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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **HISENSE HOME APPLIANCES GROUP CO., LTD.**, you should 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**

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

**海信家電集團股份有限公司**

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

- (1) CONTINUING CONNECTED TRANSACTIONS;**
- (2) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION;**
- (3) CONTINUING CONNECTED TRANSACTIONS – REVISED ANNUAL CAPS AND SUPPLEMENTAL AGREEMENT; AND**
- (4) BUSINESS FRAMEWORK AGREEMENT WITH QINGDAO HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.**

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



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A letter from the Board is set out on pages 8 to 64 of this circular. A letter from the Independent Board Committee is set out on pages 65 to 66 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 67 to 139 of this circular.

A notice of the EGM to be held on 23 January 2019 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 26 November 2018 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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## DEFINITIONS

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

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“Business Co-operation Framework Agreement”	the Business Co-operation Framework Agreement (業務合作框架協議) entered into between the Company, Hisense Electric, Hisense Electric Business and Hisense Group dated 26 November 2018 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 2019, being (i) RMB278,290,000 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) RMB267,900,000 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) RMB838,240,000 in respect of the provision of services by Hisense Group, Hisense Electric Business, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (iv) RMB15,085,700,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric Business, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (v) RMB12,500,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB228,320,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation

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## DEFINITIONS

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Framework Agreement; (vii) RMB161,420,000 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) RMB34,390,000 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) RMB8,000,000,000 (inclusive of interest) in respect of the maximum daily balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (b) RMB9,000,000,000 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 (inclusive of interest and service fees); (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;

“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 Home Appliances Group Co., Ltd. , 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;

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“controlling shareholder”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“EGM”	the first 2019 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 23 January 2019 at 3:00 p.m. for, among other things, the approval of (a) the Business Co-operation Framework Agreement, the Financial Services Agreement and the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto; and (b) the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap 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 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;
“Existing Financial Services Agreement”	the financial services agreement (金融服務協議) entered into between the Company and Hisense Finance dated 28 November 2017 in relation to the provision of financial services by Hisense Finance to the Group;
“Factoring Transactions”	the provision of recourse and non-recourse factoring services by Hisense Financial Holdings or its subsidiaries to the Group contemplated under the Financial Business Framework Agreement (as amended and supplemented by the Supplemental Agreement) as set out in the section headed “The Supplemental Agreement in relation to the Financial Business Framework Agreement” in this circular;
“Finance Leasing Services Annual Cap”	the annual caps for the transactions contemplated under the Supplemental Agreement for the year ending 31 December 2019, being RMB300,000,000 (inclusive of interest) in respect of the maximum daily closing balance of the finance leasing services provided by Hisense Financial Holdings or its subsidiaries to the Group at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement;

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## DEFINITIONS

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“Finance Leasing Transactions”	the provision of finance leasing services by Hisense Financial Holdings or its subsidiaries to the Group contemplated under the Supplemental Agreement as set out in the section headed “The Supplemental Agreement in relation to the Financial Business Framework Agreement” in this circular;
“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 or its subsidiaries to the Group;
“Financial Services Agreement”	the financial service agreement (金融服務協議) entered into between the Company and Hisense Finance dated 26 November 2018 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 being indirectly controlled by Hisense Group, holding 37.92% of the issued shares of the Company as at the Latest Practicable Date;
“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 Electric Business”	Qingdao Hisense Commercial Trading Development Co., Ltd.* (青島海信商貿發展有限公司) (formerly known as Qingdao Hisense Electric Business Co., Ltd. (青島海信電子商務有限公司), a company incorporated in the PRC with limited liability;
“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;

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## DEFINITIONS

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“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;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group holding 9.13% of the issued shares of the Company as at the Latest Practicable Date;
“Hisense International”	Hisense International Co., Ltd. (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hitachi Business Framework Agreement”	the business framework agreement (業務框架協議) entered into between the Company and Hisense Hitachi dated 26 November 2018 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. Zhong Geng Shen and Mr. Cheung Sai Kit;

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## DEFINITIONS

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“Independent Financial Adviser”	Yuanta Securities (Hong Kong) Company Limited, a corporation licensed to carry Type 1 (Dealing in securities), Type 2 (Dealing in future contracts), Type 4 (Advising on securities), Type 5 (Advising on future contracts), Type 6 (Advising on corporate finance) and Type 9 (Asset management)regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in respect of (a) the Business Co-operation Framework Agreement and the Financial Services Agreement and the Caps in relation thereto and (b) the Supplemental Agreement (which stipulates, <i>inter alia</i> , (1) the Revised Annual Caps; (2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap);
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, Hisense Electric Business, Hisense Electric and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules; (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Services Agreement under the Shenzhen Listing Rules; and (iii) in respect of the Supplemental Agreement, Shareholders other than Hisense Financial Holdings and its associates and other Shareholders which are required to abstain from voting in relation to the Supplemental Agreement under the Shenzhen Listing Rules;
“Latest Practicable Date”	4 January 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation (對外貿易經濟合作部);
“PRC”	the People’s Republic of China;
“Revised Annual Caps”	the revised annual caps for the Factoring Transactions for the year ending 31 December 2019;
“SFO”	Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong);

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## DEFINITIONS

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“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 (金融業務框架協議之補充協議) entered into between the Company and Hisense Financial Holdings dated 26 November 2018, which amends and supplements the Financial Business Framework 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;
“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; and
“%”	per cent.

\* for identification purpose only.

# Hisense

HISENSE HOME APPLIANCES GROUP CO., LTD.  
海信家電集團股份有限公司

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

*Executive Directors:*

Mr. Tang Ye Guo  
Mr. 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. Zhong Geng Shen  
Mr. Cheung Sai Kit

*Principal place of business in Hong Kong:*

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

7 January 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS;  
(2) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION;  
(3) CONTINUING CONNECTED TRANSACTIONS – REVISED ANNUAL CAPS AND  
SUPPLEMENTAL AGREEMENT; AND  
(4) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO  
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.**

**BACKGROUND**

References are made to:-

- (a) the announcement of the Company dated 28 November 2017 in relation to, inter alia, the Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement and the Financial Business Framework Agreement; and
- (b) the circular of the Company dated 3 January 2018 in relation to, inter alia, the Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement and the Financial Business Framework Agreement.

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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 26 November 2018, the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2018 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 26 November 2018, the Business Co-operation Framework Agreement and the Financial Services Agreement were entered into by the Company.

Reference is made to the announcement of the Company dated 28 November 2017 and circular of the Company dated 3 January 2018 in respect of, amongst others, the Financial Business Framework Agreement. The Financial Business Framework Agreement and the transactions contemplated thereunder (subject to the related caps) were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 18 January 2018.

In order to cater for future business, the Company and Hisense Financial Holdings entered into the Supplemental Agreement on 26 November 2018. Save for the changes pursuant to the Supplemental Agreement, all other terms and conditions of the Financial Business Framework Agreement shall remain unchanged and continue in full force and effect. The Supplemental Agreement has revised the annual caps for the year ending 31 December 2019 for the transactions of recourse factoring services and non-recourse factoring services contemplated under the Financial Business Framework Agreement and extended the scope of the services which may be provided by Hisense Financial Holdings and its subsidiaries to include the provision of finance leasing services.

In addition, on 26 November 2018, 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 and the Financial Services Agreement and the Caps in relation thereto;
- (b) provide you with further information on the Supplemental Agreement, the Revised Annual Caps and the Finance Leasing Services Annual Cap in relation thereto;
- (c) provide you with further information on the Hitachi Business Framework Agreement and the annual caps in relation thereto;
- (d) 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 Supplemental Agreement; and

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## LETTER FROM THE BOARD

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(e) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement and the Supplemental Agreement.

### (A) CONTINUING CONNECTED TRANSACTIONS

#### BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

**Date:** 26 November 2018

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

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2019 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 2019, which can be terminated before its expiration by mutual agreement of the parties.

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

**Condition:**

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

**Subject matters:**

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

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## LETTER FROM THE BOARD

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

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

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

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

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

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar 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

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## LETTER FROM THE BOARD

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continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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

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

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

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

#### **Pricing:**

Pricing for the purchase of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances offered by at least three independent third parties selected randomly 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 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 home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB1,670,000 (exclusive of VAT). For the nine months ended 30 September 2018, the aggregate

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## LETTER FROM THE BOARD

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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 RMB80,000 (exclusive of VAT and unaudited) (of which RMB50,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB30,000 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 2019 are subject to the Cap of RMB278,290,000 (exclusive of VAT), of which:–

- (i) RMB230,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries;
- (ii) RMB277,650,000 will be allocated to the purchase of home electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB410,000 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 2019 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 also expects to purchase "ASKO" and "Gorenje" high-end electrical home appliances (mainly high-end kitchen appliances) from Hisense International and/or its subsidiaries in 2019 with the total transaction amount of approximately RMB277,000,000. The Group also expects to purchase television sets from Hisense Electric and/or its subsidiaries in 2019 with the total transaction amount of approximately RMB410,000.

### **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. At the same time, the ownership rights of the high-end home appliance brands, "ASKO" and "Gorenje", belong to Gorenje Company under Hisense Group. The purchase of high-end home electrical

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## LETTER FROM THE BOARD

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appliances of “ASKO” and “Gorenje” (mainly being high-end kitchen appliances) from Hisense Group is conducive to expanding the domestic sales scale of high-end products and optimising product structure, thereby driving the enhancement of the Company’s overall high-end product scale. 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 selected randomly 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.

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## LETTER FROM THE BOARD

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### **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 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB235,860,000 (exclusive of VAT). For the nine months ended 30 September 2018, 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 RMB134,300,000 (exclusive of VAT and unaudited) (of which RMB121,400,000 was for the purchases from Hisense Group and/or its subsidiaries, RMB170,000 was for the purchases from Hisense International and/or its subsidiaries and RMB12,730,000 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 2019 are subject to the Cap of RMB267,900,000 (exclusive of VAT), of which:-

- (i) RMB237,660,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries;
- (ii) RMB700,000 will be allocated to the purchase of raw materials, parts and components from Hisense International and/or its subsidiaries; and
- (iii) RMB29,540,000 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 2018); 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 2019 taking into account its anticipated increase in the relevant purchase of the Group in 2019.

### **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 home 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

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## LETTER FROM THE BOARD

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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.

### **(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; (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property, technical support and advertisement services; and (iii) Hisense Electric Business and/or its subsidiaries on non-exclusive basis for the provision of agency 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 selected randomly 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 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.

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## LETTER FROM THE BOARD

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### **Historical figures:**

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric Business, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB642,480,000. For the nine months ended 30 September 2018, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric Business, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB354,750,000 (unaudited) (of which RMB329,270,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, RMB12,390,000 was for the provision of relevant services by Hisense International and/or its subsidiaries, RMB6,820,000 was for the provision of relevant services by Hisense Electric Business and/or its subsidiaries and RMB6,270,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric Business, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2019 are subject to the Cap of RMB838,240,000, of which:-

- (i) RMB627,580,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property (including: (a) property leasing services mostly for office buildings; and (b) property management services in relation to office buildings and factories. Most of the aforementioned properties are located in the Guangdong Province and Shandong Province of the PRC), medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries;
- (ii) RMB29,000,000 will be allocated to the provision of agency services and maintenance services by Hisense International and/or its subsidiaries;
- (iii) RMB167,250,000 will be allocated to the provision of agency services by Hisense Electric Business and/or its subsidiaries; and
- (iv) RMB14,410,000 will be allocated to the provision of property, technical support and advertisement services by Hisense Electric and/or its subsidiaries.

## LETTER FROM THE BOARD

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

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed caps (Unit: RMB)		Reasons and Basis for determining the proposed Cap for the financial year ending 31 December 2019
		Actual transaction amount for the nine months ended 30 September 2018	Proposed Cap for the financial year ending 31 December 2019	Actual transaction amount for the nine months ended 30 September 2018	Proposed Cap for the financial year ending 31 December 2019	
Hisense Group and/or its subsidiaries	material processing services	141,270,000	78,230,000	142,990,000	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the Group for the year 2019.	
	installation and maintenance services	221,800,000	146,200,000	281,640,000	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; (b) the projected level of production and sales of electrical appliances of the Group for the year 2019; and (c) high quality of installation and maintenance services provided by Hisense Group and/or its subsidiaries. The Group will enter into more installation and maintenance services provided by Hisense Group and/or its subsidiaries.	
	property services (including property management and property leasing)	22,320,000	12,710,000	30,190,000	(a) expected increase in charges for electricity and water due to the increment of operating revenue of the Group in 2019; (b) the Group will procure leasing of new properties in addition to the existing properties leased from Hisense Group and/or its subsidiaries or expand the size of leasing area to meet the increased leasing needs; and (c) expected increase in property service fees in 2019 due to the increment of rental fees in the market.	

