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

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Hisense 海信科龙

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

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

(Stock Code: 00921)

**(1) CONTINUING CONNECTED TRANSACTIONS
(2) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.
AND
HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC
APPLIANCES CO., LTD.**

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



A letter from the Board is set out on pages 6 to 41 of this circular. A letter from the Independent Board Committee is set out on pages 42 to 43 of this circular. A letter from the Investec containing its advice to the Independent Board Committee and the Shareholders is set out on pages 44 to 84 of this circular.

A notice of the EGM to be held on 21 January 2015 at 2:30 p.m. at the conference room of the Company's head office, No. 8 Ronggang Road, Ronggui, Shunde District, Foshan City, Guangdong Province, the People's Republic of China, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 3 December 2014 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.

22 December 2014

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DEFINITIONS

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

- “A Shares” domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;
- “associates” has the meaning ascribed to it under the Hong Kong Listing Rules;
- “Board” or “Director(s)” the board of directors of the Company;
- “Business Co-operation Framework Agreement” the Business Co-operation Framework Agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 2 December 2014 in relation to the sale and purchase of home electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services;
- “Caps” the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2015, being (i) RMB800,000 in respect of the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (ii) RMB35,650,000 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) RMB177,120,000 in respect of the provision of services by Hisense Group, Hisense Electric and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (iv) RMB439,330,000 in respect of the provision of agency services for export of white goods by Hisense Group and its subsidiaries to the Group under the Business Co-operation Framework Agreement; (v) RMB2,985,280,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB8,000,000 in respect of the supply of equipment by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement; (vii) RMB350,000,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and their respective subsidiaries under the Business Co-operation Framework Agreement; (viii) RMB67,050,000 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; and (ix) RMB7,190,000 in respect of the provision of services by the Group to Hisense Group and its subsidiaries under the Business Co-operation Framework Agreement;

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“close associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Company”	Hisense Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange;
“connected person”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“EGM”	the first 2015 extraordinary general meeting of the Company to be held at the conference room of the Company’s head office, No. 8 Ronggang Road, Ronggui, Shunde District, Foshan City, Guangdong Province, the People’s Republic of China on 21 January 2015 at 2:30 p.m. for, among other things, the approval of the Business Co-operation Framework Agreement, the Hitachi Business Framework Agreement, the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto;
“Existing Business Co-operation Framework Agreement”	the framework agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 21 November 2013 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds, and the provision of various services for the period up to 31 December 2014;
“Group”	the Company and its subsidiaries;
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange;
“Hisense Air-conditioning”	Qingdao Hisense Air-conditioning Company Limited (青島海信空調有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;

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“Hisense Electric”	Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange;
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability;
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hisense Marketing”	青島海信國際營銷股份有限公司 (Hisense International Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hisense Whirlpool”	Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (海信惠而浦(浙江)電器有限公司), a company incorporated in the PRC with limited liability;
“Hitachi Business Framework Agreement”	the business framework agreement 1 (業務框架協議一) entered into between the Company and Hisense Hitachi dated 2 December 2014 in relation to the sale and purchase of home electrical appliances, sale and purchase of raw materials, parts and components and supply of moulds;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo;

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“Independent Financial Adviser” or “Investec”	Investec Capital Asia Limited, a corporation licensed to carry type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Business Co-operation Framework Agreement and the Caps in relation thereto;
“Independent Shareholders”	Shareholders other than Hisense Group, Hisense Electric and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules;
“Latest Practicable Date”	18 December 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“SFO”	Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所上市規則);
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

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“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“VAT”	value-added tax;
“Whirlpool Business Framework Agreement”	the business framework agreement 2 (業務框架協議二) entered into between the Company and Hisense Whirlpool dated 2 December 2014 in relation to the purchase of home electrical appliances and equipment, sale and purchase of raw materials, parts and components, supply of moulds and provision of services;
“white goods”	the general term by which white-coloured household electrical appliances are commonly known which include, but not limited to, air-conditioners, refrigerators, freezers, washing machines and other small household electrical appliances;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“US\$”	United States dollars, the lawful currency of the United States of America;
“%”	per cent.

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HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

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

(Stock Code: 00921)

Executive Directors:

Mr. Tang Ye Guo
Ms. Yu Shu Min
Mr. Lin Lan
Mr. Xiao Jian Lin
Mr. Huang Xiao Jian
Mr. Tian Ye

Registered Office:

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

Independent non-executive Directors:

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

Principal place of business

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

22 December 2014

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
(2) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD.
AND
HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC
APPLIANCES CO., LTD.**

BACKGROUND

Reference is made to:—

- (a) the announcement of the Company dated 21 November 2013 in relation to, inter alia, the Existing Business Co-operation Framework Agreement; and

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- (b) the circular of the Company dated 18 December 2013 in relation to, inter alia, the Existing Business Co-operation Framework Agreement.

As disclosed in the announcement of the Company dated 2 December 2014, the Existing Business Co-operation Framework Agreement will expire on 31 December 2014 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 2 December 2014, the Business Co-operation Framework Agreement was entered into by the Company.

In addition, on 2 December 2014, the Company has also entered into the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement with Hisense Hitachi and Hisense Whirlpool respectively. The transactions contemplated under the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement constitute ordinary connected transactions under the Shenzhen Listing Rules and are subject to the approval at the EGM.

The purpose of this circular is to:—

- (a) provide you with further information on the Business Co-operation Framework Agreement and the Caps in relation thereto;
- (b) provide you with further information on the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the annual caps in relation thereto;
- (c) set out the letter of advice from the Investec to the Independent Board Committee and the Shareholders in relation to the Business Co-operation Framework Agreement; and
- (d) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement.

LETTER FROM THE BOARD

I. CONTINUING CONNECTED TRANSACTIONS

Business Co-operation Framework Agreement

Date: 2 December 2014

Parties: The Company;
Hisense Group; and
Hisense Electric

Term:

The Business Co-operation Framework Agreement shall commence from 1 January 2015 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 2015, 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

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under the Business Co-operation Framework Agreement from any other purchasers or suppliers (as the case may be).

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

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

The Company's internal policy regarding continuing connected transactions:

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

For such purpose, the Company has adopted an internal policy for managing and monitoring continuing connected transactions contemplated under the Business Co-operation Framework Agreement. According to the internal policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar existing transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. If the operation department is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to

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the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

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

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

(1) Purchase of home electrical appliances

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

Pricing:

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

Historical figures:

The annual cap allocated to the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB1,110,000

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(exclusive of VAT). For the nine months ended 30 September 2014, the aggregate transaction amount for the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB180,000 (exclusive of VAT and unaudited) (of which RMB110,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB70,000 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 2015 are subject to the Cap of RMB800,000 (exclusive of VAT), of which:—

- (i) RMB600,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB200,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2015 as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances such as refrigerators.

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

The sales and overall image of the Company can be enhanced by purchasing television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries as gifts for the Group's marketing and promotion activities which aim at boosting the sales of the Group's home electrical appliances. In addition, the Group intends to procure models for electrical appliances (such as refrigerators and air-conditioners) through Hisense Group and its subsidiaries

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for the purpose of conducting analysis and research so as to develop the Group's market research functions. Since the pricing for the purchase of home electrical appliances will be determined with reference to the market price of similar home electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain home electrical appliances through Hisense Group, Hisense Electric and/or their respective subsidiaries.

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

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

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

Pricing:

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

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 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB67,980,000 (exclusive of VAT). For the nine months ended 30 September 2014, 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 RMB37,430,000 (exclusive of VAT and unaudited) (of which RMB16,020,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB21,410,000 was for the purchases from Hisense Electric and/or its subsidiaries).

