement and upon the approval by the Independent Shareholders, the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group on any given day for the year ending 31 December 2017 shall be revised to RMB6,000,000,000 (inclusive of interest and service fees).

Historical figures

For the periods commencing from 10 January 2014 to 31 December 2014, from 1 January 2015 to 31 December 2015 and from 1 January 2016 to 31 December 2016, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB1,108,000,000, RMB1,951,000,000 and RMB3,476,000,000 respectively.

The Second Supplemental Agreement is conditional upon the approval of the same (which stipulates the Revised Annual Caps for the Relevant Transactions as set out above) by the Independent Shareholders.

Save and except for the revision of the annual caps as set out above, all other terms and conditions under the Financial Services Agreement (as supplemented by the Supplemental Agreement) shall remain unchanged.

LETTER FROM THE BOARD

PRICING POLICIES

Deposit service

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

Loan and electronic bank acceptance bill service

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans.

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

PLEDGING AND OTHER SECURITY

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

A subsidiary of the Group has provided a charge in favour of Hisense Finance in respect of the provision of electronic bank acceptance bills provided by Hisense Finance to such subsidiary of the Group. Pursuant to the charge, part of the electronic bank acceptance bills held by the Group will be charged to Hisense Finance to form a portfolio of electronic bank acceptance bills. The Group has opened a special account with Hisense Finance for depositing due and charged electronic bank acceptance bills. The pledged amount is the value of the valid electronic bank acceptance bills which have been deposited to form the pledge portfolio multiplied by the pledge rate determined by Hisense Finance pursuant to the relevant regulations set out by the relevant banking supervision department (which is currently 100%). The maximum balance of the electronic bank acceptance bills which Hisense Finance may provide for the Group will then be up to such pledged amount from time to time. It is contemplated that if the Group is required to provide security or pledge to Hisense Finance in respect of the provision of electronic bank acceptance bill services, such security or pledge will be on similar terms with the pledge mentioned above.

As at the Latest Practicable Date, the Group did not obtain any loan from Hisense Finance and therefore no guarantee or security or pledge in respect of loan services was provided by the Group to Hisense Finance. In the future, if the Group is required to obtain loan from Hisense Finance exceeding the credit limit, Hisense Finance may require the Group to provide guarantee or security or pledge in relation to the provision of loan

LETTER FROM THE BOARD

services. In such circumstance, the Group will use electronic bank acceptance bills as security and such security or pledge will be on similar terms with the pledge in respect of the electronic bank acceptance bill services mentioned above.

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

THE COMPANY'S INTERNAL POLICY REGARDING CONTINUING CONNECTED TRANSACTIONS

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

For such purpose, the Company has adopted an internal policy for managing and monitoring the Relevant Transactions. According to the internal policy, the treasury department of the Group will compare the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC for opening electronic bank acceptance bills prior to the execution of the relevant transactions. For deposit services, the designated treasury staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the treasury staff will review the interest rates offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. For electronic bank acceptance bill services, each time before an electronic bank acceptance bill is issued, inquiries (whether by telephone or otherwise) are made with commercial banks to obtain quotations so as to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

If the treasury department is of the view that the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are

LETTER FROM THE BOARD

no less favourable to the Group than those offered by commercial banks in the PRC, the Group will not execute the relevant transactions. The designated treasury staff responsible for reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management.

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

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

BASIS OF THE REVISED ANNUAL CAPS

Deposit service

The revised annual cap for the deposit services for the year ending 31 December 2017 was determined with reference to the actual amount of cash paid or received by the Group from 1 January 2016 to 30 April 2017 and the requirement for business development of the Company in the remaining term of the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

In 2016, the Group's maximum daily balance of the monetary capital (including the cash used in the subscription of entrusted wealth management products) has reached RMB4,164,000,000 (which was higher than the annual cap of RMB3,000,000,000 in respect of the deposit services that can be placed by the Group with Hisense Finance under the Financial Services Agreement (as supplemented by the Supplemental Agreement), resulting in a lot of capital being placed with other third parties.

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In 2016, the Company recorded operating revenue of approximately RMB26,700,000,000, representing a year-on-year increase of 14%, and the net profits attributable to the shareholders of the listed company increased by 87% year-on-year. In the first quarter of 2017, the Company recorded operating revenue of approximately RMB7,700,000,000, representing a 34% increase compared to same period last year, and the net profits attributable to the shareholders of the listed company increased by 75% over the same period last year. As the Company's business operation continues to improve, the amount of cash of the Company has increased significantly from the opening balance of approximately RMB1,000,000,000 to the closing balance of approximately RMB2,200,000,000 in 2016 and to the closing balance of the first quarter of 2017 of approximately RMB3,300,000,000.

Based on the market data on gross domestic product, consumption and retail sales of the PRC for 2016 and the first quarter of 2017, the management of the Company expects that the market of home electrical appliances in the PRC will be improved for the remaining period of 2017 and enhance the business of the Company and the turnaround of the Company's inventories is expected to be improved, reducing the amount of capital in use. Furthermore, according to the growth rate of the operating revenue of various listed companies engaged in white goods business in the PRC in 2016, the industry grew at an average rate of 15% in that year. In the first quarter of 2017, the operating revenue of various listed companies engaged in white goods business grew at an average rate of 36%. As such, the Company expects that the amount of cash held by it will continue to grow in 2017.

Apart from improvement in business operation, it is also anticipated that the Company will receive an one-off income of approximately RMB900,000,000 from an asset disposal in 2017, creating further needs of the deposit services placed by the Group with Hisense Finance.

As such, taking into account the Group's maximum daily balance of monetary capital of approximately RMB4,164,000 in 2016, the expected growth of the operating revenue of the Group in the remaining period of 2017 and the anticipated receipt of a sum of approximately RMB900,000,000 from an asset disposal in 2017, it is estimated that the original annual cap will not be sufficient to meet the current requirement for business development of the Company and the upward adjustment of the annual cap based on the current estimated maximum daily balance of the monetary capital of RMB6,000,000,000 in the second half of 2017 is necessary in order to ensure smooth development of business. The increment was determined with reference to the actual business situation from 1 January 2016 to 30 April 2017 and the operating practice of the white goods industry (for example the prepayments made by the dealers at the beginning of the fourth quarter of the year).