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed caps (Unit: RMB)	
		Actual transaction amount for the nine months ended 30 September 2018	Cap for the financial year ending 31 December 2018	Proposed Cap for the financial year ending 31 December 2019	Reasons and Basis for determining the proposed Cap for the financial year ending 31 December 2019
information system maintenance services	46,690,000	29,010,000	55,300,000	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the Group for the year 2019.	
equipment inspection services	18,350,000	6,390,000	17,620,000	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the Group for the year 2019.	
distribution, medical, leasing, design, agency services, property construction, management consultancy and technical support services	131,000,000	56,730,000	99,840,000	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; (b) the projected level of production and sales of electrical appliances of the Group for the year 2019; and (c) the expected upward adjustment in service fees along with increasing labour cost.	
<b>Total</b>	<b>581,430,000</b>	<b>329,270,000</b>	<b>627,580,000</b>		

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Historical figures (Unit: RMB)		Proposed caps (Unit: RMB)	
Entities providing services	Types of services provided to the Group	Actual transaction amount for the nine months ended 30 September 2018	Proposed Cap for the financial year ending 31 December 2019
		Reasons and Basis for determining the proposed Cap for the financial year ending 31 December 2019	Reasons and Basis for the financial year ending 31 December 2019
Hisense International and/or its subsidiaries	maintenance services	20,000,000	10,140,000
			28,000,000 (a)
			(a) similar transactions between the Group with Hisense International and/or its subsidiaries in the past;
			(b) the projected level of production and sales of electrical appliances of the Group for export in 2019; and
			(c) higher expectation from overseas customers in relation to product quality which leads to extension in warranty period of products.
	agency services	1,000,000	2,250,000
			1,000,000 (a)
			(b) similar transactions between the Group with Hisense International and/or its subsidiaries in the past; and
			(b) the expected adjustments in agency services of the Group for the year 2019.
	<b>Total</b>	<b>21,000,000</b>	<b>12,390,000</b>
			<b>29,000,000</b>
Hisense Electric Business and/or its subsidiaries	agency services	20,000,000	6,820,000
			167,250,000 (a)
			(a) expected increase in sales level of online e-commerce; and part of “Online to Offline” business in 2019.
	<b>Total</b>	<b>20,000,000</b>	<b>6,820,000</b>
			<b>167,250,000</b>
Hisense Electric and/or its subsidiaries	property services (including property management and property leasing)	11,100,000	5,220,000
			9,490,000 (a)
			(a) similar transactions between the Group with Hisense Electric and/or its subsidiaries in the past; and
			(b) the expected adjustments in property services of the Group for the year 2019 due to the increment of rental fees in the market.

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed caps (Unit: RMB)	
		Actual transaction Cap for the financial year ending 31 December 2018	Proposed Cap for the financial year ending 30 September 2018	Proposed Cap for the financial year ending 31 December 2019	Reasons and Basis for determining the proposed Cap for the financial year ending 31 December 2019
	technical support and advertisement services	8,940,000	1,050,000	4,920,000	(a) similar transactions between the Group with Hisense Electric and/or its subsidiaries in the past; (b) the projected level of production and sales of electrical appliances of the Group for the year 2019; and (c) the Group's expected increase in procurement of advertisement service through Hisense Electric and/or its subsidiaries.
<b>Total</b>		<b>20,050,000</b>	<b>6,270,000</b>	<b>14,410,000</b>	

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

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

In response to the needs of customers and the market, Hisense Electric Business is responsible for the integrated management and organization of the online e-commerce and “Online-to-Offline” business of certain markets for the Company’s full-range home appliance products (i.e. brown and white goods), which is conducive to enhancing the synergy and sharing effect of the Company’s full-range home appliance products, improve the Company’s operational efficiency and reduce expense ratio, which would improve the Company’s product management capability.

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 Business, 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 Business, 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 selected randomly 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

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

### **Historical figures:**

The annual cap allocated to the 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 as specified in the Existing Business Co-operation Framework Agreement is RMB13,051,860,000 (exclusive of VAT). For the nine months ended 30 September 2018, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric Business, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB7,794,390,000 (exclusive of VAT and unaudited) (of which RMB168,280,000 was for the supply to Hisense Group and/or its subsidiaries, RMB7,438,630,000 was for the supply to Hisense International and/or its subsidiaries, RMB187,440,000 was for the supply to Hisense Electric Business and/or its subsidiaries and RMB40,000 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 Business, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 are subject to the Cap of RMB15,085,700,000 (exclusive of VAT), of which:-

- (i) RMB364,280,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries;
- (ii) RMB14,049,620,000 will be allocated to the supply of home electrical appliances by the Group to Hisense International and/or its subsidiaries;
- (iii) RMB670,640,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Electric Business and/or its subsidiaries; and
- (iv) RMB1,160,000 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 Business, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market

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conditions about the demand for electrical appliances; 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 2019.

The above Cap was also determined with reference to the following expected increase in the relevant sales of the Group in 2019: (i) according to the business plan of the Group for the year 2019, the Group has set a target which is to increase the total transaction amount of home electrical appliances supplied to Hisense International and/or its subsidiaries by approximately 30% in 2019. In addition, apart from the expansion of the existing overseas channels above mentioned, Hisense International and/or its subsidiaries will increase its sales in new overseas sales markets. Therefore, the value of home electrical appliances for export supplied by the Group to Hisense International and/or its subsidiaries is estimated to be approximately RMB14,049,620,000 and (ii) according to the on-line business plan of the Group for the year 2019, the value of home electrical appliances supplied by the Group to Hisense Electric Business is estimated to be approximately RMB670,640,000.

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

The production and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric Business, 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. Through Hisense Electric Business's development of its online business in various online platforms, a synergetic effect can be created. This can further increase the Group's sales scale; and boost the Group's market share and income.

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

**(5) Supply of equipment**

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

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### **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 selected randomly 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 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB16,500,000 (exclusive of VAT). For the nine months ended 30 September 2018, 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) and approximately RMB0 (exclusive of VAT and unaudited) was for the supply to Hisense International and/or its subsidiaries.

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of equipment by the Group to Hisense International and/or its subsidiaries for the financial year ending 31 December 2019 are subject to the Cap of RMB12,500,000 (exclusive of VAT).

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; and (b) the projected sales of home electrical appliances of the Group for the year ending 31 December 2019.

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### **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 on the basis of a reasonable cost plus reasonable profit margin. For determining reasonable costs, the Company will take into account fixed cost (e.g. depreciation of machinery), cost of raw material, labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period.

#### **Historical figures:**

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB453,550,000 (exclusive of VAT). For the nine months ended 30 September 2018, 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 RMB144,700,000 (exclusive of VAT and unaudited) (of which RMB3,450,000 was for the supply to Hisense Group and/or

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its subsidiaries, RMB48,450,000 was for the supply to Hisense International and/or its subsidiaries, and RMB92,800,000 was for the supply to Hisense Electric and/or its subsidiaries).

### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 are subject to the Cap of RMB228,320,000 (exclusive of VAT), of which:-

- (i) RMB9,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries;
- (ii) RMB61,320,000 will be allocated to the supply of moulds to Hisense International and/or its subsidiaries; and
- (iii) RMB158,000,000 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. Based on the projection of the actual business needs, the Group will supply moulds to Hisense International and/or its subsidiaries for export in the sum of approximately RMB61,320,000 and will supply moulds to Hisense Electric and/or its subsidiaries in the sum of approximately RMB158,000,000.

### **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 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 and increasing the sales revenue of the Group.

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

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### *(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 selected randomly 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 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB180,730,000 (exclusive of VAT). For the nine months ended 30 September 2018, 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 RMB78,780,000 (exclusive of VAT and unaudited) (of which RMB12,010,000 was for the supply to Hisense Group and/or its subsidiaries, RMB48,620,000 was for the supply to Hisense International and/or its subsidiaries and RMB18,150,000 was for the supply to Hisense Electric and/or its subsidiaries).

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### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 are subject to the Cap of RMB161,420,000 (exclusive of VAT), of which:–

- (i) RMB25,150,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries;
- (ii) RMB86,900,000 will be allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries; and
- (iii) RMB49,370,000 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.

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 upper limit for exporting parts and components for year 2019 is estimated to be approximately RMB81,590,000. 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 backboard, television case and metal plate, produced by the Group for the subsidiaries of Hisense Electric.

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

Hisense Group and/or its subsidiaries has overseas sales channels and high quality customer resources which can enhance the sales of raw materials, parts and components of the Group and expand the sales scale of the Group. 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.

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### *(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 and property 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 selected randomly 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.

#### **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 2018 as specified in the Existing Business Co-operation Framework Agreement is RMB30,220,000. For the nine months ended 30 September 2018, 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 RMB11,100,000 (unaudited) (of which RMB8,850,000 was for the provision of relevant services by the Group to Hisense Group and/or its subsidiaries, RMB1,560,000 was for the provision of relevant services by the Group to Hisense International and/or its subsidiaries and RMB690,000 was for the provision of relevant services by the Group to Hisense Electric and/or its subsidiaries).

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## LETTER FROM THE BOARD

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### **Proposed Cap:**

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2019 are subject to the Cap of RMB34,390,000, of which:-

- (i) RMB17,690,000 will be allocated to the provision of processing services and property services by the Group to Hisense Group and/or its subsidiaries;
- (ii) RMB14,700,000 will be allocated to the provision of design and property services by the Group to Hisense International and/or its subsidiaries; and
- (iii) RMB2,000,000 will be allocated to the provision of processing services and property 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 2019 was also taken into consideration when determining the above Cap: (i) property services in the sum of approximately RMB9,710,000 to be provided by the Group; (ii) design services in the sum of approximately RMB12,500,000 to be provided by the Group; and (iii) processing services in the sum of approximately RMB3,400,000 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 can enhance the utilisation rate of the Group's resources and increase the Group's revenue.

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

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## LETTER FROM THE BOARD

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

#### FINANCIAL SERVICES AGREEMENT

**Date:** 26 November 2018

**Parties:** The Company;  
Hisense Finance

**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2019 or the date of approval of the Financial Services 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.

**Condition:**

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

**Subject matters:**

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

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

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest (貼現利息) from the Group for “cashing” the bank drafts. After the

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## LETTER FROM THE BOARD

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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. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, our finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select

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three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the 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 of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

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

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## LETTER FROM THE BOARD

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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. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rates on deposits via conducting online and telephone enquiries.

**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 RMB6,500,000,000 (inclusive of interest). For the period commencing from 1 January 2018 to 30 September 2018, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB4,600,000,000.

**Proposed Cap:**

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB8,000,000,000 (inclusive of interest) on any given day for the year ending 31 December 2019.

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 as a result the Company will utilize more deposit services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance. It is expected the highest daily cash balance held by the Group would amount to approximately RMB7,712,500,000 in 2019 for the reasons stated below. While the Company does not intend to

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deposit all its cash with Hisense Finance, a buffer in the maximum daily cash balance in the Group's deposit account is required to take into account: (a) deposit services required during the transition period between expiry of wealth management products subscribed by the Group and subscription of new wealth management products by the Group; and (b) the temporary deposit of the proceeds of the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement.

As at 30 September 2018, the highest daily balance of cash held by the Group was RMB5,100,000,000. The Company's revenue for the nine months ended 30 September 2018 amounted to RMB28,808,393,856.04, representing a year-on-year increase of 9%. It is expected that the growth of the Group's revenue in 2019 is along with the expected continuing market trend of shifting towards "high-end" and "intelligence" in 2019. As such, it is anticipated that the highest daily cash balance held by the Group will correspondingly increase by 25% to approximately RMB6,400,000,000 in 2019.

In order to further improve the efficiency of capital utilisation and bring revenue from capital utilisation, the Company will increase the extent of its use of electronic bills payment in 2019 and reduce the endorsement of bills receivable. It is expected that payment by means of electronic acceptance bills will increase from currently 24% to 45%. As such, monetary funds will further increase by approximately RMB800,000,000.

As at 30 September 2018, the accounts receivables turnover was shortened by 2 days year-on-year. In 2019, 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. It is expected that the accounts receivables turnover will be further shortened by 2 days in 2019 compared to the rate of accounts receivable turnover in 2018. As such, monetary funds will further increase by approximately RMB500,000,000.

In view of the above, it is expected the highest daily cash balance held by the Group would amount to approximately RMB7,712,500,000 in 2019.

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

- (a) although the Company intends to continue to allocate a substantial amount of its cash for subscription of entrusted wealth management products, deposit services are still required for cash involved in the transition period between the expiry of entrusted wealth management products and the subscription of new

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entrusted wealth management products. The expected amount of cash for subscription of entrusted wealth management products in the year 2019 is approximately RMB5,000,000,000; and

(b) the Group will also borrow loans from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. As the 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's funding needs in terms of loans will also affect the Group's deposit balances with Hisense Finance. Given that the maximum amount of loan from Hisense Finance to the Group on any given day for the nine months ended 30 September 2018 was RMB200 million and the expected increase in the Company's revenue by 25% in 2019, approximately an additional RMB300 million buffer for the deposit services by Hisense Finance to the Group in the year 2019 to cater for the temporary deposit of loan provided from Hisense Finance is necessary.

Therefore, in order to satisfy the business needs, it is expected that the daily closing balance of deposit will not exceed RMB8,000,000,000 in 2019.

**(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 Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rate charged for loans via conducting online and telephone enquiries.

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

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

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 period commencing from 1 January 2018 to 30 September 2018, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB3,700,000,000.

### **Proposed Cap:**

The Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB9,000,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2019.

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 2019 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.

