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

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Hisense 海信科龙
HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
海信科龍電器股份有限公司
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00921)

(1) CONTINUING CONNECTED TRANSACTIONS
(2) MAJOR TRANSACTION
(3) BUSINESS FRAMEWORK AGREEMENT WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.

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



A letter from the Board is set out on pages 8 to 57 of this circular. A letter from the Independent Board Committee is set out on page 58 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 60 to 128 of this circular.

A notice of the EGM to be held on 18 January 2018 at 3:00 p.m. at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 28 November 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

3 January 2018

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	8
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	58
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	60
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	129
APPENDIX II – GENERAL INFORMATION	131

DEFINITIONS

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

“2015 Financial Services Agreement”	the financial services agreement (金融服務協議) entered into between the Company and Hisense Finance dated 10 November 2015 in connection with the provision of financial services by Hisense Finance to the Group;
“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“Business Co-operation Framework Agreement”	the Business Co-operation Framework Agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 28 November 2017 in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services;
“Caps”	the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2018, being (i) RMB1,670,000 in respect of the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ii) RMB235,860,000 in respect of the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (iii) RMB642,480,000 in respect of the provision of services by Hisense Group, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (iv) RMB13,051,860,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (v) RMB16,500,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vi)

DEFINITIONS

RMB453,550,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (vii) RMB180,730,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (viii) RMB30,220,000 in respect of the provision of services by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; and the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (a) RMB6,500,000,000 in respect of the maximum daily balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (b) RMB6,000,000,000 in respect of the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (c) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services under the Financial Services Agreement; and (d) US\$500,000,000 in respect of the annual amount settled or sold by Hisense Finance for the Group under the Financial Services Agreement and (e) RMB3,000,000 in respect of the maximum annual amount of service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds under the Financial Services Agreement; and the annual caps for the transactions contemplated under the Financial Business Framework Agreement during the term of the Financial Business Framework Agreement, being (1) RMB100,000,000 (inclusive of interest) in respect of the maximum daily closing balance of the recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company at Hisense Financial Holdings or its relevant subsidiaries, and (2) RMB500,000,000 (inclusive of interest) in respect of the aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company;

DEFINITIONS

“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 in the Hong Kong Listing Rules;
“EGM”	the first 2018 extraordinary general meeting of the Company to be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the PRC on 18 January 2018 at 3:00 p.m. for, among other things, the approval of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto;
“Existing Business Co-operation Framework Agreement”	the framework agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 17 November 2016 in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services;
“Existing Factoring Services Agreement”	the factoring services agreement (保理服務協議) entered into between the Company and Hisense Commercial Factoring dated 10 May 2017 in connection with the provision of factoring services by Hisense Commercial Factoring to the Company;
“Existing Financial Services Agreement”	collectively the 2015 Financial Services Agreement (2015金融服務協議), the Supplemental Agreement (金融服務協議之補充協議) and the Second Supplemental Agreement (金融服務協議之補充協議(一));

DEFINITIONS

“Financial Business Framework Agreement”	the financial business framework agreement (金融業務框架協議) entered into between the Company and Hisense Financial Holdings dated 28 November 2017 in connection with the provision of factoring services by Hisense Financial Holdings to the Company;
“Financial Services Agreement”	the financial service agreement (金融服務協議) entered into between the Company and Hisense Finance dated 28 November 2017 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”	青島海信空調有限公司 (Qingdao Hisense Air-conditioning Company Limited*), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hisense Commercial Factoring”	青島海信商業保理有限公司 (Hisense Commercial Factoring Co., Ltd*), a company incorporated in the PRC with limited liability;
“Hisense Electric”	Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange;
“Hisense Finance”	海信集團財務有限公司 (Hisense Finance Co., Ltd*), a company incorporated in the PRC with limited liability;
“Hisense Financial Holdings”	Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司), a company incorporated in the PRC with limited liability and the holding company of Hisense Commercial Factoring;
“Hisense Group”	海信集團有限公司 (Hisense Company Limited*), a company incorporated in the PRC with limited liability;
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability;

DEFINITIONS

“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hitachi Business Framework Agreement”	the business framework agreement (業務框架協議) entered into between the Company and Hisense Hitachi dated 28 November 2017 in relation to the supply of moulds and sale and purchase of home electrical appliances, raw materials, parts and components and provision of products maintenance services;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Ma Jin Quan, Mr. Xu Xiang Yi and Mr. Liu Xiao Feng;
“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement and the Caps in relation thereto;
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, Hisense Electric and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules; (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates; and (iii) in respect of the Financial Business Framework Agreement, Shareholders other than Hisense Financial Holdings and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Business Framework Agreement under the Shenzhen Listing Rules;

DEFINITIONS

“Latest Practicable Date”	29 December 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation (對外貿易經濟合作部);
“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;
“Second Supplemental Agreement”	the second supplemental agreement (金融服務協議之補充協議(一)) entered into between the Company and Hisense Finance dated 10 May 2017, which amends and supplements the 2015 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 (深圳證券交易所上市規則);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Supplemental Agreement”	the supplemental agreement (金融服務協議之補充協議) entered into between the Company and Hisense Finance dated 3 August 2016, which amends and supplements the 2015 Financial Services Agreement;
“VAT”	value-added tax;
“white goods”	the general term by which white-coloured household electrical appliances are commonly known which include, but not limited to, air-conditioners, refrigerators, freezers, washing machines, other small household electrical appliances and kitchen electric products;

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“US\$”	United States dollars, the lawful currency of the United States of America;
“%”	per cent.;
“*”	for identification purpose only.

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. Liu Xiao Feng

*Principal place of business
in Hong Kong:*

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

3 January 2018

To the Shareholders

Dear Sir or Madam,

(1) CONTINUING CONNECTED TRANSACTIONS
(2) MAJOR TRANSACTION
(3) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.

BACKGROUND

References are made to:

- (a) the announcement of the Company dated 10 November 2015 in relation to, inter alia, the 2015 Financial Services Agreement;
- (b) the circular of the Company dated 2 December 2015 in relation to, inter alia, the 2015 Financial Services Agreement;
- (c) the announcement of the Company dated 3 August 2016 in relation to, inter alia, the Supplemental Agreement;

LETTER FROM THE BOARD

- (d) the circular of the Company dated 8 September 2016 in relation to, inter alia, the Supplemental Agreement;
- (e) the announcement of the Company dated 17 November 2016 in relation to, inter alia, the Existing Business Co-operation Framework Agreement;
- (f) the circular of the Company dated 23 December 2016 in relation to, inter alia, the Existing Business Co-operation Framework Agreement;
- (g) the announcement of the Company dated 10 May 2017 in relation to, inter alia, the Second Supplemental Agreement; and
- (h) the circular of the Company dated 8 June 2017 in relation to the Second Supplemental Agreement.

As disclosed in the announcement of the Company dated 28 November 2017, the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2017 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 28 November 2017, the Business Co-operation Framework Agreement and the Financial Services Agreement were entered into by the Company.

Further, with a view to better catering for future business development and to standardize the term of all continuing connected transactions to end with the financial year end of the Group for better monitoring, the Company has entered into the Financial Business Framework Agreement on 28 November 2017, and upon the Financial Business Framework Agreement becoming effective, the Existing Factoring Services Agreement will be deemed to be one of the definitive agreements under the Financial Business Framework Agreement. As such, the business under the Existing Factoring Services Agreement shall be subject to the terms as agreed in the Financial Business Framework Agreement.

In addition, on 28 November 2017, the Company has also entered into the Hitachi Business Framework Agreement with Hisense Hitachi. The transactions contemplated under the Hitachi Business Framework Agreement constitute ordinary connected transactions under the Shenzhen Listing Rules and are subject to approval at the EGM.

The purpose of this circular is to:

- (a) provide you with further information on the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement and the Caps in relation thereto;
- (b) provide you with further information on the Hitachi Business Framework Agreement and the annual caps in relation thereto;

LETTER FROM THE BOARD

- (c) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement; and
- (d) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement.

(A) CONTINUING CONNECTED TRANSACTIONS

BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

Date: 28 November 2017

Parties: The Company;
Hisense Group; and
Hisense Electric

Term:

The Business Co-operation Framework Agreement shall commence from 1 January 2018 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2018, which can be terminated before its expiration by mutual agreement of the parties.

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

Condition:

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

Subject matters:

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

LETTER FROM THE BOARD

case may be) to sell or purchase products or services contemplated under the Business Co-operation Framework Agreement from any other purchasers or suppliers (as the case may be).

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

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

The Company's internal policy regarding continuing connected transactions:

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

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

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. If the operation department of the relevant business sector is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

LETTER FROM THE BOARD

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from each operation department and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department is responsible for the management of continuing connected transaction agreements under the Business Co-operation Framework Agreement and the new continuing connected transaction agreements that are not contemplated under the existing Business Co-operation Framework Agreement, and the filing and registration of the agreements of connected transactions.

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

(1) Purchase of home electrical appliances

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

Pricing:

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

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

LETTER FROM THE BOARD

Historical figures:

The annual cap allocated to the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB1,600,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB440,000 (exclusive of VAT and unaudited) (of which RMB360,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB80,000 was for the purchases from Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB1,670,000 (exclusive of VAT), of which:

- (i) RMB910,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB760,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Electric and/or its subsidiaries for the year ending 31 December 2018 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators.

In addition, the Group will purchase prototypes of electrical appliances from Hisense Group and/or its subsidiaries in 2018 with the total transaction amount of approximately RMB600,000. The Group will purchase television sets from Hisense Electric and/or its subsidiaries in 2018 with the total transaction amount of approximately RMB760,000.

LETTER FROM THE BOARD

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

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

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

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

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

Pricing:

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

The operation department of the relevant business sector of the Group will compare the terms of the proposed purchase (including pricing and other contractual terms taking into account factors such as the product quality and the stability in supply of the product) to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. The operation department of the relevant business sector will report to the finance department which will check,

LETTER FROM THE BOARD

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

Historical figures:

The annual cap allocated to the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB118,670,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB87,030,000 (exclusive of VAT and unaudited) (of which RMB76,450,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB10,580,000 was for the purchases from Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB235,860,000 (exclusive of VAT), of which:

- (i) RMB208,460,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB27,400,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past (that is, estimated annualised unaudited value of the similar transactions for the year 2017); and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018 taking into account its anticipated increase in the relevant purchase of the Group in 2018.

The above Cap was also determined with reference to the Group's constant attempt to optimize the product mix by increasing the production of high-end intelligent electrical appliances, which will increase the Group's

LETTER FROM THE BOARD

purchase for raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2018 for the increased production of high-end intelligent electrical appliances. The cost of raw materials, parts and components for production of high-end intelligent electrical appliances are relatively higher compared to those for production of other electrical appliance products. In 2018, the Group will increase its purchase of wifi boards and electronic control boards from Hisense Group and/or its subsidiaries and it is anticipated that such purchase will amount to approximately RMB207,520,000.

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

With the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases; Hisense Group has better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. The Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by purchasing certain raw materials from Hisense Group, Hisense Electric and/or their respective subsidiaries, which in turn boosts the sales of high-end products and increases product and brand competitiveness.

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

LETTER FROM THE BOARD

(3) Provision of services

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

Pricing:

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

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

Historical figures:

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB582,600,000. For the nine months ended 30 September 2017, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB332,410,000 (unaudited) (of which RMB325,260,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB7,150,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

LETTER FROM THE BOARD

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2018 are subject to the Cap of RMB642,480,000, of which:

- (i) RMB622,430,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB20,050,000 will be allocated to the provision of property, technical support and advertisement services by Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018.

Based on the Group's increase in the scale of revenue, Hisense Group, Hisense Electric and/or their respective subsidiaries will provide installation and maintenance services, to the Group in 2018. It is estimated that the transaction amount in respect of the provision of such services will amount to approximately RMB220,000,000. The projected increase in scale of revenue in 2018 will lead to increase in installation and maintenance services and material processing services required which are closely related to the principal business of the Company. As the quality of services including distribution and technical support services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries is higher than those offered by independent third parties engaged by the Group in the past, the Group plans to continue to procure these services from Hisense Group, Hisense Electric and/or their respective subsidiaries. Furthermore, it is estimated that the relevant transaction amount for the provision of material processing services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group in 2018 will amount to approximately RMB141,000,000. As the Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from the previous course of dealing, the Group plans to engage Hisense Group, Hisense Electric and/or their respective subsidiaries to provide more services in 2018. In addition, the Group expects that the property service fees will increase in 2018 due to the increment of charges for electricity and water and rent. Moreover, the Group will procure leasing

LETTER FROM THE BOARD

of new properties in addition to the existing properties leased from Hisense Group and/or its subsidiaries and will procure the entering into of new leases between its subsidiaries and Hisense Group and/or its subsidiaries.

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

The Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings and considers that Hisense Group, Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly. Certain subsidiaries of Hisense Group are outstanding companies in the property development industry in Qingdao and the quality of property construction for the Group can be assured as a result of the professional quality which they can deliver.

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

(4) *Supply of home electrical appliances*

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

Pricing:

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

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

LETTER FROM THE BOARD

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

Historical figures:

The annual cap allocated to the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB10,241,130,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB5,997,830,000 (exclusive of VAT and unaudited) (of which RMB5,997,010,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB820,000 was for the supply to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB13,051,860,000 (exclusive of VAT), of which:

- (i) RMB13,048,800,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB3,060,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018.

