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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 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)

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 51 of this circular. A letter from the Independent Board Committee is set out on page 52 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 53 to 73 of this circular. A notice dated 12 November 2015 of the EGM to be held on Monday, 28 December 2015 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.

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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”	the bill of materials listing out the parts and components required and the composition and structure of a product, namely the quantity of components required for manufacturing a product and the complete assemblage of all the components for the said product;
“CBRC”	China Banking 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 controlling shareholder 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 41.9654% 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;

DEFINITIONS

“Communications Technology Company”	Nanjing Panda Communications Technology Co., Ltd. (南京熊猫通信科技有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Company”	Nanjing Panda Electronics Company Limited (南京熊猫电子股份有限公司), 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 Monday, 28 December 2015 to consider and approve, among other matters, the CCT Agreements and Annual Caps;
“Electronics Equipment Company”	Nanjing Panda Electronics Equipment Co., Ltd. (南京熊猫电子装备有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Electronics Manufacturing Company”	Nanjing Panda Electronics Manufacturing Co., Ltd. (南京熊猫电子制造有限公司), 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;
“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;

DEFINITIONS

“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Hong Kong Securities and Futures Ordinance 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 the payables in full when they become due due to liquidity difficulties and other reasons, CEC Finance shall provide a guarantee on the payables and make payment for the same on behalf of the Group;
“Handa Technology”	Nanjing Panda Handa Technology Company Limited, a wholly-owned subsidiary of PEGL;
“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;
“Huage Appliance”	Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Ms. Du Jie, Mr. Chu Wai Tsun, Vincent and Mr. Zhang Chun;
“Independent Shareholders”	Shareholders other than CEC and its associates, NEIIC and its associates, PEGL and its associates;
“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;

DEFINITIONS

“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;
“IRICO Display”	IRICO Display Devices Co., Ltd. (彩虹显示器件股份有限公司), a company incorporated under the laws of the PRC, a non-wholly owned subsidiary of CEC (the ultimate controller of the Company);
“Latest Practicable Date”	8 December 2015, 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. (南京中电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 ultimate controller of the Company);
“LCD Technology”	Nanjing CEC Panda LCD Technology Co., Ltd. (南京中电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 ultimate controller of the Company);
“Leading Team”	the team set up to prevent and resolve any deposit risks, of which the general manager of the Company 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 the organization and implementation to prevent and resolve the deposit risks. As the risk response organization, once risks occur or may occur in CEC Finance, the Leading Team shall initiate emergency response plan to deal with the situation 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;
“Mr. Deng”	Mr. Deng Weiming, a non-executive Director;
“Mr. Lai”	Mr. Lai Weide, an executive Director;

DEFINITIONS

“Mr. Lu”	Mr. Lu Qing, a non-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 ultimate 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;
“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;

DEFINITIONS

“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;
“Shenzhen Jingwah”	Shenzhen Jingwah Electronics Co., Ltd. (深圳市京華電子股份有限公司), a company incorporated under the laws of the PRC and a subsidiary of the Company;
“SMT” or “SMT Chip”	SMT refers to the surface mounted technology, which is currently the most popular technology and processing method in the electronic assembly industry; an SMT Chip is the short form 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. (南京熊貓新興實業有限公司), 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.

In this circular, for the purposes of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.21. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or another rate or at all.

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. Lai Weide (*Chairman*)
Mr. Xu Guofei
Mr. Xia Dechuan

Non-executive Directors

Mr. Yu Yanqiu
Mr. Deng Weiming
Mr. Lu Qing

Independent non-executive Directors

Ms. Du Jie
Mr. Chu Wai Tsun, Vincent
Mr. Zhang Chun

Registered Address:

Level 1-2, Block 5,
North Wing, Nanjing High
and New Technology
Development Zone,
Nanjing, the PRC

Office Address:

7 Jingtian Road
Nanjing, the PRC
Postal Code: 210033

10 December 2015

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 12 November 2015 in relation to the renewal of the existing continuing connected transactions under the CCT Agreements.

LETTER FROM THE BOARD

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; and (iii) a letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sub-contracting Agreement, the Sale Agreement and the Financial Services Agreement.

II. CONTINUING CONNECTED TRANSACTIONS

1. BACKGROUND INFORMATION

References are made to the announcements of the Company dated 26 October 2012, 21 January 2014 and 8 December 2014 and circulars of the Company dated 6 December 2012, 24 February 2014 and 12 December 2014 in relation to (among others) certain continuing connected transactions between the Company and certain connected persons of the Company. The continuing connected transactions of the Company in relation to the financial services last for a term of 3 years from 21 December 2012 to 20 December 2015; the remaining continuing connected transactions last for a term of 3 years from 1 January 2013 to 31 December 2015.

The existing continuing connected transactions of the Company will expire on 20 December 2015 and 31 December 2015 respectively, and the existing continuing connected transactions are expected to continue after the expiration. In light of the growing business scale of the Group, the Board proposes to renew the existing CCT Agreements with CEC Group, NEIIC Group and CEC Finance.

On 12 November 2015, 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 12 November 2015.