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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 2015 are subject to the Cap of RMB35,650,000 (exclusive of VAT), of which:—

- (i) RMB17,060,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries; and
- (ii) RMB18,590,000 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; 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 2015.

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

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

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

(3) *Provision of services*

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

Pricing:

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

Historical figures:

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB130,120,000. For the nine months ended 30 September 2014, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group amounted to approximately RMB92,780,000 (unaudited) (of which RMB87,330,000 was for the provision of relevant services by Hisense Group and/or its subsidiaries, whereas RMB5,450,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries).

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Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2015 are subject to the Cap of RMB177,120,000, of which:—

- (i) RMB166,810,000 will be allocated to the provision of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance services by Hisense Group and/or its subsidiaries; and
- (ii) RMB10,310,000 will be allocated to the provision of property services by Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2015.

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

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

LETTER FROM THE BOARD

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

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

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

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

- (i) Hisense Group and/or its subsidiaries shall be responsible for expanding the customer base of the Group in the international market, and shall conduct business negotiation with third party customers in the name of the Company and/or its subsidiaries and accept orders for the goods after obtaining the latter's consent. Contracts for such orders shall be entered into between the Company and/or its subsidiaries and the customers directly.
- (ii) Hisense Group and/or its subsidiaries shall provide information in relation to the delivery requirements of the customers to the Group which shall arrange for production. Any amendments proposed by Hisense Group and/or its subsidiaries in relation to the orders for the goods shall be subject to the Group's consent. In case the Group needs to adjust the date of delivery for reasons such as production capacity, Hisense Group and/or its subsidiaries shall negotiate and confirm with the customers on behalf of the Group.

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- (iii) The products to be supplied by the Group shall be delivered timely and in accordance with the specifications as per the purchase orders confirmed by the customers. There should not be any deficiencies in the design, raw materials and workmanship, and the quality and packaging shall meet the mandatory standards and requirements in the country of end use of the products. The Group shall provide technological services and warranties according to the agreement with the customers depending on the types of products involved.

Pricing:

The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. This pricing mechanism is a usual commercial practice for determining fees payable for such kind of services. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2015, pursuant to which the export agency fee percentage during the term of the Business Cooperation Framework Agreement shall also be determined as provided in the table below:

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

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Note: Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2015 – the Group's audited revenue from export subject to the export agency services in 2012)/the Group's audited revenue from export subject to the export agency services in 2012.

The profit margin for export agency services (which ranges from 0% to 1.1%) to be added to the base percentage of 7.24% was determined with reference to the relevant information in relation to import and export agency services disclosed by other listed companies).

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

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

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

- (i) in the event that any liquidated damages, damages, compensation and other compensation costs are claimed by customers due to the failure of the Group to deliver relevant products in time (including without limitation, inability to deliver relevant products, delay in delivering

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relevant products and deficiency in the quality of the products), Hisense Group and/or its subsidiaries shall negotiate with the customers on the settlement proposal for and on behalf of the Group. The Group shall be responsible if the proposal is agreed to by the Group; and

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

Historical figures:

The annual cap allocated to the provision by Hisense Group and/or its subsidiaries of agency services for export of white goods products of the Group for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB366,830,000. For the nine months ended 30 September 2014, the aggregate transaction amount for the provision by Hisense Group and/or its subsidiaries of agency services for export of the white goods products of the Group amounted to approximately RMB247,710,000 (unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of agency services for export of the white goods products of the Group by Hisense Group and/or its subsidiaries to the Group for the financial year ending 31 December 2015 are subject to the Cap of RMB439,330,000.

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

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

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

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

(5) *Supply of home electrical appliances*

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

Pricing:

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

Historical figures:

The annual cap allocated to the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB3,039,800,000 (exclusive

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of VAT). For the nine months ended 30 September 2014, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB1,337,100,000 (exclusive of VAT and unaudited) (of which RMB1,337,100,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB0 was for the supply to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2015 are subject to the Cap of RMB2,985,280,000 (exclusive of VAT), of which:—

- (i) RMB2,985,200,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Group and/or its subsidiaries; and
- (ii) RMB80,000 will be allocated to the supply of home electrical appliances by the Group to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2015.

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

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

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

(6) *Supply of equipment*

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

Pricing:

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

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 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB8,560,000 (exclusive of VAT). For the nine months ended 30 September 2014, the aggregate transaction amount for the supply of equipment by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB1,350,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2015 are subject to the Cap of RMB8,000,000 (exclusive of VAT).

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2015.

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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.

(7) *Supply of moulds*

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

Pricing:

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

Historical figures:

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB349,680,000 (exclusive of VAT). For the nine months ended 30 September 2014, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/

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or their respective subsidiaries amounted to approximately RMB193,550,000 (exclusive of VAT and unaudited) (of which RMB133,610,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB59,940,000 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 2015 are subject to the Cap of RMB350,000,000 (exclusive of VAT), of which:—

- (i) RMB254,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (ii) RMB96,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

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

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

The sale of moulds by the Group to Hisense Group and Hisense Electric has become an important part of the Group's business. The sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with the respective subsidiaries of Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may continue to serve as stable customers of the Group in respect of the sale of moulds, thereby further expanding the sales of the Group.

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

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

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

Pricing:

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

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 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB29,050,000 (exclusive of VAT). For the nine months ended 30 September 2014, 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 RMB9,660,000 (exclusive of VAT and unaudited) (of which RMB9,070,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB590,000 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 2015 are subject to the Cap of RMB67,050,000 (exclusive of VAT), of which:—

- (i) RMB56,950,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB10,100,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

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

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

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

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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(9) *Provision of services by the Group*

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

Pricing:

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

Historical figures:

The annual cap allocated to the provision of services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2014 as specified in the Existing Business Co-operation Framework Agreement is RMB6,870,000. For the nine months ended 30 September 2014, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Group and/or its subsidiaries amounted to approximately RMB2,000,000 (unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of design and property services by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2015 are subject to the Cap of RMB7,190,000.

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

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Reasons for and benefits of the provision of services to Hisense Group and/or its subsidiaries:

The provision of design and property services to Hisense Group and/or its subsidiaries will increase the Company'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 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.

Information relating to the Company, Hisense Electric and Hisense Group

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

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

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

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Implications under the Hong Kong Listing Rules

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.07% of the issued shares of the Company and (ii) Hisense HK holds 4.08% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 40.37% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 612,316,909 Shares (representing approximately 45.07% of the issued share capital of the Company) and Hisense HK, which held 55,403,000 Shares (representing approximately 4.08% 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, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement and the transactions contemplated thereunder in view of their interest therein as set out below:—

- (a) Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors or senior management of Hisense Group and/or some of its subsidiaries; and

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(b) Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors of Hisense Electric and/or some of its subsidiaries.

II. BUSINESS FRAMEWORK AGREEMENTS WITH HISENSE HITACHI AND HISENSE WHIRLPOOL

A. HITACHI BUSINESS FRAMEWORK AGREEMENT

Date: 2 December 2014

Parties: The Company; and
Hisense Hitachi

Term:

The Hitachi Business Framework Agreement shall commence from 1 January 2015 or the date of approval of the Hitachi Business Framework Agreement at the EGM (whichever is the later) until 31 December 2015, which can be terminated before its expiration by mutual agreement of the parties.

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

Condition:

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

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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 2014 are set out as follows:

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

Types of transactions	Annual caps of the transaction amount to be paid/received during the term of the Hitachi Business Framework Agreement	Amount paid/received in respect of such type of transactions from January to September 2014 (unaudited)
Sale of home electrical appliances	15,616	3,435
Sale of raw materials, parts and components	300	101
Sale of moulds	1,600	192
Purchase of home electrical appliances	1,000	Not applicable
Purchase of raw materials, parts and components	1,767	805

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.