In 2019, the Company will further adjust payment terms, increase payment via electronic bank acceptance bills, reduce payments via cash and endorsement of bills receivable. On one hand, the Company can utilize the

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available capital more efficiently to obtain operational income and increase cash flow. On the other hand, the Company can reduce costs derived from endorsement of bills receivable. As such, it is expected that the Company will continue to use electronic bank acceptance bills services in the future. For the nine periods commencing from 1 January 2018 to 30 September 2018, the maximum daily balance of the loan and electronic bank acceptance bills amounted to approximately RMB3,700,000,000. It is expected that payment by means of electronic acceptance bills will increase from currently 24% to 45% in 2019; coupled with the estimated increase in the amount of purchase payment of 25% (which correspond with the percentage increase of expected income in 2019), the daily balance electronic bank acceptance bills are expected to be not exceeding RMB9,000,000,000 (inclusive of interests and service fees) to meet business needs.

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

#### **Historical figures:**

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2018 to 30 September 2018, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB7,537,400.

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### **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 2019.

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 year ending 31 December 2019 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 2019; 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 RMB2,500,000,000 in 2019 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be RMB50,000,000 for the year ending 31 December 2019 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 five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of service fees via conducting online and telephone enquiries.

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### **Historical Figures:**

Under the Existing Financial Services Agreement, the annual amount settled or sold by Hisense Finance for the Group shall not exceed US\$500,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2018 to 30 September 2018, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$6,154,800.

### **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 2019. 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 year ending 31 December 2019. As of September 2018, revenue of the Company resulting from export business amounted to approximately RMB8,500,000,000 which is equivalent to approximately US\$1,200,000,000. Due to fluctuations in global economy and volatility of exchange rate of foreign currencies in 2018, all receipts of monies from export business in 2018 were denominated in RMB as opposed to foreign currencies. As such, the actual amount of settlement and sale of foreign exchange of the Company in 2018 was relatively low under these unusual circumstances. On the contrary, the transactions of settlement and sale of foreign exchange were conducted in normal situation in 2017. The Company considers that it would be more appropriate to estimate the proposed Cap for 2019 based on historical figures of 2017. In 2017, the actual transaction amount of settlement and sale of foreign exchange was approximately US\$510,000,000 where payment from export business was mainly denominated in foreign currencies.

Taking into account of all of the above factors, it is estimated that the settlement and sale of foreign exchange services provided by Hisense Finance for 2019 will amount to approximately US\$500,000,000.

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 2018 was US\$123,000,000, which included the amount settled or sold by Hisense Finance for the Group of approximately US\$6,150,000. 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

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

**Historical Figures:**

Under the Existing Financial Services Agreement, the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (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 period commencing from 1 January 2018 to 30 September 2018, 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 RMB322,400.

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### **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 2019. The above Cap was determined with reference to the historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue and the charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB5.5 to RMB200 per transaction. As the Company is unable to ensure that the service fees payable by the Group to Hisense Finance will remain to be lower than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC, and taking into account the Group's expected demand for transfer services in 2019 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2018, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3,000,000.

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

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

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

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(iii) Hisense Finance is regulated by the CBRC and engages 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 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 periodically, 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.

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## LETTER FROM THE BOARD

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Given that (i) the interest rates on deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC; and (ii) Hisense Finance is expected to provide more suitable 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. The transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company. It would in turn strengthen the Company's ability to avoid the risk arising from the change of national monetary policies and ensure that the Company will maintain a stable level of assets for daily operation. It would also further improve capital efficiency of the Company.

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

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

- (a) reviewing the audited reports of Hisense Finance of the previous two financial years to ascertain the amount of its total assets and has found that its total assets has year-on-year increase and such reports are not qualified nor disclaimed by the auditors;
- (b) preparing 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」(the "Risk Assessment Reports") which has been published by the Company on the website of Shenzhen Stock Exchange dated 29 March 2016, 29 March 2017, 29 March 2018 and 29 August 2018 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 2015, 31 December 2016, 31 December 2017 and 30 September 2018 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

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## LETTER FROM THE BOARD

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- (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;
- (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

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## LETTER FROM THE BOARD

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(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 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.

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## LETTER FROM THE BOARD

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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 other commercial banks in the PRC for similar deposits. However, the annual interest income only accounts for a small portion of its profits, assets and liabilities. Therefore, the Company expects that its use of deposit services under the Financial Services Agreement will not have any material impact towards the profit, assets and liabilities of the Company.

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

#### **THE SUPPLEMENTAL AGREEMENT IN RELATION TO THE FINANCIAL BUSINESS FRAMEWORK AGREEMENT**

**Date:** 26 November 2018

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

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

In relation to the Supplemental Agreement, the Company has adopted various internal control measures.

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## LETTER FROM THE BOARD

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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 Supplemental Agreement will not exceed the proposed Revised Annual Caps, the Company will periodically monitor the daily closing balance of the recourse factoring services and finance leasing services and total transaction amount of non-recourse factoring services. Furthermore, the Company will estimate the amount of transactions that may possibly be incurred in the coming months in respect of the recourse factoring services, non-recourse factoring services and finance leasing services under the Supplemental Agreement.

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

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

**(1) Revision of annual caps**

**(a) *Recourse factoring services***

Pursuant to the Financial Business Framework Agreement, the Company has agreed that the Group shall engage Hisense Financial Holdings to provide recourse factoring services as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement.

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## LETTER FROM THE BOARD

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### *Original annual cap*

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

### *Revised annual cap*

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB800,000,000 (inclusive of interest).

### Historical figures

For the period from 1 January 2018 to 30 September 2018, the highest daily closing balance of the recourse factoring services was approximately RMB99,970,000 (inclusive of interest).

### **(b) Non-recourse factoring services**

Pursuant to the Financial Business Framework Agreement, the Company has agreed that the Group shall engage Hisense Financial Holdings to provide non-recourse factoring services as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement.

### *Original annual cap*

The maximum aggregated annual value of the non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB500,000,000 (inclusive of interest).

### *Revised annual cap*

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the maximum aggregated annual value of the non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB400,000,000 (inclusive of interest).

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## LETTER FROM THE BOARD

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### Historical figures

For the period from 1 January 2018 to 30 September 2018, the aggregated annual value of the non-recourse factoring services was approximately RMB54,400,000 (inclusive of interest).

### Basis of the Revised Annual Cap of recourse factoring services

The Revised Annual Caps for the year ending 31 December 2019 was determined with reference to the actual amounts paid or received by the Group in relation to the Factoring Transactions for the 12 months ended 31 December 2018 and the requirement for business development of the Company in the remaining term of the Financial Business Framework Agreement. It is estimated that the original annual caps will not be sufficient to meet the current requirement for business development of the Company. The basis on which the Company determines the Revised Annual Cap for recourse factoring services are as follows: According to the situation of bills receivable of the Company from the major customers in the peak season of 2018, the monthly average sum for recourse factoring services would be approximately RMB130 million. Since the majority of the bills receivable of the Company are of 6-month valid term, the Company estimated the Revised Annual Caps with reference to a term of 6-month period for the bills. Based on a term of six-month for the bills, the annual cap for next year is expected to be not exceeding RMB800 million. As at the Latest Practicable Date, the original annual caps for the Factoring Transactions have not been exceeded.

### Basis of the Revised Annual Cap of non-recourse factoring services

As of 31 December 2017, the balance of bills receivable of the Company was approximately RMB3,500,000,000. As of 30 September 2018, the balance of bills receivable of the Company was approximately RMB2,500,000,000. The average bills receivable of the Company was calculated by the aggregate sum of bills receivable as of 31 December 2017 and that as of 30 September 2018, divided by two. As such, the average bills receivable of the Company would amount to RMB3,000,000,000. It is noted that bills receivable would increase according to increase in operating income. Since it is expected that the growth rate of operating revenue of the Company in 2019 would be 25%, it is estimated that the balance of bills receivable would amount to RMB3,700,000,000 among which RMB2,500,000,000 would be allocated to the provision of draft discount services, whilst RMB800,000,000 would be allocated to the provision of recourse factoring services. As a result, the annual cap for non-recourse factoring services is revised to RMB400,000,000 (inclusive of interest).

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## LETTER FROM THE BOARD

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It was also set out in the Financial Business Framework 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.

Save and except for the revision of the annual caps for the transactions of the recourse factoring services and non-recourse factoring services which may be provided by Hisense Financial Holdings and its subsidiaries to the Group as set out above, all other terms and conditions under the Financial Business Framework Agreement shall remain unchanged.

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

In addition to the provision of factoring services as set out in the Financial Business Framework Agreement, the Supplemental Agreement expands the scope of services under the Financial Business Framework Agreement to include the provision of finance leasing services.

#### *Subject matters:*

Pursuant to the terms of the Supplemental Agreement, the Company or its subsidiaries will engage Hisense Financial Holdings or its subsidiaries to provide finance leasing services, the particulars of which are set out as follows:—

- (i) direct leasing;
- (ii) sale and leaseback;
- (iii) leveraged leasing;
- (iv) captive lease; and
- (v) operating leasing.

#### *Pricing:*

The pricing of the finance leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the pricing offered by the finance leasing service companies which are independent third parties over the same period.

The interest rate charged for the finance leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the rate charged 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

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## LETTER FROM THE BOARD

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Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations for the interest rate charged for finance leasing services.

*Proposed cap:*

The daily closing balance of the finance leasing 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 RMB300,000,000 (inclusive of interest).

*Basis for the Proposed Cap:*

The proposed cap is mainly based on the Company's historical cash outflow on items such as purchasing fixed assets, etc. In 2017, the cash payment by the Company for purchasing fixed assets, intangible assets and other long-term assets amounted to approximately RMB390,000,000. From January to September 2018, the cash payment by the Company for purchasing fixed assets, intangible assets and other long-term assets amounted to approximately RMB230,000,000. It is expected that cash payment by the Company for purchasing fixed assets, intangible assets and other long-term assets in 2019 would be of a similar amount when compared to 2018. In order to explore financing channels, it is expected that the annual cap for commencing finance leasing services through Hisense Financial Holdings in 2019 would be RMB300,000,000 (inclusive of interest).

**Reasons for the revision of the annual caps and provision of finance leasing services under the Supplemental Agreement**

Factoring and finance leasing services provided by Hisense Financial Holdings or its subsidiaries can further revitalize the Company's idle assets. By utilising finance leasing services, the Company can improve its efficiency of the use of capital. The Company can reduce cash expenditure for purchases such as purchases of fixed assets, etc., and may receive discount for the purchase price with early payment. The idle cash could then be used for investment management and thereby generating income from capital.

The Supplemental Agreement is conditional upon the approval of the Supplemental Agreement (which stipulates (1) the Revised Annual Caps; (2) the provision of finance leasing services; and (3) the Finance Leasing Services Annual Cap as set out above) by the Independent Shareholders.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that Factoring Transactions and the Finance Leasing Transactions have been and will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties. As such, the Directors (including the independent

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## LETTER FROM THE BOARD

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non-executive Directors) consider that the terms of the Supplemental Agreement and the Revised Annual Caps and the Finance Leasing Services Annual Cap thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **INFORMATION RELATING TO THE COMPANY, HISENSE ELECTRIC BUSINESS, 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.

Hisense Electric was established on 17 April 1997 and has a registered capital of RMB 1,308,481,222. 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, leasing of immovable property; catering management

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## LETTER FROM THE BOARD

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services, catering services, conference services and parking services (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 Electric Business was incorporated in July 2017 with its registered address at No. 399, Songling Road, Laoshan District, Qingdao City, Shandong Province. Its legal representative is Mr. Cheng Kai Xun and the registered capital is RMB100,000,000. The scope of business includes: wholesale, retail, agency sales, after-sale service, warranty extension services for televisions, air conditioners, home appliances and components, electronic products, communication equipment, communication devices (excluding satellite antenna), sensing and control equipment, marketing planning, sales, construction and technical services for security, surveillance equipment, e-commerce technical service, internet information services, internet operation and promotion (commencement of operational activities subject to the approval and issue of permits by communication administrations), exhibition display services, design, production, publication, agency of domestic advertisements, logistics design, supply chain management, road freight transport (commencement of operational activities subject to the approval and issue of permits by transport administrations). Hisense Electric Business is owned as to 50% by the Company. The ultimate beneficial owner of Hisense Electric Business 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 RMB1.3 billion. Hisense Finance is owned as to 56.99% by 青島海信通信有限公司 (Hisense Communications Co., Ltd.), 30.89% by Hisense Group and 12.12% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

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

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## LETTER FROM THE BOARD

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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.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

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

As at the Latest Practicable Date, as (i) Hisense Group (though its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is a controlling shareholder of the Company and (ii) Hisense Electric is a subsidiary of Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. Since Hisense Electric holds more than 30% of the issued shares of Hisense Electric Business, Hisense Electric Business is an associate of Hisense Electric and Hisense Electric Business and its subsidiaries are also 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, Hisense Electric Business and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group, Hisense Electric Business, 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 124,452,000 Shares (representing approximately 9.13% of the issued share

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## LETTER FROM THE BOARD

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

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

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although one of the applicable percentage ratios for the provision of such deposit services is more than 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, 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 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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

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## LETTER FROM THE BOARD

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### (C) Supplemental Agreement in relation to the 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, holding 37.92% of the issued shares 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement) and the Financial Services Agreement on an aggregate basis exceed 5%, the transactions contemplated under the Financial Business Framework Agreement (as supplemented by the Supplemental 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.