CEC is the controlling shareholder of NEIIC; NEIIC is the controlling shareholder of PEGL, the controlling Shareholder of the Company, holding 4.29% and 0.66% equity interest in the Company directly and through target asset management scheme respectively; CEC Finance is a company controlled by CEC. CEC, NEIIC, PEGL, CEC Finance 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 2013 to

1 January 2016 to

31 December 2015

31 December 2018

(RMB'000)

(RMB'000)

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

90,500

222,000

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

For the year 2013: 612,600

2,333,000

For the year 2014: 1,057,000

For the year 2015: 1,600,000

Proposed

For the 3 years commencing

upon the approval of

the Independent

Shareholders at the EGM

Historical

21 December 2012 to

20 December 2015

(RMB'000)

(RMB'000)

(C) Financial Services

Deposit service

From 21 December 2012
to 11 March 2014: 200,000

500,000

From 12 March 2014 to
20 December 2015: 500,000

Loan, loan guarantee and other credit
financing services

From 21 December 2012 to
11 March 2014: 300,000

600,000

From 12 March 2014 to
20 December 2015: 600,000

LETTER FROM THE BOARD

	Historical 1 January 2013 to 31 December 2015 <i>(RMB'000)</i>	Proposed 1 January 2016 to 31 December 2018 <i>(RMB'000)</i>
(D) Provision of sub-contracting services and composite services by CEC Group to the Group	12,500	7,000
(E) Purchase of materials, components and parts by the Group from CEC Group	292,900	103,000
(F) Lease of premises and relevant equipment by the Group to NEHC Group	11,000	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: 12 November 2015
3. Term: From 1 January 2016 to 31 December 2018
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 and SMT Chip processing; as well as composite services including property management services, catering services and labor services.
6. Existing Annual Cap: RMB90,500,000
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 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 sub-contracting services provided by the Group to CEC Group were 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 was used and reference was made to applicable government-guidance pricing in 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 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》). For details, please refer to "In relation to the government-guidance pricing of installation engineering enterprise profit rate" ("關於安裝工程企業利潤率的政府指導價格") on page 19 of "Fixed price of construction engineering in Jiangsu province" (《江蘇省建設工程費用定額》) of [Sujianjia 2014 (No. 299)] issued by the Housing and Construction Bureau of Jiangsu Province on 18 June 2014.

LETTER FROM THE BOARD

In addition, the Group provides CEC Group with SMT Chip processing services of approximately RMB1 million per year. 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>) and “The latest quotations on SMT Chip processing services for the year 2015 provided by Hongiu” published on the website of Sohu (<http://mt.sohu.com/20150815/n418949603.shtml>).

“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 and the “The latest quotations on SMT chip processing services for the year 2015 provided by Hongiu” in the website of Sohu (搜狐所載宏睿電子2015年最新SMT貼片加工報價單) of which Hongiu (宏睿電子) is one of the leading corporations for providing SMT Chip processing services in 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.

The composite services provided by the Group to CEC Group were mainly catering services for staff, property management and labor services, (1) for the fees of catering services, they were determined with reference to the quotation of set meals from privately owned companies 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 were 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 services 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.

LETTER FROM THE BOARD

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 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.

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 30 June 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Utilized Amount (<i>RMB'000</i>)	43,300	35,510	58,340
Annual cap (<i>RMB'000</i>)	90,500	90,500	90,500
Utilization rate (%)	47.85	39.24	64.46

10. Annual Cap: The Board proposes to increase the Annual Cap from RMB90,500,000 to RMB222,000,000. The amount was determined with reference to: (1) the historical transaction amounts of the sub-contracting and composite services provided by the Group to CEC Group; and (2) the expected increase in demand for the sub-contracting and composite services from the PEG Group, (in particular the land development project in No. 301 Zhongshan Road East), and the expected growth of CEC Group's business (particularly its flat panel display industry).

There is an increase of around RMB100 million for the Annual Cap. Such increase is mainly attributable to the expected increase in provision for intelligent building engineering services, computer information system integration services and related mechanical and electrical installation engineering services by Information Industry Company for the new project of PEG Group at No. 301 Zhongshan Road East (the "No. 301 Project"), as well as the expansion of the sub-contracting and composite services by Information Industry Company and Xinxing Industrial Company with LCD Technology, Panel Display Technology and LCD Material Technology, the subsidiaries of NEIC.

LETTER FROM THE BOARD

In particular, (1) the total amount of sub-contract services provided by Information Industry Company for the No. 301 Project is estimated to be RMB200 million (approximately RMB100 million for provision and installation of mechanical and electrical equipment; approximately RMB100 million for intelligent engineering work); (2) intelligent engineering project from phase II of Communication Industrial Park of PEGL Group was estimated to be RMB30 million; and (3) later stage of intelligent engineering project of Panel Display Technology was estimated to be RMB80 million.

Of the total amount for the No. 301 Project, it is expected that the contract sum of RMB40 million for the installation of mechanical and electrical equipment and RMB30 million for intelligent engineering and RMB30 million for intelligent engineering project from phase II of Communication Industrial Park of PEGL Group will be completed in 2016. Other projects will be gradually implemented for the year 2017 and 2018. Hence, an increase of around RMB100 million is proposed for the Annual Cap.

The No. 301 Project is not secured and the parties have not entered into any contract for this project. The price above is an estimation calculated by work load multiplied by the unit price, work load is calculated in accordance with the construction plan design of No. 301 Project located on East Zhongshan Road by Jiangsu Institute of Architecture and Design (江蘇省建築設計院), unit price is determined 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.

The Group has expanded the office and factory area of the provision of intelligent building engineering, integration of computer information system and related mechanical and electrical installation engineering services, enlarged the number of employees, and increased the investment on research and development. As such, it has sufficient capability to deal with the growth of such business scale from 2016 to 2018.

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: 12 November 2015
3. Term: From 1 January 2016 to 31 December 2018
4. Parties:
 - (1) the Company
 - (2) CEC
5. Nature of the transaction: Provision of raw materials, metal and plastics components and parts necessary for flat panel display production line system and related production equipment, television sets, shortwave communication, satellite communication products and trading business, and calculators, software and other information-based office products.
6. Existing Annual Cap: RMB1,600,000,000
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 the same kind 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, which has now reached its full capacity. 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, and the operating revenue is expected to be RMB26.71 billion per annum when it reaches full production capacity. It is expected that CEC will continue such investment in the future.