LETTER FROM THE BOARD

Pricing and payment term:

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

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

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

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

Reciprocal purchase of home electrical appliances

The sale of home electrical appliances to Hisense Hitachi may expand the sales and increase sales revenue of the Company, and the purchase of home electrical appliances from Hisense Hitachi can further enrich the product lines of the Company, 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.

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Sales of moulds

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

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

Information of Hisense Hitachi

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

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

As Mr. Tang Ye Guo and Ms. Yu Shu Min, being Directors, are also the directors 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.

LETTER FROM THE BOARD

Mr. Tang Ye Guo and Ms. Yu Shu Min, being Directors, are also the directors of Hisense Hitachi and have abstained from voting on the relevant board resolution for approving the Hitachi Business Framework Agreement and the transactions contemplated thereunder.

B. BUSINESS FRAMEWORK AGREEMENT WITH HISENSE WHIRLPOOL

Date: 2 December 2014

Parties: The Company; and
Hisense Whirlpool

Term:

The Whirlpool Business Framework Agreement shall commence from 1 January 2015 or the date of approval of the Whirlpool Business Framework Agreement at the EGM (whichever is the later) until 31 December 2015, which can be terminated before its expiration by mutual agreement of the parties.

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

Condition:

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

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Subject matters:

The transactions contemplated under the Whirlpool Business Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Whirlpool Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Whirlpool Business Framework Agreement with any other third parties. The annual caps for the transactions contemplated under the Whirlpool Business Framework Agreement and the historical amount of the transactions from January to September 2014 are set out as follows:

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

Types of transactions	Annual caps of the transaction amount to be paid/received during the term of the Whirlpool Business Framework Agreement	Amount paid/received in respect of such type of transactions from January to September 2014 (unaudited)
Purchase of home electrical appliances	71,394	34,832
Purchase of raw materials, parts and components	889	597
Purchase of equipment	4,604	0
Sale of raw materials, parts and components	1,080	899
Sale of moulds	750	410
Provision of services	536	236

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

Pricing and payment term:

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

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

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

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

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

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

Purchase of home electrical appliances

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

Reciprocal purchase of raw materials, parts and components

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

Purchase of equipment

The purchases of equipment from Hisense Whirlpool can satisfy the Company's production requirements.

Sales of moulds

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

Provision of services

The provision of services to Hisense Whirlpool may enhance asset and resources utilization ratio and increase 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.

LETTER FROM THE BOARD

Information of Hisense Whirlpool

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

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

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

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

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

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

EGM

The EGM will be held at the conference room of the Company's head office, No. 8 Ronggang Road, Ronggui, Shunde District, Foshan City, Guangdong Province, the People's Republic of China at 2:30 p.m. on Wednesday, 21 January 2015 at which ordinary resolutions will be proposed to approve, inter alia, the Business Co-operation Framework Agreement, the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 3 December 2014 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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

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

LETTER FROM THE BOARD

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

The register of members of the Company has been closed since 20 December 2014 (Saturday) until 21 January 2015 (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 19 December 2014 (Friday) for registration.

RECOMMENDATION

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

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

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement and the transactions contemplated thereunder which are respectively set out on pages 42 to 43 and pages 44 to 84 of this circular. Additional information is also set out in the Appendix of this circular for your information.

Yours faithfully,

By Order of the Board of

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

Hisense 海信科龙

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

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

(Stock Code: 00921)

22 December 2014

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 22 December 2014 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms of the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto as to the fairness and reasonableness of the same. Investec Capital Asia 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 Investec as set out on pages 6 to 41 and pages 44 to 84 of the Circular respectively. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the terms of the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

For and on behalf of the Independent Board Committee

Xu Xiang Yi Wang Xin Yu Wang Ai Guo

Independent non-executive Directors

Hisense Kelon Electrical Holdings Company Limited

LETTER FROM INVESTEC

The following is the text of the letter of advice from Investec Capital Asia Limited to the Independent Board Committee and the Shareholders in relation to the Business Co-operation Framework Agreement prepared for the purpose of incorporation in this circular.



Investec Capital Asia Ltd
Room 3609, 36/F, Two International Finance Centre
8 Finance Street, Central, Hong Kong
香港中環金融街8號國際金融中心二期36樓3609室
Tel/電話: (852) 3187 5000
Fax/傳真: (852) 2501 0171
www.investec.com

22 December 2014

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company (the “Independent Board Committee”) and the Shareholders in respect of the Business Co-operation Framework Agreement, details of which are set out in the circular to the Shareholders dated 22 December 2014 (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 Business Co-operation Framework Agreement. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Business Co-operation Framework Agreement will expire on 31 December 2014 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under this agreement from time to time thereafter. In view of the above, on 2 December 2014, the Company entered into the Business Co-operation Framework Agreement (details of the Business Co-operation Framework Agreement are stated in the section headed “Terms of the Business Co-operation Framework Agreement” below).

LETTER FROM INVESTEC

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 45.07% of the issued shares of the Company and (ii) Hisense HK holds approximately 4.08% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to approximately 40.37% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo, has been established to advise the Shareholders on whether or not the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are on normal commercial terms and in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. 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 whether the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Business Co-operation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) how the Shareholders should vote in respect of the resolution(s) to be proposed at the EGM to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder.

LETTER FROM INVESTEC

As at the Latest Practicable Date, we were independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules, and accordingly, qualified to give independent advice to the Shareholders regarding the Business Co-operation Framework Agreement and the transactions contemplated thereunder. In addition to the appointment as the Independent Financial Adviser, Investec in the last two years has also acted as the independent financial adviser to the then independent board committee of the Company and then independent Shareholders in respect of the relevant continuing connected transactions (i) for the year ended 31 December 2014 under the Existing Business Co-operation Framework Agreement and the respective financial services agreement of the Company as set out in the relevant circular of the Company dated on 18 December 2013; and (ii) for the year ended 31 December 2013 under the respective Huayi Compressors purchase framework agreement, the business co-operation framework agreement and the export agency framework agreement of the Company as set out in the relevant circular of the Company dated on 4 January 2013. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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 and/or its senior management staff (the “Management”). 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 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 date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or 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 Directors 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 the Directors and/or its Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group or Hisense Group.

LETTER FROM INVESTEC

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Business Co-operation Framework Agreement, we have taken into consideration the following principal factors:

I. Background information and reasons for the Business Co-operation Framework Agreement

1. Information on the Group

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, is principally engaged in the manufacture of refrigerators and air-conditioners. As stated in the Company's annual report for the year ended 31 December 2013 (the "2013 Annual Report"), approximately 66.5% of the Group's turnover for the year ended 31 December 2013 was derived from the PRC market and the rest was derived from overseas markets.

