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If you have sold or transferred all your shares in **Nanjing Panda Electronics Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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南京熊猫电子股份有限公司
NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 00553)

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of Nanjing Panda Electronics Company Limited**



Capitalized terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 1 to 73 of this circular. A letter from the Independent Board Committee is set out on page 74 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 75 to 97 of this circular. A notice dated 12 November 2018 of the EGM to be held on Friday, 28 December 2018 at 2:30 p.m. at the Company's Conference Room, 7 Jingtian Road, Nanjing, the People's Republic of China and the Proxy Form for use at the EGM have been despatched to the Shareholders. Whether or not you are able to attend and vote at the EGM, please complete and return the Proxy Form in accordance with the instructions printed thereon to the office of the Company as soon as possible and in any event not less than 24 hours before the time of the EGM or any adjournment thereof. Completion and return of the Proxy Form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

11 December 2018

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DEFINITIONS

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

“Annual Cap(s)”	the proposed annual caps of the existing continuing connected transactions under the existing CCT Agreements;
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“BOM”	a bill of materials, which is a list of materials, components, parts, sub-assemblies, and the quantities of each required for the manufacture of a product;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“CCT Agreements”	(A) Sub-contracting Agreement, (B) Sale Agreement, (C) Financial Services Agreement, (D) CEC Sub-contracting Agreement, (E) Purchase Agreement, (F) Lease Agreement, (G) NEIIC Group Lease Agreement and (H) Trademark License Agreement;
“CEC”	China Electronics Corporation (中國電子信息產業集團有限公司), the de facto controller of NEIIC;
“CEC Finance”	China Electronics Financial Co., Ltd (中國電子財務有限責任公司), a company incorporated in the PRC and a non-banking financial institution of CEC, the shares of which are owned as to 61.3835% by CEC and 25.1293% by NEIIC;
“CEC Group”	CEC, its subsidiaries (for the purpose of this circular excluding the Group), its holding companies and their respective associates;
“CEC Home Appliances”	Nanjing CEC-Panda Home Appliances Co., Ltd. (南京中電熊貓家電有限公司), a subsidiary controlled by PEGL;
“CEC Sub-contracting Agreement”	the sub-contracting services and composite services agreement entered into between the Company and CEC for the provision of services by CEC Group to the Group;

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“Chengdu Display Technology”	Chengdu CEC Panda Display Technology Co., Ltd. (成都中電熊貓顯示科技有限公司), a company incorporated under the laws of the PRC and a related party of NEIIC;
“Communications Technology Company”	Nanjing Panda Communications Technology Co., Ltd. (南京熊貓通信科技有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Company”	Nanjing Panda Electronics Company Limited (南京熊貓電子股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed on the Main Board of the Stock Exchange and A shares are listed on the Shanghai Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened on Friday, 28 December 2018 to consider and approve, among other matters, the CCT Agreements and Annual Caps;
“Electronics Equipment Company”	Nanjing Panda Electronics Equipment Co., Ltd. (南京熊貓電子裝備有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Electronics Manufacturing Company”	Nanjing Panda Electronics Manufacturing Co., Ltd (南京熊貓電子製造有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Existing Annual Cap(s)”	the maximum aggregate annual value of each of the existing continuing connected transactions;
“Financial Services Agreement”	the agreement entered into between the Company and CEC Finance for the provision of financial services by CEC Finance to the Group;

DEFINITIONS

“fund settlement”	the receipt and payment of fund, the acceptance and discount of commercial bills arising from the ordinary course of business of the Group such as commodities trading and the provision of services in its day-to-day productions and operations;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under the Sub-contracting Agreement, the Sale Agreement and the Financial Services Agreement;
“Group”	the Company and its subsidiaries;
“guarantee advance”	in the event that the Group fails to settle any payables in full when they become due because of lack of liquidity or other reasons, CEC Finance shall provide a guarantee on the payables and make payment for the same on behalf of the Group;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time;
“Import and Export Company”	Nanjing Panda Electronics Import and Export Company Limited (南京熊貓電子進出口有限公司), a wholly-owned subsidiary of PEGL;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Ms. Du Jie, Mr. Zhang Chun and Mr. Gao Yajun;
“Independent Shareholders”	Shareholders other than CEC and its associates, NEHC and its associates, PEGL and its associates;

DEFINITIONS

“independent third party(ies)”	an independent third party(ies) independent to the Company and its connected person(s) as defined in the Hong Kong Listing Rules;
“Information Industry Company”	Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息产业有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Latest Practicable Date”	6 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“LCD Material Technology”	Nanjing CEC Panda LCD Material Technology Co., Ltd. (南京中電熊猫液晶材料科技有限公司), a company incorporated under the laws of the PRC and a non-wholly owned subsidiary of CEC (the de facto controller of the Company);
“LCD Technology”	Nanjing CEC Panda LCD Technology Co., Ltd. (南京中電熊猫液晶显示科技有限公司), a company incorporated under the laws of the PRC and a non-wholly owned subsidiary of CEC (the de facto controller of the Company);
“Leadership Team”	the team set up for preventing and resolving any deposit risks, of which the general manager is principally responsible for the prevention and resolution of deposit risks as the team leader, and the financial controller of the Company acts as deputy team leader. The team leader and deputy team leader are responsible for organizing work to prevent and resolve the deposit risks. As the risk response organization, once risks occur or may occur in Finance Company, the Leadership Team shall activate an emergency response plan pursuant to the prescribed procedures;
“Lease Agreement”	the lease agreement entered into between the Company and NEIIC for the lease of factory premises and equipment by the Group to NEIIC Group;
“Localization Rate”	the percentage of domestically produced parts and components among those used to create a product;
“Mr. Chen”	Mr. Chen Kuanyi, an executive Director;
“Mr. Deng”	Mr. Deng Weiming, a non-executive Director;

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“Mr. Lu”	Mr. Lu Qing, a non-executive Director;
“Mr. Xia”	Mr. Xia Dechuan, an executive Director;
“Mr. Xu”	Mr. Xu Guofei, an executive Director;
“NEIIC”	Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業集團有限公司), the controlling shareholder of PEGL;
“NEIIC Group”	NEIIC, its subsidiaries (for the purpose of this circular, excluding the Group), its holding companies and their respective associates;
“NEIIC Group Lease Agreement”	the lease agreement entered into between the Group and NEIIC for the lease of factory premises and equipment by NEIIC Group to the Group;
“Panel Display Technology”	Nanjing CEC Panda Panel Display Technology Co., Ltd. (南京中電熊貓平板顯示科技有限公司), a company incorporated under the laws of the PRC and a non-wholly owned subsidiary of CEC (the de facto controller of the Company);
“PEGL”	Panda Electronics Group Limited (熊貓電子集團有限公司), the controlling Shareholder of the Company who is in a position to control the composition of a majority of the Board and holding approximately 23.05% of the total issued share capital of the Company as at the date of this circular;
“PEGL Group”	PEGL and its subsidiaries;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau and Taiwan);
“Proxy Form”	the form of proxy for use at the EGM;
“Purchase Agreement”	the agreement on the sale of materials, components and parts entered into between the Company and CEC for the sale of materials by the Group to CEC Group;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“Sale Agreement”	the agreement on the sale of materials, components and parts entered into between the Company and CEC for the sale of materials by the Group to CEC Group;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong;
“Shanghai Listing Rules”	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange;
“Shareholder(s)”	holder(s) of the share(s) of the Company;
“SMT”/“SMT Chip”	SMT refers to the surface mounted technology, which is currently the most popular technology and processing method in the electronic assembly industry; a SMT Chip is the abbreviation of a series of procedures for printed circuit board processing;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Sub-contracting Agreement”	the sub-contracting services and composite services agreement entered into between the Company and CEC for the provision of services by the Group to CEC Group;
“T-CON Board”	the timing controller board, which is used to process and control the timing signals necessary for the display panel to function in a synchronized manner and generate control signals to directly drive the display panel;
“Trademark License Agreement”	the trademark license agreement entered into between the Company and CEC Home Appliances for the licensing of PANDA trademark by the Group;
“Xinxing Industrial Company”	Nanjing Panda Xinxing Industrial Co., Ltd (南京熊猫新興實業有限公司), a company incorporated under the laws of the PRC and a wholly-owned subsidiary of the Company; and
“%”	per cent.

The English names of the PRC established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

LETTER FROM THE BOARD

南京熊猫电子股份有限公司 NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 00553)

Executive Directors

Mr. Xu Guofei (*Chairman*)

Mr. Chen Kuanyi

Mr. Xia Dechuan

Non-executive Directors

Mr. Lu Qing

Mr. Deng Weiming

Mr. Gao Gan

Independent non-executive Directors

Ms. Du Jie

Mr. Zhang Chun

Mr. Gao Yajun

Registered Address:

Level 1-2, Block 5,
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Nanjing, the PRC

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7 Jingtian Road
Nanjing, the PRC
Postal Code: 210033

11 December 2018

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 7 November 2018 in relation to the renewal of the existing continuing connected transactions under the CCT Agreements.

The purpose of this circular is to provide you with (i) further details on the renewal of existing continuing connected transactions under the CCT Agreements; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the Sub-contracting Agreement, the Sale Agreement and the Financial Services Agreement; and (iv) a notice of the EGM.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS

1. BACKGROUND INFORMATION

References are made to the announcement of the Company dated 12 November 2015 and the circular of the Company dated 10 December 2015 in relation to (among others) the continuing connected transactions between the Company and its connected persons. The continuing connected transactions of the Company in relation to the financial services last for a term of 3 years from 28 December 2015 to 27 December 2018; the remaining continuing connected transactions last for a term of 3 years from 1 January 2016 to 31 December 2018.

The existing continuing connected transactions of the Company will expire on 27 December 2018 and 31 December 2018 respectively, and are expected to continue after the expiration. In consideration of the actual business development of the Group and the relevant business needs of the connected persons of the Company, the Board proposes to renew the existing CCT Agreements with CEC Group, NEIIC Group and CEC Finance and CEC Home Appliances.

On 7 November 2018, the Company (on behalf of the Group) entered into the CCT Agreements with CEC, NEIIC, CEC Finance and CEC Home Appliances accordingly as disclosed in the announcement of the Company dated 7 November 2018.

CEC is the controlling shareholder of NEIIC and the de facto controller of the Company; NEIIC is the controlling shareholder of PEGL, the controlling shareholder of the Company, holding 6.93% equity interest in the Company; CEC Finance is a company controlled by CEC; and CEC Home Appliances is a controlling subsidiary of PEGL; CEC, NEIIC, PEGL, CEC Finance, CEC Home Appliances and their respective associates therefore constitute connected persons of the Company under the Hong Kong Listing Rules and the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

2. HISTORICAL AND PROPOSED ANNUAL CAPS

The table below sets forth a summary of the categories and the historical and proposed Annual Caps of the existing continuing connected transactions of the Company:

Categories of the Continuing Connected Transactions	Annual Caps	
	Historical	Proposed
	1 January 2016 to 31 December 2018 (RMB'000)	1 January 2019 to 31 December 2021 (RMB'000)
(A) Provision of sub-contracting services and composite services by the Group to the CEC Group	222,000	160,000
(B) Sale of materials, components and parts by the Group to the CEC Group	2,333,000	2,100,000
	Historical	Proposed
	28 December 2015 to 27 December 2018 (RMB'000)	For the 3 years commencing upon the approval of the Independent Shareholders at the EGM (RMB'000)
(C) Financial Services		
Deposit service	500,000	500,000
Loan, guarantee and other credit financing services	600,000	600,000

LETTER FROM THE BOARD

	Historical 1 January 2016 to 31 December 2018 <i>(RMB'000)</i>	Proposed 1 January 2019 to 31 December 2021 <i>(RMB'000)</i>
(D) Provision of sub-contracting services and composite services by CEC Group to the Group	7,000	13,000
(E) Purchase of materials, components and parts by the Group from CEC Group	103,000	80,000
(F) Lease of premises and relevant equipment by the Group to NEHC Group	3,000	3,000
(G) Lease of premises and relevant equipment by NEHC Group to the Group	2,000	2,000
(H) Licensing of Trademark by the Group to CEC Home Appliances	3,000	3,000

3. PARTICULARS OF RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

(A) Sub-contracting Agreement: Provision of sub-contracting and composite services by the Group to the CEC Group

- | | | |
|----|------------|--|
| 1. | Agreement: | The agreement for the provision of sub-contracting services and composite services |
| 2. | Date: | 7 November 2018 |
| 3. | Term: | From 1 January 2019 to 31 December 2021 |
| 4. | Parties: | (1) The Company

(2) CEC |

LETTER FROM THE BOARD

5. Nature of the transaction: Provision of sub-contracting services by the Group to the CEC Group, including computer network services; intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services, technology development services and SMT Chip processing; as well as composite services including property management, catering services and labor services.
6. Existing Annual Cap: RMB222,000,000
7. Reasons for the transaction: The provision of sub-contracting and composite services by the Group to the CEC Group will enlarge the Group's business and provide a stable source of income for the Group. Therefore, the continuation of such transactions is beneficial to and in the interest of the Group. The Company will renew the agreement with CEC for such sub-contracting and composite services.
8. Pricing basis and terms of payment: The Group is entitled to charge the CEC Group reasonable service fees for the services provided based on the principle of fair market for the services it provides, and the CEC Group shall undertake the corresponding payment obligations. The service fees for the provision of sub-contracting services and composite services by the Group to the CEC Group shall be determined after arm's length negotiation between the parties and based on the pricing policy (as disclosed below) and normal commercial terms with reference to the prevailing market prices, namely, the service fees charged by the Group shall be no less than those charged to an independent third party for the same or similar services.

The service fees for the provision of sub-contracting and composite services by the Group to the CEC Group are determined on a fair and equitable basis with reference to the market price and government guidance price.

LETTER FROM THE BOARD

For the purpose of this agreement, market price refers to the price paid by PRC enterprises in the same industry for receiving services of the same type.

For the purpose of this agreement, government guidance price means the price administration authorities or other relevant government authorities stipulated a basic price and its floating ranges and the operators could within the limits of the guidance determine their own prices.

The sub-contracting services to be provided by the Group to CEC Group are mainly intelligent building engineering, integration of computer information system (including computer network services) and related mechanical and electrical installation engineering services. With regard to such services, government guidance pricing approach shall be used in accordance with the Pricing Quota of Construction and Decoration Engineering of Jiangsu Province (《江蘇省建築與裝飾工程計價定額》), Pricing Quota of Installation Engineering in Jiangsu Province (《江蘇省安裝工程計價定額》) and Pricing Quota of Municipal Administration Engineering in Jiangsu Province (《江蘇省市政工程計價定額》) (GB50500–2013) promulgated by the Housing and Construction Bureau of Jiangsu Province (江蘇省住房和城鄉建設廳) on 12 May 2014. In particular, the gross profit margin is not lower than 14% as prescribed in the Pricing Quota of Installation and Engineering in Jiangsu Province (《江蘇省安裝工程計價定額》). For details, please refer to the “Table of Standards on Collecting of Management Fee and Profit for Installation Engineering Enterprises (Table 4–3)” (安裝工程企業管理費和利潤取費標準表(表4–3)) on page 35 of “Fixed Price for Construction Engineering of Jiangsu Province” (《江蘇省建設工程費用定額》) [Su Jian Jia 2014 (No. 299)] issued by the Housing and Construction Bureau of Jiangsu Province on 18 June 2014.

LETTER FROM THE BOARD

The Group also provides CEC Group with a small amount of technology development services (approximately RMB5 million per annum). For such services, relevant subsidiaries of the Group including the Communications Technology Company have established research and development institutions to participate in the preliminary design of products and schemes of customers and therefore have possessed the capabilities and experience to provide technology development services to the subsidiaries of CEC Group. Market price is applicable to the technology development services and shall be determined with reference to the fees adopted in the agreements on similar and relevant services between the Company and independent third parties.

The Group provides CEC Group with a small amount of SMT Chip processing services (approximately RMB1.2 million per annum). The pricing for the SMT Chip processing services is determined with reference to Made-in-China.com (中國製造網) (<http://cn.made-in-china.com/catalog/smttpjg.html>).

“Made-in-China.com” (中國製造網) is one of the most referred websites for quotations within the electronic industry in the PRC.

The officers of the marketing department of the relevant subsidiaries of the Company providing the services will compile a list of the fees for SMT Chip processing services based on the quotations obtained from the websites above for the head of the marketing department to review and approve. The head of the marketing department will then negotiate with the customers and determine the final contract fees which shall be within the range of the approved list of fees.

LETTER FROM THE BOARD

The composite services to be provided by the Group to CEC Group are mainly catering services for staff, property management and labor services, (1) for the fees of catering services, they are determined with reference to the quotation of set meals from Lihua Fastfood (麗華快餐) (<http://www.lihua.com/>) and Nanjing Fastfood (南京快速快餐) (<http://www.njcskc.net/>), actual operation costs of the Company and the fees adopted in contracts for similar and related services between the Company and independent third parties; (2) for provision of property management and labor services, they are determined with reference to the fees adopted in contracts for similar and related services between the Company and independent third parties.

The officers of the marketing department of the relevant subsidiaries of the Company providing the services will compile a list of the service fees in accordance with the quotations obtained and the actual operations costs of the Company. The head of the marketing department will review and compare the same with the fees adopted in contracts for similar and related services between the Company and independent third parties.

The fees charged and terms of payment will be agreed in the separate implementation agreements entered into between the parties pursuant to the Sub-contracting Agreement. Such payment terms shall be in accordance with the Group's normal terms of supplies subject to the review of the general manager of the Company or the subsidiaries concerned and in line with the market practices. The fees charged and the terms of payment shall not be more favourable than those offered to independent third parties.

LETTER FROM THE BOARD

9. Historical figures: The historical amounts of sub-contracting and composite services provided by the Group to the CEC Group are as follows:

	Six months		
	ended	Year ended	Year ended
	30 June	31 December	31 December
	2018	2017	2016
	(unaudited)	(audited)	(audited)
Utilized Amount			
<i>(RMB'000)</i>	55,760	168,670	151,040
Annual cap			
<i>(RMB'000)</i>	222,000	222,000	222,000
Utilization rate (%)	25.12	75.98	68.04

10. Annual Cap: The Board proposes to decrease the Annual Cap from RMB222,000,000 to RMB160,000,000.

Such amount is determined with reference to: (1) the historical transaction amounts of the sub-contracting and composite services provided by the Group to CEC Group; (2) decrease in demand for the sub-contracting and composite services due to the delay in progress in the sub-regional implementation of the PEGL Group's land development project in No. 301 Zhongshan Road East ("**No. 301 Project**"); (3) the increase in catering and property management services provided by the subsidiaries of the Group to CEC Group.