To meet its development needs, the subsidiaries of the Company, including Electronics Equipment Company, Electronics Manufacturing Company and Information Industry Company, increased supply of materials, components and parts to the subsidiaries of CEC, including Panel Display Technology, LCD Technology and LCD Material Technology. Therefore, the Company needs to increase the Annual Cap and renew the agreement with CEC for these sales transactions.

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 goods provided based on the principle of fair market for the products it sells, 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 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 price 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.

The products which the Group sold to CEC Group were either non-standardized products (i.e. tailor-made products) or had comparable products in the public market, which were mainly:

- (1) The manufacturing equipment provided by Electronics Equipment Company to LCD Display Technology and Panel Display Technology were non-standardized products. After technical departments of the two parties confirmed the plan for the manufacturing equipment, Electronics Equipment Company prepared drawing papers and procurement lists, and arranged procurement of raw materials and production plans, the ultimate costs of the products were 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 principal businesses set forth in the report of the Board in the 2014 Annual Report and 2015 Interim Report of the Company).

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- (2) The type of product provided by Electronics Manufacturing Company to LCD Technology and Panel Display Technology is T-CON Board. Electronics Manufacturing Company arranges the purchases of raw materials and SMT Chip processing upon receipt of the BOM from LCD Technology and Panel Display Technology. The unit price of T-CON Board is the sum of (i) the costs for raw materials of which, Electronics Manufacturing Company purchases from specific suppliers, as nominated by LCD Technology and Panel Display Technology, at specific purchase price as agreed between LCD Technology/Panel Display Technology and their nominated suppliers, and (ii) the fees for SMT Chip processing. For the fees charged for SMT Chip processing, reference is made to quotations obtained in the open market with reference to Made-in-China.com (中國製造網) (<http://cn.made-in-china.com/catalog/smttpjg.html>) and “The latest quotations on SMT chip processing services for the year 2015 provided by Hongiu” published on the website of Sohu (<http://mt.sohu.com/20150815/n418949603.shtml>).

“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 and the “The latest quotations on SMT chip processing services for the year 2015 provided by Hongiu” in the website of Sohu (搜狐所載宏睿電子2015年最新SMT貼片加工報價單) of which Hongiu (宏睿電子) is one of the leading corporations for providing SMT chip processing services in PRC.

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 which are to be agreed by the parties when such individual agreements are entered into.

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 30 June 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Utilized Amount (RMB'000)	529,990	970,840	598,400
Annual cap (RMB'000)	1,600,000	1,057,000	612,600
Utilization rate (%)	33.12	91.85	97.68

10. Annual Cap: The Board proposes to increase the Annual Cap to RMB2,333,000,000, a substantial increase from the Existing Annual Cap of RMB1,600,000,000.

The amount was determined with reference to:

- (1) the historical amounts of materials, components and parts sold by the Group to the CEC Group: as the Group increased supply of materials, components and parts to relevant companies of CEC in flat panel display industry, the original annual caps for 2014 and 2015 cannot meet the demand any more, the Company, upon approval by the Shareholders at the general meeting, raised the Annual Cap for 2014 and 2015 to cater for the enlarging business scale, the 2014 and 2015 annual caps are fully-utilized after the adjustment;

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- (2) continuous investment in the flat panel display industry by CEC. An advanced-generation LCD panel production line is expected to be newly established and the existing LCD panel production line system and LCD glass production line system are expected to be renovated. Electronics Equipment Company is expected to sell LCD panel production line system, equipment for upgrade and renovation and part of the production equipment modules to Panel Display Technology and IRICO Display which will implement NEIIC's 8.5th generation of TFT-LCD panel production line project and the 8.5th generation of LCD glass panel production line project;
- (3) given (2) above, there will also be expansion of sale of the parts of LCD panel products with different specifications by Electronics Manufacturing Company and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電氣塑業有限公司) (as OEM suppliers) to Panel Display Technology and IRICO Display which will implement NEIIC's 8.5th generation of TFT-LCD panel production line project and the 8.5th generation of LCD glass panel production line project;
- (4) continuous sale of communication product parts by Communications Technology Company and Information Industry Company to Handa Technology expecting to maintain at the historical annual sales amount of approximately RMB110 million for the next three years;
- (5) development of the Group in terms of productivity, technological standards, quality 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 Chip processing and maintain a relatively high level of product quality, enabling the Group to have the capacity to provide high-quality materials and components and parts to meet the needs of the increased annual caps.

The Annual Cap was increased mainly due to the followings: to meet the needs of CEC for vigorous development of its flat panel display business, the subsidiaries of the Company including Electronics Equipment Company and Electronics Manufacturing Company increased supply of materials, components and parts to the subsidiaries of CEC including Panel Display Technology, LCD Technology, and LCD Material Technology.

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In particular, as mentioned above, it is expected that CEC will continuously invest in the flat panel display industry. An advanced-generation panel production line and LCD panel production line are expected to be newly established, in particular:

- (1) according to the information published by the Industrial and Information Technology Department of ShaanXi Province (陕西省工业和信息化) (<http://www.sxgxt.gov.cn/0/1/2/27/22337.htm>), on 16 October 2015, Xianyang City and CEC signed a framework agreement, pursuant to which both parties will cooperate to construct the 8.5th generation of the LCD panel production line project, the new 8.5th generation of production line of CEC will be located in Xianyang City.
- (2) pursuant to a proposal on a non-public issuance of A Shares published by IRICO Display on 23 October 2015, IRICO Display contemplates to make an investment for establishing the 8.5th generation of LCD glass panel production line project, with a total investment amount of RMB6.003 billion. Products manufactured from the project will be used as ancillary products for the 8.5th generation of LCD panel. It is expected there will be an increase of approximately RMB320 million per year in sales for relevant equipment supply from Electronics Equipment Company to the 8.5th generation of LCD panel production line project in Xianyang City and the 8.5th generation of LCD glass panel production line project of IRICO Display. Further, Panel Display Technology has commenced production in March 2015 and an increase of its sales of T-CON board provided by Electronics Manufacturing Company of RMB530 million per year is expected when it reaches its full production capacity.