The above Cap was also determined with reference to the following expected increase in the relevant sales of the Group in 2018: according to the business plan of the Group for the year 2018, the Group has set a target which is to increase the total transaction amount of home electrical appliances supplied to Hisense Group, Hisense Electric and/or their respective subsidiaries by approximately 30% in 2018, taking into account

LETTER FROM THE BOARD

the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to RMB26,394,287,298.52, representing a year-on-year increase of 29%, and the expected growth in the Group's revenue in 2018 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" in 2018. Based on this growth target, the value of home electrical appliances supplied by the Group to the subsidiaries of Hisense Group is estimated to be approximately RMB11,900,000,000; the Group sells products through the online platforms of the new subsidiaries of Hisense Group, and the value of home electrical appliances supplied by the Group to the new subsidiaries of Hisense Group is estimated to be approximately RMB800,000,000.

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

The production and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share and boost its sales turnover and revenue by selling products through the online platform of Hisense Group which reduces the product circulation links.

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

LETTER FROM THE BOARD

(5) Supply of equipment

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

Pricing:

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

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

Historical figures:

The annual cap allocated to the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB19,300,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB0 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB16,500,000 (exclusive of VAT).

LETTER FROM THE BOARD

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected sales of home electrical appliances of the Group for the year ending 31 December 2018.

In addition, the Group will supply equipment to Hisense Group and/or its new subsidiaries with the total transaction amount of approximately RMB12,000,000. The Group will supply new equipment to Hisense Group and/or its subsidiaries with the total transaction amount of approximately RMB4,500,000.

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

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

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

(6) Supply of moulds

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

Pricing:

In response to the invitations to tender from Hisense Group, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense Electric and/or their respective subsidiaries in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. The bidding price is determined with reference to factors such as the cost of raw material and labour cost for the production of the moulds.

LETTER FROM THE BOARD

Historical figures:

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB451,000,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB272,880,000 (exclusive of VAT and unaudited) (of which RMB216,590,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB56,290,000 was for the supply to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB453,550,000 (exclusive of VAT), of which:

- (i) RMB323,550,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (ii) RMB130,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

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

Based on the projection of the actual business needs, the Group will supply moulds to Hisense Group's subsidiaries for export in the sum of approximately RMB300,000,000 and will supply moulds to Hisense Electric in the sum of approximately RMB130,000,000.

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

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

LETTER FROM THE BOARD

subsidiaries of Hisense Group and Hisense Electric may continue to serving as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group.

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

(7) Supply of raw materials, parts and components

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

Pricing:

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

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

Historical figures:

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is

LETTER FROM THE BOARD

RMB112,090,000 (exclusive of VAT). For the nine months ended 30 September 2017, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB59,390,000 (exclusive of VAT and unaudited) (of which RMB39,910,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB19,480,000 was for the supply to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB180,730,000 (exclusive of VAT), of which:

- (i) RMB98,310,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB82,420,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

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

The Group supplies parts and components to the subsidiaries of Hisense Group, which is a business derived from the product sales by the Group to the subsidiaries of Hisense Group. Taking into account the Company's revenue for the nine months ended 30 September 2017 amounted to RMB26,394,287,298.52, representing a year-on-year increase of 29%, and the projected year-on-year growth of parts and components and product scale in the next year, and that the parts and components quota for overseas customers will be raised in 2018 which will lead to an increase in revenue of parts and components, the upper limit for exporting parts and components for next year is estimated to be approximately RMB70,860,000. The subsidiaries of the Group also sell parts and components to the subsidiaries of Hisense Electric, which mainly include the parts and components, such as television case and metal plate, produced by the Group for the subsidiaries of Hisense Electric. Apart from the growth of existing businesses, the subsidiaries of the Group have added a new production line for television back panel. It is expected that it will start to produce television back panel for the subsidiaries of Hisense Electric as well, and therefore, the business volume of next year is expected to grow and the estimated value for the whole year will be approximately RMB82,420,000.

LETTER FROM THE BOARD

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

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

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

(8) *Provision of services by the Group*

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

Pricing:

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

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

LETTER FROM THE BOARD

Historical figures:

The annual cap allocated to the provision of services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2017 as specified in the Existing Business Co-operation Framework Agreement is RMB37,280,000. For the nine months ended 30 September 2017, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB15,940,000 (unaudited) (of which RMB15,890,000 was for the provision of relevant services by the Group to Hisense Group and/or its subsidiaries, whereas RMB50,000 was for the provision of relevant services by the Group to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 are subject to the Cap of RMB30,220,000, of which:

- (i) RMB28,340,000 will be allocated to the provision of design, processing services and property services by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB1,880,000 will be allocated to the provision of processing services by the Group to Hisense Electric and/or its subsidiaries.

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

Furthermore, the following adjustment for the actual business needs of the Group in 2018 was also taken into consideration when determining the above Cap: (i) property services in the sum of approximately RMB10,780,000 to be provided by the Group; (ii) design services in the sum of approximately RMB8,000,000 to be provided by the Group; and (iii) processing services in the sum of approximately RMB5,000,000 to be provided by the Group.

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

The provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the Group's revenue.

LETTER FROM THE BOARD

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

(B) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

FINANCIAL SERVICES AGREEMENT

Date: 28 November 2017

Parties: The Company;
Hisense Finance

Term:

The term of the Financial Services Agreement shall commence from 1 January 2018 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2018, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Condition:

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

Subject matters:

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

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

LETTER FROM THE BOARD

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

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

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

The Company’s internal policy regarding continuing connected transactions:

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

According to the CT Management Policy, 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.

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly, the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. For electronic bank acceptance bill services, our finance staff will conduct a monthly

LETTER FROM THE BOARD

review on the service fees charged by external commercial banks for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a 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 finance department. The scope of the review conducted by the finance 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 legal affairs department is responsible for the management of continuing connected transaction agreements under the Financial Services Agreement and the new continuing connected transaction agreements that are not contemplated under the existing Financial Services Agreement, and the filing and registration of the agreements of connected transactions.

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

LETTER FROM THE BOARD

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

(1) *Deposit service*

Pricing:

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

Historical figures:

The maximum daily balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB6,000,000,000 (inclusive of interest). For the periods commencing from 1 January 2016 to 31 December 2016 and from 1 January 2017 to 30 September 2017, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB2,234,000,000 and RMB4,199,970,158 respectively.

Proposed Cap:

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB6,500,000,000 (inclusive of interest) on any given day for the year ending 31 December 2018.

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

LETTER FROM THE BOARD

favourable than those available from other financial institutions and the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal, the Company also expects to utilise frequently the deposit services to be provided by Hisense Finance.

In addition, as at 30 September 2017, the highest daily balance of cash held by the Group was RMB4,760,000,000. Taking into account the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to RMB26,394,287,298.52, representing a year-on-year increase of 29%, and the expected growth in the Group's revenue in 2018 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" in 2018, it is anticipated that the highest daily closing balance of deposit will be approximately RMB6,200,000,000 in 2018, which is derived from an increment of 30% from the existing highest daily cash balance of RMB4,760,000,000.

Furthermore, as at 30 September 2017, the inventory and accounts receivable turnover was shortened by 3 days year-on-year. In 2018, the Company will further enhance its management on account receivables and inventory to expedite the capital turnover rate and reduce unused inventory and capital, and it is estimated that the net cash flows from operating activities will further increase. Therefore, in order to satisfy the business needs, it is expected that the daily closing balance of deposit will not exceed RMB6,500,000,000 in 2018.

(2) Loan and electronic bank acceptance bill service

Pricing:

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The designated finance staff of the Group will review and compare the interest rates for loan offered by Hisense Finance with the major commercial banks regularly. For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates for loan offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China.

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

LETTER FROM THE BOARD

namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China, for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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.

Historical Figures:

The maximum balance of loan and electronic bank acceptance bills which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB6,000,000,000 (inclusive of interest and service fees). For the periods commencing from 1 January 2016 to 31 December 2016 and from 1 January 2017 to 30 September 2017, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB3,476,000,000 and RMB4,546,050,284 respectively.

Proposed Cap:

The Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB6,000,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2018.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the years ending 31 December 2018 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan and electronic bank acceptance bill services application process by the Company.

The Company adjusts the payment method by increasing the extent of its use of electronic bills for payment and by reducing payment in form of cash and endorsement of notes receivable. On one hand, this facilitates the use of the additional capital available by the Company to earn capital

LETTER FROM THE BOARD

revenue and improve cash flow. On the other hand, this reduces the cost of capital incurred in endorsement of notes receivable. Therefore, the Company expects that it will continue to increase its use of the electronic bank acceptance bill service in 2018 and that the highest daily balance of the electronic bank acceptance bill service in 2018 will be RMB6,000,000,000 (inclusive of interest and service fees), which is 30% above the highest daily balance in the nine months ended 30 September 2017, taking into account the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to RMB26,394,287,298.52, representing a year-on-year increase of 29%, and the expected growth in the Group's revenue in 2018 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" in 2018.

(3) Draft discount service

Pricing:

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

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

Historical figures:

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 1 January 2016 to 31 December 2016 and from 1 January 2017 to 30 September 2017, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB3,563,700 and RMB1,645,400 respectively.

Proposed Cap:

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000 for the year ending 31 December 2018.

LETTER FROM THE BOARD

The above Cap was determined with reference to (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the years ending 31 December 2018 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2018; and (ii) the Company's plan to enhance its management on its accounts receivables and inventory to expedite the capital turnover rate and reduce unused inventory and capital, it is estimated that the Company's annual sum of money for procurement of draft discount services by the Group to Hisense Finance will be RMB2,000,000,000 in 2018 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be RMB50,000,000 taking into account the existing market interest level and the financing cycle of draft discount services.

(4) Settlement and sale of foreign exchange

Pricing:

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

Prior to the execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and other commercial banks in the PRC.

Historical Figures:

Under the Existing Financial Services Agreement, the annual amount settled or sold by Hisense Finance for the Group shall not exceed US\$700,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 1 January 2016 to 31 December 2016 and from 1 January 2017 to 30 September 2017, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$15,480,000 and US\$10,750,000 respectively.

LETTER FROM THE BOARD

Proposed Cap:

The Company currently expects that the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$500,000,000 for the year ending 31 December 2018.

The above Cap was determined with reference to the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the years ending 31 December 2018.

The total amount of foreign exchange settled or sold by Hisense Finance and external commercial banks for the Group in the first nine months in 2017 was US\$490,000,000, which included the amount settled or sold by Hisense Finance for the Group of approximately US\$10,750,000. Hisense Finance only conducts current term settlement and sale of foreign exchange for the Group, whilst the long term settlement and sale of foreign exchange for the Group is conducted by other financial institutions. Taking into consideration the fluctuation of the exchange rates, if the proportion of long term settlement and sale of foreign exchange decreases and those settlement and sale of foreign exchange turn into current term settlement and sale, the amount of electronic bank acceptance bill service (provided by Hisense Finance) required by the Group will increase. Therefore, the Cap on the annual amount settled or sold by Hisense Finance for the Group is set at US\$500,000,000.

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

Pricing:

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period. The treasure department of the Group will conduct a monthly review on the service fees charged by external commercial banks, namely the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China, for provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

LETTER FROM THE BOARD

Historical Figures:

Under the Existing Financial Services Agreement, the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed RMB3,000,000 during the term of the Existing Financial Services Agreement. For the periods commencing from 1 January 2016 to 31 December 2016 and from 1 January 2017 to 30 September 2017, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) amounted to approximately RMB313,100 and RMB233,100 respectively.

Proposed Cap:

The Company currently expects that annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for the year ending 31 December 2018.

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

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB1 to RMB200 per transaction. As the Company is unable to ensure that the service fees payable by the Group to Hisense Finance will remain to be lower than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC, and taking into account the Group's expected demand for transfer services in 2018 and the charging standard for service fees for such services of normal commercial banks or

LETTER FROM THE BOARD

similar agencies in the PRC in 2017, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3,000,000.

Reasons for and benefits of the Financial Services Agreement:

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

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

Despite the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, the Group is still facing a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the "Measures for the Administration of Finance Companies of Enterprise Group" 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 Guangdong Bureau of the China Securities Regulatory Commission, assess the operational and financial risks of Hisense Finance, regularly issue risk assessment reports to the Directors for their consideration and adoption of necessary measures to

LETTER FROM THE BOARD

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 regularly issuing risk assessment reports to the Directors during the period when cash is deposited with Hisense Finance pursuant to the Existing Financial Services Agreement and taking into consideration the information from the aforesaid review and comparing with the risk portfolio of other independent financial service providers, the Board considers that the risk profile of Hisense Finance, as a financial services provider to the Group, is not greater than that of the independent commercial banks in the PRC.

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

Given that (i) the interest rates on deposits 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 deposit service under the Financial Services Agreement with size exceeding the original annual caps with Hisense Finance in order to maximize the benefits of the Shareholders, instead of conducting the deposit service under the Financial Services Agreement with commercial banks in the PRC to diversify risk.

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

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

- (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;

LETTER FROM THE BOARD

- (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, 30 March 2017, 11 August 2017 and 29 November 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, 31 December 2016, 30 June 2017 and 30 September 2017 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 Caps, the Company will not be subject to undue default risk by Hisense Finance in light of its relatively sound financial positions and historical compliance with relevant regulatory requirements.

Having reviewed the historical sample deposit rates offered by Hisense Finance and other major commercial banks (for example, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China), the Board has noted that the interest rates offered by Hisense Finance are not less favourable than those offered by major commercial banks for the deposit with the same type and tenure. Moreover, Hisense Finance may offer to the Group tailor-made beneficial 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, 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 finance staff of the Group;

LETTER FROM THE BOARD

- (b) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;
- (c) requesting the designated finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks; and
- (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.

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 Caps.

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

PLEDGING AND OTHER SECURITY

Hisense Finance may require the Group to provide guarantee 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.