LETTER FROM THE BOARD

The reduction of RMB62 million in the Annual Cap is mainly attributable to: (1) the delay in the overall progress in implementing the No.301 Project and hence the demand for installation of mechanical and electrical equipment and intelligent building engineering services by Information Industry Company increased less than expected. After taking into consideration of the actual progress of sub-regional implementation of the No.301 Project so far, it is estimated the Annual Cap may be reduced by RMB18 million and the intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services to be provided by Information Industry Company will remain at RMB82 million per annum in the forthcoming three years; (2) the provision of intelligent building engineering services by Information Industry Company for Panel Display Technology and Phase II of Communication Industrial Park of PEGE Group has been completed and there is no further relevant projects, this would result in a decrease of approximately RMB62 million per year; and (3) the expansion of catering and property management services to be provided by Xinxing Industrial Company to LCD Technology, Panel Display Technology and LCD Material Technology, all being the subsidiaries of NEIC. Such businesses are expected to increase by RMB18 million each year and remain at RMB69 million per annum in the forthcoming three years.

LETTER FROM THE BOARD

(B) Sale Agreement: Sale of materials, components and parts by the Group to the CEC Group

1. Agreement: Agreement for the sale of materials, components and parts
2. Date: 7 November 2018
3. Term: From 1 January 2019 to 31 December 2021
4. Parties:
 - (1) the Company
 - (2) CEC
5. Nature of the transaction: The products sold by the Group to CEC Group include: LCD panel production line system and its related system, equipment and consumables, production line system automation transformation and its related system and equipment, T-CON Board, light guide plates and other LCD panel-related components, television case and related kits, communication products, power supply products, tablets, capacitors and other electronic products and devices, and calculators, software and other information-based office products.
6. Existing Annual Cap: RMB2,333,000,000

LETTER FROM THE BOARD

7. Reasons for the transaction:

The sale of materials, components and parts by the Group to the CEC Group will enlarge the Group's business scale and provide a stable source of income for the Group.

CEC has been vigorously developing the flat panel display business in recent years. In August 2009, CEC established LCD Technology to build the 6th generation of TFT-LCD production line project with a total investment of RMB13.8 billion and a production capacity of 90,000 glass substrates per month. In November 2012, CEC established Panel Display Technology to build the 8.5th generation of TFT-LCD panel production line project with a total investment of RMB29.15 billion. In December 2015, CEC established Chengdu Display Technology to invest in the 8.6th generation of Chengdu LCD panel production line project, with a total investment of RMB28 billion and a production capacity of 120,000 glass substrates per month.

To meet its development needs, the subsidiaries of the Company, including Electronics Equipment Company, Electronics Manufacturing Company and Information Industry Company, maintained supply of materials, components and parts to the subsidiaries of CEC, including Panel Display Technology, LCD Technology and Chengdu Display Technology.

LETTER FROM THE BOARD

8. Pricing basis and terms of payment: The Group is entitled to charge the CEC Group a reasonable price for the products it sells based on the fair dealing principle, and the CEC Group shall undertake the corresponding payment obligations. The price for sale of materials, components and parts sold by the Group to the CEC Group shall be determined after arm's length negotiation between the parties based on the relevant pricing policy (as disclosed below) and on normal commercial terms with reference to the prevailing market prices, namely, the selling price charged by the Group shall be no less than those charged to an independent third party for the same or similar products.

The selling prices of products such as raw materials, components and parts by the Group to the CEC Group will be determined on a fair and equitable basis with reference to the market prices using the cost-plus pricing approach.

For the purpose of this agreement, market price refers to the price paid by PRC enterprises in the same industry for receiving services of the same type.

For the purpose of this agreement, cost-plus pricing refers to the approach to determine the price based on the cost plus reasonable fees and profits.

LETTER FROM THE BOARD

The products which the Group sells to CEC Group are either non-standardized products (i.e. tailor-made products) or have comparable products in the open market, which are mainly:

- (1) LCD panel production line system and its related system, equipment and consumables as well as the production line system automation transformation equipment provided by Electronics Equipment Company to Chengdu Display Technology and the subsidiaries of the CEC Group respectively are non-standardized products. After technical departments of the parties confirm the plan, Electronics Equipment Company will prepare drawing papers and procurement lists, and arrange procurement of raw materials and production plans, the ultimate costs of the products are to be confirmed by the marketing department. The prices using the cost-plus pricing approach may be used as the pricing basis, and such prices shall be the sum of costs plus a gross profit margin ranging from 13% to 17%, such gross profit margin is not less than the weighted average gross profit margin of the same or similar products of the Group (for details, please refer to the subsection headed Principal Businesses under the section headed Discussion and Analysis of the Operations in the 2017 Annual Report and the 2018 Interim Report of the Company).

LETTER FROM THE BOARD

- (2) Electronics Manufacturing Company primarily provides T-CON Board, light guide plate and related consumables to Chengdu Display Technology, LCD Technology and Panel Display Technology. It arranges the purchases of raw materials and SMT processing in accordance with the design drawings and BOM received from Chengdu Display Technology, LCD Technology and Panel Display Technology. For T-CON Board, the unit price is the sum of the costs for raw materials and the fees charged for SMT processing. In particular, Electronics Manufacturing Company renders SMT processing services and purchases raw materials from specific suppliers as nominated by Chengdu Display Technology, LCD Technology and Panel Display Technology at specific purchase price. The purchase prices shall be determined upon negotiation by Chengdu Display Technology, LCD Technology and Panel Display Technology with their respective specific suppliers. For SMT Chip processing, the fees are charged by piece, with reference to the open market quotations and the fees Electronics Manufacturing Company charged to independent third parties.

The SMT Chip processing fees herein are determined with reference to the open market quotations on Made-in-China.com (中國製造網) (<http://cn.made-in-china.com/catalog/smttjpg.html>).

“Made-in-China.com” is one of the most referred websites for quotations within the electronic industry in the PRC.

LETTER FROM THE BOARD

- (3) The products sold by the Group to other subsidiaries of CEC Group, which have comparable products in the open market, include: television case and related kits, communication products, power supply products, tablets, capacitors and other electronic products and devices, as well as calculators, software and other information-based office products, whose prices are determined with reference to the prevailing market prices and shall not be lower than those charged to independent third parties for the same or similar products.

The officers of the marketing department of the relevant subsidiaries of the Company selling the products will send the user manual or the BOM to the manufacturing department and procurement department with the needs of the customers being taken into account. The manufacturing department will make arrangements with respect to the machinery and personnel and propose a production plan. Meanwhile, the procurement department and the suppliers will confirm the prices for the materials required for the production, and the officers of the marketing department will estimate the cost of the products in accordance with the information provided by the manufacturing department and the procurement department as well as other relevant information. The head of the marketing department will then negotiate with the customers and determine the final price for the products on the basis of the said information and with reference to comparable market prices.

LETTER FROM THE BOARD

For the fees for SMT Chip processing which comprises part of the unit price of T-CON Board, the officers of the marketing department of the relevant subsidiaries of Company selling the products will compile a list of the fees for SMT Chip processing services based on the quotations obtained from the websites above for the head of the marketing department to review and approve. The head of the marketing department will then negotiate with the customers and determine the final contract fees which shall be within the range of the approved list of fees.

The relevant payments shall be settled within 20 days upon the individual implementation agreements taking effect. The effective conditions of the agreements are to be agreed by the parties and set forth in the individual implementation agreement.

9. Historical figures: The historical amounts of materials, components and parts sold by the Group to the CEC Group are as follows:

	Six months		
	ended	Year ended	Year ended
	30 June	31 December	31 December
	2018	2017	2016
	(unaudited)	(audited)	(audited)
Utilized Amount			
<i>(RMB'000)</i>	605,410	1,219,930	910,760
Annual cap			
<i>(RMB'000)</i>	2,333,000	2,333,000	2,333,000
Utilization rate (%)	25.95	52.29	39.04

LETTER FROM THE BOARD

10. Annual Cap: The Board proposes to decrease the Annual Cap from RMB2,333,000,000 to RMB2,100,000,000.

Such amount was determined with reference to:

- (1) the historical amounts of materials, components and parts sold by the Group to the CEC Group. Given CEC's investment in the panel display sector, the Group maintained supply of materials, components and parts to relevant companies of CEC in the electronic panel display industry;
- (2) Electronics Equipment Company, a subsidiary of the Group, continued to provide LCD panel production line system for the 8.6th generation of Chengdu LCD panel production line project, and equipment for upgrade and renovation and part of the production equipment modules for other LCD panel production line projects invested by CEC.
- (3) CEC's 8.6th generation of Chengdu LCD panel production line project was set up and officially put into operation in January 2018. And the Company established Chengdu Panda Electronic Technology Co., Ltd. (成都熊貓電子科技有限公司) in December 2017 to provide SMT processing services for T-CON Board, light guide plates and other products of such project;
- (4) Electronics Manufacturing Company, a subsidiary of the Group, continued to sell the parts of LCD panel products with different specifications to Panel Display Technology and LCD Technology, the major companies that are implementing CEC's 8.5th and 6th generations of TFT-LCD panel production line project;

LETTER FROM THE BOARD

- (5) development of the Group in terms of productivity, technological standards, professional qualification and management method: especially with the proceeds raised from the non-public issuance of A Shares in 2013, increased the capacity of productivity, producing industrial automatic transmission equipment of advanced technology and excellent performance; possess high quality in intelligent engineering building services; adopt scientific management methods in SMT processing, and maintain relatively high level of product quality, enabling the Group to have the capacity to provide high-quality materials and components and parts.

The decrease in the Annual Cap for the transaction by RMB233,000,000 from RMB2,333,000,000 to RMB2,100,000,000 is mainly due to the facts that: (1) as CEC has completed all projects for its panel display businesses and put the same into operation and therefore would require less production line systems, the Group would only need to provide the follow-up equipment for upgrade and renovation and certain production equipment components. Consequently, the decrease in supply of equipment will result in the sales decrease of RMB550,000,000 each year under the Annual Cap; (2) as mentioned above, CEC's 8.6th generation of Chengdu LCD panel production line project was set up and officially put into operation and the Company established Chengdu Panda Electronic Technology Co., Ltd. to provide SMT processing services for T-CON Board, light guide plates and other products of such project. It is expected that these sales businesses will result in a sales increase of RMB300,000,000 each year under the Annual Cap for the transaction.

LETTER FROM THE BOARD

In line with the business plan and development trend of the Group on smart city construction and electronic manufacturing service industries, the Group has expanded its customer base and won a number of tenders of projects while maintaining its existing business. The contract amount for just rail transit projects has reached RMB1.4 billion and the Group is bidding for certain other projects. In addition, certain new products have been in the trial production stage and are expected to create incremental income of at least RMB1.6 billion for the Group in the coming three years, which is in line with the Group's development plan. According to the strategic goal of becoming a manufacturing power as proposed in the Made in China 2025, the sales income of the intelligent manufacturing equipment industry is expected to exceed RMB3 trillion by 2020, and the market demand in the field of smart city will enter into a high-speed growth period and the annual domestic market size will exceed RMB5 trillion. The Group, leveraging on the advantages in respect of its own brands and technologies, is expected to obtain huge gains from relevant industries. The expected percentages of the revenue arising from the transactions under the Sale Agreement to the total revenue of the Company for 2019 to 2021 are 38.18% (i.e. 21/55), 31.34% (i.e. 21/67) and 31.34% (i.e. 21/67), respectively.

The estimation of the expected revenue for 2019 is RMB5.5 billion which is based on the revenue target of RMB4.5 billion under the 2018 operating plan of the Company as disclosed in section IV of the 2017 annual report of the Company, the estimated maximum transaction amount of approximately RMB862.5 million under the new 8.6th generation of Chengdu LCD panel production line project, which is expected to remain stable in the next three years, and the rail transit projects awarded to the Group with an aggregate contract amount of RMB1.4 billion of which a contract amount of approximately RMB400 million to RMB500 million may be implemented in 2019.

LETTER FROM THE BOARD

The expected revenue for 2020 is RMB6.7 billion, representing an increase of approximately 22% as compared with the expected revenue for 2019, which is estimated based on: (1) 2020 is the last year for implementation of the “13th Five-Year” Plan in the Mainland China. It is expected that investment will continue to increase in 2019 and 2020, in particular, in the fields of intelligent manufacturing and rail transit. A relatively sound intelligent manufacturing standard system will be established to basically achieve full coverage of basic common standards and key technical standards and will be promoted and applied in all areas of manufacturing. The investment size of major urban rail transit projects will reach RMB2 trillion. According to the report “Consumer Electronics Market: Global Industry Analysis and Opportunity Assessment 2015–2020” issued by Future Market Insights (FMI), a global market research and consultancy company, it is estimated that the global consumer electronics market will grow at a compound annual growth rate of 15.4% and the market valuation will reach US\$2.98 trillion in 2020. (2) The Group has deepened the development of urban rail transit market and possesses an emergency command center for subway line network with higher integration, successfully cut into cloud computing and “Internet Plus”. The engagement in the general contracting of mechanical and electrical equipment for rail transit projects will give rise to exponential growth of the Group’s business scale in the rail transit sector. In terms of electronic manufacturing services, the Group, on the basis of its original business, has provided touch display assembly services for a well-known home appliance brand, formally setting its presence in the field of large household appliances. The Group’s new electronic navigation products for automobiles have passed the third-party review by many well-known automobile companies and the Group has started supply of such products in batches, which will become the new growth driver for the Company’s revenue in the future and is expected to increase the revenue by approximately RMB300 million to RMB500 million. (3) The rail transit projects awarded to the Group are close to the delivery date and the settlement amount thereof is estimated to be approximately RMB800 million to RMB1 billion.

LETTER FROM THE BOARD

The expected revenue for 2021 is estimated to maintain at RMB6.7 billion same as the expected revenue for 2020, after taking into account the Completion of the “13th Five-Year” Plan, the sustained stable development of the existing businesses of the Group and, with the support of proactive fiscal policy, in terms of the intelligent manufacturing sector, the Group will continue to work in the industrial robot market and start mass production and industrial application; in terms of the urban rail transit sector, the Group will undertake general contracting of emergency commander centers and mechanical and electrical services and related operation, repair and maintenance services; in terms of the consumer electronics sector, the Group will undertake more large household appliances manufacturing business on an OEM basis and further expand its automobile electronics business.

The Group will continue to accelerate business transformation and upgrading as well as the transformation of business model. It will secure steady progress of the above-mentioned businesses by taking such measures as increasing R&D investments, introducing high-caliber personnel and expanding import and export markets. However, such estimations shall not be regarded as a commitment made by the Group given that the smooth implementation of the above-mentioned businesses depends on a variety of factors, such as the macroeconomic environment, fluctuations in the financing costs, developments and changes of industries, and technological innovation and upgrading.

LETTER FROM THE BOARD

The Board is of the view that the Group does not significantly rely on CEC Group for the following reasons:

1. Mutual benefit and complementary relationship

CEC Group is an important customer of the Group. Electronics Manufacturing Company and Electronics Equipment Company, being members of the Group, are located adjacent to LCD Technology and Panel Display Technology, being members of NEIIC Group; and Chengdu Panda Electronic Technology Co., Ltd., a new member of the Group, is located adjacent to Chengdu Display Technology. The close proximity of these companies makes it beneficial and convenient for the relevant members of the NEIIC Group to obtain production line systems and related equipment and T-CON Boards from relevant members of the Group. In order to reduce product damage and loss during transit and lower transportation and production costs, CEC Group intends to procure relevant products and equipment from the members of the Group that are located in its neighborhood. As disclosed in the annual reports of Nanjing Huadong Electronics Information & Technology Co.,Ltd.(a company listed on the Shenzhen Stock Exchange (stock code: 000727) and the parent company of Panel Display Technology), the Group was its second largest supplier in 2017 and its first largest supplier in 2016. The Board believes that the business relationship between the Group and CEC Group is conducive to both the Group and CEC Group. As CEC Group is a high quality customer and also a leading enterprise in the industry of electronic information technology in the PRC, the long-term stable demands from CEC Group are beneficial to the Group. The Group has established stable and continuity business relationship with CEC Group for a long time. The intelligent manufacturing equipment that leads the industry and the systematic and diversified first rate electronic manufacturing services provided by the Group to CEC Group facilitate the development of CEC Group. The Board is of the view that the Group will maintain stable and long-term business relationship with CEC Group and there is little risk for CEC Group to stop purchasing relevant products and equipment from the Group.

LETTER FROM THE BOARD

2. Stable business relationship with other major customers

Since its incorporation, the Group has established and maintained long-term relationship with other independent third-party enterprises, such as NARI Technology Co., Ltd. (“國電南瑞科技股份有限公司”), Nanjing Metro Group Co., Ltd. (“南京地鐵集團有限公司”), Southern Telecom Inc. (美國南方電信”), etc.. For the two years and six months ended 30 June 2018, sales of the Group generated from other non-connected parties accounted for 75%, 71% and 70% of the total revenue of the Group, respectively.

In general, the Group’s sales to third-party enterprises are higher than to CEC Group. The Group is in position of leading advantages in the technologies in the fields of AFC\ACC and special communication system for rail transit under smart city and has become a major provider of special equipment and solutions for rail transit in China. In addition to the Group’s superiority in the intelligent manufacturing industry and electronic manufacturing services, the Group is capable of establishing and maintaining long-term stable relationship with current major customers as long as it continues to meet the customers’ requirements in respect of product quality, performance and technological standards. The Board is of the view that the Group has the capability to maintain stable relationship with customers and establish long-term cooperation mechanism.

LETTER FROM THE BOARD

3. The Group's measures in reducing the risk of customer concentration

After years of efforts on customer diversity in its business development, the Group is currently engaging in intelligent manufacturing, smart city and electronic manufacturing service industries and has served customers in various professions and trades. In 2018, the Group has achieved good development in terms of intelligent manufacturing, smart city construction and electronic manufacturing service. The smart manufacturing robot project has achieved technological breakthroughs and is expected to achieve new business development; in respect of smart city construction, the Group has won the bids of several projects, of which the contract amount of the rail transit projects has reached RMB1.4 billion, making the Group an important provider of domestic rail transit equipment and solutions; for the electronic manufacturing business, the Group has developed automobile electronics business, involving research, development and production of special polymer materials and special polymer composite materials for automobiles, creating a new economic growth point. The Group will further exert its own advantages, develop new businesses and new customers, participate in third-party tenders and keep track on municipal projects, large engineering projects and rail transit projects so as to further increase its revenue from third parties. Besides, as the Group is devoted to taking the lead in every industry it ventures into, it can attract new customers. In particular, it secured the bids for projects concerning ACC in Changzhou, general contracting of low-voltage communication system for Line 20, Shenzhen Metro and AFC for the east extension line of Line 1, Tianjin Metro, successively, in the field of smart city – rail transit; the industrial robot project is gradually approaching to sale in the field of intelligent manufacturing; in terms of electronic manufacturing, the Group capitalizes on opportunities, formulates product supporting plans timely based on the market demands and utilizes its effective resources to conduct cooperative development with customers for mutual benefits and win-win outcome. The Board is of the view that the Group does not any difficulty in cooperating with other new customers. The Group will continue to identify opportunities to cooperate with other customers in the future.