On the other hand, Information Industry Company will reduce its supply of construction materials and equipment installation to Panel Display Technology since the construction work of Panel Display Technology is completed, and it is expected there will be a decrease of RMB70 million per year for the equipment supply from 2016 to 2018. Further, since Shenzhen Jingwah has established a platform for import and export business, the transactions through connected parties is expected to decrease by RMB70 million per year.

Considering the above factors, it is estimated that there will be an increase of around RMB700 million in annual sales of materials, components and parts by the Group to the CEC Group, and an increase of around RMB700 million for the Annual Cap is proposed.

LETTER FROM THE BOARD

The Company has invested in Electronics Equipment Company with the proceeds raised from the non-public issue of A Shares in 2013 and thereby Electronics Equipment Company has expanded its production capacity for automatic transmission equipment. The Company has also approved Electronics Manufacturing Company to purchase new machines and equipment in 2015 to increase the capacity for supply. Considering these further investments in the subsidiaries by the Company, the Group is with sufficient capacity to satisfy the increase in the Annual Cap.

(C) Financial Services Agreement

1. Agreement: Financial Services Agreement
2. Date: 12 November 2015
3. Term: The Financial Services Agreement will be effective for three years upon the approval of the Independent Shareholders at the general meeting of the Company.
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.

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(ii) For the balance of the Group with CEC Finance, CEC Finance guaranteed 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 was 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 calculated the interests based on the accumulated interest method, and, consistent with the normal practice of other PRC commercial banks, paid such interests to the Group on a quarterly basis.

(b) Loans service

(i) The cap for the comprehensive credit line 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).

(ii) The Group obtained facilities from CEC Finance. CEC Finance calculated and charged 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 deposit interest rate of domestic commercial banks was 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. Further, such interest rates shall not be higher than the cost of funds obtained by the Group through other financial institutions. CEC Finance calculated the interests based on the accumulated interest method and the Group shall pay such interests on a quarterly basis.

(iii) CEC Finance provided the Group with other credit financing services such as fund management, entrusted agency and 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.

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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 (of which the Group also has maintained a long-term business relationship and is 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 Company 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.

(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 the standard of guarantee fees charged by domestic commercial banks for external guarantees during the same period.

- (3) CEC Finance will exempt the Group from paying remittance and transfer fees when fund settlement was carried out by CEC Finance, and granted exemptions of fees for general planning and consultancy services provided by CEC Finance to the Group, except special financial consulting projects.
- (4) CEC Finance will adequately utilize its financial resources advantages and financial professional advantages to provide the Company with financial consultancy and underwriting planning services for successful issuance of corporate bonds and mid-term notes for specialized financing. These advantages are as follows:
- (a) CEC Finance is duly authorized and approved by CBRC to act as underwriter;

LETTER FROM THE BOARD

(b) there is business contact through day-to-day operations between CEC Finance and the Company, therefore, CEC Finance is already familiar with the manufacturing and operational activities of the Group;

(c) CEC Finance has underwritten RMB1.2 billion corporate bonds for CEC Group in 2009 and thus is familiar with the business procedure of underwriting planning 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.

(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 offered by CEC Finance are more favourable or no less favourable than the financial services provided by independent third parties through making enquiries 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 encountered 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 RMB1.750943 billion), 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 under the Emergency Response Plan against Deposits Risks of China Electronics Financial Co., Ltd. (for details please refer to page 41 hereinbelow) in this regard.

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 the CBRC 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, 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 provided 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; and all the loans of the Company from CEC Finance being granted in the form of credit loans without any guarantee by the third parties, the Company intends to renew the Financial Services Agreement to obtain the most favourable financing costs and achieve the best economic efficiency.

The current currency policy of People's Bank of China remained prudent and stable over a long period for examination and approval of facilities. Upon the liberalization of interest rate, there are greater possibility and uncertainty on the fluctuation of financing costs, while the liquidity also has greater uncertainty. 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.

According to the Risk Assessment Report on China Electronics Financial Co., Ltd. (Xin Kuai Shi Bao Zi [2015] No. 725373) (《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[2015]第725373號)) issued by BDO China Shu Lun Pan CPAs LLP, the accountants, the accounting firm, based on its understanding and assessment on the risk management, was not aware of any material defects in the risk management regarding the financial statements of CEC Finance as of 30 June 2015.

LETTER FROM THE BOARD

In conclusion, this continuing 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, loan guarantee and other credit facilities 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.

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 provide 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 provide by such domestic commercial bank.

LETTER FROM THE BOARD

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 of 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.

9. Historical figures: The balance of loan, 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 2015 (unaudited)	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Deposit balance (<i>RMB'000</i>)	177,922.40	221,910	197,900
Annual Cap (<i>RMB'000</i>)	500,000	500,000	200,000
Utilization rate (%)	35.58	44.38	98.95
Loan, loan guarantee and other credit financing services (<i>RMB'000</i>)	40,000	0	5,000
Annual Cap (<i>RMB'000</i>)	600,000	600,000	300,000
Utilization rate (%)	6.67	0	1.67

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 2013 and 2014 and the period from January to June 2015, the deposit balances and loan balances of the Group did not exceed the Annual Caps for the corresponding years.

	For the period from 1 January 2015 to 30 June 2015 (unaudited)	For the period from 1 January 2014 to 31 December 2014 (audited)	For the period from 1 January 2013 to 31 December 2013 (audited)
Maximum daily deposit balance (RMB'000)	311,238	249,170	197,907
Annual Cap (RMB'000)	500,000	500,000	200,000
Utilization rate (%)	62.25	49.83	98.95

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, 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: 12 November 2015
3. Term: From 1 January 2016 to 31 December 2018
4. Parties:
 - (1) the Company
 - (2) CEC
5. Nature of the transaction: The sub-contracting service provided by the CEC Group to the Group, is mechanical processing business.