Set out below is a summary of the Group's consolidated operating results and financial position as extracted from the 2013 Annual Report and the Company's interim report for the six months ended 30 June 2014 (the "2014 Interim Report"):

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2012 (Audited)	2013 (Audited)	2013 (Unaudited)	2014 (Unaudited)
Revenues				
— Sales of refrigerators (& washing machines ¹)	8,461.2	10,106.0	6,253.1	6,287.8
— Sales of air-conditioners	6,665.1	9,233.8	5,056.6	7,214.9
— Sales of others	2,227.5	2,847.2	480.3	529.7
Revenue from principal operations	17,353.8	22,187.0	11,790.0	14,032.4
Revenue from other operations	1,605.1	2,173.1	1,202.9	1,365.1
Total operating revenue	18,958.9	24,360.0	12,992.9	15,397.5

LETTER FROM INVESTEC

<i>In RMB million, approximately</i>	For the year ended 31 December		For the six months ended 30 June	
	2012 (Audited)	2013 (Audited)	2013 (Unaudited)	2014 (Unaudited)
Operating costs	15,034.0	19,039.8	10,250.2	12,062.7
Business taxes and surcharges	105.2	99.6	49.6	47.4
Selling and distribution expenses	2,731.9	3,678.1	1,754.0	2,290.2
General and administrative expenses	640.9	814.5	354.2	403.9
Financial expenses	39.0	(27.5)	12.6	(15.0)
Impairment losses on assets	40.9	(66.4)	6.7	7.1
Total operating costs	18,591.9	23,538.1	12,427.3	14,796.4
Gain/(loss) from changes in fair value	(16.6)	56.6	35.9	(90.5)
Investment income	335.3	347.0	154.1	186.8
Total gain/(loss) from changes in fair value and investment income	318.7	403.6	190.0	96.3
Operating profits	685.6	1,225.5	755.5	697.4
Non-operating income	64.7	114.8	14.0	47.8
Non-operating expenses	7.4	17.5	4.5	3.7
Profit before tax	742.9	1,322.7	765.0	741.6
Income tax expenses	10.5	53.6	20.0	103.1
Net profit for the year/period	732.3	1,269.1	745.1	638.4
Attributable to:				
— Owners of the Company	717.8	1,239.0	706.8	609.8
— Minority interests	14.5	30.1	38.3	28.6

Note 1: The respective annual revenue for the year ended 31 December 2012 and 2013 are referred to the revenue generated from the sales of refrigerators. The respective interim revenue for the six months ended 30 June 2013 and 2014 are referred to the revenue generated from the sales of refrigerators and washing machines.

LETTER FROM INVESTEC

<i>In RMB million, approximately</i>	As at 31 December		30 June
	2012	2013	2014
	(Audited)	(Audited)	(Unaudited)
Non-current assets	3,270.2	4,217.3	4,587.3
Current assets	5,930.2	7,747.4	11,006.7
Non-current liabilities	368.7	417.2	430.7
Current liabilities	6,958.4	8,364.2	11,295.6
Total shareholders' equity	1,873.2	3,183.3	3,867.7

For the year ended 31 December 2013, the Group recorded an audited turnover of approximately RMB24,360.0 million (representing an increase of approximately 28.5% from the turnover of approximately RMB18,958.9 million for the preceding year) and a net profit of approximately RMB1,269.1 million (representing an increase of approximately 73.3% from the net profit of approximately RMB732.3 million for the preceding year). As noted in the 2013 Annual Report, the Company strictly adhered to the operating strategies of “building product advantages, reforming marketing models, enhancing system efficiency, exploring the international markets and ensuring scale and efficiency” and successfully achieved steady increase in the scale of operation and efficiency. As noted from the Annual Report 2013, the Company expected the trend of intelligentisation and high-end oriented development of home appliances stepped further into the limelight under the implementation of the new efficiency standards and the popularization of household intelligence.

For the six months ended 30 June 2014, the Group recorded an unaudited turnover of approximately RMB15,397.5 million, representing an increase of approximately 18.5% from the unaudited turnover of approximately RMB12,992.9 million for the corresponding period in 2013. The Group's unaudited net profit attributable to the equity holders of the Company for the six months ended 30 June 2013 of approximately RMB609.8 million represents a decrease of approximately 13.7% from the unaudited net profit attributable to the equity holders of the Company of approximately RMB706.8 million for the corresponding period in 2013. As noted in the 2014 Interim Report, the Company managed to achieve an overall stable operating scale through strict implementation of the operating strategies of “building product advantages, improving service quality, reforming marketing model, enhancing system

efficiency and ensuring scale and efficiency” (the “Operating Strategies”) amidst of scarce demand and weak growth in the domestic home appliance industry and overall weak export demand from overseas markets. Moreover, the export volume of the refrigerators and washing machines products of the Company recorded a year-to-year growth of 23.2% during the first half of 2014, outperforming the 9.4% growth of the industry, and the market share of the accumulated retail volume of the Company’s air-conditioners was approximately 8.9%, representing an increase of approximately 1.0% from the corresponding period last year, both were driven by its intelligent and technology innovative products. Furthermore, the Company indicated in the 2014 Interim Report that it would continue to implement the Operating Strategies to achieve steady increase in its scale and market share.

As at 30 June 2014, the Group had unaudited total current assets of approximately RMB11,006.7 million and unaudited total current liabilities of approximately RMB11,295.6 million. As at 30 June 2014, the Group’s unaudited total equity was approximately RMB3,867.7 million.

2. *Information on Hisense Group and Hisense Electric*

Based on the information available from the website of Hisense Group, Hisense Group, a wholly state-owned enterprise is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has production bases in South Africa, Algeria, Egypt, and sales offices in USA, Europe, Australia, Middle East, and Southeastern Asia and sells its products to over 130 countries and regions around the world. It is principally engaged in (i) manufacture and sales of TV sets, refrigerators, freezers, washing machines, small home electrical appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; (ii) the development of software and the provision of internet services; (iii) the technological development and the provision of consultation services; (iv) the self-operated import and export business, property management; and (v) leasing of tangible asset and real estate. In 2011, Hisense Group made sales revenue of approximately RMB71.6 billion, ranking six among top 100 electronic information enterprises in the PRC.

LETTER FROM INVESTEC

Hisense Electric Co., Ltd. has been listed on the Shanghai Stock Exchange since 1997 (stock code: 600060). As at the Latest Practicable Date, Hisense Group was interested in approximately 40.37% of the issued share capital of Hisense Electric. Hisense Electric is primarily engaged in the manufacture and sale of television, refrigerators, washing machines, radio and television equipment, communication products, information technology products, home and commercial appliances and electronic products and provision of the related services. The following financial results of Hisense Electric for each of the two years ended 31 December 2013 and the six months ended 30 June 2014 which are extracted from its annual report for the year ended 31 December 2013 and the interim report summary for the six months ended 30 June 2014.

	For the year ended 31 December		For the six months ended 30 June
	2012	2013	2014
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)
Turnover	25,252.0	28,479.9	13,258.4
Net Profit attributable to owners of the Company	1,603.2	1,582.9	613.0
Total assets as at year/ period end	18,251.4	19,867.1	19,450.8

As stated in its annual report for the year ended 31 December 2013, sales of televisions contributed to approximately 90.9% of Hisense Electric's total turnover and approximately 72.6% of its turnover was generated from domestic sales in the PRC. As at 30 June 2014, Hisense Electric had unaudited net assets attributable to owners of the Company of approximately RMB19.5 billion and made approximately RMB613.0 million of unaudited net profit attributable to owners of Company for six months ended 30 June 2014.

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

The PRC government indicated to keep its gross domestic product (“GDP”) growth target for 2014 at about 7.5% at the beginning of the year and has taken several policy steps to put economic growth on a more sustainable footing, including tightening credit growth and reduce supply mismatches in the real estate market.