LETTER FROM THE BOARD

4. The Group is able to maintain its profitability in the future

The Ministry of Industry and Information Technology of the PRC and the Ministry of Finance have prepared and issued the “Intelligent Manufacturing Development Plan (2016–2020)” (“智能製造發展規劃(2016–2020年)”), fully implemented “Made in China 2025” and promoted the supply-side structural reform deployment, setting intelligent manufacturing development as the strategic mission to be adhered to in the long run. The Group, with an aim to become an internationally competitive leading enterprise in terms of intelligent manufacturing equipment and robots, increased its investment in intelligent manufacturing industry chain and advanced the organic integration of industrial robots, automation equipment and information system. The Group will capitalize on the policy advantages and the enormous room for growth of intelligent manufacturing industry to create good opportunities for sustainable development.

LETTER FROM THE BOARD

The Board considers the Annual Cap is fair and reasonable as the Annual Cap is determined by relevant departments of the Group based on the existing contracts and preliminary intention as well as market prospects and sales data of the transactions in previous years. The Annual Cap of RMB2.1 billion includes the estimation of RMB900 million for the transactions with Chengdu Display Technology and the remaining RMB1.2 billion is the actual sales in previous years (RMB1,121 million in 2015, RMB910 million in 2016 and RMB1,220 million in 2017). The estimation of RMB900 million for the transactions with Chengdu Display Technology, mainly involves the provision of the T-CON Board, LCD panel production line system and its related system, equipment and consumables by the Group to Chengdu Display Technology. This estimation is based on the investment scale, construction progress and subsequent production and processing requirements of Chengdu Display Technology. Chengdu Display Technology is responsible for construction and implementation of the 8.6th generation of Chengdu LCD panel production line project of NEIC. The 8.6th generation of Chengdu LCD panel production line project is constructed with the joint investment by the People's Government of Chengdu City and CEC with an aggregate amount of RMB28 billion. It has a gross floor area of approximately 870,000 square meters and a production capacity of 120,000 glass substrates per month.

LETTER FROM THE BOARD

CEC is planning and developing new display industry as strategic dominant industry and the 8.6th generation of Chengdu LCD panel production line project is an important part of its strategic layout. The 8.6th generation of Chengdu LCD panel production line project is a major project of Sichuan Province and Chengdu City and is greatly supported by the principal and municipal governments in terms of project site selection, infrastructure, and industries support. Upon completion, the project will drive the rapid growth of new display and the industries support in Chengdu to achieve the linkage of upstream and downstream industries. The Group has newly established Chengdu Panda Electronic Technology Co., Ltd. to provide SMT processing services for T-CON Board, light guide plates and other products for Chengdu Display Technology. The company has the capacity to meet the order demands after the project reaches its full capacity and will not damage the interests of the Group's existing third-party customers or hinder the Group from development new third-party businesses. Since the Group previously provided equipment and processing services to LCD Technology and Panel Display Technology and both parties maintained mutual benefit and complementary relationship and stable cooperation, the Group is able to win orders after Chengdu Display Technology reaches its full capacity. After reaching full capacity, Chengdu Display Technology is expected to produce 8,600,000 to 11,500,000 LCD panels per year. The Group will supply T-CON boards required for such LCD panels at an estimated unit price of approximately RMB75 to RMB90, which means that the estimated maximum annual transaction amount will be approximately RMB862.5 million. This annual cap has taken into account factors such as increases in labor costs, increase in prices of components (including capacitors and resistors), and inflation. The Board considers the Annual Cap as determined by the Group are in line with the actual development needs of the Group and fair and reasonable.

LETTER FROM THE BOARD

(C) Financial Services Agreement

1. Agreement: Financial Services Agreement
2. Date: 7 November 2018
3. Term: The Financial Services Agreement will be effective for three years upon the approval of the Independent Shareholders at the EGM.
4. Parties:
 - (1) the Company
 - (2) CEC Finance
5. Principal terms:
 - (1) Subject to compliance with the laws and regulations in the PRC and the operation rules of financial institutions, services provided by CEC Finance to the Group include dealing with financial and financing consultancy, guarantee trust services and other relevant consulting and agency services; assisting the Group to collect and pay the amount of transactions; carrying out authorized insurance brokerage business; providing guarantee to the Group; entrusted loans and entrusted investment services; handling bill acceptance and discount services for the Group; handling the internal transfer among members of the Group and designing relevant settlement and liquidation plans; deposit services; handling such financial services as loans and finance leasing for the Group.
 - (2) CEC Finance shall provide the abovementioned financial services in accordance with the following principles of services:
 - (a) Deposit service
 - (i) The maximum daily deposit balance of the Group with CEC Finance shall not exceed RMB500,000,000.

LETTER FROM THE BOARD

(ii) For the balance of the Group with CEC Finance, CEC Finance guarantees to make full payment according to the instruction of the Group immediately, together with the payment of interests accrued on such deposit at a deposit interest rate not lower than those offered by domestic commercial banks for the same period. The deposit interest rate of domestic commercial banks shall be determined with reference to the deposit interest rate publicly updated by People's Bank of China at its offices or websites from time to time. CEC Finance calculates the interests based on the accumulated interest method and follows the normal practice of other PRC commercial banks. Such interests shall be paid to the Group on a quarterly basis.

(b) Loans service

(i) The cap for the comprehensive credit facilities granted by CEC Finance to the Group is RMB600,000,000 (i.e. the maximum daily balance of the loans and other credit facilities services provided by CEC Finance to the Group during the term of Financial Services Agreement shall not exceed RMB600,000,000).

LETTER FROM THE BOARD

- (ii) The Group obtains facilities from CEC Finance. CEC Finance calculates and charges the interests for the loans at an interest rate not higher than those offered by domestic commercial banks for the same type of loans during the same period. The lending rate of domestic commercial banks shall be determined with reference to the lending rate publicly updated by People's Bank of China at its offices or websites from time to time. Further, such rates shall not be higher than the cost of funds obtained by the Group through other financial institutions. CEC Finance calculates the interests based on the accumulated interest method and the Group shall pay such interests on a quarterly basis.
- (iii) CEC Finance provides the Group with other credit financing services such as fund management, entrusted agency, issue of capital certificates, loan commitment and letter of guarantee. The standard for the fees charged shall not be higher than the standard for the same types of fees charged by domestic commercial banks during the same period.

LETTER FROM THE BOARD

(c) Guarantee service

In the event that the guarantee from CEC Finance is required for the application of credit facilities made by the Group to a third party, the standard of guarantee fees charged by CEC Finance shall not be higher than those charged by domestic commercial banks for external guarantees during the same period.

In respect of the fees for other credit financing services and guarantee services, the Group will make reference to and compare to similar services provided by other commercial banks. Meanwhile, the Group will make reference to the fee catalog collected from the points of sales of Bank of Communications (with which the Group has maintained a long-term business relationship and is also one of the most important joint-stock commercial banks in the PRC) to ensure that the fees charged for such business by the Group is not higher than that of other local commercial banks for the same period.

Currently, other businesses of the Group via CEC Finance include basic services of public accounts, inquiries of transaction details in public accounts and receipt replacement, opening of credibility letter, wealth management, mobile banking, electronic payment and online banking withholding by batch. CEC Finance will not charge the Company for any fees in respect of the above business.

LETTER FROM THE BOARD

- (3) CEC Finance shall grant exemptions to the Group from paying remittance and transfer fees when fund settlement is carried out by CEC Finance, and grant exemptions of fees for general planning and consultancy services provided by CEC Finance to the Group, except special financial consulting projects.
- (4) CEC Finance shall adequately utilize its financial resources advantages and financial professional advantages to provide financial consultancy on specialized financing such as issuance of corporate bonds and mid-term notes and specialized underwriting services. The standard of fees charged by CEC Finance for these types of specialized financial consultancy services shall not be higher than the standard of fees charged by domestic financial institutions during the same period. Particulars of CEC Finance's advantages are as follows:
 - (a) CEC Finance is an underwriter authorized and approved by CBIRC;
 - (b) As CEC Finance has maintained business connections with the Company in the ordinary course of business, it is familiar with the production and operation activities of the Group.

LETTER FROM THE BOARD

- (5) The Group agrees to give preference to CEC Finance within the cap provided in the Financial Services Agreement when the terms of service offered by CEC Finance are more favourable than or the same as those offered by independent third parties. Prior to utilizing the financial services of CEC Finance, the Group will verify whether the terms of cooperation provided by CEC Finance are more favourable or not less favourable than the financial services provided by independent third parties through making enquiry with other independent commercial banks for quotations.
- (6) CEC Finance shall notify the Company immediately in the event that there are any material changes in its corporate structure, any equity transactions or operational risks which may affect the normal operations of CEC Finance, and the Company shall have the right to discontinue the services provided by CEC Finance in such circumstances.
- (7) In the event that CEC Finance encounters any material matters such as run on deposits, failure to meet debt obligations when they fall due, large amount of overdue loan or guarantee advance (i.e. a single loan or guarantee advance of 50% or more of the registered capital of CEC Finance: as at the Latest Practicable Date, CEC Finance has a registered capital of RMB1,750,943,000), severe computer breakdown, being robbed or deceived or any of its directors or senior management found in serious violation of disciplines or involved in a criminal case, it shall immediately notify the Group and take emergency measures as set forth in the Emergency Risk Management Plan for the Deposits Placed with China Electronics Financial Co., Ltd. (《在中國電子財務有限責任公司存款應急風險處置預案》), details of which is set forth on page 55 below.

LETTER FROM THE BOARD

(8) In case of any other event that may give rise to potential risk regarding the deposits placed by the Group, CEC Finance shall immediately notify the Group and take necessary measures in this regard.

(9) CEC Finance shall provide the Company with:
(1) copies of each regulatory report submitted to CBIRC by CEC Finance; (2) the quarterly financial statements of CEC Finance on the tenth business day in the next month after each quarter for the Company's review.

6. Existing annual caps: Deposit services: RMB500,000,000

Loan, guarantee and other credit financing services:
RMB600,000,000

7. Reasons for the transaction:

Prior to the renewal of Financial Services Agreement, CEC Finance has been providing relevant financial services to the Group. In light of the better and convenient services of CEC Finance, provision of the most favourable interest rates for deposits and loans as well as favourable rates for various financial services to the extent it is allowed by the relevant policies and regulations, exemption from handling fees for fund settlement between the Company and its subsidiaries, the Company intends to renew the Financial Services Agreement to obtain the most favourable financing costs and achieve the best economic efficiency.

Given the current prudent monetary policies and the liberalization of interest rate, there are greater possibility and uncertainty on the fluctuation of financing costs, while the liquidity also has greater uncertainty. As such, the Company intends to maintain comprehensive credit line from CEC Finance to obtain stable and reliable financing channels and credit line to diversify and minimize the influence arising therefrom.

LETTER FROM THE BOARD

According to the Risk Assessment Report on China Electronics Financial Co., Ltd. (Xin Kuai Shi Bao Zi [2018] No. ZG29362) (《關於中國電子財務有限責任公司風險評估報告》(信會師報字[2018]第ZG29362號)) issued by BDO China Shu Lun Pan CPAs LLP, the accounting firm, after the assessment and review on the risks related to the fund deposited with CEC Finance, is not aware of any material defects in the risk control system regarding the financial statements of CEC Finance as of 30 June 2018.

In conclusion, this connected transaction allows the Group to maintain a stable and reliable financing channel for the long run. By leveraging the professional advantages of CEC Finance and its quality and convenient services, the Group is able to reduce financial costs, improve the effectiveness of capital utilization, enhance the overall economic efficiency, and facilitate the continuous and stable development. The continuing connected transaction will not prejudice the interests of the Company and the minority shareholders.

8. Pricing policy: Pursuant to the Financial Services Agreement, the fees and charges payable by the Group to CEC Finance and the interest receivable by the Group from CEC Finance shall be determined according to the following basis:

(1) Deposit services

The interest rate of deposits shall not be lower than those offered by domestic commercial banks during the same period.

(2) Loan, guarantees and other credit financing services

The interest rate of loans shall not be higher than those provided by domestic commercial banks for the same type of loans during the same period.

LETTER FROM THE BOARD

In the event that the guarantee from CEC Finance is required for the application of credit facilities made by the Group to a third party, the guarantee fees payable to CEC Finance shall not be higher than the standard for guarantee fees charged by domestic commercial banks for external guarantees during the same period.

- (3) During the term of Financial Services Agreement, if the Group signs an agreement with a domestic commercial bank, pursuant to which the interest rates for deposits and loans and/or relevant fees agreed by the both parties are more favourable than those provided by CEC Finance in respect of the same business under the Financial Services Agreement, CEC Finance shall, in accordance with the requirements of the Group, adjust the aforementioned interest rates for deposits and loans and/or relevant fees to the same or more favourable standards compared with those provided by such domestic commercial bank.

Prior to utilizing any of the financial services under the Financial Services Agreement, the officers of the financial department of the Company will verify whether the terms offered by CEC Finance are more favourable or no less favourable than the terms offered by independent third parties for the same or similar services. In particular, the officers of the financial department of the Company will refer to the rates or terms publicly updated by the People's Bank of China at its offices or websites from time to time or refer to the fee catalog collected from the points of sales of Bank of Communications and/or make enquiries with other independent commercial banks for quotations as mentioned above. The officers of the financial department will then gather the quotations/information obtained for comparison and for the review by the head of financial department of the Company to ensure that the terms and/or rate offered by CEC Finance are more favourable or no less favourable than the terms and/or rate offered by independent third parties.

LETTER FROM THE BOARD

9. Historical figures: The balance of loan, guarantee and other credit financing services provided by CEC Finance to the Group and the historical amounts of deposit balance of the Group with CEC Finance are as follows:

	As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited)	As at 31 December 2016 (audited)
Deposit balance (RMB'000)	314,300	497,720	497,860
Annual Cap (RMB'000)	500,000	500,000	500,000
Utilization rate (%)	62.86	99.54	99.57
Loan, guarantee and other credit financing services (RMB'000)	50,000	22,490	0
Annual Cap (RMB'000)	600,000	600,000	600,000
Utilization rate (%)	8.33	3.75	0
	For the period from 1 January 2015 to 30 June 2018 (unaudited)	For the period from 1 January 2014 to 31 December 2017 (audited)	For the period from 1 January 2013 to 31 December 2016 (audited)
Maximum daily deposit balance (RMB'000)	494,448	497,720	497,863
Annual Cap (RMB'000)	500,000	500,000	500,000
Utilization rate (%)	98.89	99.54	99.57

LETTER FROM THE BOARD

Remark: The amounts above are the deposit balances and loan balances of the Group with CEC Finance at the end of the corresponding years or interim periods. In 2016 and 2017 and the period from January to June 2018, the deposit balances and loan balances of the Group did not exceed the caps for the corresponding years.

10. Proposed cap:

(1) Deposit balance:

The Group deposits part of the available cash with CEC Finance while the remaining will be deposited with other domestic commercial banks to diversify the funding risk. The maximum daily deposit balance of the Group with CEC Finance is RMB500,000,000, which was determined based on (a) the existing business scale of the Group and the demands for sustainable development and expansion thereof; (b) the actual financial services occurred between the Group and CEC Finance.

(2) Loan, guarantee and other credit financing services:

The maximum daily balance of loans and other credit facilities services provided by CEC Finance to the Group shall not exceed RMB600,000,000 during the term of Financial Services Agreement. Such amount was determined based on (a) the existing business scale of the Group and the demands for sustainable development and expansion thereof; (b) the actual financial services occurred between the Group and CEC Finance.

LETTER FROM THE BOARD

Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements

(D) CEC Sub-contracting Agreement: Provision of sub-contracting services and composite services by the CEC Group to the Group

- | | | |
|----|------------------------------|--|
| 1. | Agreement: | The agreement for the receipt of sub-contracting services and composite services |
| 2. | Date: | 7 November 2018 |
| 3. | Term: | From 1 January 2019 to 31 December 2021 |
| 4. | Parties: | (1) the Company

(2) CEC |
| 5. | Nature of the transaction: | The sub-contracting services provided by CEC Group to the Group are mainly mechanical processing services, and the composite services are mainly instrument testing services, medical services for the Group's employees (including retired employees) and staff commuter transport services in the ordinary course of business. |
| 6. | Existing Annual Cap: | RMB7,000,000 |
| 7. | Reasons for the transaction: | Entering into an agreement for the provision of the sub-contracting and composite services by CEC Group to the Group has provided the Group with stable and reliable services, and hence the continuation of such transaction is beneficial to and in the interest of the Group. |

LETTER FROM THE BOARD

8. Pricing basis and terms of payment: CEC Group is entitled to charge the Group reasonable service fees for the services provided based on the fair dealing principle, and the Group shall undertake the corresponding payment obligations. The service fees for the provision of sub-contracting and composite services by CEC Group to the Group shall be determined after arm's length negotiations between the parties and based on the pricing policy (as disclosed below) and normal commercial terms with reference to the prevailing market prices, namely, the service fees paid by the Group to CEC Group shall not be higher than those charged to an independent third party for the same or similar services.

The service fees for the provision of sub-contracting and composite services by CEC Group to the Group shall be determined on a fair and equitable basis with reference to the market prices and government guidance prices.

For the purpose of this agreement, market price refers to the price paid by PRC enterprises in the same industry for receiving services of the same type.

For the purpose of this agreement, government guidance price means the price administration authorities or other relevant government authorities stipulated a basic price and its floating ranges and the operators could within the limits of the guidance determine their own prices.

The sub-contracting services provided by CEC Group to the Group are mechanical processing services. The services fees charged shall be determined with reference to the fees charged by local third parties which are engaged in the mechanical processing business (quotations from two to three local independent third parties engaged in the same business would be obtained as the pricing basis and the head of the marketing department will review and approve the same to ensure the fees charged by CEC Group are no higher than the quotations offered by independent third parties).

LETTER FROM THE BOARD

The composite services by CEC Group to the Group are mainly commuter transport services. The service fees charged shall be determined with reference to the publicly available quotations in the local vehicle rental market and the quotations from the local third parties which are engaged in the commuter transport services, including the rental prices from Nanjing Wen'an Car Services Co., Ltd. (南京穩安汽車服務有限公司) (<http://www.jsqczl.com/>) and the quotations for vehicles for use in the urban area from Nanjing Tianmai Vehicle Rental Services Co., Ltd. (南京天脈汽車租賃有限公司) (http://www.njtmzl.com/news_cont.asp?id=31).

CEC Group provides the Group with regular body check services as the principal medical services for employees of the Group (including retired employees). The transaction amount of such services is expected to maintain at RMB2.15 million per year in the next three years, which is determined with reference to the charging standards of the same or similar services provided by the medical institutions of independent third parties, such as Ikang Guobin Nanjing (愛康國賓南京) (<http://www.ikang.com/nj/>) and Ciming Check-up Nanjing Company (慈銘體檢南京公司) (<http://nj.ciming.com/>).