Provision of composite services by CEC Group to the Group, which is mainly instrument testing services, medical services for the Group's employees (including retired employees) and commuter transport services staff in the ordinary course of operation.
6. Existing Annual Cap: RMB12,500,000
7. Reasons for the transaction: Entering into an agreement for the provision of the sub-contracting and composite services by the CEC Group has provided the Group with stable and reliable services, and hence the continuation of such arrangement is beneficial to and in the interest of the Group.
8. Pricing basis and terms of payment: The CEC Group is entitled to charge the Group reasonable service fees for the services provided based on the principle of fair market for the services it provides, and the Group shall undertake the corresponding payment obligations. The service fees for the provision of sub-contracting and composite services by the CEC Group to the Group shall be determined after arm's length negotiation between the parties and based on 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 the CEC Group shall not be higher than the service fees charged to an independent third party for the same or similar services.

LETTER FROM THE BOARD

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

The sub-contracting services provided by CEC Group to the Group are the mechanical processing business. The services fees charged are determined with reference to the fees charged by the third parties which are engaged in the mechanical processing business (two to three quotations from independent third parties would be obtained by the officers of the marketing department of the relevant subsidiaries of the Company receiving the services for similar transactions for comparison and the head of the marketing department will review and approve the same to ensure the fees charged by CEC Group are no less favourable than those offered by independent third parties).

The composite services by CEC Group to the Group are mainly commuter transport services. The service fees charged are 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 Songfangzhou Vehicle Rental Services Co., Ltd. (南京頌方舟汽車租賃服務有限公司) (<http://www.sfzqczn.com/zcbj.asp>) 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), both of which are privately-owned companies. The construction of the staff dormitory of the manufacturing base of the Group in Xingang has been completed and the scale of such commuter transport services has been reduced as a result. It is expected that the scale maintains at RMB4.20 million per year in the next three years.

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 small, the scale of which is expected to maintain at RMB0.60 million per year in the next three years, and the pricing of which is determined with reference to the charging standards of the same or similar service provided by the medical institutions of independent third parties, such as Ikang Guobin Nanjing (<http://www.ikang.com/nj/>) and Ciming Check-up Nanjing Company (<http://fgs.ciming.com/nj/>).

For the commuter transport services and the medical services, the relevant officers of the marketing department of the relevant subsidiaries of the Company receiving the services will compile the lists of the relevant 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 equipment, the scale of which is expected to maintain at RMB0.40 million per year in the next three years. Government guidance pricing 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 department of the relevant subsidiaries of the Company receiving the services will compile the list of fees in accordance with the government guidance pricing. Designated officers of the marketing department will monitor the government guidance pricing 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 in line with normal commercial terms or no less favorable than the terms offered to the Group by 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 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Amount (RMB'000)	2,510	10,580	11,890

10. Annual Cap: The Board proposes to reduce the Annual Cap from RMB12,500,000 to RMB7,000,000.

The amount was determined with reference to (1) the historical transaction amounts of the sub-contracting and composite services received by the Group from the CEC Group; (2) the estimated reduction in the scale of the composite and processing services required by the Group from the CEC Group, as well as the Company's business development needs.

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Such reduction is mainly attributable to (i) the decrease in demand for commuter transport services by Electronics Manufacturing Company and Huage Appliance, resulting in a decrease of Annual Cap of approximately RMB1.50 million per year, and the scale of which is expected to maintain at RMB4.20 million per year in the next three years; and (ii) the decrease in mechanical processing services provided by CEC Group to Electronics Manufacturing Company, resulting in a decrease of Annual Cap of approximately RMB4.00 million per year, and the scale of which is expected to maintain at RMB1.80 million per year in the next three years. Since the fund-raising through the non-public issuance of A shares, the capability of mechanical processing of the Group improved significantly, thus there is a decrease in mechanical processing services required by Electronics Manufacturing Company from the CEC Group. Thus, the Annual Cap is reduced by RMB5.5 million.

(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: | 12 November 2015 |
| 3. | Term: | From 1 January 2016 to 31 December 2018 |
| 4. | Parties: | (1) the Company

(2) CEC |
| 5. | Nature of transaction: | Products sold by the CEC Group to the Group include: materials, components and parts required for production of mobile communication, information, digital family and electronic equipment products. |
| 6. | Existing Annual Cap: | RMB292,900,000 |

LETTER FROM THE BOARD

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 companies 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. In order to comply with policy of government to increase the ratio of domestic production, the relevant subsidiaries of the Group has increased its procurement of raw materials and parts from domestic suppliers, and reduced the purchase of raw materials and parts from Nanjing Panda Electronics Import and Export Company (南京熊猫电子进出口有限公司), a wholly-owned subsidiary of CEC Group (“Import and Export Company”), which engages in import and export business. 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 sale transaction.
8. Pricing basis and terms of payment: The CEC Group is entitled to charge the Group reasonable amounts for the products sold based on the principle of fair market for the products it sells, 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 pricing policy (as disclosed below) 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.

LETTER FROM THE BOARD

Currently, the Group mainly purchases LCD monitors from CEC Group, and purchases core parts of industrial robots through its import and export company. (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 price and price level of the LCD panel market published in “China LCD TV Market Update” (《中國液晶電視市場研究報告》) 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 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 CEC Group import and export company, the purchasing price referred to the sum of the cost of imported products, relevant taxes and import agency fees, and the charging standard was with reference to the pricing standard for similar services provided by import and export company to independent third parties. The total amount of import agency fees was 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 third-party commercial secrets of third parties are involved. Further, two to three quotations offered by independent third parties for similar transactions would be obtained by the officers of the sales department of the relevant subsidiaries of the Company purchasing the products 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.