The Supplemental Agreement (which stipulates, inter alia, (1) the Revised Annual Caps; (2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap will be subject to the approval of the Independent Shareholders at the EGM by poll.

In view of the interests of Hisense Financial Holdings in the Supplemental Agreement, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Supplemental Agreement (which stipulates, inter alia, (1) the Revised Annual Caps; (2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and Finance Leasing Services Annual Cap at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

## GENERAL

Mr. Tang Ye Guo, Mr. Lin Lan, Mr. Liu Hong Xin, Mr. Dai Hui Zhong and Mr. Jia Shao Qian, 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 Supplemental Agreement (which stipulates, inter

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## LETTER FROM THE BOARD

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alia, (1) the Revised Annual Caps;(2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap in view of their interest therein as set out below:-

- (a) Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong and Mr. Jia Shao Qian 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:** 26 November 2018

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

**Term:**

The Hitachi Business Framework Agreement shall commence from 1 January 2019 or the date of approval of the Hitachi Business Framework Agreement at the EGM (whichever is the later) until 31 December 2019, 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 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.

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## LETTER FROM THE BOARD

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**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 2018 are set out as follows:

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

<b>Types of transactions</b>	<b>Proposed annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement from January to December 2019</b>	<b>Amount paid/received in respect of such type of transactions from January to September 2018 (unaudited)</b>
Sale of home electrical appliances	69,000	35,006
Sale of raw materials, parts and components	283	175
Sale of moulds	5,500	1,335
Purchase of home electrical appliances	41	3
Provision of product maintenance services	40	4
Purchase of raw materials, parts and components	1,231	651

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.

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## LETTER FROM THE BOARD

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### **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.

#### *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.

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## LETTER FROM THE BOARD

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### *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. The remaining 51% equity interest of Hisense Hitachi is held by independent third parties which are not connected person of the Company.

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

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

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

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## LETTER FROM THE BOARD

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The transactions contemplated under the Hitachi Business Framework Agreement do not constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules.

### 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 23 January 2019, Wednesday at which ordinary resolutions will be proposed to approve, inter alia, (a) the Business Co-operation Framework Agreement, the Financial Services Agreement, the Hitachi Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto; and (b) the Supplemental Agreement (which stipulates, inter alia, (1) the Revised Annual Caps; (2) provision of finance leasing services and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and Finance Leasing Services Annual Cap 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 26 November 2018 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.

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## LETTER FROM THE BOARD

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The register of members of the Company has been closed since 19 December 2018 (Wednesday) until 23 January 2019 (Wednesday) (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 2018(Tuesday)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 (a) each of the Business Co-operation Framework Agreement, the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto; and (b) the Supplemental Agreement (which stipulates, *inter alia*, (1) the Revised Annual Caps; (2) provision of finance leasing services and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and Finance Leasing Services Annual Cap 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 Supplemental Agreement (which stipulates, *inter alia*, (1) the Revised Annual Caps; (2) provision of finance leasing services and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder which are respectively set out on pages 65 to 66 and pages 67 to 139 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 Home Appliances Group Co., Ltd.**  
**Tang Ye Guo**  
*Chairman*

**Hisense**  
HISENSE HOME APPLIANCES GROUP CO., LTD.  
海信家電集團股份有限公司

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

7 January 2019

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders dated 7 January 2019 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

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

**RECOMMENDATION**

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 8 to 64 and pages 67 to 139 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 (a) the Business Co-operation Framework Agreement, the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto; and (b) the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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relation thereto; and (b) the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap in relation thereto.

Yours faithfully,

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

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

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “**Independent Board Committee**”) and the Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement and Supplemental Agreement (collectively the “**Agreements**”), details of which are set out in the circular to the Shareholders dated around 3 January 2019 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Shareholders in respect of the Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2018 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. To cater for the business needs, in view of the above and to modify the scope of the transactions between certain parties, on 26 November 2018, the Company entered into the Business Co-operation Framework Agreement and the Financial Services Agreement (details of the Agreements are stated in the section headed “**Terms of the Agreements**” below).

Further, the Company entered into the Supplemental Agreement on 26 November 2018. Save for the changes pursuant to the Supplemental Agreement, all other terms and conditions of the Financial Business Framework Agreement shall remain unchanged and continue in full force and effect. The Supplemental Agreement has revised the annual caps for the year ending 31 December 2019 for the transactions of recourse factoring services and non-recourse factoring services contemplated under the Financial Business Framework Agreement and extended the scope of the services which may be provided by Hisense Financial Holdings and its subsidiaries to include the provision of finance leasing services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As at the Latest Practicable Date, as (i) Hisense Group (though its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is a controlling shareholder of the Company and (ii) Hisense Electric is a subsidiary of Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. Since Hisense Electric holds more than 30% of the issued shares of Hisense Electric Business, Hisense Electric Business is an associate of Hisense Electric and Hisense Electric Business and its subsidiaries are also 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, Hisense Electric Business and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group, Hisense Electric Business, 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 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control the voting right in respect of their Shares.

### **Financial Services Agreement**

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

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

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

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The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although one of the applicable percentage ratios for the provision of such deposit services is more than 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, 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 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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

### **Supplemental Agreement in relation to the 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, holding 37.92% of the issued shares 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement) and the Financial Services Agreement on an aggregate basis exceed 5%, the transactions contemplated under the Financial Business Framework Agreement (as supplemented by the Supplemental 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Supplemental Agreement (which stipulates, inter alia, (1) the Revised Annual Caps; (2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and the Finance Leasing Services Annual Cap will be subject to the approval of the Independent Shareholders at the EGM by poll.

In view of the interests of Hisense Financial Holdings in the Supplemental Agreement, Hisense Financial Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Supplemental Agreement (which stipulates, inter alia, (1) the Revised Annual Caps; (2) provision of finance leasing services; and (3) Finance Leasing Services Annual Cap) and the transactions contemplated thereunder and the Revised Annual Caps and Finance Leasing Services Annual Cap at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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

During the past two years, Yuanta had no past engagement with the Company. Also, as at the Latest Practicable Date, we were independent from and not connected with the Group. Accordingly, pursuant to Rule 13.84 of the Listing Rules, Yuanta is qualified to give independent advice to the Independent Board Committee and the Shareholders regarding the Agreements and the transactions contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

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

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

### PRINCIPAL FACTORS CONSIDERED

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

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

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

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, 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 2017 (the “**2017 Annual Report**”), approximately 67.6% of the Group’s turnover for the year ended 31 December 2017 was derived from the PRC market and the rest was derived from overseas markets.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2017 Annual Report and the Group's interim report for the six months ended 30 June 2018 (the “**2018 Interim Report**”):

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2016	2017	2017	2018
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
<b>Revenues</b>				
– Sales of refrigerators & washing machines	12,778.7	14,110.9	6,668.6	7,922.8
– Sales of air-conditioners	10,381.0	14,587.6	8,524.9	9,648.5
– Sales of other products	1,511.2	1,731.6	795.5	868.4
 Revenue from principal operations	 24,670.9	 30,430.1	 15,989.0	 18,439.7
Revenue from other operations	2,059.3	3,057.5	1,617.4	1,931.1
 <b>Total operating revenue</b>	 <b>26,730.2</b>	 <b>33,487.6</b>	 <b>17,606.4</b>	 <b>20,370.8</b>
Operating costs	(20,486.7)	(26,969.8)	(14,347.7)	(16,624.6)
Business taxes and surcharges	(222.8)	(325.3)	(135.1)	(161.1)
Selling and distribution expenses	(4,640.7)	(4,771.8)	(2,267.4)	(2,643.9)
General and administrative expenses	(946.7)	(1,044.7)	(221.0)	(214.1)
Research and development expenses (Note 1)	–	–	(287.3)	(319.5)
Financial income/finance cost	86.0	(9.8)	(4.7)	(13.3)
Impairment (losses)/gains on assets	4.4	(38.0)	0.9	3.5
Credit impairment loss				1.4
 <b>Total operating costs</b>	 <b>(26,206.5)</b>	 <b>(33,159.4)</b>	 <b>(17,262.3)</b>	 <b>(19,971.4)</b>
 Other income	 –	 125.5	 53.8	 90.4
(Loss)/gain from changes in fair value	19.5	(10.0)	(14.8)	(2.4)
Investment income	522.1	1,562.4	366.3	418.8
Gains on disposal of assets	12.7	4.1	5.5	0.5
 <b>Operating profits</b>	 <b>1,078.0</b>	 <b>2,010.2</b>	 <b>754.9</b>	 <b>906.7</b>
Non-operating income	228.6	237.7	74.8	47.0
Non-operating expenses	(36.2)	(15.6)	(6.4)	(11.9)
 <b>Profit before tax</b>	 <b>1,270.3</b>	 <b>2,232.3</b>	 <b>823.4</b>	 <b>941.6</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	For the year ended		For the six months	
	31 December	2016	ended 30 June	2017
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Income tax expenses	(128.7)	(181.1)	(118.0)	(111.7)
<b>Net profit for the year/ period</b>	<b>1,141.6</b>	<b>2,051.2</b>	<b>705.4</b>	<b>829.9</b>
Attributable to:				
– Owners of the Company	1,087.7	1,997.5	672.1	803.0
– Minority interests	53.9	53.7	33.3	26.9
	<b>As at 31 December</b>		<b>As at 30 June</b>	
	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
<i>In RMB million, approximately</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Non-current assets	6,053.1	6,626.1	6,527.2	6,987.3
Current assets	13,002.0	14,847.6	14,901.4	17,489.7
Non-current liabilities	370.0	411.2	397.4	422.5
Current liabilities	13,361.6	14,109.1	15,414.4	16,886.4
Total shareholders' equity	5,323.5	6,953.4	5,616.8	7,168.0

*Note:*

1. Research and development expenses was included in General and administrative expenses for the year ended 31 December 2016 and year ended 31 December 2017.

The Group's total operating revenue increased by approximately 25.28% from approximately RMB26,730.2 million for the year ended 31 December 2016 to approximately RMB33,487.6 million for the year ended 31 December 2017. According to the 2017 Annual Report, the increase was due to the increase in sales of air-conditioners, refrigerators and washing machines. Total operating costs for the year ended 31 December 2017 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 2017 increased by approximately RMB1,040.3 million (or approximately 199.3%) which was mainly due to the gain from disposal of long-term equity investment. Also, non-operating income for the year ended 31 December 2017 remained at constant level.

For the six months ended 30 June 2018, the Group's operating revenue increased to approximately RMB20,370.8 million, which was due to the increase in sales of air-conditioners, refrigerators and washing machines during the same period. The

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Group's unaudited net profit for the six months ended 30 June 2018 was approximately RMB829.9 million, representing an increase of approximately 17.65% from approximately RMB705.4 million for the corresponding period in 2017.

The Group's net current assets position decreased from approximately RMB738.5 million as at 31 December 2017 to approximately RMB603.3 million as at 30 June 2018, which was mainly driven by the increase in other payables. Its total equity was further strengthened by roughly the amount of the net profit earned for the period minus the profit distribution to shareholders for the period, of which the total equity increased from approximately RMB6,953.4 million as at 31 December 2017 to approximately RMB7,168.0 million as at 30 June 2018, representing an increase of approximately 3.09%.

### 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, Mexico, Czech, USA, and sales offices in the America, Europe, Oceania, Middle East, and Southeastern Asia and sells its products to over 130 countries and regions around the world. 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 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 2018 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 2018. 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,

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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). The following financial results of Hisense Electric for each of the two years ended 31 December 2017 and the nine months ended 30 September 2018 were extracted from its annual report for the year ended 31 December 2017 and the third quarterly report for the nine months ended 30 September 2018:

	For nine months ended 30 September		
	For year ended 31 December	2016	2017
	RMB	RMB	RMB
	million	million	million
	(Audited)	(Audited)	(Unaudited)
Turnover	31,832.5	33,008.6	24,640.9
Net Profit attributable to its owners	1,758.9	941.9	364.2
Total assets as at year/period end	22,691.4	24,567.9	27,425.7

As stated in its annual report for the year ended 31 December 2017, sales of televisions contributed to approximately 91.2% of Hisense Electric's turnover and approximately 59.5% of its sales was generated from domestic sales in the PRC. According to its third quarterly report for the nine months ended 30 September 2018, Hisense Electric had total shareholders' equity of approximately RMB13,907.6 million and a net profit of approximately RMB364.2 million.

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB1.3billion. Hisense Finance is owned as to 56.99% by Hisense Communications Co., Ltd, 30.89% by Hisense Group and 12.12% by 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

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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.

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

According to the State Council Information Office of the People's Republic of China, the PRC government estimated its gross domestic product (“GDP”) growth target at approximately 6.5% for 2018. In October 2018, it indicated that the GDP in the first three quarters of 2018, being approximately RMB65,089.9 billion, has achieved a year-on-year increase of approximately 6.7%.

For total retail sales of consumer goods, according to the National Bureau of Statistics of China, for the nine months ended 30 September 2018, it rose approximately 9.3% year-on-year to approximately RMB27,429.7 billion. Among the above, (i) retail sales in cities increased approximately 9.1% to approximately RMB23,471.8 billion; and (ii) retail sales at and below county level increased approximately 10.4% to approximately RMB3,958.2 billion.