For the commuter transport services and the medical services, the relevant officers of the marketing departments of the relevant subsidiaries of the Company receiving the services will compile the lists of services fees based on the quotations obtained from the websites above for the head of the marketing department to review and approve.

LETTER FROM THE BOARD

In addition, CEC Group provides the Group with a small volume of instrument testing services, which are mainly regular check of the accuracy and precision of professional equipment, the scale of which is expected to maintain at RMB600,000 per year in the next three years. Government guidance prices are applicable to these services and are determined with reference to the Measured Charging Standards (<http://www.jsmi.com.cn/khfw/sfbzcx.aspx>) issued by Jiangsu Institute of Metrology (江蘇省計量科學研究院).

For the instrument testing services, the officers of the marketing departments of the relevant subsidiaries of the Company receiving the services will compile the lists of fees in accordance with the government guidance prices. Designated officers of the marketing departments will monitor the government guidance prices for any updates on a daily basis.

The terms of payment will be agreed in the separate implementation agreements entered into between the parties pursuant to the CEC Sub-contracting Agreement. The payment terms are on normal commercial terms or terms no less favourable than those offered to the Group by independent third parties.

9. Historical figures: The historical amounts of sub-contracting and composite services received by the Group from the PEGL Group are as follows:

	Six months ended 30 June 2018 (unaudited)	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Amount (RMB'000)	3,210	6,480	3,870

LETTER FROM THE BOARD

10. Annual Cap: The Board proposes to increase the Annual Cap from RMB7,000,000 to RMB13,000,000.

Such amount was determined with reference to (1) the historical transaction amounts of the sub-contracting and composite services received by the Group from CEC Group; (2) the estimated increase in the Group's demand for the staff commuter transport services and medical services; and (3) the Company's business development needs.

The increase of RMB6 million in the Annual Cap is mainly due to: (i) as the construction of the Group's staff quarters project in the Panda Electronic Equipment Industrial Park is still at the preliminary stage and the number of employees in the park is on the rise in recent years, which gives rise to the need to increase transport services to accommodate the employees' demand for commuter transport services, the fees of commuter services are expected to increase by RMB2 million each year and stand at RMB6 million per year in the forthcoming three years; (2) as the Group has proactively downsized the traditional machinery processing business to improve quality and enhance efficiency and optimize production capacity, the demand for the machinery processing services provided by CEC Group has increased, thus the fees of processing services are expected to increase by RMB1.50 million each year and stand at RMB3 million per year in the forthcoming three years; and (3) the fees of medical services are expected to increase by RMB1.50 million each year and stand at RMB2.50 million per year in the forthcoming three years as the Company will provide its employees with additional regular health check services in accordance with relevant requirements and the decision of the staff representatives meeting.

LETTER FROM THE BOARD

(E) Purchase Agreement: Purchase of Raw Materials, Components and Parts by the Group from the CEC Group

- | | | |
|----|------------------------------|--|
| 1. | Agreement: | Agreement for the purchase of materials, components and parts |
| 2. | Date: | 7 November 2018 |
| 3. | Term: | From 1 January 2019 to 31 December 2021 |
| 4. | Parties: | (1) the Company

(2) CEC |
| 5. | Nature of transaction: | Products sold by the CEC Group to the Group include: spliced LCD panel; materials, components and parts required for production of mobile communication, information, digital home and electronic equipment products; product packaging materials. |
| 6. | Existing Annual Cap: | RMB103,000,000 |
| 7. | Reasons for the Transaction: | Certain equipment, components and parts required for production of equipment products of the Group including automatic transmission equipment and industrial robots still need to be purchased through import and export company of the CEC Group; the Group also needs to purchase certain LCDs with different specifications from LCD panel manufacturers of CEC for OEM and sale of consumer electronic products. The relevant subsidiaries of the Group have increased their procurement from domestic suppliers, and reduced the purchase of raw materials and parts from import and export company of CEC Group, increasing the Localization Rate of parts and components of their products. Due to the reduction in the scale of procurement, the Company needs to reduce the Annual Cap and renew the agreement with CEC for such sales transaction. |

LETTER FROM THE BOARD

8. Pricing basis
and terms of
payment:

The CEC Group is entitled to charge the Group reasonable prices for the products sold based on the principle of fair market, and the Group shall undertake the corresponding payment obligations. The price for purchase of materials, components and parts sold by the CEC Group to the Group shall be determined after arm's length negotiation between the parties and based on relevant pricing policy and on normal commercial terms with reference to the prevailing market prices, namely, the selling price charged by the CEC Group to the Group shall be no higher than those charged to an independent third party for the same or similar products.

The price for sale of materials, components and parts by the CEC Group to the Group shall be determined on a fair and equitable basis with reference to the market prices.

For the purpose of this agreement, market price refers to (1) the price paid by PRC enterprises in the same industry for purchasing products of the same type; or (2) the import price of related products plus the import cost and a certain amount of profit, in case there is no supply of related products sold by CEC Group in the domestic market.

LETTER FROM THE BOARD

Currently, the Group mainly purchases LCD monitors from CEC Group, and purchases core parts of industrial robots through the import and export company of CEC Group. (1) In respect of LCD monitors, the pricing of LCD products is affected by industrial factors, where the purchasing and selling prices are determined with reference to the change in the average market price and price level of the LCD panels published in “China TV Market Update” (《中國電視市場研究報告》) issued monthly by Sigmaintell Consulting Co., Ltd. (北京群智營銷諮詢有限公司), a company focusing on flat panel display industry research, including flat panel display products, key components and high-end market research. Officers of the sales department of the relevant subsidiaries of the Company purchasing the products will compile the price lists based on the information obtained for the head of the sales department to review and approve; (2) In respect of core parts of industrial robots purchased through import and export company of CEC Group, the purchasing price refers to the sum of the cost of imported products, relevant taxes and import agency fees, and the charging standard of import agency fees is based on the pricing standard for similar services provided by Import and Export Company to independent third parties, which is approximately 1% on the sum of costs of the imported goods. To ensure the commission charged by the Import and Export Company as import agent is fair and reasonable, Import and Export Company will supply the Group with its standard of charges for transactions of similar nature with other third parties provided that no trade secrets of third parties are involved. Further, the officers of the sales department of the relevant subsidiaries of the Company purchasing the products will obtain two to three quotations from independent third parties for similar transactions for comparison to ensure the charging standard provided by Import and Export Company is fair and reasonable.

The relevant payments shall be settled within 20 days upon the individual implementation agreements taking effect which are to be agreed by the parties when such individual agreements are entered into.

LETTER FROM THE BOARD

9. Historical figures: The historical amounts of materials, components and parts purchased by the Group from CEC Group are as follows:

	Six months ended 30 June 2018 (unaudited)	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Amount (RMB'000)	36,950	43,740	47,090

10. Annual Cap: The Board proposes to reduce the Annual Cap from RMB103,000,000 to RMB80,000,000.

Such amount was determined with reference to: (1) the historical amounts of materials, components and parts purchased by the Group from CEC Group; (2) the Company's plan for purchase of materials, components and parts from CEC and its associates in the coming years (mainly involving the purchase of certain LCDs with different specifications from LCD panel manufacturers of CEC for OEM and sale of consumer electronic products).

Such decrease of the Annual Cap is mainly attributable to less procurement of materials, components and parts from import and export company of the CEC Group by relevant subsidiaries of the Group.

LETTER FROM THE BOARD

(F) Lease Agreement: Lease of plants and equipment by the Group to NEIIC Group

1. Agreement: The agreement for the provision of lease
2. Date: 7 November 2018
3. Term: From 1 January 2019 to 31 December 2021
4. Parties:
 - (1) the Company
 - (2) NEIIC
5. Nature of the transaction: The Group leases the plants located in the Nanjing Economic and Technological Development Zone and other properties owned by the Group as well as the temporarily idle equipment to NEIIC Group to meet its needs of business development.
6. Existing Annual Cap: RMB3,000,000
7. Reasons for the transaction: Certain members of NEIIC Group such as CEC Home Appliances and Nanjing Panda Electronics Transportation Company have been leasing the plants and ancillary equipment of the Group located in the Nanjing Economic and Technological Development Zone and other plants and ancillary equipment owned by the Group as well as some idle motor vehicles for a long time to facilitate their business operations. Therefore, the Group proposes to maintain the Annual Cap for such leases and renew the agreement with NEIIC Group in respect of such leases.

LETTER FROM THE BOARD

8. Pricing basis and terms of payment: The Group is entitled to charge NEIIC Group reasonable rentals for the leased plants and equipment based on the principle of fair market and NEIIC Group shall bear the corresponding payment obligations. The lease of plants and equipment by the Group to NEIIC Group is carried out after arm's length negotiation between the parties in accordance with relevant pricing policy and on normal commercial terms with reference to the prevailing market price, i.e. the rentals charged to NEIIC Group by the Group is the rental charged to an independent third party by the Group for the lease of the same or similar plants and equipment.

The Group leases plants and equipment to NEIIC Group and determines the rentals according to the market price on a fair and equitable basis.

For the purpose of this agreement, market price refers to rental paid by an independent third party for leasing a plant at a similar location and with similar functions and purposes with the premises leased, and equipment of same or similar type and with same or similar functions and purposes with the equipment leased.

LETTER FROM THE BOARD

In determining the rentals for leasing the plants and ancillary equipment by the Group to NEHC Group, references will be first made to the comparable market prices or the standard rates provided by the independent third parties, and then to the prices for similar and related transactions publicly quoted:

- (1) for the lease of equipment, the Group mainly let transportation vehicles to NEHC Group. The amount of such transaction will be determined with reference to the quotations from third parties engaged in local vehicle leasing business. Such quotations will be obtained by the officers of the marketing departments of the relevant subsidiaries of the Company from independent third parties and determined with reference to the vehicle rental prices in the downtown area of Nanjing charged by each of Nanjing Wen'an Car Services Co. Ltd. (南京穩安汽車服務有限公司) (<http://www.jsqczl.com/>), Nanjing Tianmai Vehicle Rental Services Co., Ltd. (南京天脈汽車租賃有限公司) (http://www.njtmzl.com/news_cont.asp?id=31), and Nanjing Yeren Vehicle Rental Co., Ltd. (南京葉仁汽車租賃有限公司) (<http://www.njzuche.net/>), all being private enterprise; and

LETTER FROM THE BOARD

- (2) for the lease of plants, the officers of the leasing departments of the relevant subsidiaries of the Company will make references to the prices adopted in lease agreements for similar and related plants between the Company and independent third parties. If there is no such transaction, the local market conditions, information provided by property agencies and advertisements published on newspapers and other media will be referred to. Details are as follows:
 - (a) to check the property section of local newspapers (such as Jinling Evening News 《金陵晚報》 or Xian Dai Kuai Bao 《現代快報》) for the rental prices of comparable properties;
 - (b) if no comparable leases are available, to consult the market rental prices of such properties with two to three property agencies in the place where the plant to be leased is located;
 - (c) based on the above information, the rental price of the plant will be determined after arm's length negotiation between the head of the leasing department and NEIIC.

The rentals shall be paid annually in arrears within seven days after the end of each applicable year.

LETTER FROM THE BOARD

9. Historical figures: The historical amounts of rental paid by NEIIC Group to the Group are as follows:

	Six months ended 30 June 2018 (unaudited)	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Amount (RMB'000)	940	1,900	1,770

10. Annual Cap: The Board proposes to maintain the Annual Cap at RMB3,000,000.

The amount has been determined with reference to the historical rental amounts paid by NEIIC Group to the Group.

(G) NEIIC Group Lease Agreement: Lease of plants and equipment by NEIIC Group to the Group

1. Agreement: The agreement for the provision of lease
2. Date: 7 November 2018
3. Term: From 1 January 2019 to 31 December 2021
4. Parties:
 - (1) the Company
 - (2) NEIIC
5. Nature of the transaction: NEIIC Group leases the buildings and temporarily idle equipment located in No. 301 East Zhongshan Road in Nanjing and other buildings and temporarily idle equipment owned by NEIIC Group to the Group for its needs of business development.
6. Existing Annual Cap: RMB2,000,000

LETTER FROM THE BOARD

7. Reasons for the transaction: Although the Panda Electronic Equipment Industrial Park of the Group located at No. 7 Jingtian Road in Nanjing has been put into operation, the Group still needs to lease a few office premises and related equipment located at No. 301 East Zhongshan Road in Nanjing from PEGE, in order to deal with external administrative matters.

Therefore, the Group will renew the agreement, as the lessee, with NEIC Group in respect of such lease.

8. Pricing basis and terms of payment: NEIC Group is entitled to charge the Group reasonable rentals for the leased plants and equipment based on the principle of fair market and the Group shall bear the corresponding payment obligations. The lease of plants and equipment by NEIC Group to the Group is entered into after arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market price, i.e. the rentals charged by the NEIC Group to the Group is the rentals charged to an independent third party for the lease of the same or similar plants and equipment.

NEIC Group leases plants and equipment to the Group and determines the rentals according to the market price on a fair and equitable basis.

For the purpose of this agreement, market price refers to rental paid by an independent third party for leasing a plant at a similar location and with similar functions and purposes with the premises leased and equipment of same or similar type and with same or similar functions and purposes with the equipment leased.

LETTER FROM THE BOARD

In determining the rentals for leasing the plants and equipment by NEIIC Group to the Group, references were first made to the comparable market prices or the standard rates provided by the independent third parties, and then to the prices for similar and related transactions publicly quoted:

- (i) for the lease of equipment, NEIIC Group currently mainly let a few pieces of office equipment to the Group to facilitate the Group's lease of office and production place. The rental sums for such transactions were determined with reference to the quotations obtained from independent third parties in the place where the Company is located; and
- (ii) for the lease of plants, rentals are determined with reference to the local market conditions, information provided by property agencies and advertisements released on newspapers and via other media;

and the prices adopted in lease agreements for similar and related properties and equipment between the Company and independent third parties.

The rentals shall be paid annually in arrears within seven days after the end of each applicable year.

LETTER FROM THE BOARD

9. Historical figures: The historical amounts of rental paid by the Group to NEIIC Group are as follows:

	Six months ended 30 June 2018 (unaudited)	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Amount (RMB'000)	0	180	360

10. Annual Cap: The Board proposes to maintain the Annual Cap at RMB2,000,000.

It was arrived after arm's length negotiation between the parties and on normal commercial terms with reference to the nature of the transaction and the prevailing market prices, being prices no less favourable than those available to or offered by an independent third party for similar leases at similar locations in the PRC.

(H) Trademark License Agreement: Licensing of Trademark by the Group to CEC Home Appliances

1. Agreement: Provision of Trademark License Agreement
2. Date: 7 November 2018
3. Term: From 1 January 2019 to 31 December 2021
4. Parties:
 - (1) the Company
 - (2) CEC Home Appliances

LETTER FROM THE BOARD

5. Nature of the transaction: The Group grants CEC Home Appliances the right to use the PANDA trademark in respect of certain television sets series produced by CEC Home Appliances which do not fall within any product category of the Group and therefore do not constitute horizontal competition. The right to use the PANDA trademark granted by the Group to CEC Home Appliances is non-exclusive. CEC Home Appliances undertakes to protect the PANDA trademark during the term of the Trademark License Agreement. The agreement shall be established on the date when it is duly signed by the legal representatives or authorized representatives of each of the parties and affixed with common seals, and take effect from the date when it is approved at a general meeting of the Company. NEIIC shall assist the Company to proceed with the filing procedures for the trademark licensing within five business days upon the agreement taking effect. The Company will renew the agreement with CEC Home Appliances for such licensing of trademark in light of the actual circumstances of the trademark license.
6. Existing Annual Cap: RMB3,000,000
7. Reasons for the transaction: The grant of the right to use the PANDA trademark to CEC Home Appliances can provide the Group with a stable source of income and can enhance the brand awareness of the “PANDA” brand which in turn helps generate more revenue for the Group in future. Hence, the entering into of such transaction is beneficial to and in the interest of the Group.
8. Pricing basis and terms of payment: The granting of the right to use the PANDA trademark to CEC Home Appliances and the license fees for the trademark license are determined according to the market price on a fair and equitable basis.
- The Group will charge license fees of the trademark for the years 2019, 2020 and 2021 based on the CEC Home Appliances’ sales of LCD television sets that use the PANDA trademark at a rate of RMB3 per set.

LETTER FROM THE BOARD

The abovementioned standard is determined after the arm's length negotiation between the parties and on the normal commercial terms with reference to: (1) the historical standards and amounts of license fees charged by the Group to CEC Home Appliances; (2) the overall operating conditions in the television and commercial LCDs markets in the PRC under severe competition; and (3), the market price paid for the licensing of PANDA trademark by other entities (if any).

Upon the written confirmation by the Company for the number of relevant television products sold by CEC Home Appliances, CEC Home Appliances shall pay the annual license fees to the Company in the February of each year in arrears during the term of licensing.

9. Historical figures: The historical amounts of the license fees paid by CEC Home Appliances to the Group are as follows:

	Six months ended 30 June 2018 (unaudited)	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Amount (RMB'000)	0	480	480

10. Annual Cap: The Board proposes to maintain the Annual Cap at RMB3,000,000.

The amount was determined based on: (1) the historical license fees paid by CEC Home Appliances to the Group; and (2) the Company's estimate of the demand for the PANDA trademark from CEC Home Appliances.