Loan and electronic bank acceptance bill service

The revised annual cap for the loan and electronic bank acceptance bill services for the year ending 31 December 2017 was determined with reference to the actual amounts paid or received by the Group in relation to the loan and electronic bank acceptance bill services from 1 January 2016 to 30 April 2017 and the requirement for business development of the Company in the remaining term of the Financial Services Agreement (as supplemented by

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the Supplemental Agreement and the Second Supplemental Agreement). Due to the increase in business volume of the Company, the Company has increasing needs to procure Hisense Finance to provide electronic bank acceptance bill services. The highest daily balance of loan and electronic bank acceptance bill service was approximately RMB3,851,000,000 during 4 months ended 30 April 2017, and the anticipated highest daily balance will be RMB6,000,000,000 in the second half of the year 2017. Based on the market data on gross domestic product, consumption and retail sales of the PRC for 2016 and the first quarter of 2017, the management of the Company expects that the market of home electrical appliances in the PRC will be improved for the remaining period of 2017 and enhance the business of the Company and the turnaround of the Company's inventories is expected to be improved. Therefore, it is estimated that the original annual cap will not be sufficient to meet the current requirement for business development of the Company and the upward adjustment of the annual cap based on the estimated need of electronic bank acceptance bill services for approximately RMB6,000,000,000 is necessary in order to ensure smooth development of business. The estimation was determined with reference to the actual business situation from 1 January 2016 to 30 April 2017 and the operating practice of the white goods industry (for example the prepayments to the suppliers at the beginning of the fourth quarter of the year).

As at the Latest Practicable Date, the original annual caps for the Relevant Transactions have not been exceeded.

REASONS FOR THE REVISION OF THE ANNUAL CAPS

As stated in the paragraph headed "Basis of the Revised Annual Caps" above, the amount of cash held by the Company and the amount of the deposit services which it is expected that the Company will need exceed the annual cap of RMB3,000,000,000 in respect of the deposit services that can be placed by the Group with Hisense Finance under the Financial Services Agreement (as supplemented by the Supplemental Agreement), resulting in a lot of capital being placed with other third parties.

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

Furthermore, due to the increase in business volume of the Company, the Company has increasing needs to procure Hisense Finance to provide electronic bank acceptance bill services. The highest daily balance of loan and electronic bank acceptance bill service provided by Hisense Finance was approximately RMB3,851,000,000 during the 4 months ended 30 April 2017, while the loan and electronic bank acceptance bill service which the Company actually needed amounted to RMB4,940,000,000 during the same period.

For the purpose of improving the efficiency of capital utilization, the Company increases the use of electronic bank acceptance bills and reduces payment by way of cash or endorsement of notes receivable. The reduction in cash payment improves the liquidity of capital of the Company and the additional capital which will then become available could be used for making capital revenue. Reduction in endorsement of notes receivable can extend

LETTER FROM THE BOARD

the period before the cash outflow for approximately one to two months which substantially improves the capital liquidity and allows the use of the additional capital which will then become available for making capital revenue, including but not limited to the use of deposit services under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) and the subscription of entrusted wealth management products. The revenue generated from the use of the additional capital as aforesaid will be higher than the service fee charged by Hisense Finance for electronic bank acceptance bill service and thus resulting in a net income to be received by the Group, which is in the interest of the Company.

However, due to the limitation on the existing annual cap in respect of loan and electronic bank acceptance bill services under the Financial Services Agreement (as supplemented by the Supplemental Agreement), the Company may need to resort to other financial solutions (such as payment in cash or endorsement of notes receivables), which may result in the Company's loss of certain revenue from capital. As the second and third quarters are the peak season for the white electrical appliance industry, the Company expects that the highest daily balance of loan and electronic bank acceptance bill service that the Company will need in the second and third quarters of 2017 will be 20% higher than that in the first 4 months ended 30 April 2017 (being RMB4,940,000,000 as mentioned above) and the highest daily balance will be RMB6,000,000,000 in the second half of the year 2017.

Therefore, based on the actual situation in the year of 2016 and the 4 months ended 30 April 2017 and the projection of business needs for the remaining period of the year 2017, the Company intends to revise the annual caps of the deposit service and loan and electronic bank acceptance bill service to ensure to the optimal utilisation by the Company of the relevant services provided by Hisense Finance to facilitate the business development of the Company during the remaining term of the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

Given that (i) the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC; and (ii) Hisense Finance is expected to provide more suitable and efficient service to the Group based on their better understanding of the operations of the Group, the Company prefers to conduct the Relevant Transactions with size exceeding the original annual caps with Hisense Finance in order to maximize the benefits of the Shareholders, instead of conducting the Relevant Transactions with commercial banks in the PRC to diversify risk.

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

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

LETTER FROM THE BOARD

- (a) reviewing the audited reports of Hisense Finance of the previous two financial years to ascertain the amount of its total assets and has found that its total assets has year-on-year increase and such reports are not qualified nor disclaimed by the auditors;
- (b) preparing 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」(the “**Risk Assessment Reports**”) which has been published by the Company on the website of Shenzhen Stock Exchange on 26 March 2015, 29 March 2016, 25 August 2016 and 30 March 2017 respectively and in which it was noted that Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group as at 31 December 2014, 31 December 2015, 30 June 2016 and 31 December 2016 and the Board has noted that Hisense Finance has been maintaining a relatively higher standard for the weighted average capital adequacy ratio and current ratio; and
- (c) reviewing the internal regulatory report submitted by Hisense Finance to the Company and the confirmation from Hisense Finance that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment.

Having considered the above findings and the fact that Hisense Finance is only allowed to provide financial services to the group companies of Hisense Group which Hisense Finance shall have better understanding on their financial positions and such focus of client base enables Hisense Finance subject to lower default risk as compared to those commercial banks which with voluminous clients, the Directors are of the view that even with the full utilisation of the revised annual cap, the Company will not be subject to undue default risk by Hisense Finance in light of its relatively sound financial positions and historical compliance with relevant regulatory requirements.

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

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

- (a) periodically checking the deposit balance placed with Hisense Finance and reviewing the same by the designated treasury staff of the Group;
- (b) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;

LETTER FROM THE BOARD

- (c) requesting the designated treasury staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks; and
- (d) regularly reviewing the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (such as the financial positions of Hisense Finance is severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

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

In view of the above, the Directors (including the independent non-executive Directors) are of the view that Relevant Transactions have been and will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties. As such, the Directors (including the independent non-executive Directors) consider that the terms of the Second Supplemental Agreement and the Revised Annual Caps thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT AND THE SECOND SUPPLEMENTAL AGREEMENT)

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

- (i) the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC;
- (ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which would enable it to provide more suitable and efficient service to the Group comparing with those offered by commercial banks in the PRC; and
- (iii) Hisense Finance is regulated by the CBRC and engages in the provision of financial services in compliance with the regulations and operational requirements issued by the relevant regulatory authorities. Its primary customers are companies

LETTER FROM THE BOARD

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

Despite the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, the Group is still facing a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the "Measures for the Administration of Finance Companies of Enterprise Group" issued by the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the Group's deposit arrangement with Hisense Finance and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance, conduct stress test on deposit every quarter in accordance with the requirements of the China Securities Regulatory Commission, the Guangdong Bureau of the China Securities Regulatory Commission and the Shenzhen Stock Exchange, assess the operational and financial risks of Hisense Finance, issue risk assessment reports to the Directors for their consideration and adoption of necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital and to publish announcement timely. As the Company has been reviewing financial reports of Hisense Finance, conducting stress test on deposit every quarter, assessing the operational and financial risks of Hisense Finance and issuing risk assessment reports to the Directors during the period when cash is deposited with Hisense Finance pursuant to the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) and taking into consideration the information from the aforesaid review and comparing with the risk portfolio of other independent financial service providers, the Board considers that the risk profile of Hisense Finance, as a financial services provider to the Group, is not greater than that of the independent commercial banks in the PRC.