Certain subsidiaries of the Group have provided charges in favour of Hisense Finance in respect of the provision of electronic bank acceptance bills provided by Hisense Finance to such subsidiaries of the Group. Pursuant to these charges, part of the bank acceptance bills held by the Group will be charged to Hisense Finance to form a portfolio of bank acceptance bills. The Group has opened a special account with

LETTER FROM THE BOARD

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

As at the Latest Practicable Date, the Group did not obtain any loan from Hisense Finance and therefore no guarantee 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 services. In such circumstance, the Group will use bank acceptance bills as security and such security or pledge will be on similar terms with the pledge in respect of the electronic bank acceptance bill services mentioned above.

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

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

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

LETTER FROM THE BOARD

(C) CONTINUING CONNECTED TRANSACTIONS

FINANCIAL BUSINESS FRAMEWORK AGREEMENT

Date: 28 November 2017

Parties: The Company;
Hisense Financial Holdings

Term:

The Financial Business Framework Agreement shall commence from 1 January 2018 or the date of approval of the Financial Business Framework Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2019, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Upon the Financial Business Framework Agreement becoming effective, the Existing Factoring Services Agreement will be deemed to be one of the definitive agreements under the Financial Business Framework Agreement. As such, the business under the Existing Factoring Services Agreement shall be subject to the terms as agreed in the Financial Business Framework Agreement.

Condition:

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

Subject matters:

Pursuant to the terms of the Financial Business Framework Agreement, the Company or its subsidiaries will engage Hisense Financial Holdings or its subsidiaries to provide a series of factoring services, including recourse commercial factoring and non-recourse commercial factoring.

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

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

LETTER FROM THE BOARD

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

Pricing:

The pricing of the factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the pricing offered by the factoring service companies which are independent third parties over the same period. The transactions under Financial Business Framework Agreement are conducted in the course of normal business of the parties, on normal commercial terms and on terms no less favourable than those obtained from or provided by (as the case may be) independent third parties.

The Company's finance department will ask for quotations and terms from at least 5 other providers of factoring services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services.

Historical figures:

The daily closing balance of the recourse factoring services under the Existing Factoring Services Agreement shall not exceed RMB100,000,000 (inclusive of interest). For the period from 28 June 2017 to 30 September 2017, the highest daily closing balance of the said services was approximately RMB0 (inclusive of interest).

The aggregated annual value of the transactions conducted for the non-recourse factoring services under the Existing Factoring Services Agreement during the term of the Existing Factoring Services Agreement shall not exceed RMB500,000,000 (inclusive of interest). For the period from 28 June 2017 to 30 September 2017, the aggregate transaction amount for the said services under the Existing Factoring Services Agreement amounted to approximately RMB0 (inclusive of interest).

Proposed Caps:

(a) Recourse factoring services

The daily closing balance of the recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB100,000,000 (inclusive of interest).

The above Cap was determined with reference to (i) the amount of accounts receivables of the Company as published in the latest financial statements of the Company, (ii) the increase in revenue of the Company from approximately RMB23.47

LETTER FROM THE BOARD

billion in 2015 to approximately RMB26.73 billion in 2016, (iii) the expected continuing strong performance of the Company in the upcoming year, (iv) the amount of cash flow of the Company as published in the latest financial statements of the Company, (v) the aging structure and the quality of the receivables of the Company and (vi) the actual amount of discounted note receivables was approximately RMB425 million during the ten months ended 31 October 2017.

(b) Non-recourse factoring services

The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company during the term of the Financial Business Framework Agreement shall not exceed RMB500,000,000 (inclusive of interest).

The above Cap was determined with reference to: (i) the amount of accounts receivables of the Company as published in the latest financial statements of the Company, (ii) the actual amount of discounted note receivables was approximately RMB425 million during the ten months ended 31 October 2017; (iii) the increase in revenue of the Company from approximately RMB23.47 billion in 2015 to approximately RMB26.73 billion in 2016, (iv) the expected continuing strong performance of the Company in the upcoming year, and (v) the amount of cash flow of the Company as published in the latest financial statements of the Company.

As the Existing Factoring Services Agreement will be treated as a definitive agreement under the Financial Business Framework Agreement and therefore subject to the terms thereof, the above Caps also apply to the factoring services to be provided by Hisense Commercial Factoring under the Existing Factoring Services Agreement.

Reasons for and benefits of the Financial Business Framework Agreement

The Financial Business Framework Agreement was entered into to better catering for future business development and to standardize the term of all continuing connected transactions to end with the financial year end of the Group for better monitoring, and upon the Financial Business Framework Agreement becoming effective, the Existing Factoring Services Agreement will be deemed to be one of the definitive agreements under the Financial Business Framework Agreement. As such, the business under the Existing Factoring Services Agreement shall be subject to the terms as agreed in the Financial Business Framework Agreement.

The Financial Business Framework Agreement was also entered into in order to further increase the liquidity of the Company's assets, to receive the income from capital operation, and to increase the efficiency of capital operation.

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

LETTER FROM THE BOARD

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

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

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

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

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

The legal affairs department is responsible for the management of continued connected transaction agreements under the Financial Business Framework Agreements and the new connected transaction agreements that are not contemplated under the existing Financial Business Framework Agreements, and the filing and registration of the agreements of connected transactions.

INFORMATION RELATING TO THE COMPANY, HISENSE ELECTRIC, HISENSE GROUP, HISENSE FINANCE AND HISENSE FINANCIAL HOLDINGS

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

LETTER FROM THE BOARD

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

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

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB900 million. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Ltd.), 30.89% by Hisense Group and 12.12% by

LETTER FROM THE BOARD

青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

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

Hisense Financial Holdings is established in Qingdao City of the PRC with limited liability under the Company Law of the PRC. The Company holds 24% equity interest in Hisense Financial Holdings.

The business scope of Hisense Financial Holdings includes: engaging in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of debt investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions (provided that financial businesses such as deposit-taking, financing guarantee and wealth management for clients are not permitted without the approval of financial regulatory authorities). Hisense Commercial Factoring, a subsidiary of Hisense Financial Holdings, is principally engaged in the businesses of commercial factoring services and supply chain management consultation services.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

(A) Business Co-operation Framework Agreement

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 37.92% of the issued shares of the Company and (ii) Hisense HK holds 7.13% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 39.53% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. 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(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

(B) Financial Services Agreement

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 37.92% of the issued shares of the Company and (ii) Hisense HK holds 7.13% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit, loan and electronic bank acceptance bill, draft discount, settlement and sale of foreign exchange services and agency services such as settlement

LETTER FROM THE BOARD

services for receipt and payment of funds by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 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(s) at the EGM.

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

(C) Financial Business Framework Agreement

As at the Latest Practicable Date, Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company. Hisense Financial Holdings is a subsidiary of the holding company of Hisense Air-conditioning and an associate of Hisense Air-conditioning. Therefore, Hisense Financial Holdings is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Business Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

LETTER FROM THE BOARD

In view of the interests of Hisense Financial Holdings in the Financial Business Framework Agreement, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Business Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 97,202,000 Shares (representing approximately 7.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

GENERAL

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

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

(D) BUSINESS FRAMEWORK AGREEMENT WITH HISENSE HITACHI

Date: 28 November 2017

Parties: The Company; and
Hisense Hitachi

Term:

The Hitachi Business Framework Agreement shall commence from 1 January 2018 or the date of approval of the Hitachi Business Framework Agreement at the EGM (whichever is the later) until 31 December 2018, which can be terminated before its expiration by mutual agreement of the parties.

In the event that any transactions under the Hitachi Business Framework Agreement constitute connected transactions or related transactions under the Hong Kong Listing Rules and/or the Shenzhen Listing Rules, and that such transactions are subject to the waiver granted by Stock Exchange and/or the Shenzhen Stock Exchange (hereinafter referred to as the “**Stock Exchanges**”) and/or approval by independent shareholders or compliance with any other requirements under the Hong Kong Listing

LETTER FROM THE BOARD

Rules and/or the Shenzhen Stock Exchange in relation to connected transactions or related transactions in accordance with the Hong Kong Listing Rules and/or the Shenzhen Stock Exchange, then obtaining all waivers from the Stock Exchanges and/or approval from independent shareholders and/or compliance with any other requirements under the Hong Kong Listing Rules and/or the Shenzhen Stock Exchange in relation to connected transactions or related transactions shall become the conditions precedent to the performance to the Hitachi Business Framework Agreement in relation to these transactions.

Condition:

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

Subject matters:

The transactions contemplated under the Hitachi Business Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Hitachi Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Hitachi Business Framework Agreement with any other third parties. The annual caps for the transactions contemplated under the Hitachi Business Framework Agreement and the historical amount of the transactions from January to September 2017 are set out as follows:

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

Types of transactions	Annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement	Amount paid/received in respect of such type of transactions from January to September 2017 (unaudited)
Sale of home electrical appliances	74,000	31,557
Sale of raw materials, parts and components	483	157
Sale of moulds	4,000	1,235
Purchase of home electrical appliances	13	Not applicable
Provision of product maintenance services	40	0
Purchase of raw materials, parts and components	1,950	863

LETTER FROM THE BOARD

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

Pricing and payment term:

Pricing for the sale of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

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

The price for the provision of product maintenance services by the Company to Hisense Hitachi is determined after commercial negotiation between the parties according to fair and reasonable pricing principles based on the market prices for similar services in the industry. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

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

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

Sale of home electrical appliances

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

Reciprocal purchase of raw materials, parts and components

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

LETTER FROM THE BOARD

Purchase of home electrical appliances

The Company purchases home electrical appliances from Hisense Hitachi to conduct analysis and research, in order to commence investigations and surveys on the product market.

Provision of product maintenance services

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

Sale of moulds

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

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

Information of Hisense Hitachi

Hisense Hitachi was established on 8 January 2003, registered address: 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, legal representative: FRANZ WOLFGANG CERWINKA, registered capital: US\$46 million, scope of business: research and development of commercial air-conditioning system, manufacture and sale of self-produced products and provision of after-sale services. As at the Latest Practicable Date, the Company held 49% equity interest of Hisense Hitachi.

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

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

LETTER FROM THE BOARD

Company and its Shareholders as a whole. They also considered that the terms of the Hitachi Business Framework Agreement and the annual caps in relation thereto were fair and reasonable so far as the independent Shareholders were concerned.

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

EGM

The EGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC at 3:00 p.m. on 18 January 2018, Thursday at which ordinary resolutions will be proposed to approve, inter alia, the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement, the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto by poll.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 28 November 2017 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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

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

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

LETTER FROM THE BOARD

The register of members of the Company has been closed since 19 December 2017 (Tuesday) until 18 January 2018 (Thursday) (both days inclusive). In order to qualify for attending the EGM, all transfer documents of H Shares together with the relevant share certificates must have been lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 18 December 2017 (Monday) for registration.

RECOMMENDATION

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

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

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement and the transactions contemplated thereunder which are respectively set out on page 58 and pages from 60 to 128 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)

3 January 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 3 January 2018 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

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

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 8 to 57 and pages 60 to 128 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 each of the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the Financial Business Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

For and on behalf of the Independent Board Committee

Ma Jin Quan Xu Xiang Yi Liu Xiao Feng

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 Agreements prepared for the purpose of incorporation in this circular.



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

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “**Independent Board Committee**”) and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and Financial Business Framework Agreement (collectively the “**Agreements**”), details of which are set out in the circular to the Shareholders dated around 3 January 2018 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Shareholders in respect of the Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2017 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 28 November 2017, the Company entered into the Business Co-operation Framework Agreement, the Financial Services Agreement and the Financial Business Framework Agreement (details of the Agreements are stated in the section headed “**Terms of the Agreements**” below).

Business Co-operation Framework Agreement

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company and (ii) Hisense HK holds approximately 7.13% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to approximately 39.53% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. 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(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

Financial Services Agreement

As at the Latest Practicable Date, Hisense Finance is a subsidiary of Hisense Group and therefore is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit, loan and electronic bank acceptance bill (電子銀行承兌匯票), draft discount (票據貼現), settlement and sale of foreign exchange (結售匯) services and agency services such as settlement services for receipt and payment of funds (資金收支結算服務等代理類服務) by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 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(s) at the EGM.

Financial Business Framework Agreement

As at the Latest Practicable Date, Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company. Hisense Financial Holdings is a subsidiary of the holding company of Hisense Air-conditioning and an associate of Hisense Air-conditioning. Therefore, Hisense Financial Holdings is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Business Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

In view of the interests of Hisense Financial Holdings in the Financial Business Framework Agreement, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Business Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 97,202,000 shares (representing approximately 7.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Xu Xiang Yi and Mr. Liu Xiao Feng, has been established to advise the Shareholders on whether or not the Agreements and the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to (i) whether the Agreements and the transactions contemplated thereunder and the Caps in relation thereto are in the interests of the Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Agreements and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) how the Shareholders should vote in respect of the resolution(s) to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

During the past two years, VMS 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; (iii) the Business Co-operation Framework Agreement; and (iv) the Revised Annual Caps and Second Supplemental Agreement. For details of the continuing connected transactions mentioned above, please refer to the Company's circulars dated 2 December 2015, 8 September 2016, 23 December 2016 and 8 June 2017, 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 to the Shareholders regarding the Agreements and the transactions contemplated thereunder.

BASIS OF OUR OPINION

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

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

I. Background information and reasons for the Agreements

1. Information on the Group

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, is principally engaged in the manufacture of refrigerators and air-conditioners. As stated in the 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.

Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2016 Annual Report and the Group's interim report for the six months ended 30 June 2017 (the "**2017 Interim Report**"):

	For the year ended 31 December		For the six months ended 30 June	
	2015	2016	2016	2017
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenues				
– Sales of refrigerators & washing machines	11,555.8	12,778.7	6,041.4	6,668.6
– Sales of air-conditioners	8,986.1	10,381.0	5,416.9	8,524.9
– Sales of other products	<u>1,261.8</u>	<u>1,511.2</u>	<u>702.7</u>	<u>795.5</u>
Revenue from principal operations	21,803.7	24,670.9	12,160.9	15,989.0
Revenue from other operations	<u>1,667.9</u>	<u>2,059.3</u>	<u>962.1</u>	<u>1,617.4</u>
Total operating revenue	23,471.6	26,730.2	13,123.0	17,606.4
Operating costs	(18,440.7)	(20,486.7)	(10,044.3)	(14,347.7)
Business taxes and surcharges	(97.2)	(222.8)	(54.0)	(135.1)
Selling and distribution expenses	(4,308.9)	(4,640.7)	(2,172.4)	(2,267.4)
General and administrative expenses	(905.2)	(946.7)	(458.1)	(508.3)
Financial income/finance cost	71.4	86.0	33.4	(4.7)
Impairment (losses)/gains on assets	<u>(4.7)</u>	<u>4.4</u>	<u>14.0</u>	<u>0.9</u>
Total operating costs	<u>(23,685.3)</u>	<u>(26,206.5)</u>	<u>(12,681.4)</u>	<u>(17,262.3)</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		For the six months ended 30 June	
	2015	2016	2016	2017
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Other income	–	–	–	35.20
(Loss)/gain from changes in fair value	(2.5)	19.5	9.1	(14.8)
Investment income	<u>530.2</u>	<u>522.1</u>	<u>190.6</u>	<u>366.3</u>
Operating profits	<u>314.0</u>	<u>1,065.3</u>	<u>641.3</u>	<u>730.8</u>
Non-operating income	326.9	243.0	56.9	101.5
Non-operating expenses	<u>(17.2)</u>	<u>(38.0)</u>	<u>(1.6)</u>	<u>(8.9)</u>
Profit before tax	623.7	1,270.3	696.6	823.4
Income tax expenses	<u>(79.4)</u>	<u>(128.7)</u>	<u>(106.0)</u>	<u>(118.0)</u>
Net profit for the year/period	<u>544.3</u>	<u>1,141.6</u>	<u>590.6</u>	<u>705.4</u>
Attributable to:				
– Owners of the Company	580.3	1,087.7	559.3	672.1
– Minority interests	(36.0)	53.9	31.3	33.3
	As at 31 December 2015	As at 31 December 2016	As at 30 June 2016 2017	
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Non-current assets	5,760.3	6,053.1	5,677.5	6,527.2
Current assets	8,532.5	13,002.0	11,919.4	14,901.4
Non-current liabilities	373.1	370.0	333.6	397.4
Current liabilities	<u>9,446.0</u>	<u>13,361.6</u>	<u>12,425.1</u>	<u>15,414.4</u>
Total shareholders' equity	<u>4,473.8</u>	<u>5,323.5</u>	<u>4,838.2</u>	<u>5,616.8</u>

The Group's total operating revenue increased by approximately 13.9% 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. Total operating costs for the year ended 31 December 2016 increased roughly in the same line with the increase in the total operating revenue for the same year. Investment income for the year ended 31 December 2016, remained at constant level. Also,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 government grants.

For the six months ended 30 June 2017, the Group's operating revenue increased to approximately RMB17,606.4 million, which was due to the increase in sales of air-conditioners during the same period. The Group's unaudited net profit for the six months ended 30 June 2017 was approximately RMB705.4 million, representing an increase of approximately 19.4% from approximately RMB590.6 million for the corresponding period in 2016.

The Group's net current liabilities position increased from approximately RMB359.6 million as at 31 December 2016 to approximately RMB513.0 million as at 30 June 2017, which was mainly driven by the increase in account payable and notes payable. Its total equity was further strengthened by roughly the amount of the net profit earned for the period of which the balance increased from approximately RMB5,323.5 million as at 31 December 2016 to approximately RMB5,616.8 million as at 30 June 2017, representing an increase of approximately 5.5%.

2. *Information on Hisense Group*

Based on the information available from the website of Hisense Group, Hisense Group, a wholly state-owned enterprise, is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has production bases in South Africa, Algeria, Egypt, and sales offices in the USA, Europe, Australia, Middle East, and Southeastern Asia and sells its products to over 130 countries and regions around the world. The scope of business includes: (i) the entrusted operation of state-owned assets; (ii) the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; (iii) the development of software and the provision of internet services; (iv) the technological development and the provision of consultation services; (v) the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); (vi) the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); (vii) operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; and (viii) provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department). The ultimate beneficial owner of Hisense Group is State-Owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Hisense Electric Co., Ltd. (“**Hisense Electric**”) has been listed on the Shanghai Stock Exchange since 1997 (stock code: 600060). According to the third quarterly report for the nine months ended 30 September 2017 of Hisense Electric, Hisense Group and its party acting in concert was interested in approximately 39.53% of the issued share capital of Hisense Electric as at 30 September 2017. The scope of business includes (i) the research and development, manufacture, sales, service, repair and recycling of TV sets, flat panel display sets, mobile phones, electric refrigerators, electric freezers, washing machines, water heaters, microwave ovens, small household appliance products (such as dishwashers, electric irons, electric hair dryers, electric cookers), broadcasting appliances, electronic computers, communication products, mobile communication appliances, information technology products, household and commercial appliances and electronic products; (ii) non-standardized equipment processing, installation and after-sales services; (iii) self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); (iv) production of terrestrial broadcasting receiver equipment for satellite televisions; (v) leasing of houses, leasing of machinery and equipment, property management; and (vi) general logistics (for projects which require approval under the laws, commencement of the operations thereof shall be subject to the approval from the relevant departments). The ultimate beneficial owner of Hisense Electric is State-Owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會). The following financial results of Hisense Electric for each of the two years ended 31 December 2016 and the nine months ended 30 September 2017 were extracted from its annual report for the year ended 31 December 2016 and the third quarterly report for the nine months ended 30 September 2017:

	For year ended 31 December		For nine months ended 30 September
	2015	2016	2017
	RMB	RMB	RMB
	million	million	million
	(Audited)	(Audited)	(Unaudited)
Turnover	30,190.0	31,832.5	23,746.0
Net Profit attributable to its owners	1,488.9	1,745.0	610.6
Total assets as at year/period end	20,921.3	22,691.4	23,239.9

As stated in its annual report for the year ended 31 December 2016, sales of televisions contributed to approximately 88.5% of Hisense Electric’s turnover and approximately 59.4% of its sales was generated from domestic sales in the PRC. According to its third quarterly report for the nine months ended 30 September 2017, Hisense Electric had total shareholders’ equity of approximately RMB13,761.0 million and a net profit of approximately RMB610.6 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

Hisense Financial Holdings is established in Qingdao City of the PRC with limited liability under the Company Law of the PRC. The Company holds 24% equity interest in Hisense Financial Holdings.

The business scope of Hisense Financial Holdings includes: engaging in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of debt investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions (provided that financial businesses such as deposit-taking, financing guarantee and wealth management for clients are not permitted without the approval of financial regulatory authorities). Hisense Commercial Factoring, a subsidiary of Hisense Financial Holdings, is principally engaged in the businesses of commercial factoring services and supply chain management consultation services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The PRC government estimated its gross domestic product (“GDP”) growth target at approximately 6.5% for 2017. In October 2017, it indicated that the GDP in the first three quarters of 2017, being approximately RMB59,328.8 billion, has achieved a year-on-year increase of approximately 6.9%.

For retail sales of consumer goods, according to the National Bureau of Statistics of China, for the nine months ended 30 September 2017, it rose approximately 10.4% year-on-year to approximately RMB26,317.8 billion. Among the above, (i) retail sales in cities increased approximately 10.1% to approximately RMB22,559.2 billion; and (ii) retail sales at and below county level increased approximately 12.1% to approximately RMB3,758.6 billion.

For the white goods industry export market, according to the General Administration of Customs of the People’s Republic of China, for the nine months ended 30 September 2017, the cumulative export volume and the cumulative retail value of the refrigerator industry recorded a year-on-year increase of approximately 10.7% and approximately 16.8%, respectively. The cumulative export volume and the cumulative retail value of the air-conditioner industry recorded a year-on-year increase of approximately 19.6% and approximately 22.1%, respectively. In this relation, we understand from the Management that the Group has recorded an approximately 21% growth in export sales for the nine months ended 30 September 2017 as compared to that in the same period of 2016, which outpaced the growth rate of the overall home appliances export market.

According to the above statistic, the refrigerator industry, air-conditioner industry and the country’s retail sales of consumer goods have recorded an increased demand in 2017. Overall, the above market data on GDP consumption and retail sales indicate a positive economic landscape for the industry.

The expansion in the refrigerator industry and air-conditioner industry in the third quarter of 2017 are mainly due to the significant increase in the export sales and the new energy efficiency standards which took effect in 2016.

According to the Measures for the Administration of Energy Efficiency Labels (2016 Revision) (能源效率標識管理辦法(2016修訂)) issued by the National Development and Reform Commission (國家發展和改革委員會) and the General Administration of Quality Supervision, Inspection and Quarantine (國家品質監督檢驗檢疫總局), all household air-conditioners and refrigerators manufactured and sold in or imported into China must be affixed with a label showing the “China Energy Label” from 1 June 2016 onwards, which indicates the energy efficiency grade, energy consumption and other indices of energy-using products. In addition, the revised national standard The Maximum Allowable Values of the Energy Consumption and Energy Efficiency Grade for Household Refrigerators (家用電冰箱耗電量限定值及能源效率等級) took effect on 1 October 2016, which requires that refrigerators labelled with energy efficiency stickers which specify the energy efficiency grades, including five energy efficiency grades with grade 1

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the most energy efficient and estimate that the energy consumption rate of grade 1 product is about 40% lower than the grade 1 product of the old version. Based on the standard implementation, it helps consumers to obtain the information they need in making purchasing decisions. According to the research performed by the Hong Kong Trade Development Council in relation to the consumption of small home appliances (kitchen appliances), China's kitchen appliance market expanded robustly in recent years. According to mainland market surveys, the total value of China's kitchen electrical appliance market exceeded RMB100 billion in 2016.

Also, in the long run, urbanisation is expected to drive steady expansion in the kitchen appliance industry. As of 2016, China's urbanisation rate stood at 57.4% and is projected to go up by about one percentage point annually. Advances in urbanisation, the real estate market and smart home appliances in domestic market are conducive to the development of the kitchen appliance market.

Also, the "One Belt One Road" initiative is intended to be an effective and integrated way to stimulate trade and exports with China's neighbors, increase export demand for Chinese capacity (e.g. the white goods industry). Thus, it is expected the export of white goods will be increasing in the coming years.

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

4. *Reasons for the Agreements*

a. The Business Co-operation Framework Agreement

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may enter into certain transactions with the respective subsidiaries of Hisense Group and Hisense Electric in respect of the supply and purchase of home electrical appliances, raw materials, parts and components, provision of agency and other services and supply of equipment and moulds (particulars and terms of each category of the aforesaid transactions are discussed in the section headed "Terms of the Business Co-operation Framework Agreement" below).

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

arrangements under the Business Co-operation Framework Agreement serve essentially to assist the Group's operations as a manufacturer of home electrical appliances.

In view of the substantial interest of Hisense Group in the Company and the fact that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we are of the view that it is in the commercial interest of Hisense Group to assist the Group in its business conditions and improving its profitability. As Hisense Group and Hisense Electric have the relevant expertise in the domestic electrical appliances market in the PRC as well as network in broad overseas markets and are therefore able to assist the Group, we are of the view that it is in the commercial interest of the Company to continue entering into the Business Co-operation Framework Agreement to co-operate with Hisense Group and Hisense Electric. Furthermore, as noted in the Letter from the Board, the subsidiaries of Hisense Group have intensive experience in overseas operations, professional expertise and mature market network and channels in overseas market. By leveraging on the overseas sales platform of Hisense Group and its subsidiaries, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business.

Certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of home electrical appliances, equipment, moulds, raw materials parts and components and provision of design and property services by the Group, when take place, will continue being recognised by the Group as its sales or other income, and the overall revenue of the Group will therefore be increased as a result of such transactions. As stated in the Letter from the Board, the sale of moulds under the Business Co-operation Framework Agreement has become an important part of the Group's business and facilitate the Group to maintain an important existing relationship with the relevant subsidiaries of Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may continue to serve as stable customers of the Group in respect of the sale of moulds and thereby further expanding the sales of the Group.

As regards the sale and supply of home electrical appliances, since certain subsidiaries of the Company currently possess production capacity and they will incur fixed costs such as depreciation of machinery and rent regardless of the production level, the sale and supply of home electrical appliances to the respective subsidiaries of Hisense Group and Hisense Electric can help to utilise their capacity and reduce the products' per-unit

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

fixed costs as a result of the increase in the production level. The competitiveness of the Group's products in terms of costing may therefore increase.