For the white goods industry export market, according to the General Administration of Customs of the People's Republic of China, for the nine months ended 30 September 2018, the cumulative export volume and the cumulative retail value of the refrigerator industry recorded a year-on-year increase of approximately

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4.9% and approximately 7.0%, respectively. The cumulative export volume and the cumulative retail value of the air-conditioner industry recorded a year-on-year increase of approximately 8.5% and approximately 3.0%, respectively.

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

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 2018. Overall, the above market data on GDP consumption and retail sales indicate a positive economic landscape for the industry.

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 services and supply of equipment and moulds (particulars and terms of each category of the aforesaid transactions are discussed in the section headed "Terms of the Business Co-operation Framework Agreement" below).

Given the similar principal activities between the Group, Hisense Group and Hisense Electric which include the manufacture of home electrical appliances and the provision of related services and the substantial interest of Hisense Group in the Company, we consider that the business arrangements under the Business Co-operation Framework Agreement serve essentially to assist the Group's operations as a manufacturer of home electrical appliances.

In view of the substantial interest of Hisense Group in the Company and the fact that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we are of the view that it is in the

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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, based on our discussions with the Management, we understand that 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 regards the purchase of home electrical appliances, in 2018, Hisense Group acquired a Slovenian white goods manufacturer based in Velenje, Slovenia named Gorenje. The Group will utilize this alliance and purchase “ASKO” and “Gorenje” high-end electrical home appliances from Hisense International and/or its subsidiaries in 2019, which is conducive to expanding the domestic sales scale of high-end products and optimising product structure, thereby driving the enhancement of the Company’s overall high-end product scale. The Group will also purchase television sets from Hisense Electric and/or its subsidiaries in 2019 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.

As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the purchase of raw materials, parts and components between the Group and the respective subsidiaries of Hisense Group and Hisense Electric, we understand that, with the gradual increase in intelligent electrical home appliances, the usage of raw materials and spare parts of intelligent product also increases. According to the management, Hisense Group has better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. We understand that 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 and quality of the Group’s products is

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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.

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.

As regards the sale and supply of home electrical appliances, since certain subsidiaries of the Company currently possess production capacity and they will incur fixed costs such as depreciation of machinery and rent regardless of the production level, the sale and supply of home electrical appliances to the respective subsidiaries of Hisense Group and Hisense Electric can help to utilise their capacity and reduce the products' per-unit fixed costs as a result of the increase in the production level. The competitiveness of the Group's products in terms of costing may therefore increase. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. Through Hisense Electric Business to develop online business in various online platforms, a synergetic effect can be created. This can, further increase the Group's sales and boost the Group's market share and income.

As stated in the Letter from the Board, the sale of equipment under the Business Co-operation Framework Agreement 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.

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.

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As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the supply of raw materials, parts and components by the Group to the respective subsidiaries of Hisense Group and Hisense Electric, we understand that Hisense Group and/or its subsidiaries has overseas sales channels and high quality customer resources which can enhance the sales of raw materials, parts and components of the Group and expand the sales scale of the Group. 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.

As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the provision of services by the Group to the respective subsidiaries of Hisense Group and Hisense Electric, we understand that the provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries can improve the utilisation rate of the Group's resources and increase the Group's revenue.

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.

*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;

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- 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 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.

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

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 Company will review the latest available financial reports of Hisense Finance, conduct stress test on deposit regularly 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 prevent the risks identified and ensure the safety and liquidity of the Company's capital and to publish announcement timely.

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

- (i) We have reviewed the PRC audited reports of Hisense Finance for the two years ended 31 December 2016 and 2017 and the PRC unaudited reports for six months ended 30 June 2017 and 2018 (the "**PRC Financial Reports**"). Based on the PRC Financial Reports, the total

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assets of Hisense Finance increased by approximately 35.9% from approximately RMB14,654.6 million for the six months ended 30 June 2017 to approximately RMB19,914.9 million for the six months ended 30 June 2018. 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 2016 and 2017.

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

<i>(approximate RMB million)</i>	<b>For the year ended 31 December</b>		<b>For the six months ended 30 June</b>	
	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Operating revenue</b>	<b>316.3</b>	<b>436.0</b>	<b>205.4</b>	<b>293.5</b>
– Net interest income	281.9	376.7	171.7	259.1
<b>Net profit</b>	<b>210.0</b>	<b>276.8</b>	<b>133.7</b>	<b>181.3</b>
<b>Total assets</b>	<b>15,284.6</b>	<b>18,357.8</b>	<b>14,654.6</b>	<b>19,914.9</b>
 – <i>Cash and money deposited into central bank</i>	1,070.2	980.5	916.3	1,099.5
– <i>Deposits placed into same industry and other financial companies</i>	,790.4	10,560.4	8,086.8	10,239.6
– <i>Loans and advances granted</i>	5,111.4	5,516.7	4,450.7	7,573.0
– <i>Available for sales of financial assets</i>	1,266.0	1,193.9	1,135.0	570.0
– <i>Interest receivable</i>	38.9	64.2	57.3	91.2
<b>Total liabilities</b>	<b>13,404.8</b>	<b>16,201.2</b>	<b>12,641.1</b>	<b>17,576.9</b>
– <i>Deposits received</i>	12,967.4	16,017.3	12,310.6	17,374.6
– <i>Inter-bank borrowing</i>	233.8	–	218.1	–
– <i>Tax payables</i>	37.1	58.9	23.0	31.6
– <i>Interest payables</i>	30.5	105.3	62.3	143.9
– <i>Other liabilities</i>	135.7	16.0	26.3	24.2

In view of the above financial highlights, given that (i) the revenue and profit of Hisense Finance for the six months ended 30 June 2018 had been increased to approximately RMB293.5 million and RMB181.3 million, respectively, representing a year-on-year increase of approximately 42.9% and 35.6%, respectively, indicating a growing trend of business; (ii) the total assets had been increased from approximately

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RMB14,654.6 million for the six months ended 2017 to approximately RMB19,914.9 million for the six months ended 30 June 2018; and (iii) the current ratio of Hisense Finance was approximately 71.72% for the six months ended 30 June 2018, which is far exceeded the statutory requirement of 25%, we have no reason to believe that the credit risk to be exposed to the Group in relation to the deposits placed with Hisense Finance would be higher than the credit risk associated with other finance companies.

(ii) We reviewed the reports entitled “關於在海信集團財務有限公司開展存款金融業務的風險評估報告” (the “**Risk Assessment Reports**”) dated 29 March 2016, 29 March 2017, 29 March 2018, and 29 August 2018 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, 31 December 2017 and 30 September 2018 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 31 December 2017	Hisense Finance as at 30 June 2018
Capital adequacy ratio	Shall not be lower than 10%	28.08%	19.08%	22.69%	21.56%
Current ratio	Shall not be lower than 25%	64.45%	59.76%	55.53%	71.72%
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)	0.00% (not higher than the registered capital)	0.00% (not higher than the registered capital)
Investment to total capital ratio	Shall not be higher than 70%	0%	65.55%	52.61%	23.06%
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)	43.06% (not higher than the total capital)	31.00% (not higher than the total capital)
Self-owned fixed assets to total capital ratio	Shall not be higher than 20%	0.06%	0.04%	0.05%	-
Non-performing Asset Ratio	Shall not be higher than 4%	-	-	-	0.00%
Bad Loan Ratio	Shall not be higher than 5%	-	-	-	0.00%

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, 31 December 2017 and 30 June 2018, 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

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Finance confirmed that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment; and

- (iv) Based on our discussions with the Management, Hisense Finance provides financial services primarily to 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.

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

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

- (i) periodically checking the deposit balance placed with Hisense Finance and reviewing the same by the designated finance staff of the Group;
- (ii) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;
- (iii) requesting the designated finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks. In particular, for deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, the treasure department of the Group will conduct a monthly review on

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the service fees charged by external commercial banks, and the Company would randomly select three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks;

- (iv) request the finance department to view the interest rates on deposits and loan and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group. If such rates and service fee are less favourable to the Group than those offered by commercial banks in the PRC, it will report to the senior management who will negotiate with Hisense Finance on the terms of the relevant transactions. If, after negotiation, Hisense Finance cannot offer terms which are no less favourable to the Group than those 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 regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the 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 legal affairs department of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

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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. Supplemental Agreement in relation to the Financial Business Framework Agreement*

As set out in the Letter from the Board, the main reason for entering into the Supplemental Agreement with Hisense Financial Holdings is mainly that factoring and finance leasing services provided by Hisense Financial Holdings or its subsidiaries can further revitalize the Company's existing assets and the Company can in turn receive operating income and improve efficiency of the use of capital.

As set out in the Letter from the Board, by utilizing finance leasing services, the Company can improve its efficiency of the use of capital. The Company can reduce cash expenditure for purchases such as purchases of fixed assets, etc., and may receive discount for the purchase price with early payment. The idle cash could then be used for investment management and thereby generating income from capital. We understand that these services are beneficial for the Group to broaden its financing channels for multiple low-cost funds and provide the Group with more flexible and convenient financing tools to enhance the fund management level of the Group and thus promote the business development and smooth operation of the Group, which are conducive to the interests of the Group and the Shareholders as a whole.

As set out in the Letter from the Board, it was also set out in the Financial Business Framework 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

In relation to the Supplemental 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 Supplemental Agreement will not exceed the proposed Revised Annual Caps, the Company will periodically monitor the daily closing balance of the recourse factoring services, finance leasing 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, non-recourse factoring services and finance leasing services under the Supplemental Agreement.

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

## II. Terms of the Agreements

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

**Date:** 26 November 2018

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

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2019 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 2019, 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **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.

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

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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

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

*a. Purchase of 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 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 prices of similar home electrical appliances offered by at least three independent third parties selected randomly from time to time.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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### *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 the market price of similar raw materials, parts and components offered to the Group by at least three independent third parties selected randomly 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

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the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third party suppliers, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of raw materials, parts and components by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*c. Provision of services*

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 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 selected randomly 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 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

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

*d. Supply of home electrical appliances*

Under 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.

The 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 selected randomly 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 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.

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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 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 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 selected randomly 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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; and (ii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework 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 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.

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 on the basis of a reasonable cost plus reasonable profit margin. For determining reasonable costs, the Company will take into account fixed cost (e.g. depreciation of machinery), cost of raw material, labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable models of moulds to independent third parties during the same period.

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

In view of (i) the moulds are customised as per the customers' requirements; (ii) the pricing for the supply of moulds will be determined by open bidding process, which is a transparent pricing mechanism; (iii) the bidding price is determined on the basis of a reasonable cost plus reasonable profit margin, which

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is subjected to the level of its capacity and the market condition from time to time according to the management; and (iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework 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 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 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 selected randomly 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.

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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 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, (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.

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 selected randomly 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.

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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 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 2016 and 2017, 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 2016 and 31 December 2017, 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 2016 and 2017, 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

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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 randomly selected sampling basis, obtained and reviewed at least three samples for major and majority type of transactions, including “Purchase of raw materials, parts and components”, “Provision of services”, “Supply of home electrical appliances” and “Provision of services by the Group”, for the ten months ended 31 October 2018 to justify the price under the Business Co-operation Framework Agreement. For those transactions which are customised as per the customers’ requirements, we discussed with the management and understood that (i) regarding “Supply of equipment”, no transaction was conducted for the ten months ended 31 October 2018; (ii) regarding “Purchase of home electrical appliances”, the majority of “Purchase of home electrical appliances” transaction was the purchase of cell phone. We obtained two cell phone purchasing transaction records, which are all cell phone purchasing transactions conducted in the ten months ended 31 October 2018, to justify the price under the Business Co-operation Framework Agreement; (iii) regarding “Supply of moulds”, the price was determined through a transparent bidding process and the bidding price is determined on the basis of a reasonable cost plus reasonable profit margin. We obtained at least three sample transactions’ profit margin to justify the profit margin under the Business Co-operation Framework Agreement; and (iv) regarding “Supply of raw materials, parts and components”, the raw materials, parts and components supplied are customized and no direct comparable product is available. We reviewed at least three sample transactions’ gross margin and compared them to the similar transactions’ gross margin to justify the gross margin and pricing under the Business Co-operation Framework Agreement. We have compared the past samples entered into between the Group and Hisense Group, Hisense 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 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. As regards those transactions which are customised as per the customers’ requirements, based on our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Group, Hisense Electric and their respective subsidiaries were less favourable than those between the Group and independent third parties.

We considered the samples are representative, and noted that the CT Management Policy procedures mentioned above were properly followed, we are not aware of any violation of the terms under the Business Co-operation Framework Agreement after reviewing the samples for similar type of transactions at the relevant time and discussing with the management. The Management of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 2018 with both connected parties and independent third parties which set out the prices, except for those transactions which are customised as per the customers' requirements; (iv) summary report prepared by finance and securities department regarding the conduct of continuing connected transactions on a regular basis; and (v) monthly review process on terms of continuing connected transaction comparing to independent third parties.

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

### 2. *The Financial Services Agreement*

**Date:** 26 November 2018

**Parties:** The Company;  
Hisense Finance

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2019 or the date of approval of the Financial Services 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.