The Directors consider that it is fair and reasonable to place deposits with Hisense Finance as the transactions will be conducted in the ordinary and usual course of business of the Company and the interest rates on deposits offered by Hisense Finance will be equal to or more favourable than those offered by other commercial banks in the PRC to the Group.

FINANCIAL EFFECTS ON THE COMPANY FOR THE USE OF DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT AND THE SECOND SUPPLEMENTAL AGREEMENT)

The use of deposit services allows the Group to receive interests for its deposits kept in financial institution at a rate that is no less favourable than the interest rates for deposits offered by CBRC for similar deposits. However, the annual interest income only accounts for a small portion of its profits and assets. Therefore, the Company expects that its use of

LETTER FROM THE BOARD

deposit services under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) may potentially increase the profit and assets of the Company but any such impact will be immaterial. The use of such deposit services by the Group will not have any impact on the liabilities of the Company.

INFORMATION RELATING TO THE COMPANY AND HISENSE FINANCE

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

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

The business scope of Hisense Finance includes the following domestic and foreign currency business: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies and draft discount services approved by State Administration of Foreign Exchange.

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 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 Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

LETTER FROM THE BOARD

As the applicable percentage ratios for the transactions contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) exceed 5%, the Second Supplemental Agreement and the Revised Annual Caps are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Furthermore, the provision of deposit services to the Group under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Since certain applicable percentage ratios for the provision of such deposit services is more than 25% but are all less than 75%, it will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

The Second Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder will be subject to the approval of the Independent Shareholders AGM by poll.

In view of the interests of Hisense Finance in the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement), Hisense Finance and its associates will abstain from voting in relation to the resolution to approve the Second Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder at the AGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 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 at the AGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control of the voting rights in respect of their Shares.

GENERAL

Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan and Mr. Dai Hui Zhong being Directors, have abstained from voting on the relevant board resolution(s) for approving the Second Supplemental Agreement (which stipulates the Revised Annual Caps) 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. Tang Ye Guo and Mr. Liu Hong Xin are also directors of Hisense Finance.

LETTER FROM THE BOARD

AGM

The AGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC at 3:00 p.m. on 28 June 2017, Wednesday at which ordinary resolution will be proposed to approve the Second Supplemental Agreement and the transactions contemplated thereunder by poll.

A notice of the AGM, a proxy form for use at the AGM and a reply slip have been despatched by the Company on 16 May 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>) on 10 May 2017. 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 AGM 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 AGM 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 AGM 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 AGM and the results of the poll will be announced in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

The register of members of the Company has been closed from 29 May 2017 (Monday) until 28 June 2017 (Wednesday) (both days inclusive). In order to qualify for attending the AGM, 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 26 May 2017 (Friday) for registration.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Second Supplemental Agreement, the Revised Annual Caps and the transactions contemplated thereunder are on normal commercial terms and in the ordinary course of business of the Group and are in the interest of the Company and the Shareholders as a whole 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 resolution to be proposed in the AGM to approve the Second Supplemental Agreement (which provides for the revisions to the relevant annual caps in relation to the Relevant Transactions).

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Second Supplemental Agreement (which provides for the revisions to the relevant annual caps in relation to the Relevant Transactions) and the transactions contemplated thereunder which are respectively set out on page 20 and pages 21 to 40 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)*

8 June 2017

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS – REVISED ANNUAL CAPS AND SECOND SUPPLEMENTAL AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 8 June 2017 (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 Second Supplemental Agreement and the Revised Annual 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 4 to 19 and pages 21 to 40 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 Second Supplemental Agreement and the Revised Annual Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

Accordingly, we recommend the Shareholders to vote in favour of the resolution to be proposed at the AGM to approve the Second Supplemental Agreement (which provides for the revisions to the relevant annual caps in relation to the Relevant Transactions).

Yours faithfully,
For and on behalf of the Independent Board Committee
Ma Jin Quan Xu Xiang Yi Wang Xin Yu
Independent non-executive Directors
Hisense Kelon Electrical Holdings Company Limited

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Supplemental 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

8 June 2017

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

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE REVISED ANNUAL CAPS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “**Independent Board Committee**”) and the Shareholders in respect of the Second Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder, details of which are set out in the circular to the Shareholders dated 8 June 2017 (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 Second Supplemental Agreement (stipulating the Revised Annual Caps) and the transactions contemplated thereunder. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

As disclosed in the Letter from The Board, in view of the substantial improvement of the Company’s capital condition due to accelerated capital circulation, reduction of inventories, and the better receivable collection in the year of 2016, for the purpose of facilitating business development, the original annual caps for the (i) deposit service and (ii) loan and electronic bank acceptance bill service under the Finance Services Agreement (as supplemented by the Supplemental Agreement) are expected to be unable to fully cover the Group’s demand for the relevant services in the coming periods of 2017. To cater for the business needs, the Second Supplemental Agreement is proposed to adjust upward the annual caps of the deposit service and loan and electronic bank acceptance bill service for the year ending 31 December 2017. Save and except for the revision of the above annual caps, all other terms and conditions under the Financial Services Agreement (as supplemented by the Supplemental Agreement) shall remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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; 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 Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the (i) deposit service and (ii) loan and electronic bank acceptance bill service contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental 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 Financial Services Agreement (supplemented by the Supplemental Agreement and Second Supplemental Agreement) exceed 5%, the Second Supplemental Agreement and the Revised Annual Caps are subject to reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Also, the Group's utilization of the deposit service provided by Hisense Finance under the Financial Services Agreement (supplemented by the Supplemental Agreement and Second Supplemental Agreement) constitutes provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Since the consideration ratio for the provision of such deposit service is more than 25% but less than 75%, it will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to reporting, announcement and shareholders' approval requirements thereunder.

The Second Supplemental Agreement (which stipulates the Revised Annual Caps) and the transactions contemplated thereunder will be subject to the approval of the Independent Shareholders at the AGM by poll.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Shareholders on (i) whether the Second Supplemental Agreement (stipulating the Revised Annual Caps) are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) how the Shareholders should vote on the relevant resolution to approve the Second Supplemental Agreement and the transactions contemplated thereunder. As the independent financial adviser, our role is to give an independent opinion on the above matters to the Independent Board Committee and the Shareholders.