Based on the preliminary statistic information from the National Bureau of Statistics of China, we note that the economic growth of China was approximately 7.4% for the nine months ended 30 September 2014. In particular, as the economy of China turned to domestic consumption for growth, retail sales of consumer goods rose approximately 12.0% for the nine months ended 30 September 2014 as compared to the corresponding period in 2013 to approximately RMB18,915.1 billion. For the nine months ended 30 September 2014, the retail sales in cities reached approximately RMB16,313.2 billion, up by approximately 11.9% as compared to the same period last year, and the retail sales at and below county level stood at approximately RMB 2,601.9 billion, representing an increase of approximately 13.0% on a year-on-year basis. According to the statistics from the website of chyxx.com (the “chyxx”) (中國產業資訊網), the export sales of home appliances for the six months ended 30 June 2014 were approximately US\$28.3 billion, representing an increase of approximately 3.6% as compared with that in the same period of 2013. In this relation, we understand from the Management that the Group has recorded an approximately 10.0% growth in export sales for the six months ended 30 June 2014 as compared to the same period of 2013, which more than double the growth rate of the overall home appliances export market. In addition, the government policies have impacted the domestic home appliances industry. The withdrawal of the new energy-saving subsidy policies (節能惠民補貼政策) (the “Energy-saving Policy”) in the second half of 2013 which had encouraged consumers to switch to low-energy appliances since June 2012 in combination with the policies in the real estate sector to tighten credit and reduce supply mismatches have caused negative or stagnant growth of various home appliances, such as the televisions and refrigerators.

According to a China economic update by the World Bank in October this year, it is expected that China’s GDP to maintain above 7% for 2015-2016 and China’s sizable policy buffers could be reserved to maintain overall macroeconomic stability in case of unexpected domestic or external economic shocks in an uncertain global economic environment. On the other hand,

according to chyxx, the trend of intelligentisation and high-tech oriented development of home appliances in PRC which has grown very fast in the recent years.

Based on (i) an expected continued stable future economic growth in the PRC; and (ii) the Group's continuing pursuit of product intelligentisation and technology innovation with outperforming growth in export sales of the refrigerators and washing machines products as well as in overall air-conditioner products as evidenced in its operating performance in the six months ended 30 June 2014, we concur with the Management's view that the Group will likely achieve steady increase in its scale and market share in the near future.

4. *Reasons for the Business Co-operation Framework Agreement*

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

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

In view of the substantial interest of Hisense Group in the Company and the fact that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we are of the view that it is in the commercial interest of Hisense Group to assist the Group in its business conditions and improving its profitability. As Hisense Group and Hisense Electric have the relevant expertise in the domestic electrical appliances market in the PRC as well as network in broad overseas markets

LETTER FROM INVESTEC

and are therefore able to assist the Group, we are of the view that it is in the commercial interest of the Company to continue entering into the Business Co-operation Framework Agreement to co-operate with Hisense Group and Hisense Electric. Furthermore, as noted in the Letter from the Board, Hisense Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By leveraging on the overseas sales platform of Hisense Group and its subsidiaries, the Group can benefit in the development of its overseas sales channels, reduce setup costs for overseas market and reduce expenses in relation to export businesses.

Certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of home electrical appliances, equipment, moulds, raw materials parts and components and provision of design and property services by the Group, when take place, will continue being recognised by the Group as its sales or other income, and the overall revenue of the Group will therefore be increased as a result of such transactions. As stated in the Letter from the Board, the sale and supply 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 respective 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 expand the sales of the Group.

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

As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the sale and purchase of raw materials, parts and components and purchase of home electrical appliances between the Group and the respective subsidiaries of Hisense Group and Hisense Electric, we understand that as the Group, Hisense Group and Hisense Electric combine the purchase of raw materials, bulk purchase orders can be placed in order

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to negotiate for a more favourable price for the purchasing of raw materials. Accordingly, the total cost of sales of the Group may be reduced and the competitiveness and responsiveness of the Group's products may therefore increase.

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

As regards the provision of other services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group, we understand that both Hisense Group and Hisense Electric and/or their respective subsidiaries possess the expertise and experience for the provision of the relevant services and the Group is very satisfied with the quality of services provided by both Hisense Group and Hisense Electric and/or their respective subsidiaries from their previous course of dealings. We also understand that the Group requires expertise to perform the abovementioned services and therefore, by leveraging on the expertise of Hisense Group and Hisense Electric and/or their respective

subsidiaries, the Group can be assured that the relevant services essential to its daily operation can be carried out smoothly and thereby reducing the operational risk exposure of the Group.

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

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

II. Terms of the Business Co-operation Framework Agreement

The Business Co-operation Framework Agreement shall commence on 1 January 2015 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 2015 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement) and covers several aspects of business co-operation between the Group and the respective subsidiaries of Hisense Group and Hisense Electric. The contracting parties have also agreed to enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

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In terms of the overall pricing policy, as stated in the “Letter from the Board”, during the commercial negotiations of the aforesaid definitive contract(s) between the parties, the Company will make reference to the relevant then prevailing market prices, whereby the eventual price(s) will be not less favourable to the Group than terms available to or from (as appropriate) independent third parties. We also noted that, given the non-exclusive basis of the Business Co-operation Framework Agreement, in the event that the terms (including the price) of the transactions contemplated under the Business Co-operation Framework Agreement is less favourable to that available to or from (as appropriate) independent third parties, the Group has the flexibility of not entering into a definitive contract with the respective subsidiaries of Hisense Group and Hisense Electric.

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

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

1) *Purchase of home electrical appliances*

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

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

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

On the basis that (i) the purchase of home electrical appliances by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of the similar home appliances and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from Hisense Group, Hisense Electric and/or their respective subsidiaries; and (iii) the Group has conducted similar transactions under the same terms in the past based on the past transaction records advised by the Management which we have noted relatively small and immaterial amount incurred, we concur with the Directors' 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.

2) *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 principally by commercial negotiations between the contracting parties according to the principles of fairness and reasonableness.

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

On the basis that (i) the purchase of raw materials, parts and components by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the 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; (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and, where applicable, based on our review of the relevant sample of definitive contracts and 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 concur with the Directors' 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.

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

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The fees payable by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the provision of the aforesaid services will be determined principally by commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price for the provision of similar services from time to time.

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

On the basis that (i) the terms of the definitive contract(s) to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price of similar services 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 Agreement in the past and, where applicable, 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 concur with the Directors' view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

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

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

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

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

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

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

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

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

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

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

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

We note from the Letter from the Board that this pricing mechanism is a usual commercial practice for determining fees payable for such kind of services. We understand from the Management that the abovementioned export agency fee percentage covers the major cost items involved in running of such export agency services including logistic and labour costs. We also understand that the export agency fee percentage was determined with reference to (i) the actual costs and expenses incurred by Hisense Group and/or its subsidiaries for providing agency services from March 2011 to June 2012, i.e. the actual rate of charges, of which as stated in the Letter from the Board (and according to the audit conducted by BDO China Shu Lun Pan Certified Public Accountants LLP (“**BDO**”)), was approximately 7.24%; and (ii) a build in incentive, i.e. profit margin for export agency services, which links the export agency fee percentage to the growth rate of the revenue from export subject to the export agency services.

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

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expenses incurred by Hisense Group and/or its subsidiaries for providing agency services during the period from March 2011 to June 2012, being the latest available relevant audited figure (as noted in the Letter from the Board, the Group will engage audit firm to conduct audit once every two years on the rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group and the next such audit will be conducted in 2015); and (iv) the latest audited rate of the charges actually incurred by Hisense Group and/or its subsidiaries will be adopted as the base percentage for calculating the fees payable by the Group for the provision of the agency services for export of the Group's white goods (if the difference between the latest audited rate of the charges actually incurred by Hisense Group and/or its subsidiaries for providing agency services for export to the Group and the current base percentage of 7.24% exceeds one percentage point), the amendment of which will be subject to the compliance of relevant Hong Kong Listing Rules, we concur with the Directors' view that it is fair and reasonable to adopt 7.24% as the starting point of the export agency fee percentage.