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

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

b. The Financial Services Agreement

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

- the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC;
- the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and
- Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are companies within Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the 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 finance staff of 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 Guangdong Bureau of the China Securities Regulatory Commission, assess the operational and financial risks of Hisense Finance, timely 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 and the PRC unaudited reports for six months ended 30 June 2016 and 2017 (the “**PRC Financial Reports**”). Based on the PRC Financial Reports, the total assets of Hisense Finance increased by approximately 21.3% from approximately RMB12,080.5 million for the six months ended 30 June 2016 to approximately RMB14,654.6 million for the six months ended 30 June 2017. 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, 29 March 2017, 11 August 2017 and 29 November 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, 31 December 2016, 30 June 2017 and 30 September 2017 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	Hisense Finance as at 30 June 2017	Hisense Finance as at 30 September 2017
Capital adequacy ratio	Shall not be lower than 10%	28.08%	19.08%	24.05%	24.66%
Current ratio	Shall not be lower than 25%	64.45%	59.76%	44.38%	74.98%
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)	10.48% (not higher than the registered capital)	20.59% (not higher than the registered capital)
Investment to total capital ratio	Shall not be higher than 70%	0%	65.55%	54.53%	56.20%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Relevant indicators	Requirements for finance companies	Hisense Finance as at 31 December 2015	Hisense Finance as at 31 December 2016	Hisense Finance as at 30 June 2017	Hisense Finance as at 30 September 2017
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)	82.42% (not higher than the total capital)	66.83% (not higher than the total capital)
Self-owned fixed assets to total capital ratio	Shall not be higher than 20%	0.06%	0.05%	0.05%	0.06%

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, 31 December 2016, 30 June 2017 and 30 September 2017 respectively.

- (iii) Upon our enquiry with the Management, we understand that Hisense Finance is required to comply with all the rules and operational requirements of the CBRC. We have reviewed the internal regulatory report submitted by Hisense Finance to the Company and Hisense Finance confirmed that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment; and
- (iv) Based on our discussions with the Management, Hisense Finance 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

	For the year ended 31 December		For the six months ended 30 June	
	2016	2015	2016	2017
<i>(approximate RMB million)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating revenue	316.3	279.4	142.2	205.4
– Net interest income	281.9	265.6	131.6	171.7
Net profit	210.0	183.6	79.9	133.7
Total assets	15,284.6	9,075.3	12,080.1	14,654.6
– Cash and money deposited into central bank	1,070.2	548.3	701.3	916.3
– Deposits placed into same industry and other financial companies	7,790.4	5,440.5	7,534.9	8,086.8
– Loans and advances granted	5,111.4	3,051.2	3,786.4	4,450.7
– Available for sales of financial assets	1,266.0	–	–	1,350.0
– Interest receivable	38.9	29.9	52.7	57.3
Total liabilities	13,404.8	7,405.5	10,330.1	12,641.1
– Deposits received	12,967.4	7,356.4	10,021.3	12,310.6
– Inter-bank borrowing	233.8	–	232.1	218.1
– Tax payables	37.1	22.4	21.3	23.0
– Interest payables	30.5	5.9	12.0	62.3
– Other liabilities	135.7	11.9	44.1	26.3

In view of the above financial highlights, given that (i) the revenue and profit of Hisense Finance for the six months ended 30 June 2017 had been increased to approximately RMB205.4 million and RMB133.7 million, respectively, representing a year-on-year increase of approximately 44.4% and 67.3%, respectively, indicting a growing trend of business; (ii) the total assets had been increased from approximately RMB12,080.1 million for the six months ended 2016 to approximately RMB14,654.6 million for the six months ended 30 June 2017; and (iii) the current ratio of Hisense Finance was approximately 74.98% for the nine months ended 30 September 2017, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 finance 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 finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and loans 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 finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates 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, the finance staff will conduct a monthly review on the service fees charged by external commercial banks for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks;
- (iv) request the finance department to view the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group. If such rates and service fee are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

- (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 finance 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 finance department. The scope of the review conducted by 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 finance department and the agreements and contracts can only be executed after the approval by the responsible finance officer in charge of a specific business operation, subject to the transaction cap set by the finance and securities department. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view that (i) the above risk control measures and the internal procedures to ensure the terms that are no less favourable to the Group such as request quotations from other commercial banks before execution; (ii) the continuous compliance of regulatory requirements by Hisense Finance in the past; and (iii) those transactions contemplated pursuant to the Financial Services Agreement had been reviewed by the independent non-executive Directors and the auditor of the Company who had confirmed that they (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.

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

c. The Financial Business Framework Agreement

As set out in the Letter from the Board, the main reasons for the election by the Company to use Hisense Financial Holdings for the provision of the commercial factoring services are mainly as follows:

- As the Existing Factoring Services Agreement will expire upon 1 year from the commencement date and it is expected that the Group will continue to enter into factoring transactions. To better catering for future business development and to standardize the term of all continuing connected transactions to end with the financial year end of the Group for better monitoring, and upon the Financial Business Framework Agreement becoming effective, the Existing Factoring Services Agreement will be deemed to be one of the definitive agreements under the Financial Business Framework Agreement;
- Further increase the liquidity of the Company's assets, to receive the income from capital operation, and to increase the efficiency of capital operation; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Ensure the operational and business development needs of the Company are effectively met, with terms and conditions of the transactions being not less favourable to the Company than those available from independent third parties.

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

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

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

Pursuant to the Financial Business Framework Agreement, the Group will be able to obtain certain recourse factoring services and non-recourse factoring services, the terms of which shall not be higher than the pricing offered by the factoring service companies which are independent third parties over the same period. We consider that the transactions contemplated under the Financial Business Framework Agreement will be conducted in the ordinary and usual course of business of the Company and we concur with the view of the Company that the entering into of the Financial Business Framework Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. Terms of the Agreements

1. *The Business Co-operation Framework Agreement*

Date: 28 November 2017

Parties: The Company;
Hisense Group; and
Hisense Electric

Term:

The Business Co-operation Framework Agreement shall commence on 1 January 2018 or the date of approval of the Business Co-operation Framework Agreement by the Shareholders at the EGM (whichever is the later) until 31 December 2018 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement) and covers several aspects of business co-operation between the Group and the respective subsidiaries of Hisense Group and Hisense Electric.

Condition:

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

Subject matters:

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The Company's internal policy regarding continuing connected transactions

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

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

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. If the operation department of the relevant business sector is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from each operation department and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

The legal affairs department is responsible for the management of continuing connected transaction agreements under the Business Co-operation Framework Agreement and the new continuing connected transaction agreements that are not contemplated under the existing Business Co-operation Framework Agreement, and the filing and registration of the agreements of connected transactions.

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

a. Purchase of home electrical appliances

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

On the basis that (i) the purchase of home electrical appliances by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of the similar home appliances and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the same terms in the past with an actual aggregate transaction amount of approximately RMB440,000 for the nine months ended 30 September 2017, which the amount was relatively small and immaterial, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of home electrical appliances by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

b. Purchase of raw materials, parts and components

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

Pricing for the purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

c. Provision of services

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of material processing, installation and maintenance, distribution, property, medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property, technical support and advertisement services as they may require from time to time.

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

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

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

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of similar services

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from time to time and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided by Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group, Hisense Electric and their respective subsidiaries as well as those entered into between the Company and independent third party suppliers and our discussion with the Management that there is no indication the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third party suppliers, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

d. Supply of home electrical appliances

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

On the basis that (i) the sale and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the revenue of the Group; (ii) such transactions will be able to utilise the Group's resources so as to help to lower the production costs by lowering the fixed costs per unit of product as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's product; (iii) such transactions will be conducted in the ordinary and usual course of business of the Group and on terms according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances from time to time; and iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the transaction records as well as our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

e. Supply of equipment

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

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

On the basis that (i) the sale and supply of equipment by the Group to Hisense Group and/or its subsidiaries will increase the revenue of the Group; (ii) the equipment are customised as per the customers' requirements; and (iii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of equipment to Hisense Group and/or its subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

f. Supply of moulds

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of moulds as Hisense Group, Hisense Electric and/or their respective subsidiaries may require from time to time.

Pursuant to the Business Co-operation Framework Agreement and in response to the invitations to tender from Hisense Group, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense Electric and/or their respective subsidiaries in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. The bidding price is determined with reference to factors such as the cost of raw material and labour cost for the production of the moulds.

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

In view of (i) the moulds are customised as per the customers' requirements; (ii) the pricing for the supply of moulds will be determined by open bidding process, which is a transparent pricing mechanism; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

g. Supply of raw materials, parts and components

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

On the basis that (i) the sale and supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the revenue of the Group; (ii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the supply of raw materials, parts and components to Hisense Group, Hisense

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Electric and/or their respective subsidiaries are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

h. Provision of services by the Group

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

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

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

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

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price for the provision of such services from time to time; (ii) the transactions, when taken place, will increase the revenue of the Group; (iii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided; and (iv) the Group has conducted

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

similar transactions under the Existing Business Co-operation Framework in the past and based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group and its subsidiaries as well as those entered into between the Company and independent third parties and our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group and its subsidiaries were less favourable than those between the Group and independent third parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

We also note from respective annual reports of the Company in 2015 and 2016, the auditor confirmed that the relevant continuing connected transactions of the Group had been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements. In addition, the Company has engaged its auditor to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2015 and 31 December 2016, the Company has maintained effective internal control related to financial reporting in accordance with "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material aspects. Moreover, it was stated in these annual reports that in both years 2015 and 2016, the independent non-executive Directors had reviewed the Continuing Connected Transactions in the relevant years and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them.

Given the on-going review by the independent non-executive Directors and auditors of the Company in relation to the terms and annual caps of the Continuing Connected Transactions and no non-compliance matter relating to connected transactions was noted in the past years, we consider that appropriate internal control measures are in place by the Company to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders. As such, we have, on a sampling basis, obtained and reviewed at least three samples for each type of transactions for the ten months ended 2017 to justify the price under the Business Co-operation Framework Agreement. We have compared the past samples entered into between the Group and Hisense Group, Hisense Electric and/or its subsidiaries, and those between the Group and the independent third parties. Based on the review of the samples, we note that (i) the prices for the products and services offered by Hisense Group, Hisense

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Electric and/or its subsidiaries were no less favourable than those offered by the independent third party; and (ii) the prices paid by the Group to Hisense Group, Hisense Electric and/or its subsidiaries were no more favourable than those to the independent third parties. Based on the above, we consider that interests of the Group can be safeguarded.

We considered the samples are representative, and noted that the CT Management Policy procedures mentioned above were properly followed, we are not aware of any violation of the terms under the Business Co-operation Framework Agreement after reviewing the samples for similar type of transactions at the relevant time. The Management of the Company confirmed us that the above-mentioned internal control policies were, and would be, consistently applied to all connected transactions and on terms no less favourable to the Group than those made available from independent third parties. We are of the view that the samples provided, together with the aforesaid CT Management Policy control measures adopted by the Group, are sufficient to support our abovementioned conclusion. For the sake of evaluating the pricing mechanism under the Business Co-operation Framework Agreement, in connection with the our work performed, we have discussed with the Management and reviewed (i) the CT Management Policy; (ii) an internal price decision assessment process on the proposed continuing connected transactions; (iii) samples of each service for the ten months ended 31 October 2017 with both connected parties and independent third parties which set out the prices; (iv) summary report prepared by finance and securities department regarding the conduct of continuing connected transactions on a quarterly basis; and (v) monthly review process on terms of continuing connected transaction comparing to independent third parties.

Furthermore, as set out in the “Letter from the Board” contained in the Circular, the pricing mechanism under the Business Co-operation Framework Agreement adopted by the Group was supervised by the operation departments and the finance department. Given that (1) the terms of the proposed transaction are compared to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts; (2) the price of similar transactions of other companies in the industry is reviewed by the finance department of the Group regularly to ensure that the price of such purchase is market-oriented, fair and reasonable; (3) results of our review on samples for each type of transactions that the prices of transactions are no less favourable than quotation offered by independent third party; and (4) the Company has established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate.

2. *The Financial Services Agreement*

Date: 28 November 2017

Parties: The Company;
Hisense Finance

Term:

The term of the Financial Services Agreement shall commence from 1 January 2018 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2018, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Condition:

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

Subject matters:

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

The Company's internal policy regarding continuing connected transactions

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

According to the CT Management Policy, 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.

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit and loan services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and loans 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, our finance staff will conduct a monthly review on the services fees charged by external commercial banks for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly timely basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance 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 legal affairs department is responsible for the management of continuing connected transaction agreements under Financial Services Agreements and the new continuing connected transaction agreements that are not contemplated under the existing Financial Services Agreements, and the filing and registration of the agreements of connected transactions.

The Company and Hisense Finance periodically enter into deposit and loan agreements and electronic bank acceptance bill contracts pursuant to the Financial Services Agreement. The approval process of the relevant agreements and contracts is initiated by the finance department and the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

agreements and contracts can only be executed after the approval by the responsible finance officer in charge of a specific business operation. The finance and securities department will closely monitor the daily balances of the deposit service and the loan and electronic bank acceptance bill service so that the relevant annual caps are not exceeded and the risks involved are under control.

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

a. Pricing of deposit service

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

b. Pricing of loan and electronic bank acceptance bill service

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The designated finance staff of the Group will review and compare the interest rates for loan offered by Hisense Finance with the major commercial banks regularly. For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates for loan offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China, for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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.

c. Pricing of draft discount service

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

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

d. Pricing of settlement and sale of foreign exchange

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

Prior to execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and other commercial banks in the PRC.

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

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period. The treasure department of the Group will conduct a monthly review on the service fees charged by the five

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

We also note from respective annual reports of the Company in 2015 and 2016, the auditor confirmed that the relevant continuing connected transactions of the Group had been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements. In addition, the Company has engaged its auditor to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2015 and 31 December 2016, the Company has maintained effective internal control related to financial reporting in accordance with "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material aspects. Moreover, it was stated in these annual reports that in both years 2015 and 2016, the independent non-executive Directors had reviewed the Continuing Connected Transactions in the relevant years and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them.