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 Second Supplemental Agreement (stipulating the Revised Annual 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the past two years, VMS Securities Limited had been engaged as the independent financial adviser for the continuing connected transactions in relation to the (i) Financial Services Agreement; (ii) the Supplemental Agreement and (iii) the business framework agreement with Qingdao Hisense Hitachi Air-conditioning Company Limited. For the details of the continuing connected transactions mentioned above, please refer to the Company's circulars dated 2 December 2015, 8 September 2016 and 23 December 2016, respectively. 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 Second Supplemental Agreement (stipulating the Revised Annual Caps) and the transactions 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 management (the "**Management**", including the executive Directors and/or the senior management staff of the Company). 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 Company and/or the Management 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 Company 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 Finance.

INFORMATION ON THE GROUP AND HISENSE FINANCE

1. 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 2016 (the "**2016 Annual Report**"), approximately 65.7% of the Group's turnover for the year ended 31 December 2016 was derived from the PRC market and the rest was derived from overseas markets.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December	
	2016 (Audited)	2015 (Audited)
<i>In RMB million, approximately</i>		
Revenues		
– Sales of refrigerators & washing machines	12,778.8	11,555.8
– Sales of air-conditioners	10,380.9	8,986.1
– Sales of other products	<u>1,511.2</u>	<u>1,261.8</u>
Revenue from principal operations	24,670.9	21,803.7
Revenue from other operations	<u>2,059.3</u>	<u>1,667.9</u>
Total operating revenue [a]	26,730.2	23,471.6
Operating costs	(20,486.7)	(18,440.7)
Business taxes and surcharges	(222.8)	(97.2)
Selling and distribution expenses	(4,640.7)	(4,308.9)
General and administrative expenses	(946.7)	(905.2)
Financial income	86.0	71.4
Impairment gain/(losses) on assets	<u>4.4</u>	<u>(4.7)</u>
Total operating costs [b]	(26,206.5)	(23,685.3)
Gain/(loss) from changes in fair value [c]	19.5	(2.5)
Investment income [d]	<u>522.1</u>	<u>530.2</u>
Operating profits [a+b+c+d]	<u>1,065.3</u>	<u>314.0</u>
Non-operating income	243.0	326.9
Non-operating expenses	<u>(38.0)</u>	<u>(17.2)</u>
Profit before tax	1,270.3	623.7
Income tax expenses	<u>(128.7)</u>	<u>(79.4)</u>
Net profit for the year	<u>1,141.6</u>	<u>544.3</u>
Attributable to:		
– Owners of the Company	1,087.7	580.3
– Minority interests	53.9	(36.0)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December	
	2016	2015
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>
Non-current assets	6,053.1	5,760.3
Current assets	13,002.0	8,532.5
Non-current liabilities	(370.0)	(373.1)
Current liabilities	<u>(13,361.6)</u>	<u>(9,446.0)</u>
 Total shareholders' equity	 <u>5,323.5</u>	 <u>4,473.8</u>

The Group's total operating revenue increased by approximately 13.2% from approximately RMB23,471.6 million for the year ended 31 December 2015 to approximately RMB26,730.2 million for the year ended 31 December 2016. According to the 2016 Annual Report, the increase was mainly due to the increase in sales of air-conditioners, refrigerators and washing machines. Owing to the higher growth in the real estate market in the PRC and the recovery of the global economic, development of the apartment was intensified which increased the demand for home appliances electrical. Total operating costs for the year ended 31 December 2016 increased roughly in the same line with the increase in the total operating revenue during the year. Also, non-operating income for the year ended 31 December 2016 decreased by approximately RMB83.9 million (or approximately 25.7%) which was mainly due to the decrease in the government grants. Investment income for the year ended 31 December 2016 decreased by approximately RMB8.1 million (or approximately 1.5%). Such decrease was due to the loss recognized for disposal of a long-term listed equity investment. As set out in the 2016 Annual Report, net profits after deducting non-recurring profit and loss attributable to shareholders of listed company increased by 329.3% from approximately RMB232.5 million for the year ended 31 December 2015 to approximately RMB997.9 million for the year ended 31 December 2016.

The Group's net profit increased from approximately RMB544.3 million for the year ended 31 December 2015 to approximately RMB1,141.6 million for the year ended 31 December 2016. Such increase was mainly due to the (i) increase in sales of air-conditioners; (ii) increase in gross profit margin; and; (iii) gain from change in fair value of derivative of financial instrument.

The Group's net current liabilities position improved from approximately RMB913.5 million for the year ended 31 December 2015 to approximately RMB359.6 million for the year ended 31 December 2016, which was mainly driven by the increase in cash at bank and on hand as well as the better recoverability of the accounts and notes receivable from the customers during the year. The balance of total equity increased from approximately RMB4,473.8 million for the year ended 31 December 2015 to approximately RMB5,323.5 million for the year ended 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Hisense Finance

Hisense Finance is a non-bank financial institution established with the approval from China Banking Regulatory Commission (“CBRC”) and is regulated by CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB900 million. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Limited), 30.89% by Hisense Group and 12.12% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

The business scope of Hisense Finance includes the following domestic and foreign currency business: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies and draft discount services approved by State Administration of Foreign Exchange.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Second Supplemental Agreement (stipulating the Revised Annual Caps) and the transactions contemplated thereunder, we have taken into consideration the following:

Reasons for and benefits for entering the Second Supplemental Agreement

As disclosed in the Letter from the Board, the existing annual caps for the (i) deposit service and (ii) loan and electronic bank acceptance bill service under the Finance Services Agreement are expected to be unable to fully cover the Group’s demand for the deposit service and loan and electronic bank acceptance bill service in the remaining period of 2017. To cater for the business needs, the Second Supplemental Agreement is proposed to adjust upward the annual caps of the relevant services for the year ending 31 December 2017.

As disclosed in the Letter from the Board, for the purpose of improving the efficiency of capital utilization, the Company increases the use of electronic bank acceptance bills and reduces payment by way of cash or endorsement of notes receivable. The reduction in cash payment improves the liquidity of capital of the Company and the additional capital which will then become available could be used for making capital revenue. Reduction in endorsement of notes receivable can extend the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

period before the cash outflow for approximately one to two months which substantially improves the capital liquidity and allows the use of the additional capital which will then become available for making capital revenue, including but not limited to the use of deposit services under the Financial Services Agreement (as supplemented by the Supplemental Agreement and the Second Supplemental Agreement) and the subscription of entrusted wealth management products. The revenue generated from the use of the additional capital as aforesaid will be higher than the service fee charged by Hisense Finance for electronic bank acceptance bill service and thus resulting in a net income to be received by the Group, which is in the interest of the Company. In particular, we note from the Management that the average interest rate offered by Hisense Finance and other commercial banks on term deposit for one week for the year 2016 was about 1.1% per annum whereas the service fee charged by Hisense Finance for electronic bank bill acceptance services was about 0.05%. Therefore, we concur that the view that a net income will be generated under such arrangement, which is in the interest of the Company and the Shareholders as a whole.