As discussed with the Management, we understand that the increment in the profit margin for export agency services which corresponds to the increment in the growth rate of the revenue from export subject to the export agency services is determined based on arm's length commercial negotiation between the Group and Hisense Group and/or its subsidiaries. We also understand from the Management that the profit margin (which ranges from 0% to 1.1%) for export agency services to be added to the initial 7.24% is in line with the profit margin of approximately 0.6% to 1.4% observed in the import and export business in China as disclosed by the other listed companies and is no less favourable to the Group than terms available from independent third parties. In addition, such profit margin shall provide sufficient incentive for Hisense Group and/or its subsidiaries to help growing the Group's export revenue and is therefore in the interests of the Company and the Shareholders as a whole. As such, we note that the corresponding profit margin for export agency services is directly passed on to the corresponding export agency fee percentage. Based on the above, we concur with the Directors' view that such profit margin is fair and reasonable.

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

of similar services from time to time and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) the transactions, when taken place, will increase the revenue of the Group; (iii) the export agency fee percentage payable to Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement is fair and reasonable; (iv) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided by Hisense Group and/or its subsidiaries; and (v) the Group has conducted similar transactions in the past and we have reviewed the relevant sample of the definitive agreements entered into between the Company and the relevant subsidiary of Hisense Group and the relevant sample of transaction records, we concur with the Directors' view that the terms of the Business Co-operation Framework Agreement with respect to the provision of agency services for export of the white goods are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

5) *Supply of home electrical appliances*

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

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

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

On the basis that (i) the sale and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the revenue of the Group; (ii) such transactions will be able to utilise the Group's resources so as to help to lower the production costs by lowering the fixed costs per unit of product as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's product; (iii) such transactions will be conducted in the ordinary and usual course of business of the Group and on terms according to the 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 Agreement in the past and, where applicable, based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group, Hisense Electric and/or their respective subsidiaries as well as 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 parties, we concur with the Directors' 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.

6) *Supply of equipment*

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

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

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

On the basis that (i) the sale and supply of equipment by the Group to Hisense Group and/or its subsidiaries will increase the revenue of the Group; (ii) the equipments are customised as per the customers' requirements; (iii) the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iv) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and, where applicable, based on our review of the relevant sample of the transaction records and our discussion with the Management that there is no indication 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 concur with the Directors' 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.

7) *Supply of moulds*

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

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

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

In view of (i) the moulds are customised as per the customers' requirements; (ii) the pricing for the supply of moulds will be determined by open bidding process, which is a transparent pricing mechanism; and (iii) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and based on our review of the relevant sample of the transaction records and, where applicable, 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 parties, we concur with the Directors' 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.

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

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

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

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

On the basis that (i) the sale and supply of raw materials, parts and components by the Group to the 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 Agreement in the past and, where applicable, based on our review of the relevant sample of the 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 parties, we concur with the Directors' 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.

9) *Provision of services by the Group*

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

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

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

We also note the Business Co-operation Framework Agreement has captured the same relevant key terms and pricing policies for each of the items discussed above as those under the Existing Business Co-operation Framework Agreement which have been approved by the then independent Shareholders in January 2014.

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

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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; (iv) the Business Co-operation Framework Agreement has captured the same relevant principal terms and pricing policies for each of the items discussed above as those under the Existing Business Co-operation Framework Agreement which have been approved by the then independent Shareholders in January 2014; and (v) the Group has conducted similar transactions under the Existing Business Co-operation Framework Agreement in the past and, where applicable, based on our review of the relevant sample of the definitive agreements entered into between the Company and Hisense Group and/or 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 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 concur with the Directors' 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.

The Company's internal policy regarding continuing connected transactions

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

For such purpose, the Company has adopted an internal policy for managing and monitoring its continuing connected transactions contemplated under the Business Co-operation Framework Agreement. According to the internal policy, the responsible operation departments of the Group (the "Operation Departments") 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

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independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. If the respective Operation Department is of the view that the terms of proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the relevant 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 (the “Finance and Securities Department”) is responsible for the collection and summarization of all information in relation to the continuing connected transactions from each Operation Department. The Finance and Securities Department will then prepare a summary report on the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. In addition, the Finance and Securities Department will also conduct a monthly review on the terms of the connected transaction and compare such terms with those of the similar transactions with independent third parties. Last but not least, the Company also conducts an annual review on the execution of the continuing connected transactions of the Group. Having discussed with the Management, we understand the Operational Departments and the Finance and Securities Department are of segregated duty.

We also note from the recent annual reports of the Company (including the 2013 Annual Report) that a) the independent non-executive Directors had reviewed the continuing connected transactions of the Group for the respective year and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole; and b) the auditors of the Company 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 had not exceeded the caps disclosed in the previous announcements. Having considered the relevant requirements by the Hong Kong Listing Rules, we are of the view that this compliance by the Company is consistent with the relevant requirements by the Hong Kong Listing Rules.

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As such, we concur with the Directors' view that (i) the Company has adequate internal control procedures and mechanism; (ii) the transactions contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the Group; and (iii) the terms of the Business Co-operation Framework Agreement are on normal commercial terms, not less favourable than terms available to or from (as appropriate) independent third parties and fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

III. Rationale for determining the maximum value of the transactions contemplated under the Business Co-operation Framework Agreement

Pursuant to the relevant rules of the Hong Kong Listing Rules, the transactions contemplated under the Business Co-operation Framework Agreement during the year commencing from 1 January 2015 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders (whichever is later) until 31 December 2015 will be subject to the Cap for the financial year ending 31 December 2015 of the Company. The proposed maximum aggregate values, or the Caps, of the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2015 and the estimated unaudited value of similar transactions between the relevant parties in 2014 are summarised below:

	Caps for the year ending 31 December 2015 (RMB'000)	Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2014 (RMB'000)	Increase of the Caps for the year ending 31 December 2015 as compared to the estimated annualised unaudited value of the similar transactions for the year 2014 based on their unaudited value for the nine months ended 30 September 2014 (%)	Estimated utilisation of the caps for the year ending 31 December 2014 based on the estimated annualised unaudited value of the similar transactions for the year 2014 based on their unaudited value for the nine months ended 30 September 2014 (%)
<i>Approximately</i>				
Maximum aggregate value of purchase of home electrical appliances:	800	180	233.3%	21.6%
Maximum aggregate value of purchase of raw materials, parts and components:	35,650	37,430	-28.6%	73.4%

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	Caps for the year ending 31 December 2015 <i>(RMB'000)</i>	Unaudited value of the similar transactions between the relevant parties for the nine months ended 30 September 2014 <i>(RMB'000)</i>	Increase of the Caps for the year ending 31 December 2015 as compared to the estimated annualised unaudited value of the similar transactions for the year 2014 based on their unaudited value for the nine months ended 30 September 2014 <i>(%)</i>	Estimated utilisation of the caps for the year ending 31 December 2014 based on the estimated annualised unaudited value of the similar transactions for the year 2014 based on their unaudited value for the nine months ended 30 September 2014 <i>(%)</i>
<i>Approximately</i>				
Maximum aggregate value of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries:	177,120	92,780	43.2%	95.1%
Maximum aggregate value of the provision of agency services for export of the white goods by Hisense Group and/or its subsidiaries:	439,330	247,710	33.0%	90.0%
Maximum aggregate value of supply of home electrical appliances:	2,985,280	1,337,100	67.4%	58.6%
Maximum aggregate value of supply of equipment:	8,000	1,350	344.4%	21.0%
Maximum aggregate value of supply of moulds:	350,000	193,550	35.6%	73.8%
Maximum aggregate value of supply of raw materials, parts and components:	67,050	9,660	420.6%	44.3%
Maximum aggregate value of the provision of services by the Group:	7,190	2,000	169.6%	38.8%

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The basis for the proposed maximum value for each category of transactions contemplated under the Business Co-operation 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 Cap
1) Purchase of home electrical appliances	<ul style="list-style-type: none">(a) the prevailing market conditions about the demand for electrical appliances;(b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and(c) the projected need to purchase television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2015 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
2) Purchase of raw materials, parts and components	<ul style="list-style-type: none">(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 2015
3) Provision of services	<ul style="list-style-type: none">(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 2015

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Category	Basis for the Cap
4) Provision of agency services for export of the white goods by Hisense Group and/or its subsidiaries	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services
5) Supply of home electrical appliances	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2015
6) Supply of equipment	(a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2015
7) Supply of moulds	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC
8) Supply of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC

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Category	Basis for the Cap
9) Provision of services by the Group	(a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the prevailing market conditions relating to the provision of such services

For assessing the Caps of the transactions contemplated under the Business Cooperation Framework Agreement, we have reviewed and discussed with the Management the respective value of the historical transactions, the underlying assumptions and calculation in arriving at the respective Caps, details of which are elaborated in the following. In addition, we understand that a buffer has been taken into account in determining the Caps by the Company given the fluctuation of transaction value in the past.