Given the on-going review by the independent non-executive Directors and auditors of the Company in relation to the terms and annual caps of the Continuing Connected Transactions and no non-compliance matter relating to connected transactions was noted in the past years, we consider that appropriate internal control measures are in place by the Company to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders. As such, we have, on a sampling basis, obtained and reviewed the deposit interest rate and financial service fee provided or charged by other commercial banks in PRC, based on our comparison, we note that the interest rate and the prices for the services offered by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Hisense Finance were no less favourable than those offered by the independent third party. Based on the above, we consider that interests of the Group can be safeguarded.

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

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

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

Furthermore, as set out in the “Letter from the Board” contained in the Circular, the pricing mechanism under the Financial Services Agreement adopted by the Group was supervised by the finance department. Given that (1) the designated finance staff of the Group will review and compare the interest rates, services fees and quotations from Hisense Finance with the major commercial banks, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China, based on the nature and tenure of each transaction; (2) results of our review on sample record for each type of transactions that the interest rate and service fees of the transactions are no less favourable than quotation offered by five major commercial banks; and (3) the Company has

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate, we are of the view that the pricing basis relating to the Financial Services Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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

3. *The Financial Business Framework Agreement*

Date: 28 November 2017

Parties: The Company;
Hisense Financial Holdings

Term:

The Financial Business Framework Agreement shall commence from 1 January 2018 or the date of approval of the Financial Business Framework Agreement by the Shareholders at the EGM (whichever is later) until 31 December 2019, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Upon the Financial Business Framework Agreement becoming effective, the Existing Factoring Services Agreement will be deemed to be one of the definitive agreements under the Financial Business Framework Agreement. As such, the existing factoring business shall be subject to the terms as agreed in the Financial Business Framework Agreement.

Conditions:

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject matters:

Pursuant to the terms of the Financial Business Framework Agreement, the Company or its subsidiaries will engage Hisense Financial Holdings or its subsidiaries to provide a series of factoring services, including recourse commercial factoring and non-recourse commercial factoring.

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

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

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

Pricing:

The pricing of the factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the pricing offered by the factoring service companies which are independent third parties over the same period. The transactions under Financial Business Framework Agreement are conducted in the course of normal business of the parties, on normal commercial terms and on terms no less favourable than those obtained from or provided by (as the case may be) independent third parties.

The Group's finance department will ask for quotations and terms from at least 5 other providers of factoring services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries in order to ensure that the terms offered by Hisense Financial Holdings or its relevant subsidiaries are not less favourable than those offered by other providers of factoring services.

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The legal affairs department is responsible for the management of continuing connected transaction agreements under Financial Business Framework Agreement.

As set out in the “Letter from the Board” contained in the Circular, the pricing mechanism under the Financial Business Framework Agreement adopted by the Group was supervised by the finance department. Given that (1) the quotations and terms from at least 5 other providers of factoring services that are comparable to the same provided by Hisense Financial Holdings or its relevant subsidiaries will be reviewed by the Company’s finance department prior to the execution of the relevant transactions with Hisense Financial Holdings or its relevant subsidiaries; and (2) the Company has established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate, we are of the view that the pricing basis relating to the Financial Business Framework Agreement is on normal commercial terms and in the interests of the Company and the Shareholder as a whole.

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

III. Rationale for determining the maximum value of the transactions contemplated under the Agreements

Pursuant to Rule 14A.53 of the Hong Kong Listing Rules, the transactions contemplated under (1) the Business Co-operation Framework Agreements during the year commencing from the date of approval of the Business Co-operation Framework Agreement by the Shareholders until 31 December 2018 will be subject to an annual cap for the financial year ending 31 December 2018 of the Company; (2) the Financial Services Agreement during the year commencing from the date of approval of the Financial Services Agreement by the Shareholders until 31 December 2018 will be subject to an annual cap for the financial year ending 31 December 2018 of the Company; and (3) the Financial Business Framework Agreement during the year commencing from the date of approval of the Financial Business Framework Agreement by the Shareholders until 31 December 2019 will be subject to an annual cap for each of the financial year ending 31 December 2018 and 31 December 2019 of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Agreements for the year ending 31 December 2018 and 31 December 2019 (where applicable) and the estimated unaudited value of similar transactions between the relevant parties in 2017 are summarised below:

	Annual caps for the year ending 31 December 2017 (‘000)	Proposed caps during the term of the Agreements (‘000)	Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2017 (‘000)	Estimated utilisation of the caps for the year ending 31 December 2017 based on the estimated annualised unaudited value of the similar transactions for the year 2017 based on their unaudited value for the nine months ended 30 September 2017 (“2017 Deemed Actual Utilisation Rate”) (%)
The Business Co-operation Framework Agreement:				
Maximum aggregate value of purchase of home electrical appliances:	RMB1,600	RMB1,670	RMB440	49.4%
Maximum aggregate value of purchase of raw materials, parts and components:	RMB118,670	RMB235,860	RMB87,030	94.7%
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	RMB582,600	RMB642,480	RMB332,410	79.7%
Maximum aggregate value of supply of home electrical appliances:	RMB10,241,130	RMB13,051,860	RMB5,997,830	88.9%
Maximum aggregate value of supply of equipment:	RMB19,300	RMB16,500	–	9.1%
Maximum aggregate value of supply of moulds:	RMB451,000	RMB453,550	RMB272,880	85.6%
Maximum aggregate value of supply of raw materials, parts and components:	RMB112,090	RMB180,730	RMB59,390	74.1%
Maximum aggregate value of the provision of services by the Group:	RMB37,280	RMB30,220	RMB15,940	58.3%
The Financial Services Agreement:				
Maximum daily balance of the deposits to be placed by the Group with Hisense Finance in respect of the deposit services:	RMB6,000,000	RMB6,500,000	RMB4,199,970 (Note 1)	70.0% (Note 2)
Maximum daily balance of the loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services:	RMB6,000,000	RMB6,000,000	RMB4,546,050 (Note 1)	75.8% (Note 2)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Annual caps for the year ending 31 December 2017 (‘000)	Proposed caps during the term of the Agreements (‘000)	Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2017 (‘000)	Estimated utilisation of the caps for the year ending 31 December 2017 based on the estimated annualised unaudited value of the similar transactions for the year 2017 based on their unaudited value for the nine months ended 30 September 2017 (“2017 Deemed Actual Utilisation Rate”) (%)
Maximum aggregate value of the annual discount interest payable by the Group to Hisense Finance in respect of the draft discount services:	RMB50,000	RMB50,000	RMB1,645	4.4%
Maximum aggregate value payable by the Group to Hisense Finance in respect of settlement and sale of foreign exchange services:	USD700,000	USD500,000	USD10,750	2.0%
Maximum aggregate value payable by the Group to Hisense Finance in respect of agency services:	RMB3,000	RMB3,000	RMB233	10.4%

The Financial Business Framework Agreement:

Maximum daily balance of the recourse factoring to be placed by the Group with Hisense Financial Holdings or its relevant subsidiaries in respect of the recourse factoring services: (Note 3)	–	RMB100,000	–	–
Maximum aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company: (Note 3)	–	RMB500,000	–	–

Notes:

1. Being the maximum daily balance of deposits and loan and electronic bank acceptance bills, respectively, recorded from 1 January to 30 September 2017.
2. The maximum daily balance of deposits and loan and electronic bank acceptance bills recorded from 1 January to 30 September 2017 were used for comparison purpose without annualizing the closing balance.
3. The factoring service agreement was signed in May 2017, and there was no utilisation from May 2017 to September 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Category	Basis for the proposed Caps
The Agreement:	
Purchase of home electrical appliances	(a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2018 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators.
Purchase of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past (that is, estimated annualised unaudited value of the similar transactions for the year 2017); and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018 taking into account its anticipated increase in the relevant purchase of the Group in 2018.
Provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018.
Supply of home electrical appliances	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Category	Basis for the proposed Caps
Supply of equipment	(a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018.
Supply of moulds	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.
Supply of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.
Provision of services by the Group	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services.
The Financial Services Agreement:	
Deposit service	(a) the historical cashflow figures of the Group; and (b) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Category	Basis for the proposed Caps
Loan and electronic bank acceptance bill service	(a) the historical cashflow figures of the Group; (b) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (c) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2018 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan and electronic bank acceptance bill services application process by the Company.
Draft discount service	the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (b) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2018 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.
Settlement and sale of foreign exchange	the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the year ending 31 December 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The Financial Business Framework Agreement:

Recourse factoring service	(a) the amount of accounts receivables of the Company as published in the latest financial statements of the Company; (b) the increase in revenue of the Company from approximately RMB23.47 billion in 2015 to approximately RMB26.73 billion in 2016; (c) the expected continuing strong performance of the Company in the upcoming year; (d) the amount of cash flow of the Company as published in the latest financial statements of the Company; (e) the aging structure and the quality of the receivables of the Company; and (f) the actual amount of discount note receivables was approximately RMB425 million during the ten months ended 31 October 2017.
Non-recourse factoring services	(a) the amount of accounts receivables of the Company as published in the latest financial statements of the Company; (b) the actual amount of discount note receivables was approximately RMB425 million during the ten months ended 31 October 2017; (c) the increase in revenue of the Company from approximately RMB23.47 billion in 2015 to approximately RMB26.73 billion in 2016; (d) the expected continuing strong performance of the Company in the upcoming year; and (e) the amount of cash flow of the Company as published in the latest financial statements of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Business Co-operation Framework Agreement

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

Purchase of home electrical appliances by the Group

As regards the purchase of home electrical appliances, we note that the proposed 2018 annual cap of RMB1.67 million involves a revised upward of approximately 4.4% as compared to that of 2017. We have reviewed the historical actual transaction amounts for the nine months ended 30 September 2017 and the 2017 Deem Actual Utilisation Rate of approximately 49.4%. As advised by the Management, the Group will purchase prototypes of electrical appliances from Hisense Group and/or its subsidiaries in 2018 with the total transaction amount of approximately RMB600,000 and will purchase television sets from Hisense Electric and/or its subsidiaries in 2018 with the total transaction amount of approximately RMB760,000 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators. Furthermore, a new transaction of purchasing mobile phone is also included in the home appliances purchase budget of 2018. In light of the immateriality, we are of the view that the proposed annual cap for the purchase of home electrical appliances is not excessive.

Purchase of raw materials, parts and component by the Group

As regards the Group's constant attempt to optimize the product mix by increasing the production of high-end intelligent electrical appliances, which will increase the Group's purchase for raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries in 2018 for the increased production of high-end intelligent electrical appliances. The cost of raw materials, parts and components for production of high-end intelligent electrical appliances are relatively higher compared to those for production of other electrical appliance products. Furthermore, the Group is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by purchasing from Hisense Group, Hisense Electric and/or their respective subsidiaries, which in turn boosts the sales of the Group's high-end products and increase the product and brand competitiveness.

We note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 94.7%; and (ii) the proposed 2018 annual cap of RMB235.86 million increases approximately RMB117.19 million (or 98.8%) from the 2017 annual cap of approximately RMB118.7 million.

In order to assess whether the proposed 2018 annual cap is fair and reasonable, we have reviewed the historical actual transaction amounts incurred for the nine months ended 30 September 2017 and the 2017 Deem Actual Utilisation Rate. In addition, we also reviewed the basis and the calculation prepared by the Management and discussed with the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Management on the underlying assumptions of the 2018 annual cap. For the white goods markets, constant upgrades and improvements will become new normal, consumers' demand for the "intelligent" and "high-end" products has been increased continuously. The underlying assumptions, basis and calculation of the 2018 annual cap focus on the increasing of intelligent appliances in the near future. As learnt from the Company circular on the continuing connected transactions dated 23 December 2016 (the "**2016 Circular**"), the maximum aggregate value of purchase of raw materials, parts and components by the relevant parties for the nine months ended 30 September 2016 was approximately RMB9.9 million. While the maximum aggregate value of the purchase of raw materials, parts and components by the relevant parties for the nine months ended 30 September 2017 was approximately RMB87.0 million, representing a significant increase of approximately 778.8%, which is in consistent with the projection of the Company. As a result, we concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. As advised by the Management, the amount for such 2018 annual cap is based on the estimated annualised unaudited value of the similar transactions for the year 2017 (the "**2017 Deemed Actual Amount Incurred**") adjusted with the anticipated increase in the relevant sales of the Group in 2018. The Management advised that the amount for such 2018 annual cap is based on (i) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (ii) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2018. With the Group constantly attempting to optimize the product mix and increasing the production of the intelligent electric appliances, the Group will increase its purchase of wifi boards and electronic control boards from Hisense Group and/or its subsidiaries and it is anticipated that such purchase will amount to approximately RMB208 million in 2018 as compared to approximately RMB100 million in 2017. The cost of raw materials, parts and components for production of high-end intelligent electrical appliances are relatively higher compared to those for production of other electrical appliance products. In addition, other affiliated companies also have intention to develop the intelligent appliance business in the near future.

Based on (i) the above discussions with the Management and our analyses; (ii) the 2017 Deemed Actual Utilisation Rate of approximately 94.7% which is nearly full capacity; and (iii) our review of the underlying assumptions, basis and calculation, we concur with the Management's view that the proposed annual cap for the purchase of raw materials, parts and components from Hisense Group and Hisense Electric is prepared on a fair and reasonable basis.