The Management advised that the main reasons for the Company's decision to use more of the (i) deposit service and (ii) loan and electronic bank acceptance bill service provided by Hisense Finance are:

- the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC;
- the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which would enable it to provide more suitable and efficient service to the Group comparing with those offered by commercial banks in the PRC; and
- Hisense Finance is regulated by the CBRC and engages in the provision of financial services in compliance with the regulations and operational requirements issued by the relevant regulatory authorities. Its primary customers are companies within the Hisense Group. In general, as the risks borne by Hisense Finance are less than those borne by the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard customers' funds more effectively.

According to the Letter from the Board, the Company is of the view that the default risk associated with placing deposits with Hisense Finance can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC. The asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the "Measures for the Administration of Finance Companies of Enterprise Group" issued by the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the Group's deposit arrangement with Hisense Finance and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the designated treasury staff of the Company will

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review the latest available financial reports of Hisense Finance, conduct stress test on deposit every quarter in accordance with the requirements of the China Securities Regulatory Commission, the Guangdong Bureau of the China Securities Regulatory Commission and the Shenzhen Stock Exchange, assess the operational and financial risks of Hisense Finance, issue risk assessment reports to the executive Directors for their consideration and adoption of necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital and to publish announcement timely.

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

- (i) We have reviewed the PRC audited reports of Hisense Finance for the two years ended 31 December 2015 and 2016 (the “**PRC Audited Reports**”). Based on the PRC Audited Reports, the total assets of Hisense Finance increased by approximately 68.4% from approximately RMB9,075.3 million for the year ended 31 December 2015 to approximately RMB15,284.6 million for the year ended 31 December 2016. We had also noted from the PRC Audited Reports that the auditor of Hisense Finance did not issue any qualified or disclaimer audit opinion regarding Hisense Finance's financial positions and operation results for the two years ended 31 December 2015 and 2016;
- (ii) We reviewed the reports entitled 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」(the “**Risk Assessment Reports**”) dated 29 March 2016, 25 August 2016 and 29 March 2017, respectively, issued and published by the Company on the website of Shenzhen Stock Exchange and noticed from the Risk Assessment Reports, Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group as at 31 December 2015 and 31 December 2016, respectively. The details are set out below:

Relevant indicators	Requirements for finance companies	Hisense Finance as at 31 December 2015	Hisense Finance as at 31 December 2016
Capital adequacy ratio	Shall not be lower than 10%	28.08%	19.08%
Current ratio	Shall not be lower than 25%	64.45%	59.76%
Inter-bank borrowing balances over the total registered capital of relevant finance company	Shall not exceed the total registered capital	0% (not higher than the registered capital)	12.10% (not higher than the registered capital)
Short-term securities investment to total capital ratio	Shall not be higher than 40%	0%	0%

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Relevant indicators	Requirements for finance companies	Hisense Finance as at 31 December 2015	Hisense Finance as at 31 December 2016
Outstanding guaranteed amount over the total capital	Shall not exceed the total capital	92.54% (not higher than the total capital)	79.10% (not higher than the total capital)
Long-term investment to total capital ratio	Shall not be higher than 30%	0%	0%
Self-owned fixed assets to total capital ratio	Shall not be higher than 20%	0.06%	0.05%

As illustrated above, Hisense Finance has been continuously maintaining the requisite ratios at a higher standard than the regulatory requirements as at 31 December 2015 and 31 December 2016, respectively;

Meanwhile, according to the notices dated 22 February 2017 and 10 May 2017, respectively, issued by the CBRC in relation to the major regulatory indicators data for the fourth quarter of 2016 and the first quarter of 2017, the capital adequacy ratio and current ratio of commercial banks (excluding branches of overseas banks) were 13.28% and 47.55%, respectively, as at the end of the fourth quarter of 2016 and the same ratios were 13.26% and 48.74%, respectively, as at the end of the first quarter of 2017, whereas the respective ratios of Hisense Finance are 19.08% and 59.76% as at 31 December 2016. Based on the above illustrations, Hisense Finance has maintained a relatively higher standard for these two ratios.

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

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We have reviewed the PRC Audited Reports and the highlights are set out as below:

<i>(approximate RMB million)</i>	For the year ended 31 December	
	2016	2015
	<i>(Audited)</i>	<i>(Audited)</i>
Operating revenue	316.3	279.4
– Net interest income	281.9	265.6
Net profit	210.0	183.6
 Total assets	 15,284.6	 9,075.3
– Cash and money deposited into central bank	1,070.2	548.3
– Deposits placed into same industry and other financial companies	7,790.4	5,440.5
– Loans and advances granted	5,111.4	3,051.2
– Available for sales of financial assets	1,266.0	–
– Interest receivable	38.9	29.9
– Other assets	7.7	5.4
 Total liabilities	 13,404.8	 7,405.5
– Deposits received	12,967.4	7,356.4
– Financial liabilities at fair value through profit or loss	233.8	–
– Deferred revenue	–	8.7
– Other payables	203.6	40.4

In view of the above financial highlights, given that (i) the revenue and profit of Hisense Finance for the year ended 31 December 2016 had been increased to approximately RMB316.3 million and RMB210.0 million, respectively, representing a year-on-year increase of approximately 13.2% and 14.4%, respectively, indicating a growing trend of business; (ii) the total assets had been increased from approximately RMB9,075.3 million for the year ended 31 December 2015 to approximately RMB15,284.6 million for the year ended 31 December 2016; and (iii) the current ratio of Hisense Finance was approximately 64.45% and 59.76% for the two years ended 31 December 2015 and 31 December 2016, respectively, which is far exceeded the statutory requirement of 25%, we have no reason to believe that the credit risk to be exposed to the Group in relation to the deposits placed with Hisense Finance would be higher than the credit risk associated with other finance companies.

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

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

- (i) daily check the deposit balance placed with Hisense Finance and reviewed by the designated treasury staff of the Group;
- (ii) request Hisense Finance to provide monthly deposit transaction record statements to the Group every month so that the Group can monitor the safety of deposits;
- (iii) request the designated treasury staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks transactions. In particular, for deposit services, the designated treasury staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the treasury staff will review the interest rates offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. For electronic bank acceptance bill services, each time before an electronic bank acceptance bill is issued, inquiries (whether by telephone or otherwise) are made with commercial banks to obtain quotations so as to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks;
- (iv) request the treasury department to view the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group. If such rates are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are no less favourable to the Group than those offered by commercial banks in the PRC, the Group will not execute the relevant transactions. The designated treasury staff responsible for reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management;

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- (v) regularly review the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (such as the financial positions of Hisense Finance is severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement;
- (vi) the finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the treasury department and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the treasury department. The scope of the review conducted by the treasury department and the finance and securities department is the same so that the same information can be reviewed by personnel of different departments whose duties are segregated from each other. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group;
- (vii) the approval process of the relevant agreements and contracts is initiated by the treasury department and the agreements and contracts can only be executed after the approval by the responsible treasury officer in charge of a specific business operation, subject to the transaction cap set by the treasury department and the finance and securities department. The treasury department and the finance and securities department will closely monitor the daily balances of the deposit service and the loan and electronic bank acceptance bill service so that the relevant annual caps are not exceeded and the risks involved are under control.