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 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Amount (RMB'000)	14,350	111,620	234,100

LETTER FROM THE BOARD

10. Annual Cap: The Board proposes to reduce the Annual Cap from RMB292,900,000 to RMB103,000,000, the amount of which 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 companies of the CEC Group by relevant subsidiaries of the Group.

Fully Exempted Continuing Connected Transactions

(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: 12 November 2015
3. Term: From 1 January 2016 to 31 December 2018
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: RMB11,000,000
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 plant 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 vehicles for a long time to facilitate their business operations. In addition, Handa Technology has completed the construction and renovation of and relocated to its own plant. Therefore, the Group needs to adjust the Annual Cap for provision of lease downward and renew the agreement with NEIIC Group in respect of such lease matters.

LETTER FROM THE BOARD

8. Pricing basis and terms of payment: As the lease of plants and equipment by the Group to NEIIC Group is a non-gratuitous transaction, the Group is entitled to reasonable rental from NEIIC Group for the leased buildings and equipment on an arm's length basis and NEIIC Group shall bear the corresponding obligation of payment. The lease of plants and equipment by the Group to NEIIC Group is carried out after arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market price, i.e. the rental charged by the Group from an independent third party for the lease of the same or similar plants and equipment.

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

In determining the rental for leasing the plants and ancillary equipment by the Group to NEIIC 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:

- (1) for the lease of equipment, the Group mainly leased out transportation vehicles to NEIIC Group. The amount of such transaction was determined with reference to the quotation from a third party engaging in vehicle leasing business where the Group is located in. The officers of the marketing department of the relevant subsidiaries of the Company leasing out the equipment will obtain quotations from the independent third party which was determined with reference to the price of vehicle leasing of Nanjing Yixuan Vehicle Rental Services Co., Ltd. (南京一軒汽車租賃有限公司) (<http://www.zuche365.com.cn/zcbj.asp>), the price of vehicle leasing of Nanjing Songfangzhou Vehicle Rental Services Co., Ltd. (南京頌方舟汽車租賃服務有限公司) (<http://www.sfzqczn.com/zcbj.asp>) and the price of vehicle leasing of Nanjing Tianmai Vehicle Rental Services Co., Ltd. (南京天脈汽車租賃有限公司) (<http://www.bnxxzx.cn/vip/njtmzc.html>), all of which are privately owned companies; and
- (2) for the lease of plants, the officers of the leasing department of the relevant subsidiaries of the Company leasing out the plants 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 independent third parties case can be used as reference, will refer to the local market conditions, property agencies and advertisements released on newspapers and via other media. 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 leasing price of comparable properties;

LETTER FROM THE BOARD

(b) if no comparable properties are available, to consult the lease market price of such properties from two to three property agencies where the plant is proposed to lease;

(c) based on the information above, the lease price of the plant will be determined after arm's length negotiation between the head of the leasing department with NEIIC.

The payment of the rental shall be made on an annual basis. The annual rental shall be paid within seven days after the end of the corresponding year.

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

	Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Amount (RMB'000)	430	1,190	1,280

10. Annual Cap: The Board proposes to reduce the Annual Cap from RMB11,000,000 to RMB3,000,000.

The amount was determined with reference to: (1) the historical rental amounts paid by NEIIC Group to the Group; (2) given the fact that Handa Technology has completed the construction and renovation of and relocated to its own plants, the demand of NEIIC Group for leasing plants will decrease.

The decrease in Annual Cap is mainly due to the decrease in the lease of plants by Handa Technology.

(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: | 12 November 2015 |
| 3. Term: | From 1 January 2016 to 31 December 2018 |

LETTER FROM THE BOARD

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 held by NEIIC Group to the Group for its needs of business development.
6. Existing Annual Cap: RMB2,000,000
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 extend leasing of 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 NEIIC Group in respect of such lease.
8. Pricing basis and terms of payment: NEIIC Group is entitled to reasonable rental from the Group for the leased buildings and equipment on an arm's length basis and the Group shall bear the corresponding obligation of payment. The lease of plants and equipment by NEIIC Group to the Group is carried out after arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market price, i.e. the rental charged by the NEIIC Group to the Group represents the rental charged to an independent third party for the lease of the same or similar buildings and equipment.

LETTER FROM THE BOARD

NEIIC Group leases buildings and equipment to the Group and determines the rental according to the market price on a fair and equitable basis.

In determining the rental 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, currently, NEIIC Group mainly leases out a small amount of office equipment to the Group to facilitate the Group's lease of office and production place. The amounts of such transactions were determined with reference to the independent third parties quotation where the Company is located in; and
- (ii) for the lease of plants, with reference to the local market conditions, 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 payment of the rental shall be made on an annual basis. The annual rental shall be paid within seven days after the end of the corresponding year.

LETTER FROM THE BOARD

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

Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
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Amount (RMB'000)	20	360	490
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10. Annual Cap: The Board proposes to maintain the Annual Cap at RMB2,000,000.

It was reached 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 accepted 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: | 12 November 2015 |
| 3. Term: | From 1 January 2016 to 31 December 2018 |
| 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 constituted on the date when the legal representatives or authorized representatives of each of the parties signed thereon with the common seals affixed, and take effect from the date when it is approved at the general meeting of the Company. NEHC shall assist the Company to proceed with the filing procedure for the trademark licensing with the State Trademark Office of the State Administration for Industry and Commerce (國家工商行政管理局商標局) within five business days upon the agreement taking effect. The Company may 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.

LETTER FROM THE BOARD

8. Pricing basis and
terms of payment:

The grant to CEC Home Appliances of the right to use the PANDA trademark 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 2016, 2017 and 2018 based on the sales of television sets that use the PANDA trademark at a rate of RMB3 per LCD television.