1) Purchase of home electrical appliances

As regards the Cap for the purchase of home electrical appliances, we understand from the Management that the purchase of certain home electrical appliances as gifts for the Group's marketing and promotion activities were not executed in 2014 as other alternative gifts were used for the Group's marketing and promotion which resulted in the low transactions value for the nine months ended 30 September 2014. Following the launch of some innovative products by Hisense Electric, the Company has decided to use such products as gift for the Group's marketing and promotion in 2015 due to its small size and light weight, and therefore the transactions in relation to purchase of home electrical appliances is expected to be more frequent with relatively higher aggregate transaction amount in 2015. Taking into account that (i) the Group is to use Hisense Electric's products as gifts for the Group's marketing and promotion; (ii) our discussion with the Management about the underlying assumptions and calculation in arriving at the respective Cap; (iii) downward revision of the respective Cap by close to 30% compared to 2014; and (iv) relatively small amount of the respective Cap in relation to the overall Caps, we concur with the Directors' view that the Cap in relation to the purchase of home electrical appliances is determined on a fair and reasonable basis.

2) *Purchase of raw materials, parts and component*

As regards the purchase of raw materials, parts and components, as stated in the Letter from the Board, the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will reduce purchase costs, and at the same time, the Group can benefit from the sharing of resources and the maximization of the economies of scale. Further, the 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. The quality of the Group's products is enhanced by importing certain raw materials overseas, which in turn boosts the sales of the Group's high-end products and increase the product and brand competitiveness. We also understand from the Management that the respective connected party will stop supplying a type of raw materials to the Group in 2015, which has been forming a major item in terms of transaction amount in respect of this type of continuing connected transactions until this year, and the expected transaction amount in 2015 will therefore reduce considerably. Accordingly, the respective Cap has been revised downward by close to 50% compared to 2014. Based on the above, we concur with the Directors' view that the Cap for the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries is determined on a fair and reasonable basis.

3) *Provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries*

As regards the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries, we understand from the Management that (i) the provided unaudited value of the transactions for the nine months ended 30 September 2014 of approximately RMB92.8 million did not include all the amount attributed to the respective transactions during the period as a number of services fees were yet to be cleared and settled; (ii) the new subsidiary of the Group shall engage the Hisense Group and Hisense Electric and/or their respective subsidiaries to provide a new property services in 2015 and the transaction amount for 2015 is expected to increase by about 10% accordingly; (iii) the increase of fees from the existing services would be approximately 25% in 2015 without the transaction amount under (ii) as aforementioned; and (iv) the office areas under the property management services has expanded and therefore the fees paid for property management services in 2015 is expected

to increased accordingly. Based on the above, taking into account of the high estimated utilisation rate of approximately 95.1% under this type of continuing connected transactions in 2014, we concur with the Directors' view that the Cap for the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries is determined on a fair and reasonable basis.

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

As regards the provision of agency services for export of the white goods, we understand from the Management that the export agency fee percentage was determined with reference to (i) the actual costs and expenses incurred by Hisense Marketing for providing agency services from March 2011 to June 2012, i.e. the actual rate of charges, of which as stated in the Letter from the Board (and according to the audit conducted by BDO), was 7.24%; and (ii) a build in incentive which links the export agency fee percentage to the growth rate of the revenue from export subject to the export agency services. The Management expects an approximately 30% growth rate of the revenue from export subject to the export agency services for 2015 as compared to 2014 in light of the change in the relevant business model shifting more export sales through agency channel and the Company's organic growth target of the export sales. Accordingly, the corresponding export agency fee percentage for 2015 is expected to continue to increase. In order to determine the fairness and reasonableness of the respective Cap, we, for the purpose of ensuring the accuracy of the Company's computation of the Cap, have carried out a review on the basis and the underlying assumptions prepared by the Management for calculation of the relevant Cap. Moreover, we have also reviewed the historical aggregate transaction amount under this type of continuing connected transactions in the recent past years. According to the relevant disclosure in the relevant announcements of the Company dated 6 December 2012, 21 November 2013 and in the Circular, We note that such unaudited aggregate transaction amount for the nine months ended 30 September of 2012, 2013 and 2014 increased from approximately RMB119.1 million to approximately RMB157.1 million and further to approximately RMB247.7 million, representing a compound annual growth rate of approximately 44.2%. Based on (i) our discussion with the Management about the underlying assumptions including the expected 30% growth rate of the revenue from export subject to the export agency services for 2015 as compared to 2014; and (ii) our review of the historical aggregate transaction amount, taking into account of the high estimated utilisation rate of approximately 90.0% under this type of continuing connected transactions in 2014 which reflects the consistency of Management's

target and achievement in our view, we concur with the Directors' view that the Cap for the provision of agency services for export of the white goods by Hisense Group and/or its subsidiaries is determined on a fair and reasonable basis.

5) *Supply of home electrical appliances*

As regards the supply of home electric appliances, as advised by the Management, (i) there is a new transaction type involving transactions with additional connected parties; and (ii) the Group is planning to expand the home electrical appliances market in the US market where it currently has relatively small market share to capitalise on the continued recovery of the US economy through the cooperation with the Hisense Group, Hisense Electric and/or their respective subsidiaries. Therefore, the transaction amount for 2015 is expected to increase accordingly. We note that the respective Cap has been revised downward slightly of approximately 1.8% compared to that for the year ending 31 December 2014. In order to determine the fairness and reasonableness of the respective Cap, we, for the purpose of ensuring the accuracy of the Company's computation of the Cap, have discussed with the Management the basis and the underlying assumptions prepared by the Management for calculation of the relevant Cap. Based on our discussion with the Management, taking into account the estimated utilisation rate of approximately 58.6% under this type of continuing connected transactions accomplished in 2014 and the increase of the Group's revenue of approximately 28.5% for the year ended 31 December 2013 and of approximately 18.5% the six months period ended 30 June 2014 as discussed under the section heading "Information on the Group", we concur with the Directors' view that the Cap for the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries is determined on a fair and reasonable basis.

6) *Supply of equipment*

As regards the supply of equipment, we understand from the Management that the equipment sold in the overseas markets and the unaudited value of the respective transactions recorded for the nine months ended 30 September 2014 did not reflect the full amount sold due to delayed clearance and settlement. We note that the Cap has been revised downward by approximately 6.5% compared to that for the year ending 31 December 2014. Having discussed with the Management, we understand that such Cap has been arrived at on the basis of (i) the Group's estimation about the demand for home electrical

appliances in the overseas market in the future; 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 2015. 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 carried out a review on the basis and the underlying assumptions prepared by the Management for calculation of the Cap. Based on our discussion with the Management, we concur with the Directors' view that the Cap for supply of equipment to Hisense Group and/or its subsidiaries is determined on a fair and reasonable basis.