In view that (i) the above risk control measures and the internal procedures to ensure the terms that are no less favourable to the Group such as request quotations from other commercial banks before execution; (ii) the continuous compliance of regulatory requirements by Hisense Finance in the past; and (iii) those transactions contemplated pursuant to the Financial Services Agreement (as supplemented by the Supplemental Agreement) had been reviewed by the independent non-executive Directors and the auditor of the Company who had confirmed that they (i) were conducted in the ordinary course of business of the Group and on normal commercial terms; (ii) were on terms not less favorable to the Company than terms available to/ from (as appropriate) independent third parties; and (iii) have not exceeded the annual caps, we concur with the executive Directors' views that the risk control measures implemented by the Group are sufficient to mitigate the default risk arising from the transactions with Hisense Finance.

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In assessing the deposit interest rates offered by Hisense Finance, we have also reviewed the historical sample deposit rates offered by Hisense Finance and other major commercial banks. We have obtained a sample from each of five commercial banks, including China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. We select the samples due to (i) the Group had placed deposits to the selected commercials banks during the period from 1 January 2016 to 30 April 2017; and (ii) the selected commercial banks are the five major commercial banks in the PRC. We noted from the five samples that the interest rates offered by Hisense Finance are not less favourable than those offered by such banks for the deposit with the same type and tenure. As discussed with the Management, we understand that the designated treasury staff will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly).

We also note from the Company's annual reports for each of the three years ended 31 December 2014 to 2016 (the "**Annual Reports**"), the Company had engaged Ruihua Certified Public Accountants (the "**PRC Auditor**") to perform independent audit on the effectiveness of the Company's internal control for the three years ended 31 December 2016 and the PRC Auditor was of the view that the Company had maintained effective internal control related to financial reporting as at 31 December 2014, 2015 and 2016, respectively. In addition, as disclosed in the Annual Reports, those transactions contemplated pursuant to the Financial Services Agreement and other continuing connected transactions had been reviewed by the independent non-executive Directors and the auditor of the Company who had confirmed that they (i) were conducted in the ordinary course of business of the Group and on normal commercial terms; (ii) were on terms not less favorable to the Company than terms available to/ from (as appropriate) independent third parties; and (iii) have not exceeded the annual caps. In this regard, we concur with the executive Directors' views that the scope of checking adopted by the Group as a part of its internal control measures in relation to the deposit service with Hisense Finance shall be sufficient.

As mentioned above, the Group can be benefited from Hisense Finance's better understanding of the operations of the Group such as more suitable and efficient service to the Group comparing with those offered by other commercial banks in the PRC. In particular, the tailor-made beneficial deposit mix that can specially cater for the Group's funding needs which may not readily available from other commercial banks.

Having considered the above, we concur with the executive Directors' views that it is fair and reasonable for the Group to continue to place deposits with Hisense Finance as the transactions will be conducted in the ordinary and usual course of business of the Company; the default risk of Hisense Finance is not comparably higher than other commercial banks; and the interest rates on deposits offered by Hisense Finance will be not less favourable than those offered by other commercial banks in the PRC to the Group.

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Terms of the Second Supplemental Agreement

The term of the Second Supplemental Agreement shall commence from the date of approval of the Second Supplemental Agreement by the Shareholders at the AGM until 31 December 2017.

Revised Annual Cap for deposit service

Under the Second Supplemental Agreement, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance on any given day for the year ending 31 December 2017 shall be revised to RMB6,000,000,000 (inclusive of interest).

Revised Annual Cap for loan and electronic bank acceptance bill service

Under the Second Supplemental Agreement, the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group on any given day for the year ending 31 December 2017 shall be revised to RMB6,000,000,000 (inclusive of interest and service fees).

Save and except for the revision of the annual caps as set out above, all other terms and conditions under the Finance Services Agreement (as supplemented by the Supplemental Agreement) shall remain unchanged, the key terms of which were extracted from the Company's circulars dated 2 December 2015 and 8 September 2016 as stated below for easy reference:

Pricing of deposit service

The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits.

Pricing of loan and electronic bank acceptance bill service

The interest rate charged on the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks to the PRC for comparable loans.

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

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Other terms

The implementation of the provision of (i) deposit service and (ii) loan and electronic bank acceptance bill service under the Financial Services Agreement (supplemented by the Supplemental Agreement and the Second Supplemental Agreement) shall be subject to the definitive contract(s) to be entered into between the Group and Hisense Finance.

The Group may obtain (i) deposit service and (ii) loan and electronic bank acceptance bill service contemplated under the Finance Services Agreement (supplemented by the Supplemental Agreement and the Second Supplemental Agreement) from other financial institutions in addition to Hisense Finance, as it sees fit.

The (i) deposit service and (ii) loan and electronic bank acceptance bill service contemplated under the Finance Services Agreement (supplemented by the Supplemental Agreement and the Second Supplemental Agreement) will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favorable to the Company than terms available to/from (as appropriate) independent third parties.

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

On the basis that all the terms and conditions (except for the Revised Annual Caps) under the Financial services Agreement (as supplemented by the Supplemental Agreement) shall remain unchanged, we remain of the view that the terms of the Second Supplemental Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

Rationale for determining the Revised Annual Caps

The Revised Annual Caps for the year ending 31 December 2017 was determined with reference to (i) the actual amounts paid or received by the Group in relation to the Relevant Transactions from 1 January 2016 to 30 April 2017; (ii) the requirement for business development of the Group in the remaining term of the Financial Services Agreement; (iii) the historical maximum daily amounts of bank balance and electronic bank acceptance bills amounts recorded by the Group from 1 January 2016 to 30 April 2017; and (iv) the expected improving business operations of the Company in the coming periods in 2017. It is estimated that the original annual caps will not be sufficient to meet the current requirement for business development of the Group.