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 operation under severe competition in the television market in the PRC; and (3) for other entities (if any), the market price paid for the licensing of PANDA trademark to be adopted.

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 license fees to the Company in the February of each year in arrears during the term of licensing.

LETTER FROM THE BOARD

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 2015 (unaudited)	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
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Amount (RMB'000)	0	58	71
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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 a substantial increase in the demand for the PANDA trademark from CEC Home Appliances, in particular, one of the major productions of CEC Group in the coming years is LCD televisions sets.

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, NEHC 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. The said price lists are mark-to-market, updated twice every three months and applicable to transactions with both the connected persons and the independent third parties;

LETTER FROM THE BOARD

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

- 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 the (A) Sub-contracting Agreement;
 - provision of raw materials, components and parts under the (B) Sale Agreement;
 - services under the (C) Financial Services Agreement;
 - sub-contracting services and composite services under the (D) CEC Sub-contracting Agreement;
 - the (E) Purchase Agreement;
 - the (F) Lease Agreement;
 - the (G) NEIIC Group Lease Agreement; and
 - the (H) Trademark License Agreement.
- 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 the needs of the customers 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 consolidating 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 the head of the marketing department negotiated with the customer. Such pricing basis is adopted for non-standardized products under the (B) Sale Agreement.

LETTER FROM THE BOARD

- Government-guidance pricing: In respect of the Sub-contracting Agreement, 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 Company executed government-guidance pricing. The pricing of such businesses was 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 was 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 pricing 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.
- Legal department of the Company shall conduct review on compliance for each of the transactions under the agreements every three months, where 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. Members in the audit committee would conduct independent random review on the connected transactions every six months, compare with the transactions with the independent third parties, have the Company's accountants reporting on the conditions of the connected transactions, review the manuscripts of relevant orders for the Sub-contracting Agreement, the Sale Agreement, the CEC Sub-contracting Agreement and the Purchase Agreement, and review the letters issued by the accountants in respect of the connected transactions.

LETTER FROM THE BOARD

For the utilization of financial services provided by CEC Finance, the Company 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:

- the Company has established a Leading Team for preventing and addressing the deposit risks to be in charge of matters in relation to deposit risk prevention and handling and monitoring the status of deposits and operations of CEC Finance;
- the Company has established a deposit risk reporting system, whereby the finance department will be responsible for drafting the deposit risk assessment report and assess the operation qualifications, business and risk profile of CEC Finance, which shall be reported to the Board of the Company every six months;
- 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 special agencies and personnel 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;
- 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 monitor and make relevant record in this regard to ensure that the fees provided to or collected by CEC Finance are less than or not more than the fees provided to or collected by independent third parties;
- a copy of every regulatory report submitted by CEC Finance to CBRC will be provided to the Company for review; and
- 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.

LETTER FROM THE BOARD

In addition to the above, the Company has also formulated emergency measures under the Emergency Response Plan against Deposits Risks of 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 Leading Team of the Company immediately. Upon CEC Finance providing the Company with details of the situation of the risks, the Leading Team shall look into the causes behind the deposit risks and analyze the dynamics of the said risks. The Leading Team will also implement different measures and duties for resolving the risks as stipulated in the risk response plan for resolving risks and formulate a plan for coping with the risks. The plan shall be amended and supplemented immediately based on the changes in the circumstances of the deposit risks and the issues identified during the implementation.
2. The Leading Team shall convene a joint meeting with CEC Finance with regard to the risks that took place 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 Leading Team and the Board immediately. The Leading 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.
5. After the contingent deposit risks subside, the leading team shall reinforce its supervision on CEC Finance. The Leading 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 Leading Team, together with CEC Finance, shall analyze and summarize the reasons behind the contingent deposit risks and the consequence, so as to better prevent and respond towards the deposit risks. If the factors that affect the risks cannot be eliminated within a reasonable time, all the deposits shall be withdrawn.

LETTER FROM THE BOARD

The responsibilities of the Leading Team include:

1. Accountable to the Board and has full responsibility in the prevention of and response to 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 decide the kick-off of the emergency response plan when necessary and at the same time have the duty to disclose the corresponding information;
5. To organize investigations and analyses and formulate risk response plans upon the kick-off 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.

Deposit risks include the following circumstances:

- (1) CEC Finance in breach of the stipulations under Article 31 (shall not engage in offshore business), 32 (shall not engage in non-financial services business including property investments or trading) or 33 (branches of a financial institute shall not provide guarantee service) of the “Policy on Managing a Finance Company for an Enterprise Group” 《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 “Policy on Managing a Finance Company for an Enterprise Group” 《企業集團財務公司管理辦法》;

LETTER FROM THE BOARD

- (3) CEC Finance encounters any run on deposits, insolvency, substantial amount of overdue loans or guarantee advance (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 a serious disciplinary offence, 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) Matters 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 loan advanced by CEC Finance to a single shareholder exceeds 50% of the registered capital of CEC Finance or the contribution made thereto 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) The loss of CEC Finance exceeds 30% of its registered capital for the current year or loss exceeds 10% of its registered capital for 3 successive years;
- (10) CEC Finance received administrative punishment from regulatory authorities such as CBRC due to activities in breach of laws and regulations;
- (11) CEC Finance is officially required for rectification by CBRC; and
- (12) Other potential issues which are considered as threats to the safety of the Company's deposits by the Directors.

LETTER FROM THE BOARD

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 relocated to their own industry parks successively, there was 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 and CEC Finance 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 12 November 2015, an extraordinary meeting of the eighth session of the Board was convened, at which all the non-connected Directors approved the renewal of the CEC Sub-contracting Agreement, 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 the Independent Financial Adviser.