LETTER FROM THE BOARD

4. INTERNAL CONTROL MEASURES FOR THE CONTINUING CONNECTED TRANSACTIONS

In order to protect the interests of the Company and the Shareholders as a whole, the Company has adopted the following guidelines and internal control mechanism to monitor all the continuing connected transactions between the Group and CEC Group, NEIC Group, CEC Finance and CEC Home Appliances under the CCT Agreements, including:

Selling price of the goods and services charges

- (1) The selling price of the goods and services charges are determined based on relevant price lists compiled respectively by the sales department and of the marketing department of the Company or its subsidiaries and reviewed by the heads of such departments. The said price lists are mark-to-market, updated every month and applicable to transactions with both the connected persons and the independent third parties;

In addition, making references to comparable market prices, cost-plus pricing, government-guidance prices have been adopted respectively for determining the transaction prices for all connected transactions contemplated under the CCT Agreements of the Group. The procedures for preparing the quotations using each of the pricing approaches are as follows:

- (i) Making references to comparable market prices: the pricing for most of the Group's products and services is determined with reference to comparable market prices. Such pricing basis is adopted for:
- SMT Chip processing services and composite services under (A) the Sub-contracting Agreement;
 - provision of raw materials, components and parts under (B) the Sale Agreement;
 - services under (C) the Financial Services Agreement;
 - sub-contracting services and composite services under (D) the CEC Sub-contracting Agreement;
 - (E) the Purchase Agreement;
 - (F) the Lease Agreement;

LETTER FROM THE BOARD

- (G) the NEIIC Group Lease Agreement; and
 - (H) the Trademark License Agreement.
- (ii) Cost-plus pricing: the Company adopts the cost-plus pricing approach for non-standard products. The marketing department and the technological department will exchange ideas in relation to the technological plans based on customer's needs and determine the final implementation plan and the list of equipment. The technological department will provide the production drawings for machined parts and the procurement list and the procurement department will provide the quotations for the procurement costs based thereon. The production and planning department will quote the labor costs with respect to assembling and commissioning in accordance with the final implementation plan. The officers of the marketing department will calculate the total costs for the project by summing up the procurement, processing and assembling costs and upon the review by the head of the marketing department, the quotation for the project will be determined based on the market prices along with the needs of the customer. The final contract price will be determined after negotiations between the head of the marketing department and the customer. Such pricing basis is adopted for non-standardized products under (B) the Sale Agreement.
- (iii) Government-guidance prices: In respect of (A) the Sub-contracting Agreement, government-guidance prices shall be adopted for the intelligent building engineering services, integration of computer information system (including computer network services) and related mechanical and electrical installation engineering services engaged in by the Group. The pricing of such services is in accordance with the Pricing Quota of Construction and Decoration Engineering of Jiangsu Province (《江蘇省建築與裝飾工程計價定額》), Pricing Quota of Installation Engineering in Jiangsu Province (《江蘇省安裝工程計價定額》) and Pricing Quota of Municipal Administration Engineering in Jiangsu Province (《江蘇省市政工程計價定額》) (GB50500-2013) promulgated by the Housing and Construction Bureau of Jiangsu Province (江蘇省住房和城鄉建設廳) on 12 May 2014. In particular, the gross profit margin is not lower than 14% as prescribed in the Pricing Quota of Installation Engineering in Jiangsu Province. The officers of the marketing department will prepare the price list in accordance with the government-guidance pricing for the head of the marketing department to review and approve. Further, a designated officer of the marketing department will keep track of any updates on the government-guidance pricing on a daily basis. The government-guidance pricing is also adopted for the instrument testing services provided under (D) the CEC Sub-contracting Agreement.

LETTER FROM THE BOARD

- (2) The legal department of the Company shall conduct review on compliance for each of the transactions under the agreements every three months, while the Company's financial department shall conduct regular review on the pricing and amounts of these transactions under the agreements every three months to ensure the relevant pricing policies have been complied with;
- (3) The audit committee of the Company is responsible for the control and daily management (including monitoring the pricing terms) of the connected transactions of the Company. Members of the audit committee would conduct independent random review on the connected transactions every six months, compare with the transactions entered into with independent third parties, obtain reports issued by the Company's accountants on the connected transactions, and review the original copies of orders placed under the CCT Agreements and the letters issued by the accountants in respect of the connected transactions.

Financial services

For the utilization of financial services provided by CEC Finance, the Company has established the Emergency Risk Management Plan for the Deposits Placed with China Electronics Financial Co., Ltd. (《在中國電子財務有限責任公司存款應急風險處置預案》) and provided relevant internal control procedures and corporate governance measures in the Financial Services Agreement, which primarily include the followings:

- (1) the Company has established a Leadership Team for preventing and addressing deposit risks to be in charge of matters in relation to deposit risk prevention and handling and monitoring the status of deposits with and operations of CEC Finance;
- (2) the Company has established a deposit risk reporting system, whereby the finance department will be responsible for drafting the deposit risk assessment report in respect of the operation qualifications, business and risk profile of CEC Finance, which shall be reported to the Board of the Company every six months;
- (3) all or part of the deposits placed with CEC Finance will be drawn out occasionally, i.e. twice every financial year, to examine the safety and liquidity thereof and make relevant records in this regard to ensure that the fees paid to or charged by CEC Finance are less than or not more than the fees paid to or charged by independent third parties;

LETTER FROM THE BOARD

- (4) during the period when the Group has deposit(s) placed with CEC Finance, the Company will annually obtain and review the financial report of CEC Finance as audited by a qualified accounting firm, and designate a professional service agency and officers to assess the risk profile of capital placed with CEC Finance every half year. The assessment report will be disclosed in the interim report and annual report of the Company after the consideration and approval by the Board of the Company;
- (5) a copy of every regulatory report submitted by CEC Finance to CBIRC will be provided to the Company for review; and
- (6) the financial statements of CEC Finance will be provided to the Company for review on the tenth business day after the end of each quarter.

In addition to the above, the Company has also formulated emergency measures under the Emergency Risk Management Plan for the Deposits Placed with China Electronics Financial Co., Ltd. (《在中國電子財務有限責任公司存款應急風險處置預案》), which mainly include:

- 1. If a deposit risk has occurred, the finance department of the Company will report to the Leadership Team of the Company immediately. Upon CEC Finance providing the Company with details of the risk, the Leadership Team shall look into the causes behind the risk and analyze the dynamics of the risk. The Leadership Team will also implement the measures and duties for resolving risks as stipulated in the risk response plan for resolving risk and formulate a plan for coping with the risk. The plan shall be amended and supplemented timely based on the changes and developments of the deposit risk and the issues identified during the implementation.
- 2. The Leadership Team shall convene a joint meeting with CEC Finance with regard to risks that occurred and prompt CEC Finance to take proactive measures in a bid to mitigate the risks and prevent the risks from spreading and expanding.
- 3. The Company shall strictly exercise the rights granted to it under its articles of association and exercise all legal rights to safeguard the interests of the Company against being damaged whenever necessary.
- 4. The finance department shall report on the execution and implementation of the risk response plan to the Leadership Team and the Board on a timely basis. The Leadership Team and the Board may adjust the risks response plan for coping with the risks in accordance with the actual circumstances when executing and implementing the risk response plan.

LETTER FROM THE BOARD

5. After the contingent deposit risks subside, the Leadership Team shall reinforce its supervision on CEC Finance. The Leadership Team shall request CEC Finance to strengthen its funds and increase the anti-risk capacity and re-evaluate the deposit risks of CEC Finance and adjust the proportion of deposits if necessary.
6. The Leadership Team, together with CEC Finance, shall analyze and summarize the causes behind the contingent deposit risks and the consequences, so as to better prevent and cope with the deposit risks. If the factors that affect the risks cannot be eliminated within a reasonable time, all the deposits shall be withdrawn.

The responsibilities of the Leadership Team include:

1. Accountable to the Board and has full responsibility for preventing and coping with deposit risks;
2. To receive report(s) on deposit risks prepared by relevant departments of the Company and review the risk evaluation report submitted by the finance department;
3. To present the risk evaluation report to the Board on a regular basis;
4. To activate the emergency response plan when necessary and perform the obligation of disclosing the corresponding information;
5. To organize investigations and analyses and formulate risk response plans upon the activation of the emergency response plan;
6. To track the implementation of the risk response plan and make adjustments to the same in accordance with the circumstances when executing and implementing the plan;
7. To act on behalf of the Company to negotiate with CEC Finance on matters regarding the prevention of and response to the deposit risks;
8. To act on behalf of the Company to exercise all legal rights to safeguard the interests of the Company against being damaged.

LETTER FROM THE BOARD

Deposit risks include the following circumstances:

- (1) CEC Finance in breach of the provisions under Articles 31 (shall not engage in offshore business), 32 (shall not engage in non-financial services business including industrial investment or trading) or 33 (branches of a finance company shall not provide guarantee service) of the “Measures for the Administration of Finance Companies of Enterprise Groups” (《企業集團財務公司管理辦法》);
- (2) CEC Finance not in compliance with any of the gearing ratio requirements under Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups” (《企業集團財務公司管理辦法》);
- (3) CEC Finance encounters any run on deposits, insolvency, substantial amount of overdue loans or guarantee advances (i.e. 50% or more of the registered capital of CEC Finance), computer system breakdowns, robbery or fraud, involvement of its director(s) or senior management in serious disciplinary offences or criminal offences and other material matters;
- (4) CEC Finance suffers substantial losses in its negotiable securities investment business in an amount that reaches 50% of the registered capital of CEC Finance;
- (5) any matter such as significant organizational changes, equity transactions or operational risks that may affect the normal operations of CEC Finance has taken place;
- (6) the balance of the loans advanced by CEC Finance to a single shareholder exceeds 50% of the registered capital of CEC Finance or the contribution made to CEC Finance by the said shareholder;
- (7) the balance of the deposits placed with CEC Finance by the Company exceeds 50% of the deposits taken by CEC Finance;
- (8) any liabilities due to CEC Finance by any of its shareholder(s) remains unpaid for more than one year;
- (9) CEC Finance has recorded losses exceeding 30% of its registered capital for the current year or exceeding 10% of its registered capital for 3 successive years;
- (10) CEC Finance has received administrative punishment from regulatory authorities such as CBIRC due to activities in breach of laws and regulations;

LETTER FROM THE BOARD

- (11) CEC Finance is ordered to make rectification by CBIRC; and
- (12) other matters which, in the opinion of the Directors, may bring potential threats to the safety of the Company's deposits.

5. REASONS FOR AND BENEFITS OF THE RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

The Board is of the opinion that as the Group started business relationship with the PEGL Group since the listing of the Company in 1996, the services mutually provided between the PEGL Group and the Group have reached satisfactory results and provided overall business and operational convenience to the Group. The Group has been maintaining business relationship with CEC Group prior to the change in de-facto controller of the Company in 2012 and such businesses became connected transactions after the change in de-facto controller of the Company. In recent years, CEC Group and the Group have been satisfying their needs through mutual provision of services and the purchase and sale businesses have been developing steadily.

It is expected that the provision of the sub-contracting services and composite services agreement and the agreement on the sale of materials, components and parts will provide a stable source of income to the Group, and that the Group will secure a steady and reliable supply of quality services, materials, components and parts through the acceptance of the sub-contracting services and composite services agreement and the agreement on the sale of materials, components and parts.

Due to the proximity of the plants and office premises of the Group and NEIIC Group, for the convenience of conducting businesses and in order to enhance operational efficiency, both parties lease the premises for production, storage and office use and relevant equipment to each other. As the Group and NEIIC Group have been relocated to their own industry parks successively, there is lesser demand for mutual lease; however, both parties still retained a small portion of leasing businesses so as to satisfy the needs in the course of business operation.

The trademark licensing business constitutes a continuing connected transaction of the members of the Group and PEGL Group and is in line with the practical situation and needs of the Group.

LETTER FROM THE BOARD

The provision of financial services by CEC Finance to the Group allows the Group to maintain a stable and reliable financing channel for the long run. By leveraging the professional advantages of CEC Finance and its quality and convenient services, the Group is able to reduce financial costs, improve the effectiveness of capital utilization, enhance the overall economic efficiency, and facilitate the continuous and stable development.

The Group had renewed relevant agreements with relevant counterparties under CEC, NEIIC, CEC Finance and CEC Home Appliances in relation to such continuing connected transactions.

The reasons for and the benefits of the renewal of continuing connected transactions are set out in the paragraphs under “Reasons for the transaction” of “Particulars of renewal of the existing Continuing Connected Transactions” above.

On 7 November 2018, an extraordinary meeting of the ninth session of the Board was convened, at which all the non-connected Directors approved the renewal of the CEC Sub-contracting Agreements, the Purchase Agreement, the Lease Agreement, the NEIIC Group Lease Agreement and the Trademark License Agreement and their respective Annual Caps.

An Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Sub-contracting Agreement, the Sale Agreement and the Financial Services Agreement after taking into account the recommendations of Gram Capital.

Taking into account the above, the Directors (including the independent non-executive Directors) are of the view that the renewal of the CCT Agreements is favorable to the stability of the production and operation of the Company, and the terms of these agreements are fair and reasonable and at fair price. These agreements will be conducted on normal commercial terms in the usual course of business and are in the interest of the Company and all Shareholders as a whole and does not have an impact on the independence of the Company. The revised Annual Caps under the continuing connected transactions will better suit the practical situation and development needs of the Company. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolutions with respect to the CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps to be proposed at the EGM.

6. REQUIREMENTS UNDER THE LISTING RULES

As mentioned above, CEC is the controlling shareholder of NEIIC and the de facto controller of the Company; NEIIC is the controlling shareholder of PEG, the controlling shareholder of the Company, holding 6.93% equity interest in the Company; and CEC Finance is a company controlled by CEC; CEC Home Appliances is a controlling subsidiary of PEG; CEC, NEIIC, PEG, CEC Finance, CEC Home Appliances and their respective associates therefore constitute connected persons of the Company under the Hong Kong Listing Rules and the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company.

Financial Services Agreement

Deposit services

As one of the applicable percentage ratios of the deposit transactions contemplated under the Financial Services Agreement exceeds 25%, such transaction constitutes a major transaction under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements. In addition, as the applicable percentage ratios of the deposit transactions contemplated under the Financial Services Agreement exceed 5%, and the relevant annual consideration is more than HK\$10,000,000, such transaction is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Loan and guarantee services

As the provision of loan and guarantee services by CEC Finance to the Group is for the benefit of the Group on normal commercial terms where no security over the assets will be granted by the Group to CEC Finance in respect of such services, the continuing connected transactions involving the provision of loan and guarantee services are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

Settlement services

CEC Finance will not charge the Group any fees for the fund settlement of the Group with CEC Finance, and as such, the continuing connected transactions involving the provision of the said services are exempt from the reporting, announcement and Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

Other credit financing services not included in the Financial Services Agreement

As at the Latest Practicable Date, the Company has not entered into any separate agreements with CEC Finance for the provision of other credit financing services not included in the Financial Services Agreement. The Company will comply with the applicable notification, disclosure and/or Shareholders' approval requirements under the Hong Kong Listing Rules in the event that it enters into any such separate agreements with CEC Finance.

Implications under the Hong Kong Listing Rules

As the respective applicable percentage ratios for the transactions contemplated under the Sub-contracting Agreement exceed 5% and the relevant annual consideration is more than HK\$10,000,000, and the respective applicable percentage ratios for transactions contemplated under the Sale Agreement and the proposed deposit transactions contemplated under the Financial Services Agreement exceed 25%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one of the applicable percentage ratios in respect of the deposit transactions contemplated under the Financial Services Agreement exceeds 25%, such transaction constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

However, as the respective applicable percentage ratios for the transactions contemplated under CEC Sub-contracting Agreement, the Purchase Agreement, the Lease Agreement, NEIIC Group Lease Agreement and Trademark License Agreement are below 5%, such transactions are only subject to the reporting, annual review and announcement requirements and are exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Implications under the Shanghai Listing Rules

Since the A shares of the Company are listed on the Shanghai Stock Exchange, the Company shall also comply with the relevant stipulations under the Shanghai Listing Rules. According to the Shanghai Listing Rules and other relevant requirements, all transactions (including the relevant proposed Annual Caps) contemplated under the CCT Agreements shall be subject to the announcement and Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

7. GENERAL INFORMATION

CEC, NEIIC, PEGL and their associates will abstain from voting on the resolutions to approve the above continuing connected transactions at the EGM.

The Company has established the Independent Board Committee to advise the Independent Shareholders on the renewal of the Sub-contracting Agreement, Sale Agreement and Financial Services Agreement. Gram Capital was appointed as the Independent Financial Adviser to advise Independent Board Committee and the Independent Shareholders on the renewal of the Sub-contracting Agreement, Sale Agreement and Financial Services Agreement.

If the amounts under the renewed continuing connected transactions for the years ending 31 December 2019, 31 December 2020 and 31 December 2021 exceed the Annual Caps or there are material changes in the agreed terms on the renewed continuing connected transactions, the Company will make disclosure in a timely manner in accordance with relevant requirements of the Shanghai Stock Exchange and the Stock Exchange.

8. INFORMATION ON THE PARTIES

The Group takes smart manufacturing, smart city and electronic manufacturing services as main businesses, and focuses on the development of smart manufacturing core equipment and smart factory system integration businesses; the development of the four core smart city businesses, namely, smart transportation, safe city, smart building and information network equipment; and the development of electronic manufacturing services business which has first rate supply chain management capabilities and is capable of realizing smart, flexible, and lean manufacturing.

The PEGL Group is principally engaged in the development, manufacture and sale of communication equipment, home appliance products, electronic equipment, computer and other electronic equipment; instruments and apparatus, and office machines; environmental protection, social public services and other equipment; financial tax control products, power supply products; development of computers and IT software, system integration equipment and services; technology development and services; real estate development; and property management.

The NEIIC Group is principally engaged in the R&D, services and transfer of electronic information technologies; R&D, manufacture, sale and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

LETTER FROM THE BOARD

The CEC Group is engaged in the operations including R&D, manufacture, trade, logistics and services of electronic information technologies and products, and provision of self-innovated electronic information technologies, products and services, making great contributions to the construction of national economic informationisation and guaranteeing the security of national information.

For further details on PEGL and CEC, please see Section VI to the 2017 Annual Report of the Company.

CEC Finance's business scopes are as follows: providing consultancy and agency service in relation to financial advisory, credit, visa and related services; assisting intra-group members in realizing receipt and payment of transaction amount; serving as guarantees for loans of intra-group members; handling entrusted loan and entrusted investment between intra-group members; handling bill acceptances and discounting for intra-group members; conducting internal transfer settlement between intra-group member and designing of corresponding settlement and liquidation plan; absorbing deposits from intragroup members; dealing with loan and financial leasing for intragroup members; dealing with inter-bank offered credit; issuing finance company bonds upon approval, underwriting corporate bonds of intra-group members, and investment in negotiable securities, with investment range limited to government bonds in the interbank market, central bank bills, financial bonds, short-term financing bonds, corporate bonds, money market funds, and purchase of new shares.

The predecessor of CEC Finance is China Information Trust Investment Corporation, which was approved by the People's Bank of China on 15 March 1988 and registered with the State Administration for Industry and Commerce on 21 April 1988. China Information Trust Investment Corporation was a national non-banking financial institution under the direct governance of the Ministry of Electronics Industry with its business operations subject to the leadership, administration, supervision, coordination and audit by the People's Bank of China and the State Administration of Foreign Exchange.

On 6 November 2000, China Information Trust Investment Corporation was reorganized into China Electronics Financial Co., Ltd. and was transformed from a non-banking financial institution rendering financial services to the public to a financial institution pursuing economic benefits for and providing financing services to the members of the CEC Group. It was officially put into operation in 2001 under a financial institution license (金融機構法人許可證) with the license number of L0014H211000001.

CEC Finance has a registered capital of RMB1.750943 billion and is held by CEC, the largest shareholder and ultimate controller, as to 61.3835% equity interests. As such, CEC Finance is a connected legal person of the Company under the Shanghai Listing Rules and the Hong Kong Listing Rules.

LETTER FROM THE BOARD

As of 31 December 2017, CEC Finance has deposits at banks of RMB17,264 million with RMB1,314 million placed with the central bank. In 2017, it achieved interest income of RMB344 million and total profit of RMB357 million with net profit of RMB285 million. As of 30 June 2018, CEC Finance has deposits at banks of RMB5,674 million with RMB1,239 million placed with the central bank; during the period from January to June 2018, it achieved interest income of RMB185 million and total profit of RMB218 million with net profit of RMB158 million.