**Condition:**

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

**Subject matters:**

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

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

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

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

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

According to the CT Management Policy, before entering into a definitive transaction, the Company will compare the price of similar 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. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of the interest rates on deposits via conducting online and telephone enquiries. For electronic bank acceptance bill services, our finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the five aforementioned major banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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reviewing and comparing the interest rates mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management.

The finance and securities department of the Company is responsible for the collection and summarization of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions on a regular basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the 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 of the Company is responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

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

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

*a. Pricing of deposit service*

The interest rate 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,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations of interest rates on deposits via conducting online and telephone enquiries.

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

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

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

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 and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

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

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

We also note from respective annual reports of the Company in 2016 and 2017, 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 2016 and 31 December 2017, 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 2016 and 2017, 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 obtained and reviewed all interest rates and financial service fees offered by Hisense Finance for "deposit services" and "loan and electronic bank acceptance bill services" for the ten months ended 31 October 2018 and compared them to those provided or charged by other commercial banks in PRC to justify the pricing under the Financial Services Agreement. We, on a randomly selected sampling basis, obtained at least three transaction record samples of "settlement and sale of foreign exchange services", "agency services such as settlement services for receipt and payment of funds", and "draft discount services" for the ten months ended 31 October 2018. We reviewed and compared the above mentioned deposit interest rate and financial service fee to those provided or charged by other commercial banks in PRC to justify the pricing under the Financial Services Agreement. Regarding the loan service, we compared the terms offered by Hisense Finance with terms offered by another normal commercial bank. Based on our comparison, we note that the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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. *Supplemental Agreement in relation to the Financial Business Framework Agreement*

**Date:** 26 November 2018

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

#### **(1) Revision of annual cap:**

##### **Recourse factoring services**

Pursuant to the Financial Business Framework Agreement, the Company has agreed that the Group shall engage Hisense Financial Holdings to provide recourse factoring services as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement.

##### *Original annual cap*

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).

##### *Revised Annual Cap*

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the daily closing balance of the recourse factoring services at Hisense Financial Holdings or its relevant subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB800,000,000 (inclusive of interest).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Pursuant to the Financial Business Framework Agreement, the Company has agreed that the Group shall engage Hisense Financial Holdings to provide non-recourse factoring services as may be required by the Group from time to time upon the terms and conditions of the Financial Business Framework Agreement.

#### *Original annual cap*

The maximum aggregated annual value of the non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB500,000,000 (inclusive of interest).

#### *Revised annual cap*

Pursuant to the Supplemental Agreement and upon the approval by the Independent Shareholders, the aggregated annual value of the non-recourse factoring services at Hisense Financial Holdings or its subsidiaries during the term of the Financial Business Framework Agreement shall not exceed RMB400,000,000 (inclusive of interest).

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

In addition to the provision of factoring services as set out in the Financial Business Framework Agreement, the Supplemental Agreement expands the scope of services under the Financial Business Framework Agreement to include the provision of finance leasing services.

#### **Subject matters:**

Pursuant to the terms of the Supplemental Agreement, the Company or its subsidiaries will engage Hisense Financial Holdings or its subsidiaries to provide finance leasing services, the particulars of which are set out as follows:

- (i) direct leasing;
- (ii) sale and leaseback;
- (iii) leveraged leasing;
- (iv) captive lease; and
- (v) operating leasing.

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### **Pricing:**

The pricing of the finance leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the pricing offered by the finance leasing service companies which are independent third parties over the same period.

The interest rate charged for the finance leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company shall not be higher than the rate charged by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China. The Company would randomly select three banks out of the aforementioned five major banks to obtain their quotations for the interest rate charged for finance leasing services.

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

In relation to the Supplemental 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 Supplemental Agreement will not exceed the proposed Revised Annual Cap, the Company will periodically monitor the daily closing balance of the recourse factoring services, finance leasing 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 finance leasing services under the Supplemental Agreement.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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transactions. If, after negotiation, Hisense Financial Holdings or its relevant subsidiaries cannot offer terms which are no less favourable to the Company than those offered by other factoring service and finance leasing services providers, the Company will not execute the relevant transactions.

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

As set out in the “Letter from the Board” contained in the Circular, the pricing mechanism under the Supplemental Agreement adopted by the Group was supervised by the finance department. Given that (1) the quotations and terms from independent third parties 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; (2) results of our review on sample record for each type of factoring services that the interest rate of the transactions are no less favourable than quotation offered by independent third parties. We obtained the samples of all similar transactions entered into between Hisense Financial Holdings and the Group and/or its subsidiaries in the first ten months ended 31 October 2018 since there are only a few transactions conducted in the period and compared them with similar transaction the Group and/or its subsidiaries entered into with independent third parties; and (3) the Company has established the CT Management Policy to ensure that any connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its independent Shareholders, we concur with the Management that the internal control procedures of the Company are efficient and adequate, we are of the view that the pricing basis relating to the Supplemental Agreement is on normal commercial terms and in the interests of the Company and the Shareholder as a whole.

On the basis that all the terms and conditions (except for the Revised Annual Caps and the expansion of the scope of services to include the provision of finance leasing services) under the Supplemental Agreement shall remain unchanged that (i) the transactions under the Supplemental Agreement will be conducted in the ordinary and usual course of business of the Group and on terms no less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement provides the Company with flexibility without any commitment or obligation for the Company to procure such services from Hisense Financial Holdings; (iii) as regard the recourse factoring services and non-factoring services, the Group has conducted similar transactions in the past and based on our review of the relevant sample of the transaction records as well as our discussion with the Management that there is no indication that the terms of the transactions between the Group and Hisense Financial Holdings and its respective subsidiaries were less favourable than those between the Group and independent third parties; and (iv) as regard the finance leasing services, the terms of the definitive contract(s) to be

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entered into between the relevant contracting parties will be consistent with those of the Supplemental 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 independent third parties, we are of the view that the terms of the Supplemental Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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 2019 will be subject to an annual cap for the financial year ending 31 December 2019 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 2019 will be subject to an annual cap for the financial year ending 31 December 2019 of the Company; and (3) the Supplemental Agreement in relation to the Financial Business Framework Agreement during the year commencing from the date of approval of the Supplemental Agreement in relation to the Financial Business Framework Agreement by the Shareholders until 31 December 2019 will be subject to an annual cap for the financial year ending 31 December 2019 of the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Agreements for the year ending 31 December 2019 and the estimated unaudited value of similar transactions between the relevant parties in 2018 are summarised below:

Annual caps for the year ending 31 December 2018 ('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 2018 ('000)	Estimated utilisation of the caps for the year ending 31 December 2018 based on the estimated unaudited value of the similar transactions for the year 2018 based on their unaudited value for the nine months ended 30 September 2018 (“2018 Deemed Actual Utilisation Rate”)(%)
<b>The Business Co-operation Framework Agreement:</b>			
Maximum aggregate value of purchase of home electrical appliances:	RMB1,670	RMB278,290	RMB80
Maximum aggregate value of purchase of raw materials, parts and components:	RMB235,860	RMB267,900	RMB134,300
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	RMB642,480	RMB838,240	RMB354,750
Maximum aggregate value of supply of home electrical appliances:	RMB13,051,860	RMB15,085,700	RMB7,794,390
Maximum aggregate value of supply of equipment:	RMB16,500	RMB12,500	RMB0
Maximum aggregate value of supply of moulds:	RMB453,550	RMB228,320	RMB144,700
Maximum aggregate value of supply of raw materials, parts and components:	RMB180,730	RMB161,420	RMB78,780
Maximum aggregate value of the provision of services by the Group:	RMB30,220	RMB34,390	RMB11,100
			47.3%

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Annual caps for the year ending 31 December 2018 ('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 2018 ('000)	Estimated utilisation of the caps for the year ending 31 December 2018 based on the estimated unaudited value of the similar transactions for the year 2018 based on their unaudited value for the nine months ended 30 September 2018 ("2018 Deemed Actual Utilisation Rate") (%)
<b>The Financial Services Agreement:</b>			
Maximum daily balance of the deposits to be placed by the Group with Hisense Finance in respect of the deposit services:	RMB6,500,000	RMB8,000,000	RMB4,600,000
Maximum daily balance of the loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services:	RMB6,000,000	RMB9,000,000	RMB3,700,000
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	RMB7,537
Maximum aggregate value payable by the Group to Hisense Finance in respect of settlement and sale of foreign exchange services:	USD500,000	USD500,000	USD6,155
Maximum aggregate value payable by the Group to Hisense Finance in respect of agency services:	RMB3,000	RMB3,000	RMB322
<b>The Supplemental Agreement in relation to the Financial Business Framework Agreement:</b>			
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:	RMB100,000	RMB800,000	RMB99,973
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:	RMB500,000	RMB400,000	RMB54,407
Maximum daily closing balance of the transactions conducted for the financial leasing services provided by Hisense Financial Holdings or its relevant subsidiaries to the Company:	-	RMB300,000	-

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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 Supplemental Agreement in relation to 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
<b>The Business Co-operation Framework Agreement:</b>	
Purchase of home electrical appliances	(a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Electric and/or its subsidiaries for the year ending 31 December 2019 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 2018); 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 2019 taking into account its anticipated increase in the relevant purchase of the Group in 2019.
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 2019.

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Category	Basis for the proposed Caps
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; 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 2019.
Supply of equipment	(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 2019.
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.
Supply of raw materials, parts and components respective	(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.
Provision of services by the Group respective	(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.
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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 years ending 31 December 2019 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	(a) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (b) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the years ending 31 December 2019 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 2019.

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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	the actual amounts paid or received by the Group in relation to the Factoring Transactions for the 12 months ended 31 December 2018 and the requirement for business development of the Company in the remaining term of the Financial Business Framework Agreement. It is estimated that the original annual cap will not be sufficient to meet the current requirement for business development of the Company.
Non-recourse factoring service	the actual amounts paid or received by the Group in relation to the Factoring Transactions for the 12 months ended 31 December 2018 and the requirement for business development of the Company in the remaining term of the Financial Business Framework Agreement
Financial leasing service	the Company's historical cash outflow on items such as purchasing fixed assets, etc.

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### **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 2019 annual cap of RMB278.29 million involves a revised upward of approximately 16,564.1% as compared to that of 2018. We have reviewed the historical actual transaction amounts for the nine months ended 30 September 2018 and the estimated annualised unaudited value of the similar transactions for the year 2018 (the “**2018 Deemed Actual Amount Incurred**”) of approximately 14.4%. As advised by the Management, the annual cap of RMB278.29 million are composed as follow:

- (i) RMB230,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries;
- (ii) RMB277.65 million will be allocated to the purchase of home electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB410,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

In 2018, Hisense Group acquired a Slovenian white goods manufacturer based in Velenje, Slovenia named Gorenje. The Group will utilize this alliance and is expected to purchase “ASKO” and “Gorenje” high-end electrical home appliances from Hisense International and/or its subsidiaries in 2019 with the total purchase amount of approximately RMB277.00 million while no revenue from the similar transactions was recorded for the nine months ended 30 September 2018. The Group will also purchase television sets from Hisense Electric and/or its subsidiaries in 2019 with the total transaction amount of approximately RMB410,000 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.

#### *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 2019 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

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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 2018 Deemed Actual Utilisation Rate is approximately 88.5%; and (ii) the proposed 2019 annual cap of RMB267.90 million increases approximately RMB32.04 million (or 13.6%) from the 2018 annual cap of approximately RMB235.86 million.

In order to assess whether the proposed 2019 annual cap is fair and reasonable, we have reviewed the historical actual transaction amounts incurred for the nine months ended 30 September 2018 and the 2018 Deemed Actual Utilisation Rate. In addition, we also reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2019 annual cap. For the white goods markets, constant upgrades and improvements will become the new norms, consumers' demand for "intelligent" and "high-end" products has been increasing. The underlying assumptions, basis and calculation of the 2019 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 3 January 2018 (the "**2018 Circular**"), the maximum aggregate value of purchase of raw materials, parts and components by the relevant parties for the nine months ended 30 September 2017 was approximately RMB87.0 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 2018 was approximately RMB134.3 million, representing a significant increase of approximately 54.3%, which is in consistent with the projection of the Company. As a result, we concur that the underlying assumptions, basis and calculation of the 2019 annual cap are fair and reasonable. As advised by the Management, the amount for such 2019 annual cap is based on the 2018 Deemed Actual Amount Incurred adjusted with the anticipated increase in the relevant sales of the Group in 2019. The Management advised that the amount for such 2019 annual cap is based on (i) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past (that is, estimated unaudited value of the similar transactions for the year 2018); 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 2019 taking into account its anticipated increase in the relevant purchase of the Group in 2019. 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 RMB217.2 million in 2019. Taking into account such purchase, we understand from the management the total purchase of raw materials, parts and components from Hisense Group and Hisense Electric and/or its subsidiaries amounted to RMB267.9 million, of which:

- (i) RMB237.66 million will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries;
- (ii) RMB700,000 will be allocated to the purchase of raw materials, parts and components from Hisense International and/or its subsidiaries; and

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- (iii) RMB29.54 million will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

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 2018 Deemed Actual Utilisation Rate of approximately 88.5% 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 2018 Deemed Actual Utilisation Rate is approximately 77.3%; and (ii) the proposed 2019 annual cap of RMB838.24 million increases approximately RMB195.76 million (or 30.5%) from the 2018 annual cap of approximately RMB642.48million. The service transactions contemplated are subject to the proposed cap of RMB838.24 million, of which:

- (i) RMB627.58 million will be allocated to the provision of material processing, installation and maintenance, distribution, property (including: (a) property leasing services mostly for office buildings; and (b) property management services in relation to office buildings and factories. Most of the aforementioned properties are located in the Guangdong Province and Shandong Province of the PRC), medical, leasing, design, inspection, agency services, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries;
- (ii) RMB29.00 million will be allocated to the provision of agency services and maintenance services by Hisense International and/or its subsidiaries;
- (iii) RMB167.25 million will be allocated to the provision of agency services by Hisense Electric Business and/or its subsidiaries; and
- (iv) RMB14.41 million will be allocated to the provision of property, technical support and advertisement services by Hisense Electric and/or its subsidiaries.