Provision of services to the Group

As regards the provision of services, Hisense Group, Hisense Electric and/or its subsidiaries will provide to the Group, among others, material processing, property services and etc. We note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 79.7%; and (ii) the proposed 2018 annual cap of RMB642.48 million increases approximately RMB59.9 million (or 10.3%) from the 2017 annual cap of approximately RMB582.6 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the 2017 Deemed Actual Amount Incurred, the 2017 Deem Actual Utilisation Rate and sample contract in respect of relevant historical transactions. We also reviewed the basis

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2018 annual cap. As learnt from the 2016 Circular, the maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2016 was approximately RMB142.4 million. The maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2017 was approximately RMB332.4 million. By comparison, there is a significant increase of approximately 133.2% in 2017 on the provision of services, which is in line with the projection of the Company. We concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. Based on the Group's increase in the scale of revenue, Hisense Group, Hisense Electric and/or their respective subsidiaries will provide installation and maintenance services, to the Group in 2018. It is estimated that the transaction amount in respect of the provision of such services will amount to approximately RMB220 million. As the quality of services including distribution and technical support services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries is higher than those offered by independent third parties engaged by the Group in the past, the Group plans to continue to procure these services from Hisense Group, Hisense Electric and/or their respective subsidiaries. Furthermore, it is estimated that the relevant transaction amount for the provision of material processing services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group in 2018 will amount to approximately RMB141 million. As the Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from the previous course of dealing, the Group plans to engage Hisense Group, Hisense Electric and/or their respective subsidiaries to provide more services in 2018. In addition, the Group expects that the rental in the property market will increase which the price for property services will be adjusted in line with the increasing rental accordingly. Moreover, the Group will procure leasing of new properties in addition to the existing properties leased from Hisense Group and/or its subsidiaries and will procure the entering into of new leases between its subsidiaries and Hisense Group and/or its subsidiaries.

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

Supply of home electrical appliances by the Group

As regards the supply of home electric appliances, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 88.9%; (ii) the 2017 Deemed Actual Amount Incurred is approximately RMB9,102.8 million; and (iii) the proposed 2018 annual cap of RMB13,051.86 million increases approximately RMB2,810.7 million (or 27.4%) from the 2017 annual cap of approximately RMB10,241.1 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the 2017 Deemed Actual Amount Incurred, the 2017 Deem Actual Utilisation Rate and samples in respect of relevant historical transactions. We also reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2018 annual cap. As stated in the 2016 Circular, the maximum aggregate value of supply of home electrical appliances for the nine months ended

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

30 September 2016 was approximately RMB2,134.0 million. While the maximum aggregate value of supply of home electrical appliances for the nine months ended 30 September 2017 was approximately RMB5,997.8 million, which has increased by approximately 181.1%. With the positive increasing supply amount and the relatively high utilization rate in 2017, the Management is optimistic to estimate the increase in the relevant sales of the Group in 2018. We concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. The Management advised that, according to its business plan, the amount of the 2018 annual cap for the supply of home electrical appliances by the Group is based on the 2017 Deemed Actual Amount Incurred after catering for the anticipated increase in the relevant sales of the Group in 2018. The Management advised that it expects that the following increase in the relevant sales of the Group in 2018: (i) the Group has set a target which is to increase the total transaction amount of home electrical appliances supplied to Hisense Group, Hisense Electric and/or their respective subsidiaries by approximately 30% in 2018, taking into account the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to approximately RMB26,394 million, representing a year-on-year increase of 29%, and the expected growth in the Group's revenue in 2018 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" products in 2018; (ii) approximately RMB11,900 million of the sales attributing from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) the Group sells products through the online platforms of the new subsidiaries of Hisense Group, and the value of home electrical appliances supplied by the Group to the new subsidiaries of Hisense Group is estimated to be approximately RMB800 million.

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

Supply of equipment by the Group

As regards the supply of equipment, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 9.1%; and (ii) the proposed 2018 annual cap of RMB16.5 million decreases approximately RMB2.8 million (or 14.5%) from the 2017 annual cap of RMB19.3 million.

We note that (i) the 2017 Deemed Actual Utilisation Rate is only approximately 9.1% and no revenue was recorded for the nine months ended 2017. The Management advised that in order to stabilize and unify the procurement of equipment, Hisense Group tends to purchase the equipment from the Group to meet the overseas operation needs of the subsidiaries of Hisense Group. The low utilisation rate is due to the project delay in 2017. According to the Management, certain projects are currently under negotiation and they are expected to be implemented in 2018. The Group will supply equipment to Hisense Group and/or its new subsidiaries with the total transaction amount of approximately RMB12 million and will supply new equipment to Hisense Group and/or its subsidiaries with the total transaction amount of approximately RMB4.5 million in 2018. Therefore, the 2018 annual cap is adjusted downward after taking into account the low utilisation rate in 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Supply of moulds by the Group

As regards the supply of moulds, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 85.6%; and (ii) the proposed 2018 annual cap of RMB453.55 million remains fairly stable with the 2017 annual cap of approximately RMB451 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2018 annual cap. As learnt from the 2016 Circular, the maximum aggregate value of the supply of moulds between the relevant parties for the nine months ended 30 September 2016 was approximately RMB231.7 million. The maximum aggregate value of the supply of moulds between the relevant parties for the nine months ended 30 September 2017 was approximately RMB272.9 million. By comparison, there is an increase of approximately 17.8% in 2017 on the supply of moulds, which is in consistent with the projection of the Company. We concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. Based on the projection of the actual business needs, the Group will supply moulds to Hisense Group's subsidiaries for export in the sum of approximately RMB300 million and will supply moulds to Hisense Electric in the sum of approximately RMB130 million. The Management advised that, according to its business plan, the 2018 annual cap is based on the estimated annualised unaudited value of the similar transactions for the year 2017 of approximately RMB380 million after adjusting for the expected 20% sales growth for the year ending 31 December 2018. As such, although the 2017 Deemed Actual Utilisation Rate is over 85%, the 2018 annual cap still remains relatively stable with that of 2017.

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

Supply of raw materials, parts and components by the Group

As regards the supply of raw materials, parts and components, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 74.1%; and (ii) the proposed 2018 annual cap of RMB180.73 million increases approximately RMB68.6 million (or 61.2%) from the 2017 annual cap of approximately RMB112.1 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2018 annual cap. As learnt from the 2016 Circular, the maximum aggregate value of the supply of raw materials, parts and components between the relevant parties for the nine months ended 30 September 2016 was approximately RMB46.1 million. The maximum aggregate value of the supply of raw

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

materials, parts and components between the relevant parties for the nine months ended 30 September 2017 was approximately RMB59.4 million, representing an increase of approximately 28.9%, which is in consistent with the projection of the Company. We concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. The Group supplies parts and components to the subsidiaries of Hisense Group, which is a business derived from the product sales by the Group to the subsidiaries of Hisense Group. The estimated annualized unaudited value of the similar transactions for the year 2017 based on their unaudited value for the nine months ended 30 September 2017 is approximately RMB40 million. The Company expects that the increase of the similar transaction is in line with the increase of the estimated revenue growth by approximately 30% in 2018, taking into account the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to approximately RMB26,394 million, representing a year-on-year increase of 29%. The expected amount of approximately RMB52 million, together with the expected amount of parts and components quota for overseas customers of approximately RMB18.9 million, the upper limit for exporting parts and components for next year is estimated to be approximately RMB70.86 million. Additionally, the subsidiaries of the Group also sell parts and components to the subsidiaries of Hisense Electric, which mainly include television case, metal plate and television back panel. The expected amount is calculated by the existing unit price in 2017 times the forecast business volume which is expected to be in line with the 30% revenue growth in 2018. The total amount will be approximately RMB82.42 million.

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

Provision of services by the Group

As regards the provision of services, the Group will provide design, processing services and property services to Hisense Group and/or its subsidiaries. We note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 58.3%; and (ii) the proposed 2018 annual cap of RMB30.22 million decreases approximately RMB7.06 million (or 19.0%) from the 2017 annual cap of approximately RMB37.28 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2018 annual cap. As learnt from the 2016 Circular, the maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2016 was approximately RMB13.6 million. The maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2017 was approximately RMB15.9 million. By comparison, there is an increase of approximately 16.9% in 2017 on the provision of services, which is in consistent with the projection of the Company. We concur that the underlying assumptions, basis and calculation of the 2018 annual cap are fair and reasonable. The estimated annualized unaudited value of the similar transactions for the year 2017 based on their unaudited value for the nine months ended 30 September 2017 is approximately RMB21.72 million. The Company expects that the increase of the similar

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

transaction is in line with the increase of estimated revenue growth by approximately 30% in 2018, taking into account the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to approximately RMB26,394 million, representing a year-on-year increase of 29%. The following adjustment for the actual business needs of the Group in 2018 was also taken into consideration when determining the above Cap: (i) property services in the sum of approximately RMB10.78 million to be provided by the Group; (ii) design services in the sum of approximately RMB8 million to be provided by the Group; and (iii) processing services in the sum of approximately RMB5 million to be provided by the Group. However, the Management also notice that the 2017 Deemed Actual Utilisation Rate is only approximately 58.3%, which will partially offset the increase of provision of services in 2018. Therefore, the 2018 annual cap is adjusted downward after taking into account the relatively low utilization rate in 2017.

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

The Financial Services Agreement

Deposit Services to the Group

As set out in the Letter from the Board, the Company currently expects that the maximum daily balance of the deposits to be placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the respective Cap of RMB6,500 million (inclusive of interest) on any given day for the year ending 31 December 2018. Such Cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

We note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 70.0%; and (ii) the 2018 annual cap of RMB6,500 million increases RMB500 million (or 8.3%) from the 2017 annual cap of RMB6,000 million.

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

We have discussed with the Management of the Company about its business development plans on areas relating to research and development, investment, sales and supply of the Group. Also, it is noted from the 2017 Interim Report, the Group had total liabilities amounted to approximately RMB15,811.8 million, among which the notes payables was of approximately RMB5,631.5 million as at 30 June 2017. Its net current liabilities position was approximately RMB513.0 million as at 30 June 2017. In light of the above

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

It is also noted from the 2017 Interim Report, the Group had cash and cash equivalents of RMB3,900.6 million (including the deposits with other financial institutions). According to the Management, the corresponding maximum daily balance reached RMB4.2 billion as ended at 30 September 2017. The above relatively high balances compared with the 2017 annual cap of RMB6 billion may imply that the Group is in need of a higher amount of the deposit service from Hisense Finance. Moreover, the maximum daily balance of the cash and cash equivalents of the Company as at 30 September 2017 is RMB4.76 billion. Since 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, so the Company expects to keep using the deposit services as the past few years did. Meanwhile, due to the increase in revenue, the Company expects that the balance of cash and cash equivalent will increase by 30% in line with revenue growth.

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. As such, the maximum daily balance of the deposit is expected to be not more than RMB6.5 billion next year.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

favourable to the Company than terms available from other normal commercial banks and financial institutions, we are of the view that the proposed transactions in relation to the deposit services under the Financial Services Agreement are fair and reasonable.

As set out above, it is proposed that the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will be firstly transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal. Given the proposed maximum amount of loan and electronic bank acceptance bill services of RMB6,000 million on any given day for the year ending 31 December 2018, to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services, we do not consider the Cap of RMB6,500 million in respect of the deposit services under the Financial Services Agreement to be excessive.

Given that (i) the proposed transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; and (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values, we are of the view that the Cap of RMB6,500 million in respect of the deposit services under the Financial Services Agreement is fair and reasonable.

Loan and electronic bank acceptance bill services to the Group

As set out in the Letter from the Board, the Company currently expects that the maximum balance of loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group shall not exceed the Cap of RMB6,000 million (inclusive of interest) during the term of the Financial Services Agreement. Such Cap has been determined based on (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2018 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan and electronic bank acceptance bill services application process by the Company.

The Company adjusts the payment method by increasing the extent of its use of electronic bills for payment and by reducing payment in form of cash and endorsement of notes receivable. On one hand, this facilitates the use of the additional capital available by the Company to earn capital revenue and improve cash flow. On the other hand, this reduces the cost of capital incurred in endorsement of notes receivable. Therefore, the Company expects that it will continue to increase its use of the electronic bank acceptance bill service in 2018 and that the highest daily balance of the electronic bank acceptance bill service in 2018 will be RMB6,000 million (inclusive of interest and service fees), which is 30% above the highest daily balance in the nine months ended 30 September 2017, taking into account

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the fact that the Company's revenue for the nine months ended 30 September 2017 amounted to approximately RMB26,394 million, representing a year-on-year increase of 29%, and the expected growth in the Group's revenue in 2018 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" products in 2018.

We note that the maximum daily balance of loan and electronic bank acceptance bills to be placed by the Group with Hisense Finance was approximately RMB4,546.1 million in the first nine months of 2017 which are approximately 75.8% the Cap of RMB6,000 million for the year ending 31 December 2018. As understood from the Management, (i) the PRC credit market has become more tightened since 2013; (ii) it was difficult to borrow money from the PRC commercial banks; (iii) the Group has not taken any loan from Hisense Finance in 2017; and (iv) the maximum daily balance of RMB4,546.1 million recorded in the nine months ended 30 September 2017 was solely attributed to electronic bank acceptance bills.

The Group also did not take any loan from Hisense Finance in 2016 and 2017 where the latest loan granted from the Hisense Finance was taken in 2012. According to the statistics from the PBOC, the guideline interest rate between January and December 2012 was between 6.00% and 6.56% while the Group's borrowings with Hisense Finance bore interest rates ranging from 4.376% to 6.560% in 2012 as advised by the Management. Furthermore, we also note from the 2012 annual report and the 2013 interim report of Bank of China Limited ("BOC") that the respective average interest rate of domestic RMB corporate loans provided by BOC was 6.77% for 2012 and 6.49% for the first six months of 2013. As such, the interest rates for the loans provided by Hisense Finance were considered favourable to the Group and in the interests of the Company and the Shareholders as a whole.