III. THE EGM

The EGM will be held on Friday, 28 December 2018 at 2:30 p.m. at the Company's Conference Room, 7 Jingtian Road, Nanjing, the People's Republic of China.

The notice of EGM dated 12 November 2018 has been despatched to the Shareholders.

The register of members relating to H-shares of the Company will be closed from 29 November 2018 to 28 December 2018, both days inclusive, during which period no transfer of H-shares of the Company will be registered. In order to attend the EGM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Hong Kong Registrars Limited, at 46th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 28 November 2018.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, any Shareholder with a material interest in the renewed continuing connected transactions and the adjusted Annual Caps will not vote on such transaction.

As at the Latest Practicable Date, PEG L is a shareholder of the Company, holding approximately 23.05% of the total issued share capital of the Company, while NEIIC holds 100% equity interest of PEG L, the controlling shareholder of the Company, is the controlling shareholder of PEG L, and holds approximately 6.93% of the total issued share capital of the Company. CEC is the controlling shareholder of NEIIC and the de-facto controller of the Company and holds 72.19% of the issued share capital of NEIIC.

As disclosed in Appendix II to this circular, Mr. Xu holds offices in CEC, NEIIC and PEG L, Mr. Chen holds office in NEIIC, Mr. Lu holds offices in NEIIC and PEG L, Mr. Deng holds office in PEG L, and are all therefore connected persons of the Company and had abstained from voting on the relevant resolutions of the renewed continuing connected transactions and the adjusted Annual Caps.

LETTER FROM THE BOARD

Mr. Xu, who holds approximately 0.00028% of the total issued share capital of the Company, is a connected person of the Company. Mr. Xu holds offices in CEC, NEIIC and PEGl as disclosed in Appendix II to this circular. Therefore, CEC, NEIIC, PEGl and its associates and Mr. Xu will be required to abstain from voting in respect of the resolutions approving the renewed continuing connected transactions and the adjusted Annual Caps.

Save as disclosed above, no other associates of CEC, PEGl and CEC Finance holds any shares in the Company and will be required to abstain from voting in respect of the resolutions approving the renewed continuing connected transactions and revised Annual Caps.

IV. PROXY ARRANGEMENT

The Proxy Form for use at the EGM has been despatched to the Shareholders. Whether or not you intend to attend the EGM, you are requested to complete the Proxy Form in accordance with the instructions printed thereon and return the same to the office of the Company as soon as possible but in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the Proxy Form will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

V. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by way of poll. The results of the poll will be published on the HKExnews website at www.hkexnews.hk and the Company's website at www.panda.cn after the EGM as soon as possible.

VI. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the renewed continuing connected transactions and the revised Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The text of the letter from the Independent Board Committee is set out on page 74 of this circular. The text of the letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 75 to 97 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

LETTER FROM THE BOARD

VII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of EGM.

By order of the Board
Nanjing Panda Electronics Company Limited
Xu Guofei
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.

南京熊猫电子股份有限公司
NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 00553)

11 December 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you, in accordance with the requirements of Rule 14A.40 of the Hong Kong Listing Rules, in connection with the Sub-contracting Agreement, the Sale Agreement and the Financial Services Agreement, the transactions contemplated thereunder and the revised Annual Caps, details of which are set out in the Letter from the Board contained in the circular issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalized terms used herein shall have the same meanings as those defined in the Circular.

Having considered the terms of Sub-contracting Agreement, Sale Agreement and Financial Services Agreement and the advice of Gram Capital and the principal factors and reasons taken into consideration by it in arriving at its advice as set out on pages 75 to 97 of the Circular, we are of the view that the Sub-contracting Agreement, Sale Agreement and Financial Services Agreement were entered into in the ordinary and usual course of business of the Group, on normal commercial terms and the terms of the Sub-contracting Agreement, Sale Agreement and Financial Services Agreement and their respective Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Ms. Du Jie Mr. Zhang Chun Mr. Gao Yajun
Independent Non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sub-contracting Agreement, Sale Agreement, deposit services under Financial Services Agreement and the transactions contemplated thereunder for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

11 December 2018

*To: The independent board committee and the independent shareholders of
Nanjing Panda Electronics Company Limited*

Dear Sirs,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sub-contracting Agreement, Sale Agreement, deposit services under Financial Services Agreement (collectively, the “**CCT Agreements**”) and the transactions contemplated thereunder (the “**CCTs**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 11 December 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 12 November 2015 and the circular of the Company dated 10 December 2015 in relation to (among others) the continuing connected transactions between the Company and its connected persons. The continuing connected transactions of the Company in relation to the financial services last for a term of 3 years from 28 December 2015 to 27 December 2018; while the remaining continuing connected transactions last for a term of 3 years from 1 January 2016 to 31 December 2018.

LETTER FROM GRAM CAPITAL

The existing continuing connected transactions of the Company will expire on 27 December 2018 and 31 December 2018 (as the case may be), and the existing continuing connected transactions are expected to continue after the expiration. In consideration of the actual business development of the Group and the relevant business needs of the connected persons of the Company, the Board proposes to renew the existing CCT Agreements with CEC Group, NEIIC Group and CEC Finance and CEC Home Appliances.

According to the Board Letter, transactions contemplated under the Sub-contracting Agreement and Sale Agreement constituted continuing connected transaction of the Company and deposit services under Financial Services Agreement constituted major and continuing connected transactions of the Company. Such transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Ms. Du Jie, Mr. Zhang Chun and Mr. Gao Yajun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the CCTs are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the CCT Agreements and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off the opinion letters from the independent financial adviser contained in the circulars of the Company dated 13 October 2017 in respect of a discloseable and connected transaction. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides that, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

LETTER FROM GRAM CAPITAL

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the CCTs. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CEC, NEIIC, PEGL, CEC Finance or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the CCTs. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

LETTER FROM GRAM CAPITAL

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the CCTs, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the CCTs

Information on the Group

With reference to the Board Letter, the Group takes smart manufacturing, smart city and electronic manufacturing services as main businesses, and focuses on the development of smart manufacturing core equipment and smart factory system integration businesses; the development of the four core smart city businesses, namely, smart transportation, safe city, smart building and information network equipment; and the development of electronic manufacturing services business which has first rate supply chain management capabilities and is capable of realizing smart, flexible, and lean manufacturing.

Set out below are the consolidated financial information of the Group for the six months ended 30 June 2018 and the two years ended 31 December 2017 as extracted from the interim report of the Company for the six months ended 30 June 2018 (the “**2018 Interim Report**”) and the annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”):

	For the six months ended 30 June 2018 (unaudited) RMB	For the year ended 31 December 2017 (audited) RMB	For the year ended 31 December 2016 (audited) RMB	Change from 2016 to 2017 %
Total operating income	1,993,629,769.74	4,191,928,908.95	3,702,763,356.54	13.21
Operating profit	87,871,639.08	175,817,816.44	137,128,477.20	28.21
Net profit	76,043,048.44	156,171,264.33	169,009,661.65	(7.60)

LETTER FROM GRAM CAPITAL

	As at 30 June 2018 (unaudited) RMB	As at 31 December 2017 (audited) RMB	As at 31 December 2016 (audited) RMB	Change from 2016 to 2017 %
Cash and cash equivalents	1,236,030,059.02	1,328,745,296.50	1,301,802,896.46	2.07
Total assets	6,086,728,066.45	5,665,503,486.59	5,239,976,417.98	8.12

According to the above table, the Group recorded total operating income and operating profit of approximately RMB4.19 billion and RMB175.82 million respectively for the year ended 31 December 2017 (“FY2017”), representing an increase of approximately 13.21% and 28.21% as respectively compared to those for the year ended 31 December 2016.

As at 30 June 2018, the Group recorded cash and cash equivalents and total assets of approximately RMB1.24 billion and RMB6.09 billion respectively.

Information on CEC Group

With reference to the Board Letter, the CEC Group is engaged in the operations including R&D, manufacture, trade, logistics and services of electronic information technologies and products, and provision of self-innovated electronic information technologies, products and services, making great contributions to the construction of national economic informationisation and guaranteeing the security of national information.

Information on CEC Finance

With reference to the Board Letter, CEC Finance’s business scopes are as follows: providing consultancy and agency service in relation to financial advisory, credit, visa and related services; assisting intra-group members in realizing receipt and payment of transaction amount; serving as guarantees for loans of intra-group members; handling entrusted loan and entrusted investment between intra-group members; handling bill acceptances and discounting for intra-group members; conducting internal transfer settlement between intra-group member and designing of corresponding settlement and liquidation plan; absorbing deposits from intragroup members; dealing with loan and financial leasing for intragroup members; dealing with inter-bank offered credit; issuing finance company bonds upon approval, underwrite corporate bonds of intragroup members, and investment in negotiable securities, with investment range limited to government bonds in the interbank market, central bank bills, financial bonds, short-term financing bonds, corporate bonds, money market funds, and purchase of new shares.

LETTER FROM GRAM CAPITAL

As advised by the Directors, CEC Finance is required to operate in compliance with 《企業集團財務公司管理辦法》(Measures on the Management of Group Financing Company*) (the “**Measures**”) issued by the China Banking Regulatory Commission to regulate the operation of group financing companies and reduce the possible financial risk. We noted that the Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all time, and experience of directors and senior management. As also confirmed by the Directors, they are not aware of any record of non-compliance with relevant laws and regulations of the PRC on CEC Finance in recent three years.

Being a group finance company, CEC Finance provides financial services as mentioned above to members of CEC Group. As such, CEC Finance may face a higher customer concentrations risk than the PRC commercial banks (whose customers are the general public). The default of any one of CEC Finance’s customers may cause a greater negative impact to CEC Finance than the default of any one of the PRC commercial banks’ customers. However, as a subsidiary of CEC Group, CEC Finance is able to access to the details of financial positions of its customers, and can obtain sufficient information in advance to determine whether to grant the loan to the applicant. The situation is different for most of the PRC commercial banks as limited information is available to the commercial banks to evaluate their customers. As such, the high customer concentration risk may be mitigated with additional information available to CEC Finance.

As mentioned above, CEC Finance is a non-banking financial institution authorised and regulated by the PBOC and CBIRC, and provides financial services in compliance with the rules and other operational requirements of these regulatory authorities. Pursuant to the Measures, in the event that CEC Finance face any difficulty in making payment, the controlling shareholders will increase CEC Finance’s capital accordingly based on the actual need.

Reasons for the CCTs

With reference to the Board Letter, the Board is of the opinion that as the Group started business relationship with the PEGL Group since the listing of the Company in 1996, the services mutually provided between the CEC Group and/or PEGL Group and the Group have reached satisfactory results and provided overall business and operational convenience to the Group. The Group has been maintaining business relationship with CEC Group prior to the change in de-facto controller of the Company in 2012 and such businesses became connected transactions after the change in de-facto controller of the Company. In recent years, CEC Group and the Group have been satisfying their needs through mutual provision of services and the purchase and sale businesses have been developing steadily.

It is expected that the provision of the sub-contracting services and composite services and the sale of materials, components and parts will provide a stable source of income to the Group.

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The provision of financial services by CEC Finance to the Group allows the Group to maintain a stable and reliable financing channel for the long run. By leveraging the professional advantages of CEC Finance and its quality and convenient services, the Group is able to reduce financial costs, improve the effectiveness of capital utilization, enhance the overall economic efficiency, and facilitate the continuous and stable development.

Details of the respective reasons for the CCTs are set out under the respective paragraphs headed “Reasons for the transaction” under the section headed “Particulars of renewal of the existing continuing connected transactions” in the Board Letter. The Directors consider that it is in the interest of the Company to renew the CCTs.

In view of the above reasons for the CCTs, we concur with the Directors that the CCTs are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the CCT Agreements

Set out below are the key terms of each of the CCT Agreements, details of which are set out under the section headed “Particulars of renewal of the existing continuing connected transactions” of the Board Letter.

(A) *Provision of sub-contracting & composite services by the Group to CEC Group (“CCT 1”)*

Agreement:	Sub-contracting Agreement
Date:	7 November 2018
Term:	From 1 January 2019 to 31 December 2021
Parties:	(i) The Company (ii) CEC
Nature of transaction:	Provision of sub-contracting services by the Group to the CEC Group, including computer network services; intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services, technology development services and SMT Chip processing; as well as composite services including property management, catering services and labor services.
Annual Cap:	RMB160 million for each of the three years ending 31 December 2021

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We reviewed the Sub-contracting Agreement and the existing sub-contracting agreement dated 12 November 2015. We note that other than the nature of transaction, term of the Sub-contracting Agreement and annual caps for the transactions, other key terms for Sub-contracting Agreement are similar to those under the existing sub-contracting agreement.

(B) *Sale of materials, components & parts by the Group to CEC Group (“CCT 2”)*

Agreement:	Sale Agreement
Date:	7 November 2018
Term:	From 1 January 2019 to 31 December 2021
Parties:	(i) The Company (ii) CEC
Nature of transaction:	The products sold by the Group to CEC Group include: LCD panel production line system and its related system, equipment and consumables, production line system automation transformation and its related system and equipment, T-CON Board, light guide plates and other LCD panel-related components, television case and related kits, communication products, power supply products, tablets, capacitors and other electronic products and devices, and calculators, software and other information-based office products (the “ Products ”).
Annual Cap:	RMB2,100 million for each of the three years ending 31 December 2021

We reviewed the Sale Agreement and the existing sale agreement dated 12 November 2015. We note that other than the nature of transaction, term of Sale Agreement and annual caps for the transactions, other key terms for Sale Agreement are similar to those under the existing sale agreement.

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(C) The deposits service under the Financial Services Agreement (“CCT 3”)

Agreement:	Financial Services Agreement
Date:	7 November 2018
Term:	three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM
Parties:	(i) The Company (ii) CEC Finance
Nature of transaction:	Financial services to be provided by CEC Finance to the Group including but not limited to, the deposit services.
Pricing policy	The interest rate of deposits shall not be lower than those offered by domestic commercial banks during the same period.
Annual Cap:	The maximum daily deposit balance of the Group with CEC Finance shall not exceed RMB500,000,000 for the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM.

We reviewed the Financial Services Agreement and the existing financial services agreement dated 12 November 2015. We note that other than the term of Financial Services Agreement and annual caps for the transactions, other key terms for Financial Services Agreement are similar to those under the existing financial services agreement.

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CCT 1 & CCT 2

Details of pricing policies under CCT 1 and CCT 2 are set out under sub-section headed “8. Pricing basis and terms of payment” of sections headed “Sub-contracting Agreement: Provision of sub-contracting and composite services by the Group to the CEC Group” and “Sale Agreement: Sale of materials, components and parts by the Group to the CEC Group” respectively.

With reference to Rule 14A.56 of the Listing Rules, among other things, the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the listed issuer’s group if the transactions involve the provision of goods or services by the listed issuer’s group. With reference to the Company’s annual reports for FY2016 and FY2017, among other things, the auditors of the Company have issued a letter confirming that nothing has come to their attention that causes them to believe that the continuing connected transactions (including but not limited to the CCT 1 & CCT 2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group.

According to the Board Letter, the selling price of the goods and services charges are determined based on relevant price lists (the “**Price Lists**”) compiled respectively by the sales department and of the marketing department of the Company or its subsidiaries and reviewed by the heads of such departments. The Price Lists are mark-to-market, updated every month and applicable to transactions with both the connected persons and the independent third parties. For our due diligence purpose, we obtained the most updated price lists for selling price of the goods and services respectively.

The Directors advised us that the Price Lists were prepared/updated in accordance with (i) market price; (ii) cost-plus price; or (iii) government guided price.

Comparable market prices

Comparable market price basis will be applied to the preparation of price lists (the “**Market Price Lists**”) for (i) SMT Chip processing services and composite services under CCT 1; and (ii) provision of raw materials, components and parts under CCT 2. The Company will obtain market information from different sources, including pricing information as set out in Made-in-China.com, pricing quotation as provided by Hongiu, similar and related services between the Group and independent third parties.

We noted from the website of Made-in-China.com that Made-in-China.com was developed by, and is operated by Focus Technology Co., Ltd. (“**Focus Technology**”), being a listed company in Shenzhen Stock Exchange. Focus Technology is a pioneer and leader in the field of electronic business in China. We also noted from annual report Focus Technology for the year ended 31 December 2017, Made-in-China.com has approximately 17,000 members as at 31 December 2017.

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Having considered that the applicable price from the aforesaid sources reflect available price in the open market, we consider that by using the Market Price Lists in determining the selling prices is acceptable.

Cost-plus price basis

Cost-plus price basis will be applied to the preparation of price lists (the “**Cost Price Lists**”) for non-standard products under CCT 2.

As advised by the Directors, ultimate costs of products will be confirmed by officers of the market department. The gross profit margin will be ranged from 13% to 17%, which will be not less than the weighted average gross profit margin of the same or similar products of the Group. Having considered that (i) the gross profit margin of the Group was approximately 14.2% for the year ended 31 December 2017 and approximately 14.4% for the year ended 31 December 2016; and (ii) the gross profit margin will be not less than the weighted average gross profit margin of the same or similar products of the Group, we consider that by using the cost plus price in determining the Cost Price Lists is acceptable.

Government guided price

Government guided price basis will be applied to the preparation of price lists (the “**Government Guided Price Lists**”) for sub-contracting services under CCT 1.

As advised by the Directors, government-guidance pricing basis was made to with reference to Pricing Quota of Construction and Decoration Engineering of Jiangsu Province (《江蘇省建築與裝飾工程計價定額》), Pricing Quota of Installation Engineering in Jiangsu Province (《江蘇省安裝工程計價定額》) and Pricing Quota of Municipal Administration Engineering in Jiangsu Province (《江蘇省市政工程計價定額》(GB50500–2013)) promulgated by the Housing and Construction Bureau of Jiangsu Province (江蘇省住房和城鄉建設廳) on 12 May 2014. In particular, the gross profit margin was not lower than 14% as prescribed in the Pricing Quota of Installation and Engineering in Jiangsu Province 《江蘇省安裝工程計價定額》. The officers of the marketing department will prepare the price list in accordance with the government-guidance pricing for the head of the marketing department to review and approve. Further, a designated officer of the marketing department will keep track of any updates on the government-guidance pricing on a daily basis.

Having considered that the government guided price will be mandatory to both parties to the agreement, we consider that by using the government guided price in determining the Government Guided Price Lists is acceptable.

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Furthermore, as confirmed by the Directors, the Company will enter into the transactions contemplated under CCT 1 and CCT 2 only when the sale prices/service fee under such transactions are not less than the price as set out under the Price Lists for the products/services. We understand from the Directors that the Price Lists were determined with reference to the market price of similar products/services and cost of the products/services.