In order to assess whether the 2019 annual cap is fair and reasonable, we have reviewed the 2018 Deemed Actual Amount Incurred, the 2018 Deemed Actual Utilisation Rate and sample contract 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 2019 annual cap. As learnt from the 2018 Circular, the

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maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2017 was approximately RMB332.41 million. The maximum aggregate value of the provision of services between the relevant parties for the nine months ended 30 September 2018 was approximately RMB354.75 million. By comparison, there is an increase of approximately 6.7% in 2018 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 2019 annual cap are fair and reasonable. The Management advised that: (i) due to the Group's increase in the scale of revenue, Hisense Group and/or their respective subsidiaries will provide more installation and maintenance services to the Group in 2019. It is estimated that the transaction amount in respect of the provision of such services will amount to approximately RMB281.6 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; (ii) It is estimated that the relevant transaction amount for the provision of material processing services by Hisense Group and/or their respective subsidiaries to the Group in 2019 will amount to approximately RMB143.0 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 2019. (iii) the Group plans to expand distribution channels through the help of Hisense Electric Business and the related agency services fee is estimated to be RMB167.3 million; and (iv) for the nine months ended 30 September 2018, the transaction amount for the provision of property services by Hisense Group and/or its subsidiaries to the Company is approximately RMB12.7 million and by Hisense Electric and/or its subsidiaries to the Company is approximately RMB5.2 million. 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. The expected amount for the provision of property services by Hisense Group and/or its subsidiaries to the Company is RMB30.2 million and by Hisense Electric and/or its subsidiaries to the Company is RMB9.5 million. (v) the Group expects that, in 2018, the transaction amount for the provision of information system services and that for the provision of equipment inspection services by Hisense Group and/or its subsidiaries to the Company are approximately RMB45.1 million and RMB12.9 million, respectively. The expected amount for the provision of information system services and that for the provision of equipment inspection services by Hisense Group and/or its subsidiaries to the Company are RMB55.3 million and RMB17.6 million, respectively, representing 23% and 37% year-on-year growth, which is in line when taking into account the fact that the Group has set a target to increase the revenue by approximately 25% in 2019. (vi) The estimated amount of maintenance services by Hisense International and/or its subsidiaries is RMB28.0 million, representing 88% year-on-year growth, which is in line when taking into account the fact that the Group has set a target to increase the total transaction amount of home electrical appliances supplied to Hisense International and/or its subsidiaries by approximately 30% in 2019 and the increasing customers' demand for the higher quality warranty as well as the longer warranty period in overseas markets.

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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 2018 Deemed Actual Utilisation Rate is approximately 78.2%; (ii) the 2018 Deemed Actual Amount Incurred is approximately RMB10,200.9 million; and (iii) the proposed 2019 annual cap of RMB15,085.70 million increases approximately RMB2,033.84 million (or 15.6%) from the 2018 annual cap of approximately RMB13,051.86 million.

In order to assess whether the 2018 annual cap is fair and reasonable, we have reviewed the 2018 Deemed Actual Amount Incurred, the 2018 Deemed 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 2019 annual cap. As stated in the 2018 Circular, the maximum aggregate value of supply of home electrical appliances for the nine months ended 30 September 2017 was approximately RMB5,997.8 million. While the maximum aggregate value of supply of home electrical appliances for the nine months ended 30 September 2018 was approximately RMB7,794.39 million, which has increased by approximately 30.0%. With the positive increasing supply amount and the relatively high utilization rate in 2018, the Management is optimistic to estimate the increase in the relevant sales of the Group in 2019. We concur that the underlying assumptions, basis and calculation of the 2019 annual cap are fair and reasonable. The Management advised that, according to its business plan, the amount of the 2019 annual cap for the supply of home electrical appliances by the Group is based on the 2018 Deemed Actual Amount Incurred after catering for the anticipated increase in the relevant sales of the Group in 2019. The Management advised that it expects that the following increase in the relevant sales of the Group in 2019: (i) the Group has set a target which is to increase the total transaction amount of home electrical appliances supplied to Hisense International and/or its subsidiaries by approximately 30% in 2019, taking into account the fact that the transaction amount of home electrical appliances supplied to Hisense International and/or its subsidiaries for the nine months ended 30 September 2018 was approximately RMB7,438.63 million, which has increased by approximately 27% and the expected growth in the Group's revenue in 2019 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" products in 2019; (ii) approximately RMB1,455.7 million of the sales attributing from "Gorenje" and/or their respective subsidiaries; and (iii) according to the on-line business plan of the Group for the year 2019, the value of home electrical appliances supplied by the Group to Hisense Electric Business is estimated to be approximately RMB670.6 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.

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### *Supply of equipment by the Group*

As regards the supply of equipment, we note that (i) the 2018 Deemed Actual Utilisation Rate is approximately 11.9%; and (ii) the proposed 2019 annual cap of RMB12.5 million decreases approximately RMB4.0 million (or 24.2%) from the 2018 annual cap of RMB16.5 million.

We note that the 2018 Deemed Actual Utilisation Rate is only approximately 11.9% and no revenue was recorded for the nine months ended 30 September 2018. The Management advised that in order to stabilize and unify the procurement of equipment, Hisense International and/or its subsidiaries tends to purchase the equipment from the Group to meet the overseas operation needs of Hisense Group and/or its subsidiaries. The low utilisation rate is due to the project delay in 2018. According to the Management, they expect RMB1.96 million will be realized by end of 2018, the remaining projects are expected to be implemented in 2019. The Group expects to supply the remaining equipment for these projects to Hisense Group and/or its new subsidiaries with the total transaction amount of approximately RMB12.5 million in 2019. Therefore, the 2019 annual cap is adjusted downward after taking into account the low utilisation rate in 2018.

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 2018 Deemed Actual Utilisation Rate is approximately 42.1%; and (ii) the proposed 2019 annual cap of RMB228.32 decreases approximately RMB225.23 million (or 49.7%) from the 2018 annual cap of RMB453.55 million.

In order to assess whether the 2019 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 2019 annual cap. As learnt from the 2018 Circular, 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. The maximum aggregate value of the supply of moulds between the relevant parties for the nine months ended 30 September 2018 was approximately RMB144.7 million. By comparison, there is a decrease of approximately 47.0% in 2018 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 2019 annual cap are fair and reasonable. The relatively low utilisation rate is due to the adjustment of the Group's business model in 2018. The Group set up a new overseas subsidiary to directly sell some of its moulds to the end users instead of the connected parties. The Management advised that, according to its business plan, the 2019 annual cap is based on the estimated unaudited value of the similar transactions for the year 2018 of approximately RMB187.6 million after adjusting for the expected 21.7% sales growth for the year ending 31 December 2019. As such, the 2019 annual cap is adjusted downward after taking into account the low utilisation rate in 2018.

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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 2018 Deemed Actual Utilisation Rate is approximately 60.5%; and (ii) the proposed 2019 annual cap of RMB161.42 million decreases approximately RMB19.31 million (or 10.7%) from the 2018 annual cap of approximately RMB180.73 million.

In order to assess whether the 2019 annual cap is fair and reasonable, we reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2019 annual cap. As learnt from the 2018 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 2017 was approximately RMB59.4 million. The maximum aggregate value of the supply of raw materials, parts and components between the relevant parties for the nine months ended 30 September 2018 was approximately RMB78.78 million, representing an increase of approximately 32.6%, which is in consistent with the projection of the Company. However, the Company expects that the decrease of the similar transaction due to the decrease in sales of TV casings and TV back panel to Hisense Electric, which is in line when taking into account the fact that the sales of Hisense Electric for the nine months ended 30 September 2018 has only grown by 3.8%, representing a 3.8% decrease of year-on-year growth rate. Therefore, the 2019 annual cap is adjusted downward after taking into account the low utilisation rate in 2018. Therefore, we concur that the underlying assumptions, basis and calculation of the 2019 annual cap are fair and reasonable.

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 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 2018 Deemed Actual Utilisation Rate is approximately 47.3%; and (ii) the proposed 2019 annual cap of RMB34.39 million increases approximately RMB4.17 million (or 13.8%) from the 2018 annual cap of approximately RMB30.22 million.

In order to assess whether the 2019 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 2018 Circular, 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. The maximum aggregate value of the provision of services between the relevant parties for

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the nine months ended 30 September 2018 was approximately RMB11.10 million. By comparison, there is a decrease of approximately 30.4% in 2018 on the provision of services. According to our discussion with the Company, we consider that the increase of the similar transaction is reasonable when taking into consideration the increase of estimated revenue growth by approximately 25% in 2019 and the following adjustment for the actual business needs of the Group in 2019: (i) property services in the sum of approximately RMB9.71 million to be provided by the Group; (ii) design services in the sum of approximately RMB12.5 million to be provided by the Group; and (iii) processing services in the sum of approximately RMB3.4 million to be provided by the Group. Since the year-on-year growth rates of listed major Chinese white electricity companies for the nine months ended 30 September 2018 are between 0% and 34%, we believe the 25% revenue growth in 2019 is reasonable. We concur that the underlying assumptions, basis and calculation of the 2019 annual cap are fair and reasonable.

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 RMB8,000 million (inclusive of interest) on any given day for the year ending 31 December 2019. 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 2018 Deemed Actual Utilisation Rate is approximately 70.8%; and (ii) the 2019 annual cap of RMB8,000 million increases RMB1,500 million (or 23.1%) from the 2018 annual cap of RMB6,500 million.

It is noted from the 2018 Interim Report, the Group had cash and cash equivalents of RMB3,564.5 million (including the deposits with other financial institutions). According to the Management, as at 30 September 2018, the highest daily balance of cash and cash equivalents (including entrusted wealth management product) held by the Group was approximately RMB5,130 million. 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. The expected amount of cash for subscription of entrusted wealth management products in 2019 is approximately RMB5,000 million. The above relatively high balances compared with the 2018 annual cap of RMB6,500 million may imply that the Group is in need of a higher amount of the deposit

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service from Hisense Finance. 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, the Company expects to keep using the deposit services as the past few years did. Meanwhile, taking into account the fact that the Company's revenue for the nine months ended 30 September 2018 amounted to RMB28,808.4 million, representing a year-on-year increase of 9%, and the expected growth in the Group's revenue in 2019 along with the expected continuing market trend of shifting towards "high-end" and "intelligence" in 2019, it is anticipated by the management that the highest daily closing balance of deposit will be approximately RMB6,413 million in 2019, which is derived from an increment of 25% from the existing highest daily cash and cash equivalents (including entrusted wealth management product) balance of RMB5,130 million.

Furthermore, the Company expects to reduce the endorsement of bills receivable and increase the use of electronic bill payments in 2019 in order to improve the efficiency of capital utilisation and bring revenue from capital utilisation. It is expected that payment by means of electronic acceptance bills will increase from currently 24% to 45%. According to the management, this is expected to result in RMB800 million increase of monetary funds, when taking into account the fact that the expected amount of purchase payment for the year ending 31 December 2019 is expected to have a 25% growth and the use of electronic bill payments can postpone the actual payment by 1.5 months.

As at 30 September 2018, the accounts receivables turnover was shortened by 2 days year-on-year. According to the Management, due to the further improvement of working capital management, the net cash flows from operating activities and the cash balance will further increase in 2019. Thus, the Company expects the accounts receivables turnover will be further shortened by 2 days in 2019 when compared to the accounts receivables turnover in 2018. The management expects the monetary funds will increase by approximately RMB500 million due to the impact of shorter accounts receivables and the growth of its revenue in 2019.

As such, it is expected the highest daily cash balance held by the Group would amount to approximately RMB 7,713 million in 2019.

We have also discussed with the Management and understood that a buffer in the maximum daily cash balance in the Group's deposit account in Hisense Finance is required but the Company does not intend to deposit all its cash with Hisense Finance. As mentioned above, this is because (i) deposit services required during the transition period between expiry of wealth management products subscribed by the Group and subscription of new wealth management products by the Group; and (ii) 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. Given the maximum amount of loan by Hisense Finance to the Group on any given day for the nine months ended 30 September 2018 was RMB200 million and the management expects to increase the Company's revenue by 25% in 2019, the other approximately RMB300 million buffer for the deposit services by Hisense Finance to the Group is required according to the management.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As such, the maximum daily balance of the deposit is expected to be not more than RMB8,000 million 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 provides the services primarily 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 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.