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

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

Given that the loan and electronic bank acceptance bill services under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions, we are of the view that the 2018 annual cap in respect of the loan and electronic bank acceptance bill services under the Financial Services Agreement is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Draft discount services to the Group

As set out in the Letter from the Board, the Company currently expects that the annual discount interest payable by the Group to Hisense Finance for provision of draft discount services shall not exceed RMB50 million for the year ending 31 December 2018. Such cap has been determined based on (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the financial year ending 31 December 2018 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. Also, Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

As regards the draft discount services, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 4.4%; and (ii) the 2018 annual cap of RMB50 million is the same as the 2017 annual cap.

For the nine months period ended 30 September 2017, the historical service fees paid by the Company for the draft discount services provided by Hisense Finance to the Group was approximately RMB1,645,400. As advised by the Management, the discount interest rates (thus the costs to the Group) were quite high. In the Management's view, the future discount interest rates in PRC are difficult to predict, leading to uncertainty for the transactions in relation to draft discount services utilised by the Group. In this regard, we note that such payments of services fees had been fluctuating during the past several financial years. However, with the expectation of increase of export sales by the Group, the Company expects that it shall utilise more draft discount services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance if the cost is acceptable.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2018; and (ii) the Company's plan to enhance its management on its accounts receivables and inventory to expedite the capital turnover rate and reduce unused inventory and capital, it is estimated that the Company's annual sum of money for procurement of draft discount services by the Group to Hisense Finance will be RMB2,000 million in 2018 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be RMB50 million taking into account the existing market interest level and the expected term of draft discount services.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

its expected increasing utilisation in the coming financial years, we are of the view that the Cap of RMB50 million in respect of the draft discount service fees to be payable under the Financial Services Agreement is fair and reasonable.

Settlement and sale of foreign exchange services to the Group

As set out in the Letter from the Board, the Company currently expects that the annual amount of foreign exchange settled or sold by Hisense Finance for the Group shall not exceed US\$500 million. Such Cap has been determined based on the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the financial years ending 31 December 2018.

The historical transaction value for the provision of settlement and sale of foreign exchange services by Hisense Finance to the Group was amounted to approximately US\$15.5 million in 2016 and approximately US\$10.75 million for the first nine months of 2017. The Management consider that the fact the annualized amount in 2017 was lower than the amount in 2016 and the annual cap in 2017 is much higher than the actual utilisation rate, so the 2018 annual cap decreased accordingly.

As regards the settlement and sale of foreign exchange services, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 2.0%; and (ii) the 2018 annual cap of US\$500 million decreases US\$200 million (or approximately 28.6%) from the 2017 annual cap of US\$700 million.

We understand from the Management that currently, the Group uses the short-term settlement and sale of foreign exchange services provided by Hisense Finance while the long-term settlement and sale of foreign exchange services are provided by other financial institutions. After considering the trend of the exchange rate in the coming year which the Management considers to be volatile, the Management expects that the Company may use more short-term settlement and sale of foreign exchange services, which the Management considers easier and more efficient to manage the exchange rate risk. Meanwhile, the 2017 Deemed Actual Utilisation Rate is only approximately 2.0%, which will partially offset the increase of short-term settlement and sale of foreign exchange services in 2018. Therefore, the 2018 annual cap is adjusted downward after taking into account the relatively low utilization rate in 2017, but still remains in a relatively high level of amount.

In order to determine the fairness and reasonableness of the Cap, we, for the purpose of ensuring the accuracy of the Company's computation of the Cap, have reviewed the basis and assumptions on calculation in respect of the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the financial year ending 31 December 2018.

In view of the fact that (i) the proposed settlement and sale of foreign exchange services to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the actual transaction values; and (iii) the business development plans of the Company to be implemented in the future, it is generally in the interest of the Company to maximise the amount of settlement and sale of foreign exchange payable so as to provide for its expected increase in export sales for the coming financial years, we are of the view that the cap of US\$500 million in respect of the settlement and sale of foreign exchange to be payable under the Financial Services Agreement is fair and reasonable.

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

As set out in the Letter from the Board, the Company currently expects that annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds during the term of the Financial Services Agreement shall not exceed the Cap of RMB3 million for the year ending 31 December 2018. Such Cap has been determined based on the historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue and the charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

As regards the agency services, we note that (i) the 2017 Deemed Actual Utilisation Rate is approximately 10.4%; and (ii) the 2018 annual cap of RMB3 million remains the same as the 2017 annual cap of RMB3 million. The Group recorded the historical expenses for agency services of approximately RMB313,100 in 2016 and RMB233,100 for the first nine months of 2017, which is approximately 10.4% and 7.8% of the annual caps for the two years ending 31 December 2017. From the above, we note a trend of relatively low utilisation rate.

Advised by the Management, due to the similar utilisation rate of the annual caps in 2016 and the first nine months of 2017, the Company remains the Caps at same level for the coming one financial year.

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

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB1 to RMB200 per transaction. As the Company cannot guarantee that the standard service fees will maintain at the current low level for a long period, and taking into account the Group's expected demand for transfer services in 2018 and the charging standard for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

service fees for such services of normal commercial banks or similar agencies in the PRC in 2017, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3 million.

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

The Financial Business Framework Agreement

Recourse factoring service

As set out in the Letter from the Board, the Company currently expects that (i) the maximum daily closing balance of the recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB100 million (inclusive of interest) for each of the two financial years ending 2018 and 2019.

Such Cap has been determined with reference to (i) the amount of accounts receivables of the Company as published in the latest financial statements of the Company; (ii) the increase in revenue of the Company from approximately RMB23.47 billion in 2015 to approximately RMB26.73 billion in 2016; (iii) the expected continuing strong performance of the Company in the upcoming year; (iv) the amount of cash flow of the Company as published in the latest financial statements of the Company; and (v) the aging structure and the quality of the receivables of the Company; and (vi) the actual amount of discount note receivables was approximately RMB425 million during the ten months ended 31 October 2017.

As regards the recourse factoring services, for the period from 28 June 2017 to 30 September 2017, the aggregate transaction amount for the service under the Existing Factoring Services Agreement was nil, so the 2017 Deemed Actual Utilisation Rate is zero accordingly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Non-recourse factoring services

As set out in the Letter from the Board, the Company currently expects that the maximum aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company during the term of the Financial Business Framework Agreement shall not exceed RMB500 million (inclusive of interest) for each of the two financial years ending 31 December 2018 and 2019.

Such Cap has been determined with reference to (i) the amount of accounts receivables of the Company as published in the latest financial statements of the Company; (ii) the actual amount of discount note receivables was approximately RMB425 million during the ten months ended 31 October 2017; (iii) the increase in revenue of the Company from approximately RMB23.47 billion in 2015 to approximately RMB26.73 billion in 2016; (iv) the expected continuing strong performance of the Company in the upcoming year; and (v) the amount of cash flow of the Company as published in the latest financial statements of the Company.

As regards the non-recourse factoring services, for the period from 28 June 2017 to 30 September 2017, the aggregate transaction amount for the service under the Existing Factoring Services Agreement was nil, so the 2017 Deemed Actual Utilisation Rate is zero accordingly.

Advised by the Management, the balance of account receivable increased from approximately RMB2.7 billion as at 31 December 2016 to approximately RMB4.7 billion as at 30 June 2017 with a significant growth rate of approximately 74.1%. The Management believes that the account receivable balance will increase in line with the expected revenue growth in the coming financial year. It is expected that the Company will tend to use recourse or non-recourse factoring services to make full use of the increasing account receivables to speed up the liquidity and improve the efficiency of capital operation. Although the Company does not utilise any recourse or non-recourse factoring services under the Existing Financial Business Framework Agreement, the Management will still reserve the Caps to cater for future needs.

In view of the fact that (i) the proposed Cap of recourse factoring services is RMB100 million base on the account receivables amount as at 30 June 2017; (ii) the proposed Cap of non-recourse factoring services is RMB500 million based on the actual amount incurred on the draft discount services of approximately RMB425 million from January to October of 2017; (iii) the recourse and non-recourse factoring services to be provided by Hisense Financial Holdings to the Group will be conducted in the ordinary and usual course of business of the Company and are fair and reasonable and in the interest of the Company and the Shareholders as a whole; (iv) the non-exclusive arrangement under the Financial Business Framework Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (v) the business development plans of the Company to be implemented in the future, it is generally in the interest of the Company to maximise the amount of factoring services so as to provide for its expected increase in account receivables for the coming financial years, we are of the view that the Cap of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RMB100 million in respect of recourse factoring services fees and the Cap of RMB500 million in respect of non-recourse factoring services fees to be payable under the Financial Services Agreement is fair and reasonable.

Conditions of the annual caps under the Agreements

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

Recommendation

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

- (i) The manufacture and sale of home electrical appliances is one of the principal businesses of the Group;
- (ii) Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has the relevant expertise in the domestic electric appliances market in the PRC as well as strong financial resources. Accordingly, Hisense Group and Hisense Electric are in a good position to assist the Group in its domestic business development;
- (iii) By engaging Hisense Group and/or its subsidiaries, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business;
- (iv) By engaging Hisense Finance, the Group can largely reduce to financial costs. Accordingly, it is in the commercial interest of the Company;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (v) By engaging Hisense Financial Holdings, the Group can further increase the liquidity of the Company's assets, to receive the income from capital operation, and to increase the efficiency of the capital operation;
- (vi) Certain transactions contemplated under the Agreements will increase the sales of the Group, so it is in the interest of the Company to enter into such transactions;
- (vii) The terms of the definitive contract(s) to be entered into by the Group pursuant to the Agreements will be determined in accordance with the principle of fairness and reasonableness with reference to the market price, and the proposed transactions contemplated under the Agreement will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms. In addition, all the transactions contemplated under the Agreements are to be conducted on a non-exclusive basis, so the Agreements will not restrict the Group from engaging in the similar transactions with other parties; and
- (viii) The value of, and the basis for determining, the annual caps under the Agreement are fair and reasonable, details of which are set out in the section headed "Rationale for determining the maximum value of the transactions contemplated under the Agreements".

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

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 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
(<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0422/LTN20150422395.pdf>);
- (b) on pages 69 to 199 of the annual report for the year ended 31 December 2015 published on 20 April 2016
(<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0420/LTN20160420313.pdf>);
- (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
(<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0504/LTN20170504861.pdf>); and
- (d) on pages 2 to 130 of the interim report of the Company for the six months ended 30 June 2017 published on 6 September 2017
(<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0906/LTN20170906691.pdf>).

2. INDEBTEDNESS

As at the close of business on 30 November 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 Financial Services Agreement, the cash flow generated from the operating activities, financial resources available to the Group, including internally generated funds and the available credit financing, the Group has sufficient working capital to meet its requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Looking forward to 2018, market demands of the white goods will still be low. Besides, raw material prices, manpower and labour costs, logistic and transportation costs as well as installation service costs will continue to rise, creating great pressure on our operation and development. On the other hand, under the background of the new norm of the white goods moving towards “intelligence” and “high-end”, the users’ needs are constantly updated and diversified, and the upgrade of product structure is continuing at steady progress. The Company will seize the favourable opportunities in the industry and the market to adhere to the high-end product strategies so as to ensure the steady enhancement of scale and efficiency.

In the first three quarters of 2017, the Company adhered to the operating strategy 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 implement various tasks and has achieved a steady growth in scale and efficiency of the Company. From January to September 2017, the Company achieved operating revenue of RMB26,394 million, representing a year-on-year increase of 29.19%, and net profits attributable to shareholders of the listed company of RMB1,729 million, representing a year-on-year increase of 100.34%. The operation of the Company demonstrated continuous improvements.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

Long position in the Shares

Name of Director/ Supervisor	Nature of interest	Number of A Shares	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Tang Ye Guo	Beneficial owner	831,600	0.092	0.061
Mr. Jia Shao Qian	Beneficial owner	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. Liu Hong Xin	Hisense Group or Hisense Electric	Production of electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or Hisense Electric	Production of electrical products	Director and/or senior management
Mr. Dai Hui Zhong	Hisense Group or Hisense Electric	Production of electrical products	Director and/or senior management

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

5. LITIGATION

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

6. MATERIAL CONTRACTS

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 share transfer agreements entered into by the Company and Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited* (寧波梅山保税港區盈美投資管理有限公司) (the “**Purchaser**”) on 5 April 2017 and 2 August 2017 (the “**Share Transfer Agreements**”), under which the Purchaser purchased 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) at a consideration of RMB862,560,000. Further information in respect of the Share Transfer Agreements was disclosed in the announcement of the Company dated 3 August 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 on Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO

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

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

- (b) did not have any interest, direct or indirect, in any assets which have been, since 31 December 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 18 January 2018:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Financial Adviser dated 3 January 2018;
- (c) the letter from the Independent Board Committee dated 3 January 2018;
- (d) the Business Co-operation Framework Agreement;
- (e) the Financial Services Agreement;

- (f) the Financial Business Framework Agreement;
- (g) the Hitachi Business Framework Agreement;
- (h) the resolutions passed by the ninth session of the Board on 28 November 2017;
- (i) the prior approval and independent opinion of the independent non-executive Directors dated 28 November 2017 in relation to the connected transaction;
- (j) the Existing Business Co-operation Framework Agreement;
- (k) the 2015 Financial Services Agreement;
- (l) the Supplemental Agreement;
- (m) the Second Supplemental Agreement;
- (n) the Existing Factoring Services Agreement;
- (o) the Share Transfer Agreements;
- (p) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert” in this appendix;
- (q) the annual reports and consolidated audited accounts of the Company for the 2 years ending 31 December 2016;
- (r) the circular of the Company dated 8 June 2017; and
- (s) this circular.