Internal control measures

With reference to the Board Letter, in order to protect the interests of the Company and the Shareholders as a whole, the Company has adopted the certain guidelines and internal control mechanism to monitor the continuing connected transactions between the Group and CEC Group, NEIIC Group and CEC Finance under the CCT Agreements, including:

- The selling price of the goods and services charges are determined based on relevant price lists compiled respectively by officers of the sales department and the officers of the marketing department of the Company.
- Legal department of the Company shall conduct review on compliance for each of the transactions under the agreements every three months, while the Company's financial department shall also conduct regular examinations on the pricing and amounts of these transactions under the agreements every three months to ensure the relevant pricing policies have been complied with.
- The audit committee of the Company is responsible for the control and daily management (including monitoring the pricing terms) of the connected transactions of the Company.

Details of the aforesaid pricing basis and internal control mechanism are set out in the section headed "Internal control measures for the continuing connected transactions" of the Board Letter.

Taking into account that (i) the Price Lists; (ii) separate authorities of the Company, including the legal department, which is to ensure the legality of the individual sale agreements and the compliance for each of the transactions, financial department, which is to ensure the pricing policies have been complied with, and audit committee, which is responsible for the control and daily management (including monitoring the pricing terms) of the connected transactions of the Company, are involved in respective review under the Internal Control Mechanism; and (iii) the frequency of the price lists update and the respective review conducted by separate authorities of the Company, we consider that the effective implementation of the internal control mechanism would help to ensure fair pricing of the transactions contemplated under the Sub-contracting Agreement and the Sale Agreement according to the pricing basis.

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For our due diligence purpose, we discussed with senior management, staff of Company's relevant departments/subsidiaries and understood that the Company's senior management and relevant departments/subsidiaries were aware of the internal control measures of CCT 1 and CCT 2 and would comply with such measures when conducting the CCT 1 and CCT 2. As such, we do not doubt the effectiveness of the implementation of the internal procedures for the CCT 1 and CCT 2.

CCT 3

For our due diligence purpose, we obtained 10 copies of deposit records regarding the Company placed deposits in independent commercial banks and CEC Finance. We noted that the deposit rates offered by CEC Finance were not lower than those offered by independent commercial banks.

As also advised by the Directors, before placing the deposits to CEC Finance, the finance department of the Group will make enquiries to commercial banks to obtain up-to-date information of the interest rates on deposit. Having considered that the deposits will only be placed to CEC Finance if the interest rate offered by CEC Finance is not lower than those offered by commercial banks and finance department will closely monitor the said interest rate, we consider that there are adequate measures in place to ensure the determination of the deposit rate would be no less favourable than that offered by other commercial banks in the PRC to the Group.

Details of the aforesaid pricing basis and internal control mechanism are set out in the section headed "Internal control measures for the continuing connected transactions" of the Board Letter.

Furthermore, we discussed with senior management, staff of relevant departments/subsidiaries and understood that the Company's senior management and relevant departments/subsidiaries were aware of the internal control measures of CCT 3 and would comply with such measures when conducting the CCT 3. As such, we do not doubt the effectiveness of the implementation of the internal procedures for the CCT 3.

In light of the above, we consider that the terms of the CCT agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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3. The annual caps under the CCT Agreements

3.1 Annual caps under CCT 1

Set out below are (i) the historical transaction amounts of the sub-contracting and composite services provided by the Group to CEC Group for the two years ended 31 December 2017 and the six months ended 30 June 2018 with respective existing caps; and (ii) the proposed annual caps for the three years ending 31 December 2021:

	For the year ended 31 December 2016 <i>(in RMB'000)</i>	For the year ended 31 December 2017 <i>(in RMB'000)</i>	For the year ending 31 December 2018 <i>(in RMB'000)</i>
Historical transaction amounts			
Historical transaction amounts	151,040	168,670	55,760 <i>(Note)</i>
Existing annual caps	222,000	222,000	222,000
Utilisation rate (%)	68.04	75.98	N/A

	For the year ending 31 December 2019 <i>(in RMB'000)</i>	For the year ending 31 December 2020 <i>(in RMB'000)</i>	For the year ending 31 December 2021 <i>(in RMB'000)</i>
The Deposit Caps			
Proposed annual caps	160,000	160,000	160,000

Note: the figure was for the six months ended 30 June 2018

With reference to the Board Letter, the proposed annual caps for the three years ending 31 December 2021 were determined after taking into account of certain factors, which are set out under the sub-section headed “10. Annual caps” under the section headed “(A) Sub-contracting Agreement: Provision of sub-contracting services and composite services by the Group to the CEC Group” of the Board Letter.

According to the above table, we noted that the relevant utilisation rate of the existing annual caps were approximately 68.04% and 75.98% for the year ended 31 December 2016 and 31 December 2017 respectively. In addition, we noted that the proposed annual caps for each of the three years ending 31 December 2021 represented a decrease of approximately 27.9% as compared to the annual caps for each of the three years ending 31 December 2018.

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We understood from the Directors, when determining the existing annual caps for the year ending 31 December 2018, the Directors considered, among other things, the provision of intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services by Information Industry Company for the project of PEGL Group at No. 301 Zhongshan Road East (the “**No. 301 Project**”). As partial works under No. 301 Project and works under Phase II of Communication Industrial Park were completed, the Directors thus reduced the expected demand on sub-contracting and composite services provided by the Group to CEC Group for the next three years.

We requested and obtained a list from the Company, showing the breakdowns of proposed annual caps under CCT 1 for the three years ending 31 December 2021. Based on the list, the expected demand mainly constituted of (i) intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services for CEC Group’s projects (the “**Projects**”), which represented approximately 52% of expected total demand; and (ii) composite services to be provided by Information Industry Company and Xinxing Industrial Company to LCD Technology, Panel Display Technology and LCD Material Technology (being the subsidiaries of NEIIC), which represented approximately 44% of expected total demand.

3.1.1 The Projects

We further enquired into the Directors regarding the Projects. We noted that the estimated demand for Projects was mainly for the construction of the No. 301 Project, which represented more than 80% of the total demand for the Projects.

For our due diligence purpose, we have discussed with management of the Company regarding the nature and estimated total contract value of the No. 301 Project and the latest time schedule.

The estimations above were calculated by workload and the unit price, workload is calculated in accordance with the construction plan design of No. 301 Project and Jiangsu Project. We have enquired into the Directors regarding the estimated workload for the No. 301 Project. We also understand that the government-guided fee was applied as the unit price for the aforesaid workload. Given that government-guided price is applied to all relevant users in the industry and market, we consider that the unit price is acceptable. Accordingly, we consider that the estimation on total contract value of No. 301 Project is justifiable.

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We understand from the Directors that the person who is responsible for the estimated workload for the No. 301 Project has more than 20 years' experience in estimating budget/construction cost and is the project manager for the No. 301 Project (the **"Project Manager"**). The Project Manager also obtained (i) Registered Qualification Certificate of Constructor in the PRC (中華人民共和國一級建造師執業資格證書) which was jointly issued by Ministry of Construction of the PRC and Ministry of Personnel of the PRC; and (ii) the title of "senior engineer (高級工程師)" which was granted by Jiangsu Office of Personnel. For our due diligence purpose, we have interviewed with the Project Manager regarding (i) her qualification and experience in the industry; (ii) the bases and assumptions (i.e. there will be no material change in construction plan of the No. 301 Project and unit price) for determining the workload for the No. 301 Project; and (iii) details of the construction plan of the No. 301 Project. During our discussion with the Project Manager, we have not identified any major factor which caused us to doubt the reasonableness of the estimated workload for the No. 301 Project.

3.1.2 Composite services

We noted from the list that the demand on composite services of certain subsidiaries of the CEC Group for the year ending 31 December 2019 represented approximately 90% to the CEC Group's total composite services for the year ending 31 December 2019 as estimated by the Group. For our due diligence purpose, we obtained historical demand on composite services for the year ended 31 December 2017 by the same subsidiaries of the CEC Group. We noted that the estimated demand on composite services by such subsidiaries for the year ending 31 December 2019 represented approximately 91% of the actual demand on composite services by such subsidiaries for FY2017. As such, we consider the estimated demand on composite services of the CEC Group for the year ending 31 December 2019 to be acceptable.

Based on the above factors, we consider that the proposed annual cap of CCT 1 for the year ending 31 December 2019 to be fair and reasonable. Accordingly, we also consider the proposed annual caps of CCT 1 for the two years ending 31 December 2021, which are the same as that for the year ending 31 December 2019, to be fair and reasonable.

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3.2 Annual caps under CCT 2

Set out below are (i) the historical transaction amounts of the materials, components and parts provided by the Group to CEC Group for the two years ended 31 December 2017 and the six months ended 30 June 2018 with respective existing caps; and (ii) the proposed annual caps for the three years ending 31 December 2021:

	For the year ended 31 December 2016 (in RMB'000)	For the year ended 31 December 2017 (in RMB'000)	For the year ending 31 December 2018 (in RMB'000)
Historical transaction amounts			
Historical transaction amounts	910,760	1,219,930	605,410 (Note)
Existing annual caps	2,333,000	2,333,000	2,333,000
Utilisation rate (%)	39.04	52.29	N/A
	For the year ending 31 December 2019 (in RMB'000)	For the year ending 31 December 2020 (in RMB'000)	For the year ending 31 December 2021 (in RMB'000)
The Deposit Caps			
Proposed annual caps	2,100,000	2,100,000	2,100,000

Note: the figure was for the six months ended 30 June 2018

With reference to the Board Letter, the proposed annual caps for the three years ending 31 December 2021 were determined after taking into account of certain factors, which are set out under the sub-section headed “10. Annual caps” under the section headed “(B) Sale Agreement: Sale of materials, components and parts by the Group to the CEC Group” of the Board Letter.

According to the above table, we noted that the relevant utilisation rate of the existing annual caps were approximately 39.04% and 52.29% for the year ended 31 December 2016 and 31 December 2017 respectively. As advised by the Directors, the difference between the existing annual caps and the actual transaction amounts was primarily due to the adjustment according to the actual operations of the Company and/or the CEC Group.

In addition, we noted that the proposed annual caps for each of the three years ending 31 December 2021 represented a decrease of approximately 10.0% as compared to the annual caps for each of the three years ending 31 December 2018.

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Despite that the Company reduced the proposed annual caps for the three years ending 31 December 2021, the historical transaction amounts of CCT 2 for the year ended 31 December 2017 represented approximately 58% of the proposed annual caps for each of the three years ending 31 December 2021. We understood that the aforesaid difference (the “**Difference**”) was mainly due to the estimated demand on products under CCT 2 by Chengdu Display Technology as a result of the anticipation of the full capacity operation of 8.6th generation line project in 2019.

We requested and obtained a list from the Company, showing the breakdowns of proposed annual caps under CCT 2 for the three years ending 31 December 2021. Based on the list, the expected demand mainly constituted of (i) the CEC Group’s estimated demand on LED related products, which represented approximately 79% of expected total demand; and (ii) CEC Group’s demand on electronic products (such as television case, tablets, etc.) which represented approximately 18% of expected total demand.

As further advised by the Directors, the CEC Group’s estimated demand on LED related products included (i) related products to 8.6th generation of Chengdu LCD panel production line project; (ii) related products to be sold to LCD Technology; (iii) related products to be sold to Panel Display Technology.

3.2.1 8.6th generation line project

In December 2015, CEC established Chengdu Display Technology to invest in the 8.6th generation of Chengdu LCD panel production line project (the “**8.6th Project**”), with a total investment of RMB28 billion and a processing capacity of 120,000 glass substrates per month. The products to be sold to Chengdu Display Technology included LCD panel production line system and its related system, equipment and consumables as well as the production line system automation transformation equipment provided by Electronics Equipment Company to Chengdu Display Technology and the subsidiaries of the CEC Group respectively are non-standardized products. The Directors estimated the demand of such products amounted to RMB895 million, the majority of which are demand on T-CON Board.

In respect of the estimated demand of products under CCT 2 by Chengdu Display Technology, we performed following work:

- We noted from a news release dated 24 May 2016 from 華西都市報 (WCCDAILY*), being local newspapers of Chengdu, that the construction period of 8.6th Project would be approximately 20 months. It was further expected that the 8.6th Project would reach its full capacity operation (processing 75,000 to 100,000 glass substrates per month) after nine months from its completion of construction.

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- We noted from a news release dated 6 February 2018 from 成都商報 (Chengdu Commercial Daily*), being local newspapers of Chengdu, that construction of the 8.6th Project has been completed and full capacity operation of 8.6th Project was expected to take place in first half year of 2019.
- We noted from a news release dated 30 October 2018 from a newspaper organised by China Electronics Panda Group Company, that the 8.6th Project would reach its full capacity operation (processing 120,000 glass substrates per month) in first half year of 2019.
- The Directors further advised us the basis for estimation of demand of products under CCT 2, includes (i) 50 inches and 58 inches LCD monitors would be the major products of Chengdu Display Technology; (ii) six to eight 屏(monitors) to be cut by each of glass substrates, subject to the size of 屏 (monitors); (iii) each 50/58 inches LCD glass panel is required one T-CON Board and one relevant 屏 (monitor) as material; (iv) unit price of T-CON Board of approximately RMB75 to RMB90.
- We obtained invoices and noted that selling prices of T-CON Board fell within the above-mentioned price range.
- We obtained a framework agreement entered into between Chengdu Display Technology and Electronics Manufacturing Company in 2018. Pursuant to the framework agreement, Chengdu Display Technology will purchase materials (such as T-CON Board) from the Electronics Manufacturing Company. The initial term of the framework agreement is one year. Thereafter, the term of the framework agreement shall automatically renew for successive one year terms unless otherwise agreed by the Parties at the end of each term.

The maximum possible demand on T-CON Board, calculated by the above mentioned factors, including:

- full processing capacity of 120,000 glass substrates per month of the 8.6th Project;
- six to eight 屏(monitors) to be cut by each of glass substrates;
- required materials for the processing of each 50/58 inches LCD glass panel; and
- unit price of T-CON Board of approximately RMB75 to RMB90, represented the majority of estimated demand of products under CCT 2 for the 8.6th Project.

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As such, we consider that the Difference and estimated demand of products under CCT 2 for the 8.6th Project to be acceptable.

3.2.2 Related Products to be sold to LCD Technology

We noted the announcement published by TPV Technology Limited (Stock code: 903) (“**TPV**”) on 19 December 2017 that LCD Technology, a non-wholly owned subsidiary of CEC, and Top Victory Investments Limited (“**Top Victory**”), a subsidiary of TPV, entered into a procurement agreement, pursuant to which Top Victory and its subsidiary may procure the products, including but not limited to the LCD panels and other related products designed, manufactured or sold by LCD Technology’s parent companies, subsidiaries, associates and connected persons for the period from 1 January 2018 to 31 December 2020. The annual caps under the procurement agreement is US\$756 million, US\$1,358 million and US\$1,877 million for each of the three years ending 31 December 2020.

As advised by the Directors, the products under CCT 2, which have been manufactured and supplied by the Group to the CEC Group (including LCD Technology), is one of the materials for the production of its products to Top Victory and its subsidiary. The Directors estimated the demand of such products amounted to RMB202 million.

3.2.3 Related Products to be sold to Panel Display Technology

In respect of estimated related products to be sold to Panel Display Technology, we obtained historical demand on such products for the year ended 31 December 2017 by Panel Display Technology. The Directors estimated the demand of such products amounted to RMB533 million for the year ending 31 December 2019. We noted that the estimated demand on such products by Panel Display Technology for the year ending 31 December 2019 represented approximately 97% of the actual demand on such products for FY2017.

Based on the above factors, we consider that the proposed annual cap of CCT 2 for the year ending 31 December 2019 to be fair and reasonable. Accordingly, we also consider the proposed annual caps of CCT 2 for the two years ending 31 December 2021, which are the same as that for the year ending 31 December 2019, to be fair and reasonable.

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Shareholders should note that as the proposed annual caps under CCT 1 and CCT 2 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/income to be incurred from the CCT 1 and CCT 2. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred under the CCT 1 and CCT 2 will correspond with the proposed annual caps.

3.3 Annual caps under CCT 3

Set out below are (i) the historical maximum daily deposit balance for the two years ended 31 December 2017 and six months ended 30 June 2018 with respective existing annual caps for the three years ending 31 December 2018; and (ii) the proposed annual caps (the “**Deposit Cap(s)**”) for provision of Deposit Service for the three years ending 31 December 2021:

	For the year ended 31 December 2016 (RMB'000)	For the year ending 31 December 2017 (RMB'000)	For the year ending 31 December 2018 (RMB'000)
Historical transaction amounts			
Actual maximum daily balance of the deposit service	497,860	497,720	314,300
Maximum daily balance of the deposit service	500,000	500,000	500,000
Utilisation rate (%)	99.57%	99.54%	N/A
	For the year ending 31 December 2019 (RMB'000)	For the year ending 31 December 2020 (RMB'000)	For the year ending 31 December 2021 (RMB'000)
The Deposit Caps			
Proposed annual caps	500,000	500,000	500,000

Note: the figure is for the six months ended 30 June 2018

With reference to the Board Letter, the Deposit Caps have been determined after taking into account of certain factors, which are set out under the sub-section headed “10. Proposed cap” of the section headed “(C) Financial Services Agreement” of the Board Letter.

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According to the above table, we noted that the relevant utilisation rate of the maximum daily balance of the deposit service were approximately 99.57% and 99.54% for the year ended 31 December 2016 and 31 December 2017 respectively. The proposed maximum daily balance of the deposit service for the three years ending 31 December 2021 are the same as those for the years ending 31 December 2018.

We noted from the 2018 Interim Report that as at 30 June 2018, (i) total amount of Company's cash and cash equivalents amounted to RMB1,236 million (as at 31 December 2017: RMB1,329 million); and (ii) notes receivable and accounts receivable amounted to RMB756 million (as at 31 December 2017: RMB1,515 million). The sum of aforesaid two items (the "Sum") amounted to RMB1,992 million (as at 31 December 2017: RMB2,844 million). The Deposit Cap for the year ending 31 December 2019, which indicate the possible demand on Deposit Service, is less than the Sum.

Based on the above factors, we consider that the Deposit Cap for the year ending 31 December 2019 is fair and reasonable.

As advised by the Directors, it is difficult to forecast the total cash level for the two years ending 31 December 2021. Nevertheless, should there be any substantial increase in total cash of the Company, the Company may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the Deposit Caps for the two years ending 31 December 2021. Accordingly, we consider that the Deposit Caps for the two years ending 31 December 2021, which are the same as the Deposit Cap for the year ending 31 December 2019, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. Listing Rules implications

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the maximum values of the Deposit Service must be restricted by the Deposit Caps for the period concerned under the Financial Services Framework Agreement and actual amounts of transactions under Sub-contracting Agreement and Sale Agreement must be restricted by the proposed annual caps for the period concerned under the Sub-contracting Agreement and Sale Agreement; (ii) the terms of the CCTs must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the CCTs must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the CCTs (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by

LETTER FROM GRAM CAPITAL

the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps. In the event that the total amounts of the CCTs are anticipated to exceed the annual caps, or that there are any proposed material amendment to the terms of the CCT Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the CCTs and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of each of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) each of the CCTs is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the CCT Agreements and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the investment banking industry.

FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2015, 2016 and 2017 are disclosed in the Company's 2015 annual report dated 25 April 2016 (pages 118 to 190), 2016 annual report dated 27 April 2017 (pages 134 to 283) and 2017 annual report dated 27 April 2018 (pages 140 to 303), respectively. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 are disclosed in the Company's 2018 interim report dated 30 August 2018 (pages 37 to 147). These annual reports and interim report have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.panda.cn).

INDEBTEDNESS

At the close of business on 31 October 2018, being the latest practicable date for the purpose of indebtedness statement prior to the date of this circular, total loans of the Group amounted to approximately RMB290,518,017, comprising unsecured bank loans of approximately RMB95,000,000 and notes payable of approximately RMB195,518,017, which were secured by the Group's restricted bank deposits amounting to approximately RMB69,974,775.

At the close of business on 31 October 2018, the Group had contingent liabilities for the deposit of performance guarantee amounting to approximately RMB73,222,342, which was granted by banks to customers for projects undertaken by the Group. Such deposit of performance guarantee was secured by the Group's restricted bank deposits amounting to approximately RMB73,222,342.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 October 2018, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2018 up to and including the Latest Practicable Date.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources of the Group, including the internally generated revenue and funds and in the absence of unforeseen circumstances, the Group has sufficient working capital for its demands for the current period (which means at least the next twelve months from the date of this circular).

FINANCIAL AND TRADING PROSPECTUS OF THE GROUP

The Group places deposits with CEC Finance while CEC Finance guarantees to make full payment according to the instruction of the Group immediately, and pay the interests for the deposits at the interest rate not lower than those offered by domestic commercial banks during the same period. Meanwhile, for the businesses of the Group via CEC Finance including basic services of public accounts, inquiries of transaction details in public accounts and receipt replacement, opening of credibility letter, wealth management, mobile banking, electronic payment, online banking withholding by batch, and fund remittance and transfer, CEC Finance will not charge the Group for any fees. In view of the above, the placement of deposits with CEC Finance by the Group will allow the Group to improve the efficiency of fund settlement, and reduce finance costs, thus having positive impact on the profitability of the Group while having no material impact on the assets and liabilities of the Group.

Major products and services of the Company include smart manufacturing, smart city and electronic manufacturing services. In particular, the smart manufacturing field focuses on smart manufacturing core equipment and smart factory system integration businesses; the smart cities field focuses on four core smart city businesses, namely, smart transportation, safe city, smart building and information network equipment; and the electronic manufacturing services field focuses on electronic manufacturing services business which has first rate supply chain management capabilities and is capable of realizing smart, flexible, and lean manufacturing. Operating revenue from its principal businesses for the years 2015, 2016 and 2017 and the six months ended 30 June 2018 is set out as follows:

Name of product or service	The six months ended	The year ended	The year ended	The year ended
	30 June 2018	31 December 2017	31 December 2016	31 December 2015
	(<i>unaudited</i>)	(<i>Audited</i>)	(<i>Audited</i>)	(<i>Audited</i>)
	RMB'000	RMB'000	RMB'000	RMB'000
Smart city industry	411,622	808,456	607,597	813,891
Electronic manufacturing services	869,550	1,872,204	1,776,969	1,719,086
Intelligent manufacturing industry	697,642	1,427,377	1,234,648	1,011,801
Others	11,576	20,374	19,378	29,177

Under the circumstances of complicated and ever-changing global economy and trade and the consistent progress of domestic supply-side structural reform, China's electronic information industry maintained steady growth in the volatile environment, innovative development in the emerging sectors continued to gain momentum and key enterprises were accelerating their pace of capitalization and innovative development. Notwithstanding, with the qualitative changes in China-US political and economic relationship, the reverse globalization trend and trade and investment protectionism were intensifying and the common consensus and foundation of global economic and trading specialization and cooperation began to break down. Under such domestic and overseas changes in the development environment of the industry, the information industry supply chain safety systems shall be established at a higher rate and breakthroughs shall be made in respect of the basic core technologies in the electronic information sector so as to reshape the international competition landscape of the industry with "concerted outgoing development efforts", give play to the potential momentum of synergic innovation of the industry-university research cooperation, form new industrial competitive advantages and create new development approaches.

Smart equipment manufacturing industry is a strategic industry that directly provides technical equipment for China's industrial production system and various sectors of the national economy. It features high industrial correlation, intensive technology and capital, and is an important safeguard for industrial upgrading and technological advancement in all industries, intensively reflecting the comprehensive strength of China. In order to speed up the transformation and upgrading of the economy, build new advantages in international competition, and grasp the initiative for development, Chinese government, associations, and enterprises have accelerated the development of the smart manufacturing field. In the first half of 2018, China's cumulative output of industrial robots amounted to 73,849 sets, representing a year-on-year increase of 23.9%. After terminating the technological monopoly of foreign enterprises on high generation LCD panels and glass production line transmission systems in the smart manufacturing field, the Company has the ability to undertake equipment system of new display production line. Through international industry-university-research cooperation, the Company mastered the core controller technology of industrial robots and greatly improved the localization rate of this product.

With the gradual acceleration of urbanization, China's urban rail transit construction has entered into a golden period of development. Under the guidance and support of China's macroeconomic policies, during the "13th Five-Year Plan" period, about 3,000 kilometers of urban rail transit will be newly built and put into operation across the country, and China's urban rail transit will enter another booming period. New record was set in the mileage of rail transit newly put into operation across the country. Construction in progress and investment continued to grow. New construction of rail transit was mainly carried out in the third-tier or fourth-tier cities with heavy transportation pressure or those with strategic significance, whereas new investment still gathered in first-tier cities or non-capital cities with strong economy. With the successive investment and construction in cities the plans for which had been approved in the future, the urban rail transit will continue the fast growing momentum. The "13th Five-Year Plan" put forward that the development of urban rail transit shall be accelerated and the network of urban rail transit in cities

with a population of more than 3 million shall be formed at a higher speed. During the “13th Five-Year Plan” period, it is expected that the investment in urban rail transit will exceed RMB2 trillion. By 2020, the mileage of China’s rail transit in operation will exceed 7,000 kilometers. The Company has strong R&D and production capabilities in achieving rail transit’s informatization and is a major supplier of fare clearing system, automatic fare collection system and communication system in China.

China is currently the world’s major manufacturing base for electronic information products. China has become the global supply chain center for electronic information products. The Company has strong R&D and production capabilities in the surface mounting, plastic injection molding and final assembly of electronic products. The Company will further expand services for the electronic manufacturing and reach out to other industries such as emerging industries including consumer electronics, automobile electronics, smart household appliances, etc.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS**(A) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and the 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 or short positions which they are 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 therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 of the Hong Kong Listing Rules) were as follows:

Interests in domestic shares of the Company:

Name of Director	Position	Capacity	Nature of interests	No. of shares held (Long position)	Percentage of share capital in issue (%)
Xu Guofei	Chairman, Executive Director	Beneficial owner	Personal	2,546	0.00028

(B) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, Supervisors and chief executive of the Company, the interests or short positions of the persons (not being a Director or Supervisor or chief executive of the Company) in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

(i) Interests in the shares of the Company

Name of Shareholder	Capacity/nature of interests	Class/no. of shares interested (long position)	Approximate percentage in the relevant class of shares in issue	Approximate percentage in the total shares in issue
PEGL	Corporate interests held in the capacity of beneficial owner	210,661,444 A shares	31.36%	23.05%
NEIIC	Corporate interests held in the capacity of beneficial owner	49,534,611 A shares	7.37%	5.42%
NEIIC	Corporate interests held in the capacity of beneficial owner	13,768,000 H shares	5.69%	1.51%
China Huarong Asset Management Co., Ltd.	Corporate interests held in the capacity of beneficial owner	82,357,867 A shares	12.26%	9.01%
Lewis Joseph	Personal interests held in the capacity of beneficial owner	20,260,000 H shares	8.37%	2.22%
Tuesday Thirteen Inc.	Corporate interests held in the capacity of controlled corporation	16,920,000 H shares	7.00%	1.85%
Tang Hanbo	Personal interests held in the capacity of beneficial owner	22,586,000 H shares	9.33%	2.47%

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in CEC, the de-facto controller of the Company as shown below:

Name of Director/Supervisor	Position held in CEC
Xu Guofei	Assistant to General Manager

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in NEIIC, the controlling shareholder of PEGL as shown below:

Name of Director/Supervisor	Position held in NEIIC
Xu Guofei	Director
Chen Kuanyi	General Manager
Lu Qing	Deputy General Manager
Tu Changbai	Chief Accountant

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in PEGL, the controlling Shareholder of the Company as shown below:

Name of Director/Supervisor	Position held in PEGL
Xu Guofei	General Manager
Lu Qing	Deputy General Manager
Deng Weiming	Deputy General Manager

(ii) Interests in non-wholly owned subsidiaries of the Company

Name of non-wholly owned subsidiaries of the Company	Name of shareholders interested in 10% or more of the subsidiaries of the Company	Approximate percentage of interest held by that shareholder (long position)
Shenzhen Jingwah Electronics Co., Ltd.	Shenzhen China Electronics Investment Co., Ltd.	43.34%
Nanjing Panda Information Industry Co., Ltd	GALANT (HK) LIMITED	18%
Nanjing Panda Electronics Manufacturing Co., Ltd	GALANT (HK) LIMITED	25%

Save as disclosed above, the Directors, supervisors and chief executive of the Company are not aware that there is any person (other than a Director, supervisor or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of the Group or any options in respect of such capital.

3. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its members.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, so far was known to the Directors, none of the Directors or their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group (other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group) or have any other conflicts of interest with the Group pursuant to the Hong Kong Listing Rules.

6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As disclosed above, Mr. Xu holds offices in CEC, NEIIC and PEGL and holds approximately 0.00028% of the total issued share capital of the Company, Mr. Chen holds office in NEIIC, Mr. Lu hold offices in NEIIC and PEGL, and Mr. Deng holds office in PEGL and are all therefore considered to be interested in the transactions contemplated under the amount of the renewed continuing connected transactions agreement and the adjusted Annual Caps and had abstained from voting on the relevant resolutions of the Board approving the renewed continuing connected transactions agreement and the adjusted Annual Caps.

Save as aforesaid, the Board confirms that as at the Latest Practicable Date, none of the other Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Group were made up), none of the other Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

Save as aforesaid, the Board confirms that none of the other Directors abstained from voting on the relevant resolutions of the Board approving the renewed continuing connected transactions agreement and the adjusted Annual Caps.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Group were made up).

8. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular, and are or may be material:

References are made to the announcements of the Company published on the website of the Hong Kong Stock Exchange on 21 September 2017 and 30 November 2017 and the circular of the Company dated 13 October 2017. On 21 September 2017, the Company entered into an asset disposal agreement with PEGL and Nanjing Panda Investment Development Company Limited (a wholly-owned subsidiary of PEGL, hereinafter referred to as the “Investment Development Company”) in respect of the disposal of the No. 54 building and its ancillary facilities and structures. The disposal of relevant assets was approved by the Independent Shareholders at the 2017 first extraordinary general meeting of the Company held on 30 November 2017 and the procedures for approval complied with relevant requirements. The Company confirms that it has complied with the disclosure requirements as set out in Chapter 14A of the Listing Rules in so far as they are applicable to the abovementioned connected transactions and continuing connected transactions.

According to the asset disposal agreement, the Company entered into separate commodity property pre-sale contracts with Investment Development Company in respect of the replacement of the first to the fourth floors (including a mezzanine floor) and the fourteenth to the seventeenth floors in Panda Building (Building A of the research centre on land lot 301). The details of which are as follows:

No.	Entity	Counterparty	Subject matter	Amount (RMB)
1.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 101, Panda Tower (Building A of the research centre on land lot 301)	146,833,106
2.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 102, Panda Tower (Building A of the research centre on Land lot 301)	45,518,484
3.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 201, Panda Tower (Building A of the research centre on Land lot 301)	48,751,648

No.	Entity	Counterparty	Subject matter	Amount (RMB)
4.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 301, Panda Tower (Building A of the research centre on Land lot 301)	64,533,887
5.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 401, Panda Tower (Building A of the research centre on Land lot 301)	61,539,082
6.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 1401, Panda Tower (Building A of the research centre on Land lot 301)	82,813,132
7.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 1501, Panda Tower (Building A of the research centre on Land lot 301)	82,629,918
8.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 1601, Panda Tower (Building A of the research centre on Land lot 301)	82,630,120
9.	Nanjing Panda Electronics Company Limited	Nanjing Panda Investment Development Company Limited	Unit 1701, Panda Tower (Building A of the research centre on Land lot 301)	76,448,920

9. EXPERT AND CONSENT

The following is the qualification of the experts (the “**Experts**”) who have been named in this circular or have given opinion or advice in this circular:

Name	Qualifications
BDO China Shu Lun Pan CPAs LLP	Certified Public Accountants
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the Experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group nor did they have any direct or indirect interests in any assets which had been, since 31 December 2017 (being the date to which the latest published audited consolidated 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.

As at the Latest Practicable Date, the Experts have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their statements and references to their names in the form and context in which they respectively appear herein. The letter from Gram Capital, the text of which is set out in this circular, was made by Gram Capital for incorporation in this circular. The Risk Assessment Report on China Electronics Financial Co., Ltd. (Xin Kuai Shi Bao Zi [2018] No. ZG29362) (《關於中國電子財務有限責任公司風險評估報告》(信會師報字[2018]第ZG29362號)) issued by BDO China Shu Lun Pan CPAs LLP, referred to under “(C) Financial Services Agreement” of “Particulars of renewal of the existing Continuing Connected Transactions” of this circular, was not made by BDO China Shu Lun Pan CPAs LLP for incorporation in this circular.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at 301 Zhongshan Road East, Nanjing, Jiangsu Province, the PRC and the Company’s solicitors at 23rd Floor, Admiralty Centre, Tower II, 18 Harcourt Road, Hong Kong, during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

- (a) Articles of association of the Company;
- (b) Sub-contracting Agreement;
- (c) Sale Agreement;
- (d) Financial Services Agreement;
- (e) CEC Sub-contracting Agreement;
- (f) Purchase Agreement;
- (g) Lease Agreement;

- (h) NEIIC Group Lease Agreement;
- (i) Trademark License Agreement;
- (j) Risk Assessment Report on China Electronics Financial Co., Ltd. (Xin Kuai Shi Bao Zi [2018] No. ZG29362) (《關於中國電子財務有限責任公司風險評估報告》(信會師報字[2018]第ZG29362號)) issued by BDO China Shu Lun Pan CPAs LLP, referred to under “(C) Financial Services Agreement” of “Particulars of renewal of the existing Continuing Connected Transactions” of this circular;
- (k) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (l) the letter from Gram Capital, the text of which is set out in this circular;
- (m) the written consents referred to in the section headed “Expert and Consent” in this appendix;
- (n) the material contracts referred to in the section headed “Material Contracts” in this appendix;
and
- (o) this circular.

11. GENERAL

- (a) The registered office of the Company is situated at Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, Jiangsu Province, the PRC.
- (b) The principal place of business of the Company is at 7 Jingtian Road, Nanjing, Jiangsu Province, the PRC.
- (c) The company secretary of the Company is Mr. Shen Jianlong, who is the Chief Accountant and Secretary to the Board.

NOTICE OF EGM

南京熊猫电子股份有限公司 NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 00553)

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING IN 2018

NOTICE IS HEREBY GIVEN that the first extraordinary general meeting in 2018 (the “**EGM**”) of Nanjing Panda Electronics Company Limited (the “**Company**”) will be held at the Conference Room, 7 Jingtian Road, Nanjing, the People's Republic of China at 2:30 p.m. on Friday, 28 December 2018, to consider and, if thought fit, pass the following resolutions (with or without modification):

ORDINARY RESOLUTIONS

1. “**THAT** the Sub-contracting Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the board of directors of the Company (“**Board**”) is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Sub-contracting Agreement;”
2. “**THAT** the Sale Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Sale Agreement;”
3. “**THAT** the Financial Services Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Financial Services Agreement;”
4. “**THAT** the CEC Subcontracting Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the CEC Subcontracting Agreement;”

NOTICE OF EGM

5. “**THAT** the Purchase Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Purchase Agreement;”
6. “**THAT** the Lease Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Lease Agreement;”
7. “**THAT** the NEIC Group Lease Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the NEIC Group Lease Agreement;”
8. “**THAT** the Trademark License Agreement (as defined in the announcement of the Company dated 7 November 2018), and the proposed annual caps of the transactions thereunder be and are hereby approved, and the Board is hereby authorized to take all steps necessary or expedient in its opinion to implement and/or give effect to the Trademark License Agreement;”

By Order of the Board
Nanjing Panda Electronics Company Limited
Xu Guofei
Chairman

Nanjing, the People’s Republic of China
12 November 2018

NOTICE OF EGM

Notes:

1. Holders of H shares who intend to attend the EGM must deposit the share certificates together with the transfer documents at the H-Share registrar of the Company, Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, on or before 4:30 p.m. on 28 November 2018. Holders of H shares whose names appear in the Company's register of members at the close of business on 28 November 2018, or their representatives or proxies are entitled to attend the EGM with their identity certificates or passports. If a shareholder appoints a proxy to attend the EGM on his behalf, his proxy must bring along the proxy form.
2. All holders of H shares of the Company should pay attention that the register of members of the Company will be closed from 29 November 2018 to 28 December 2018, both days inclusive, during which period no transfer of H shares can be registered. Holders of H shares whose names appear in the Company's register of member at the close of business on 28 November 2018, or their representatives or proxies are entitled to attend the EGM with their identity certificates or passports.
3. A shareholder who has the right to attend and vote at the EGM is entitled to appoint one proxy or several proxies, whether a member of the Company or not, to attend and vote at the EGM.
4. If more than one proxy is appointed by a shareholder, the proxies can exercise their voting rights only in the case of a poll.
5. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorized in writing. In the case of a corporation, the proxy form must be under its common seal or under the hand of its director or duly authorized attorney. If the proxy form is signed by an agent on behalf of an appointer, the proxy form or other authority must be notarially certified.
6. The proxy form together with the notarially certified power of attorney or other authority must be delivered to the office of the Company (in respect of A shares) or to the H-Share registrar of the Company, Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (in respect of H Shares) 24 hours before the time appointed for the holding of the EGM.
7. Shareholders who intend to attend the EGM should send a reply in writing to the office of the Company in person or by post or by fax on or before 8 December 2018. The written reply shall not preclude the shareholders from attending the EGM.
8. The Company's office and correspondence address:

7 Jingtian Road, Nanjing,
The People's Republic of China
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