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 RMB8,000 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 RMB9,000 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 years ending 31 December 2019 since the terms for the provision of the loans and electronic bank acceptance bill services by Hisense

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

In 2019, the Company wants to improve its efficiency of capital utilisation. The Company plans to adjust payment terms, increase payment via electronic bank acceptance bills, reduce payments via cash and endorsement of bills receivable. The Company can utilize the available capital to obtain income and improve cash flow; and reduce costs derived from endorsement of bills receivable. Therefore, the Company expects that it will continue to increase its use of the electronic bank acceptance bill service in 2019 and that the highest daily balance of the electronic bank acceptance bill service in 2019 will be approximately RMB9,000 million (inclusive of interest and service fees), taking into account the fact that, as understood from the Management, the expected amount of purchase payment for the year ending 31 December 2019 is expected to have a 25% growth and the percentage of payment in form of electronic bills is expected to increase to 45% in 2019 from 24% 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 RMB3,700.0 million in the first nine months of 2018 which are approximately 61.7% 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 2018 Deemed Actual Utilisation Rate is approximately 65.0%; and (iv) the maximum daily balance of RMB3,700.0 million recorded in the nine months ended 30 September 2018.

The Group took only a loan from Hisense Finance in 2018. We reviewed the loan agreement and note that 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 2019 annual cap in respect of the loan and electronic bank acceptance bill services under the Financial Services Agreement is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Draft discount services to the Group*

As set out in the Letter from the Board, the Company currently expects that the annual discount interest payable by the Group to Hisense Finance for provision of draft discount services shall not exceed RMB50 million for the year ending 31 December 2019. 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 years ending 31 December 2019 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.

As regards the draft discount services, we note that (i) the 2018 Deemed Actual Utilisation Rate is approximately 23.8%; and (ii) the 2019 annual cap of RMB50 million is the same as the 2018 annual cap.

For the nine months period ended 30 September 2018, the maximum aggregate value of draft discount services from Hisense Finance was approximately RMB7.54 million, representing an increase of approximately 358.1%. 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 2019; 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 RMB2,500 million in 2019 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 2019.

As regards the settlement and sale of foreign exchange services, we note that (i) the historical transaction value for the provision of settlement and sale of foreign exchange services by Hisense Finance to the Group was amounted to approximately US\$6.15 million for the first nine months of 2018; (ii) the 2018 Deemed Actual Utilisation Rate is approximately 3.1%; and (iii) the 2019 annual cap of US\$500 million remains the same as the 2018 annual cap of US\$500 million.

We understand from the Management that the Group currently uses the current term settlement and sale of foreign exchange services provided by Hisense Finance while the long-term settlement and sale of foreign exchange services are provided by other financial institutions. Furthermore, for the nine months ended 30 September 2018, the revenue of the Company resulting from export business amounted to approximately RMB8,500 million, which is equivalent to US\$1,200 million. Due to volatility of exchange rate of foreign currencies and fluctuations in global economy, all receipt of monies from export business in 2018 were denominated in RMB. Therefore, in consideration of these unusual market conditions, the actual amount of settlement and sale of foreign exchange of the Company was only US\$6.2 million in 2018. In 2017, the scale of transactions of settlement and sale of foreign exchange amounted to approximately US\$510 million, where payment was mainly denominated in foreign currencies. The volatile of the amount explains the impact of exchange rate on the transactions proposed. After considering the trend of the exchange rate and that the unusual market conditions will not continue in the coming year, 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 2018 Deemed Actual Utilisation Rate is 3.1%, which will partially offset the increase of short-term settlement and sale of foreign exchange services in 2019. Hence, the Company plans to increase the usage of settlement and sale of foreign exchange services provided by Hisense Finance and shall utilise more settlement and foreign exchange services in the coming year to take advantage of the more expedient and efficient service provision by Hisense Finance. Therefore, the 2019 annual cap is maintained the same after taking into account the estimation of the management and the low utilization rate in 2018, but still remains in a relatively high level of amount.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 2019.

In view of the fact that (i) the proposed settlement and sale of foreign exchange services to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) the business development plans of the Company to be implemented in the future, it is generally in the interest of the Company to maximise the amount of settlement and sale of foreign exchange payable so as to provide for its expected increase in export sales for the coming financial years, we are of the view that the cap of US\$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 2019. 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 2018 Deemed Actual Utilisation Rate is approximately 14.3%; and (ii) the 2019 annual cap of RMB3 million remains the same as the 2018 annual cap of RMB3 million. For the period commencing from 1 January 2018 to 30 September 2018, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds amounted to approximately RMB322,400. From the above, we note a relatively low utilisation rate.

Currently, advised by the Management, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB5.5 to RMB200 per transaction. As the Company cannot guarantee

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 2019 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2018, 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 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.

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.

### **Supplemental Agreement in relation to the Financial Business Framework Agreement**

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

As set out in the Letter from the Board, the Company currently expects that 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 Supplemental Agreement shall not exceed RMB800 million (inclusive of interest) for the financial years ending 2019.

Such cap has been determined with reference to (i) the actual amounts paid or received by the Group in relation to the Factoring Transactions for the 12 months ended 31 December 2018 and (ii) the requirement for business development of the Company in the remaining term of the Supplemental Agreement.

As regards the recourse factoring services, we note that (i) the 2018 Deemed Actual Utilisation Rate is approximately 100.0%; and (ii) the 2019 annual cap of RMB800 million increases RMB700 million (or 700%) from the 2018 annual cap of RMB100 million.

We reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2019 annual cap. We understand from the Management that, according to the situation of bills receivable of the Company from the major customers in the peak season of 2018, the monthly demand of recourse

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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factoring services is expected to be approximately RMB130 million. Furthermore, the majority of the bills receivable of the Company are of 6-month valid term. With reference to the RMB130 million monthly demand and the term of 6-month period for the bills, it is expected that the maximum daily closing balance of the recourse factoring services is approximately RMB800 million. 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 increase the use of the recourse factoring services from Hisense Financial Holdings if the relevant terms are more favourable than those available from other financial institutions.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2019; and (ii) the Company's plan to enhance its management on its accounts receivables to expedite the capital turnover rate and reduce unused capital, it is estimated that the Company's annual sum of money for procurement of recourse factoring services by the Group to Hisense Finance will be close to RMB800 million in 2019.

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

### *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 non-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 Supplemental Agreement shall not exceed RMB400 million (inclusive of interest) for the financial years ending 2019.

Such cap has been determined with reference to (i) the actual amounts paid or received by the Group in relation to the non-recourse factoring services for the 12 months ended 31 December 2018 and (ii) the requirement for business development of the Company in the remaining term of the Supplemental Agreement.

As regards the non-recourse factoring services, we note that (i) the 2018 Deemed Actual Utilisation Rate is approximately 10.9%; and (ii) the 2019 annual cap of RMB400 million decreases RMB100 million (or 20%) from the 2018 annual cap of RMB500 million.

We reviewed the basis and the calculation prepared by the Management and discussed with the Management on the underlying assumptions of the 2019 annual cap. It is noted from the 2018 Interim Report, the Group had notes receivable amounted to approximately

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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RMB3,276.0 million. Furthermore, as of 31 December 2017, the balance of bills receivable of the Company was approximately RMB3,500 million and, as of 30 September 2018, that was approximately RMB2,500 million. The average bill receivable of the Company was calculated by the aggregate sum of bills receivable as of 31 December 2017 and that as of 30 September 2018, divided by two. As such, the average bills receivable of the Company would amount to RMB3,000 million. We understand from the Management the Company's plan to enhance its management on its notes receivables to expedite the capital turnover rate. It is noted that bills receivable would increase according to the increase in operating income. Since it is expected that the growth rate of operating revenue of the Company in 2019 would be 25%, it is estimated that the balance of bills receivable would amount to RMB3,700 million among which RMB2,500 million would be allocated to the provision of draft discount services, RMB800 million to the provision of recourse factoring services, and RMB400 million to the provision of non-recourse factoring services. It is estimated that the Company's annual sum of money for procurement of non-recourse factoring services by the Group to Hisense Financial Holdings will be RMB400 million in 2019. 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 increase the use of the non-recourse factoring services from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions.

In view of the fact that (i) the proposed 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 on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Business Framework Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the daily closing balance of the non-recourse factoring services so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the cap of RMB400 million in respect of the non-recourse factoring services to be payable under the Supplemental Agreement is fair and reasonable.

### ***Financial leasing service***

As set out in the Letter from the Board, the Company currently expects that the maximum daily closing balance of the leasing 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 Supplemental Agreement shall not exceed RMB300 million (inclusive of interest) for the financial years ending 2019.

According to the Management, the provision of financial leasing services under the Supplemental Agreement are beneficial to the Company as they will enable the Company to (i) broaden its financing channels and optimise its debt structure; (ii) reduce its capital costs given the lower-than-market interest rates offered in the transactions under the Supplemental Agreement; and (iii) in the case of direct leasing, reduce the cash outlay to purchase required equipment, thereby increasing financial resources for other business development activities. Also, we understand from the management the cash payment for the procurement

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of fixed assets, intangible assets and other long-term assets were approximately RMB390 million and RMB230 million for the financial year ended 31 December 2017 and for the nine months ended 30 September 2018, respectively. It is expected that cash payment by the Company for purchasing fixed assets, intangible assets and other long-term assets in 2019 would be of a similar amount when compared to 2018. In light of the above information, to improve its capital usage efficiency, decrease the financing cost and the financing risks of the Group, the Management expects the maximum daily closing balance of the leasing services could reach RMB300 million in 2019, taking into account the fact that the Group may have to frequently utilise the financial leasing services from Hisense Financial Holdings if the relevant terms are more favourable than those available from other financial institutions.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Recommendation

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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  
**Yuanta Securities (Hong Kong) Company Limited**  
**Lei Hsi Wei**  
*Executive Director*  
*Investment Banking*

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

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company (<http://www.kelon.com>):

- (a) on pages 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>);
- (b) 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>);
- (c) on pages 61 to 189 of the annual report of the Company for the year ended 31 December 2017 published on 27 April 2018  
(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804272902.pdf>); and
- (d) on pages 2 to 126 of the interim report of the Company for the six months ended 30 June 2018 published on 21 September 2018  
(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0921/LTN20180921647.pdf>).

**2. INDEBTEDNESS**

As at the close of business on 30 November 2018, 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 2019, full implementation of the “rural revitalisation strategy” will increase rural income levels and their purchasing power, bringing policy benefits to white goods enterprise. In addition, the continuing upgrade of consumption in the white goods market, the gradual increase of replacement demand in the refrigerator market, and the accelerated integration of online and offline channels are creating opportunities for the enterprises’ operations. The Company will seize favorable opportunities in the industry and the market, firmly implement the operational philosophy of “to elevate customer value, to produce high quality product”, and ensure the steady enhancement of scale and efficiency through series of measures such as “enhancing the core competitiveness of products, optimizing product and customer structure, facilitating industrial development”.

In the first three quarters of 2018, the Company persisted in its overall concept of “creating products with high quality, enhancing customer value, improving system efficiency, accelerating industrial development, expanding international market”, and implemented various tasks to steadily improve its scale and efficiency. From January to September 2018, the Company achieved operating revenues of RMB28.8 billion, representing a year-on-year increase of 9.15%; net profits attributable to shareholders in the listed company after deducting non-recurring gains or losses reached RMB1.026 billion, representing a year-on-year increase of 12.88%. Net cash flows from operating activities amounted to RMB1.838 billion, representing a year-on-year increase of 100.73%. The Company’s operation remained in a good position and continued to develop steadily.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

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

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

#### *Long position in the Shares*

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

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

**Other interests**

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2017, 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, Mr. Dai Hui Zhong and Mr. Jia Shao Qian, being Directors, are also directors or senior management of Hisense Group or some of its subsidiaries. Hisense Group was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. SERVICE AGREEMENTS**

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

#### 4. COMPETING BUSINESS

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

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
Mr. Jia Shao Qian	The subsidiaries of Hisense Group	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\* (寧波梅山保稅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 2017 (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
Yuanta Securities (Hong Kong) Company Limited	a corporation licensed under the SFO to carry on Type 1 (Dealing in Securities), Type 2 (Dealing in future contracts), Type 4 (Advising on Securities), Type 5 (Advising on future contracts), Type 6 (Advising on corporate finance) and Type 9 (Asset Management) regulated activities under the SFO.

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 2017, 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 23 January 2019:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Financial Adviser dated 7 January 2019;
- (c) the letter from the Independent Board Committee dated 7 January 2019;
- (d) the Business Co-operation Framework Agreement;
- (e) the Financial Services Agreement;

- (f) the Supplemental Agreement;
- (g) the Hitachi Business Framework Agreement;
- (h) the resolutions passed by the tenth session of the Board on 26 November 2018;
- (i) the prior approval and independent opinion of the independent non-executive Directors dated 26 November 2018 in relation to the continuing connected transactions;
- (j) the Existing Business Co-operation Framework Agreement;
- (k) the Financial Business Framework Agreement;
- (l) the Existing Financial Services Agreement;
- (m) the Hitachi Business Framework Agreement dated 28 November 2017 between the Company and Hisense Hitachi;
- (n) the Share Transfer Agreements;
- (o) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert” in this appendix;
- (p) the annual reports and consolidated audited accounts of the Company for the 2 years ending 31 December 2017; and
- (q) the circular of the Company dated 3 January 2018; and
- (r) this circular.