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Deposit service (inclusive of interest)

Original annual cap [a]	RMB3,000,000,000
Historical actual amount incurred (being maximum daily balance from 1 January 2016 to 30 April 2017) [b]	RMB2,997,000,000
Actual utilization rate [b/a]	99.9%
Historical maximum daily amount of monetary capital (including the cash used in the subscription of entrusted wealth management products) for the period from 1 January 2016 to 30 April 2017 [c]	RMB4,164,000,000
Expected net cash inflow due to the disposal of Foshan City Shunde District Baohong Property Management Company Limited (the “ Target Company ”) [d] ^{Note}	RMB892,560,000
Revised Annual Caps [e]	RMB6,000,000,000
Buffer for the Revised Annual Caps [(c+d)/e-1]	15.7%

Note: As set out in the Company’s announcement dated 11 January 2017, the Company entered into a framework agreement with a purchaser in relation to the disposal of the Target Company (the “Framework Agreement”). A formal agreement was agreed to be entered into within 6 months after the signing of the Framework Agreement. Thus, the Management estimated that the consideration of RMB892,560,000 will be received in 2017. For the details, please refer to the relevant announcement.

Loan and electronic bank acceptance bill service (inclusive of interest and service fees)

Original annual cap [a]	RMB4,500,000,000
Historical actual amount incurred (being maximum daily balance from 1 January 2016 to 30 April 2017) [b]	RMB3,851,000,000
Actual utilization rate [b/a]	85.6%
The maximum daily balance of electronic bank acceptance bill which the Company actually needed for period from 1 January 2016 to 30 April 2017 [c]	RMB4,940,000,000
Revised Annual Caps [d]	RMB6,000,000,000
Buffer for the Revised Annual Caps [c/d-1]	17.7%

As disclosed in the Letter from the Board, due to the Company’s accelerated capital circulation resulting from better inventory turnaround and better receivable collection, the maximum daily balance of the monetary capital (which represents the maximum daily bank balances of the Group) has reached RMB4,164,000,000 (including the cash used in the subscription of entrusted wealth management products) for the period from 1 January 2016 to 30 April 2017 (which was higher than the annual cap of RMB3,000,000,000 in respect of the allowed deposit service that can be placed by the Group with Hisense Finance under the Financial Services Agreement), resulting in a lot of capital being placed with other third parties.

As advised by the Management, the usage of electronic bank acceptance bill services is directly related to the notes payables amount which was mainly arisen from the Group’s purchases. The Group mainly utilizes the electronic bank acceptance bill services with Hisense Finance as the Group can better manage its capital given the long-term business relationship with Hisense Finance, better understanding of the

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Group's operations, efficient processing time and less handling and service fees charged by Hisense Finance. As disclosed in the 2016 Annual Report, the Company and its subsidiaries did not have any loan balance but notes payables of approximately RMB2,874.4 million with Hisense Finance which represents approximately 55.0% of the total notes payables as at 31 December 2016. During the period from 1 January 2016 to 30 April 2017, the Group's need for electronic bank acceptance bill services reached the maximum daily amount of approximately RMB4,940,000,000 and the anticipated highest daily balance will be RMB6,000,000,000 in the second half of the year 2017. Therefore, based on the actual situation for the year ending 31 December 2017, the Company needs to enter into the Second Supplemental Agreement with Hisense Finance in order to adjust upward the annual caps of the (i) deposit service and (ii) loan and electronic bank acceptance bill service to ensure optimal utilisation by the Group of the relevant services provided by Hisense Finance to facilitate the business development of the Group.

Since the maximum daily balance of monetary capital reached a reached RMB4,164,000,000 and the maximum daily amount of electronic bank acceptance bill which the Company actually needed RMB4,940,000,000, respectively, for the period from 1 January 2016 to 30 April 2017, and given the existing annual caps not being sufficient to cover the current and future business needs of the Group resulting from the expected improvement on industry, the Group may suffer from less favourable deposit interest rates and higher transaction costs and handling fees offered by other commercial banks because the Company cannot engage Hisense Finance to provide deposit services and loan and electronic bank acceptance bill services even the deposit interest rate offered by Hisense Finance are more favourable and the transaction costs and handling fees offered by Hisense Finance are lower than those offered by the other commercial banks. In this regard, we are of the view that it is commercially justifiable to adjust the annual caps to cater for the increasing needs of the relevant services.

Based on the 2016 Annual Report, (i) the net cash flow from operating activities increased from the net cash inflow of approximately RMB484.3 million for the year ended 31 December 2015 to the net cash inflow of approximately RMB2,925.9 million for the year ended 31 December 2016; (ii) the cash received from product sales and rendering of services significantly increased from approximately RMB13,627.0 million for the year ended 31 December 2015 to approximately RMB21,309.7 million for the year ended 31 December 2016; and (iii) the operating revenue increased from approximately RMB23,471.6 million for the year ended 31 December 2015 to approximately RMB26,730.2 million for the year ended 31 December 2016. The above financial information is consistent with the Management's representation on the driving factors leading to the high actual utilization rate for the original annual caps for the (i) deposit service and (ii) loan and electronic bank acceptance bill service for the year ended 31 December 2016. The fact of the nearly full-utilization of the original annual caps speaks for itself in relation to the genuine need for the upward revision of the annual caps for the relevant services.

As disclosed in the 2016 Annual Report, the Group's cash at bank and on hand further increased from approximately RMB1,014.4 million as at 31 December 2015 to approximately RMB2,227.4 million as at 31 December 2016, representing an increase

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by approximately 119.6% as compared to the amount as at 31 December 2015. The Group's notes payables had also increased by approximately 78.4% to approximately RMB5,227.9 million as at 31 December 2016 comparing to the amount of the Group's note payables as at 31 December 2015. Given the increased cash and bank balance and notes payables, it is fair and sensible to expect that the Group's demand for deposit service and loan and electronic bank acceptance bill services with Hisense Finance will be increased.

Furthermore, the Management expects that the market of home electrical appliances in China will be improved for the remaining period of 2017 and enhance the business of the Company and the turnaround of the Company's inventories is expected to be improved. As set out in the statistic published by the National Bureau of Statistics of China, (i) the gross domestic product ("GDP") for the year ended 31 December 2016 was approximately RMB74,412.7 billion, representing an increase of approximately 6.7% compared to the GDP for the year ended 31 December 2015; and (ii) the total sales of consumer goods was approximately RMB11,310.2 billion, representing a year-on-year growth rate of approximately 10.2%. As set out in the 2017 first quarter report of the Company, the operating revenue and the cash received from sales of goods and rendering of services was approximately RMB7,709.0 million and RMB5,488.3 million respectively, representing the increase of approximately 33.7% and 51.6% respectively as compared to the balance for the correspondence period last year which is mainly due to the increased scale of sales for all kinds of products of the Company for first quarter of 2017. The above market data on GDP consumption and retail sales indicates a positive economic landscape for the industry which provides a reasonable ground for the above Management's expectation. The optimistic expectation on the home electrical appliance market future entails the need to adjust upward for the annual caps for the deposit service and the loan and electronic bank acceptance bill service.