7) *Supply of moulds*

As regards the supply of moulds, we understand from the Management that the relevant transactions have been taking place more frequently in the fourth quarter of 2014 that the Group is expecting to account higher relevant transaction value in the fourth quarter of 2014. As such, the estimated utilisation of the caps for the year ending 31 December 2014 of approximately 73.8% based on the unaudited value of the transactions under this type of continuing connected transactions between the Group and Hisense Group, Hisense Electric and/or their respective subsidiaries for the nine months ended 30 September 2014 of approximately RMB193.6 million may be understated and the growth rate compared to the respective Cap. We also understand from the Management that the Group will supply new type of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries starting from 2015 that the respective aggregate transaction value is expected to increase in 2015, discounting of which, the respective Cap would represent an increase less than the growth rate (approximately 28.5%) of the Group's total revenue growth in 2013 compared to the estimated actual transaction value for the whole year of 2014 by the Management. 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 carried out a review on the basis and the underlying assumptions prepared by the Management for calculation of the Cap. Based on our discussion with the Management, taking into account of the above, we concur with the Directors' view that the Cap for the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries is determined on a fair and reasonable basis.

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

As regards the supply of raw materials, parts and components, we note that the respective Cap represents a significant increase of approximately 420.6% (or approximately RMB54.2 million) compared to the estimated annualised unaudited value of the similar transactions for the year 2014 based on their unaudited value for the nine months ended 30 September 2014. Having discussed with the Management, we understand that (i) approximately 80% of increase expected is attributed to new types of raw materials, parts and components supplied by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries in 2015; and (ii) the remaining of the increase expected is primarily attributed to the increased orders expected from the respective connected parties, which are located in the same production facilities as the Group, in light of their expected capacity expansion in 2015. 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 carried out a review on the basis and the underlying assumptions prepared by the Management for calculation of the Cap. Based on our discussion with the Management, we concur with the Directors' view that the Cap for the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries is determined on a fair and reasonable basis.

9) *Provision of services by the Group*

As regards the provision of services by the Group, we understand from the Management that a substantial amount in relation to the design services that previously expected did not occur in 2014 and the probability of such transactions taking place is historically fluctuating. Moreover, the Group will receive additional fees from a new subsidiary of the Group through the provision of the property services to Hisense Group and/or its subsidiaries. As such, the increase of the respective Cap has primarily taken into the account of the two factors, without which would represent an increase equal to less than half of the growth rate (approximately 28.5%) of the Company's total revenue in 2013. 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 respective Cap, have carried out a review on the basis and the underlying assumptions prepared by the Management for calculation of the Cap including the estimated transaction amount for each category of services. Based on our discussion with the Management, we concur with the Directors' view that the Cap for the provision of services by the Group to Hisense Group and/or its subsidiaries is determined on a fair and reasonable basis.

IV. Conditions of the Caps under the Business Co-operation Framework Agreement

There are certain conditions of the Cap pursuant to the Hong Kong Listing Rules, in particular, the restriction of the value of the transactions contemplated under the Business Co-operation Framework Agreement by way of the annual cap for each of the relevant financial years and the annual review by the independent non-executive Directors of the terms of such transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Hong Kong Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Business Co-operation Framework Agreement are conducted in accordance with the terms of the relevant Business Co-operation Framework Agreement and that the 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 Caps not being exceeded.

As discussed above, the Company has published in its recent annual reports (including the 2013 Annual Report) that a) the independent non-executive Directors had reviewed the continuing connected transactions of the Group for the respective year and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the Shareholders as a whole; and b) the auditors of the Company 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 had not exceeded the caps disclosed in the previous announcements. The Company confirms that it will continue complying with the internal control procedure discussed above and relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules during the term of the Business Co-operation Framework Agreement.

As such, we are of the view that there are appropriate measures in place to govern the conduct of the transactions to be contemplated under the Business Co-operation Framework Agreement and safeguard the interests of the Shareholders.

RECOMMENDATION

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

- (i) The manufacture and sale of home electrical appliances is one of the principal businesses of the Group;
- (ii) Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has the relevant expertise in the domestic electric appliances market in the PRC as well as strong financial resources. Accordingly, Hisense Group and Hisense Electric are in a good position to assist the Group in its domestic business development;
- (iii) By engaging Hisense Group and/or its subsidiaries which has production and extensive sales network in Asia, Europe, North America, South America and Oceania covering over 130 countries, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business, while the basis in determining the export agency fee percentage, including the profit margin for export agency services are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, it is in the commercial interest of the Company and Hisense Group is in a good position to assist the Group in its export related business development;
- (iv) Certain transactions contemplated under the Business Co-operation Framework Agreement will increase the sales of the Group, so it is in the interest of the Company to enter into such transactions;
- (v) The terms of the definitive contract(s) to be entered into by the Group pursuant to the Business Co-operation Framework Agreement will be determined in accordance with the principle of fairness and reasonableness with reference to the market price, and the proposed transactions contemplated under the Business Co-operation Framework 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 Business Co-operation Framework Agreement are to be conducted on a non-exclusive basis, so the Business Co-operation Framework Agreement will not restrict the Group from engaging in the similar transactions with other parties; and

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- (vi) The value of, and the basis for determining, the Caps under the Business Co-operation Framework 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 Business Co-operation Framework Agreement”.

Based on the above, we are of the opinion that (i) the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned; and (ii) the Business Co-operation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Company. 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 Business Co-operation Framework Agreement and the transactions contemplated thereunder and the Caps in relation thereto at the EGM.

Yours faithfully
For and on behalf of
Investec Capital Asia Limited

Alexander Tai
Managing Director
Head of Corporate Finance

Mr. Alexander Tai of Investec is a responsible officer of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has been active in the field of corporate finance advisory for over 20 years, involved in and completed various corporate finance advisory transactions.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

Long position in the Shares

Name of Director	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	415,800	0.046	0.031
Mr. Xiao Jian Lin	Beneficial owner	273,240	0.030	0.020

Long position in the share options of the Company

Name of Director	Number of A Shares which may be subscribed under the options	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Tang Ye Guo	844,200 ^(Note)	0.094	0.062
Mr. Xiao Jian Lin	554,760 ^(Note)	0.062	0.041

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

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

Other interests

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2013, 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 are 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, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin, being Directors, are also directors or senior management of Hisense Group or some of its subsidiaries. Hisense Group was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE AGREEMENTS

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

4. COMPETING BUSINESS

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

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. Tang Ye Guo	The subsidiaries of Hisense Group	Production of air-conditioning/ electrical products	Director
Ms. Yu Shu Min	Hisense Group, the subsidiaries of Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Xiao Jian Lin	Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management

As at the Latest Practicable Date, save as disclosed above, none of the Directors 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. 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 2013 (being the date to which the latest published audited financial statements of the Group were made up).

6. EXPERT

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

Name	Qualifications
Investec Capital Asia Limited	a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Investec:—

- (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 2013, 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 Investec to the Independent Board Committee and the Shareholders are given as of the date of this circular for incorporation herein.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Room 3101-05, Singa Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up to and including 21 January 2015:

- (a) the letter from Investec dated 22 December 2014;
- (b) the letter from the Independent Board Committee dated 22 December 2014;
- (c) the Business Co-operation Framework Agreement;
- (d) the Hitachi Business Framework Agreement;
- (e) the Whirlpool Business Framework Agreement;
- (f) the resolutions passed by the eighth session of the Board on 2 December 2014;
- (g) the prior approval and independent opinion of the independent non-executive Directors dated 2 December 2014 in relation to the connected transaction; and
- (h) the Existing Business Co-operation Framework Agreement.