Based on the (i) historical amount in need for deposit service and loan and electronic bank acceptance bill service for the period from 1 January 2016 to 30 April 2017; (ii) expected increase in cash inflow for the year ended 31 December 2017 due to the increased scale of sales for all kinds of products of the Company for first quarter of 2017; (iii) expected net cash inflow due to the disposal of the Target Company; and (iv) Revised Annual Caps, the buffer for the Revised Annual Caps for the (i) deposit service was approximately 15.7%; and (ii) loan and electronic bank acceptance bill service was approximately 17.7%. Given the historical increase in bank balances and notes payables and the expected positive outlook for the industry, we consider that the buffer for the Revised Annual Caps is acceptable and the amount for the Revised Annual Caps were reasonable but not excessive.

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Conditions of the Continuing Connected Transactions contemplated under the Framework Agreement

In compliance with the Listing Rules, the Relevant Transactions are subject to a number of conditions which include, among other things:

- (i) the Revised Annual Caps for the Relevant Transactions for the year ending 31 December 2017 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Relevant Transactions and confirm in the Company's annual report whether the Relevant Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Relevant Transactions and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Relevant Transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the Relevant Transactions; and
 - (d) have exceeded the Revised Annual Caps with respect to the Relevant Transactions;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters set out in the points (ii) and/or (iii) above respectively;
- (v) the Company must allow, and ensure that Hisense Finance allows, the auditors of the Company sufficient access to their records of the Relevant Transactions for the purpose of the auditors' reporting on the Relevant Transactions. The Company must state in the annual report whether the auditors of the Company have confirmed the matters stated in Rule 14A.56 of the Listing Rules; and

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- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Relevant Transactions exceeds the Revised Annual Caps, or that there is any material amendment to the terms of the Framework Agreement.

In light of the conditions imposed on the Relevant Transactions, in particular, (1) the limit of the value of the Relevant Transactions by way of the Revised Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Relevant Transactions; and (3) the aforesaid on-going review by the auditors of the Company regarding the Revised Annual Caps, we are of the view that appropriate measures will be in place to govern the conduct of the Relevant Transactions and safeguard the interests of the Shareholders.

RECOMMENDATION

Based on the above, we are of the opinion that the transactions contemplated under the Second Supplement Agreement are (i) with fair and reasonable terms; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee advising the Shareholders to vote in favour of the relevant resolution to approve the Second Supplemental Agreement (stipulating the Revised Annual Caps) and the transactions contemplated thereunder at the relevant general meeting of the Company.

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2014, 2015 and 2016 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.kelon.com>):

- (a) on pages 63 to 203 of the annual report of the Company for the year ended 31 December 2014 published on 22 April 2015;
- (b) on pages 69 to 199 of the annual report of the Company for the year ended 31 December 2015 published on 20 April 2016; and
- (c) on pages 68 to 191 of the annual report of the Company for the year ended 31 December 2016 published on 4 May 2017.

2. INDEBTEDNESS

As at the close of business on 30 April 2017, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowing (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, any other mortgages and charges or any other material contingent liabilities or guarantees.

3. WORKING CAPITAL

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

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Looking forward to the second half of 2017, the downward pressure on the Chinese economy will remain. Market demands on the white goods will still be low. Besides, raw material costs, manpower and labour costs, logistics and transportation costs as well as installation service costs will continue to rise, creating great pressure on the Company's operation and development. However, on the other hand, the industry trend of "high-end" and "intelligentization" will continue. After the reduction in the inventory of air-conditioners in 2016, the merchants' inventory volume has been greatly reduced, providing benign conditions for manufacturers' delivery of products and realizing a healthy market cycle.

In the first half of 2017, the Company has been firmly upholding and implementing the operating strategies of “strengthening the high-end strategy, expanding the advanced network, raising system efficiency, accelerating business expansion, expanding the international market, ensuring economies of scale” to grasp the opportunities of upgrading its business, resulting in continuous increases in the scale and performance and improvement in the business operation of the Company. In the first quarter of 2017, the Company recorded operating revenue of approximately RMB7,700,000,000, representing a 34% increase compared to same period last year, and the Company recorded the net profits attributable to the shareholders of the listed company of approximately RMB256,000,000, representing an increase of 75% over the same period last year. The growing trend in the Company’s business operation in 2016 is continuing. Despite the weak performance of the macro-economic environment, the Company will continue to uphold its operating strategies in the second half of 2017 to achieve better operating results for the year of 2017.

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
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 2016, 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:

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. Tang Ye Guo	The subsidiaries of Hisense Group	Production of electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or Hisense Electric Co., Ltd.	Production of electrical products	Director and/or senior management
Mr. Liu Hong Xin	Hisense Group or Hisense Electric Co., Ltd.	Production of electrical products	Director and/or senior management
Mr. Dai Hui Zhong	Hisense Group or Hisense Electric Co., Ltd.	Production of electrical products	Director and/or senior management

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

5. LITIGATION

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

6. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the Company has entered into the following material contracts (not being contracts entered into in the ordinary course of business):

- (i) the framework agreement entered into by the Company and Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited* (寧波梅山保稅港區盈美投資管理有限公司) (the “**Purchaser**”) on 11 January 2017 (the “**Framework Agreement**”), under which the Purchaser agreed to purchase from the Company the entire equity interest in Foshan City Shunde District Baohong Property Management Company Limited* (佛山市順德區寶弘物業管理有限公司), which would hold certain industrial land and buildings (including factories) on the Shunde District Daliang Subdistrict Huabao Factory Area* (順德區大良街道華寶廠區), at a consideration of RMB892,560,000 (subject to adjustment), and the Company and the Purchaser agreed to enter into a formal agreement in respect of the equity transfer and complete the equity transfer within 6 months after the signing of the Framework Agreement. Further information in respect of the Framework Agreement was disclosed in the announcement of the Company dated 11 January 2017.

Save as disclosed above, during the two years immediately preceding the date of this circular, no contract (not being contracts entered into in the ordinary course of business) has been entered into by the Company and/or members of the Group and is or may be material.

7. 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 2016 (being the date to which the latest published audited financial statements of the Group were made up).

8. EXPERT

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

Name	Qualifications
VMS Securities Limited	a corporation licensed under the SFO to carry out 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 2016, 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.

9. 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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Room 3101-05, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up to and including 28 June 2017:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Financial Adviser dated 8 June 2017;

- (c) the letter from the Independent Board Committee dated 8 June 2017;
- (d) the Financial Services Agreement;
- (e) the Supplemental Agreement;
- (f) the Second Supplemental Agreement;
- (g) the resolutions passed by the ninth session of the Board on 10 May 2017;
- (h) the prior approval and independent opinion of the independent non-executive Directors dated 10 May 2017 in relation to the connected transaction;
- (i) the annual reports and consolidated audited accounts of the Company for the two years ending 31 December 2016;
- (j) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert” in this appendix;
- (k) the Framework Agreement; and
- (l) this circular.

* *For identification purpose only*