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; NEIIC is the controlling shareholder of PEG, the controlling shareholder of the Company, holding 4.29% and 0.66% equity interest in the Company directly and through target asset management scheme respectively; and CEC Finance is a company controlled by CEC. CEC, NEIIC, PEG, CEC Finance 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 the applicable percentage ratios of the deposit transactions contemplated under the Financial Services Agreement exceed 5% but do not exceed 25%, such transaction constitutes a discloseable transaction subject to the reporting and announcement requirements under the Hong Kong Listing Rules. 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 loan guarantee services

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

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.

LETTER FROM THE BOARD

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.

Implications under the Hong Kong Listing Rules

As the respective applicable percentage ratios for the transactions contemplated under the Sub-contracting Agreement and the proposed deposit transactions contemplated under the Financial Services 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 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.

However, as the respective applicable percentage ratios for the transactions contemplated under CEC Sub-contracting Agreement and the Purchase 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.

As the respective applicable percentage ratios for the transactions contemplated under the Lease Agreement, NEIIC Group Lease Agreement and Trademark License Agreement are below 0.1%, such transactions are exempt from the reporting, annual review, announcement and 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, 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 renewal of continuing connected transactions for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 exceed the Annual Caps or there are material changes in the agreed terms on the renewal of 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 is principally engaged in the development, manufacture and sale of electronic equipment products, electronic intelligent products, communication technology products and electronic manufacturing business.

The PEGL Group is principally engaged in the development, manufacture and sale of communication equipment, computer and other electronic equipment; instruments and apparatus, cultural and office machines; electricity transmission, distribution and control equipment; environmental protection, public safety and other equipment; financial tax control products, power supply products; computer services, software and system integration; as well as sale and technical support services for the products developed by the PEGL.

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 VII to the 2014 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 intra-group members; dealing with loan and financial leasing for intra-group members; dealing with inter-bank offered credit; issuing finance company bonds upon approval, underwrite 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 41.9854% 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 2014, CEC Finance has deposits at banks of RMB8,351 million with RMB1,463 million placed with the central bank. In 2014, it achieved interest income of RMB548 million and total profit of RMB315 million with net profit of RMB228 million. As of 30 June 2015, CEC Finance has deposits at banks of RMB8,769 million with RMB876 million placed with the central bank; during the period from January to June 2015, it achieved interest income of RMB190 million and total profit of RMB247 million with net profit of RMB183 million.

III. THE EGM

The EGM will be held on Monday, 28 December 2015 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 2015 has been despatched to the Shareholders.

The register of members relating to H-shares of the Company will be closed from 28 November 2015 to 28 December 2015, 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 4:00 p.m. on 27 November 2015.

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 56.85% equity interest in PEG L, the controlling shareholder of the Company, is the controlling shareholder of PEG L, and holds approximately 4.29% of the total issued share capital of the Company and 0.66% of shares of the Company through directional asset management plans. CEC is the controlling shareholder of NEIIC and holds 70% of the issued share capital of NEIIC.

As disclosed in Appendix I to this circular, Mr. Lai holds offices in CEC, NEIIC and PEG L, Mr. Xu holds offices in CEC, NEIIC and PEG L, Mr. Deng and Mr. Lu hold offices 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.

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 PEG L as disclosed in Appendix I to this circular. Therefore, CEC, NEIIC, PEG L 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.

LETTER FROM THE BOARD

Save as disclosed above, no other associates of CEC, PEG L 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 of the Stock Exchange 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 52 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 53 to 73 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

VII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

By order of the Board
Nanjing Panda Electronics Company Limited
Lai Weide
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.

南京熊猫電子股份有限公司
NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 00553)

10 December 2015

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 53 to 73 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. Chu Wai Tsun, Vincent Mr. Zhang Chun

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, 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

10 December 2015

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

Dear Sirs,

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, 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 10 December 2015 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.

Reference is made to the announcements of the Company dated 26 October 2012, 21 January 2014 and 8 December 2014 and circulars of the Company dated 6 December 2012, 24 February 2014 and 12 December 2014 in relation to, among others, certain continuing connected transactions between the Company and certain connected persons of the Company. The continuing connected transactions of the Company in relation to the financial services last for a term of 3 years from 21 December 2012 to 20 December 2015; the remaining continuing connected transactions last for a term of 3 years from 1 January 2013 to 31 December 2015.

LETTER FROM GRAM CAPITAL

The existing continuing connected transactions of the Company will expire on 20 December 2015 and 31 December 2015 (as the case may be), and the existing continuing connected transactions are expected to continue after the expiration. In light of the growing business scale of the Group, the Board proposes to renew the existing CCT Agreements with CEC Group, NEIIC Group and CEC Finance.

According to the Board Letter, as the respective applicable percentage ratios for the transactions contemplated under the Sub-contracting Agreement and the proposed deposit transactions contemplated under the Financial Services 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 exceed 25%, such transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Ms. Du Jie, Mr. Chu Wai Tsun, Vincent and Mr. Zhang Chun (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 (i) dated 5 November 2014 in respect of a major and connected transaction in relation to the equity transfer of 5.07% equity interest in Shenzhen Jingwah Electronics Co., Ltd.; and (ii) dated 12 December 2014 in respect of revision of annual caps for a continuing connected transaction. Notwithstanding the aforesaid past engagements (the aggregate fees from which were not significant to Gram Capital), 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 Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 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, PEGLE, 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.

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.

LETTER FROM GRAM CAPITAL

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 is principally engaged in the development, manufacture and sale of electronic equipment products, electronic intelligent products, communication technology products and electronic manufacturing business.

Set out below are the financial information of the Group for the six months ended 30 June 2015 and the two years ended 31 December 2014 as extracted from the interim report of the Company for the six months ended 30 June 2015 (the “**2015 Interim Report**”) and the annual report of the Company for the year ended 31 December 2014 (the “**2014 Annual Report**”).

	For the six months ended 30 June 2015 (unaudited) <i>RMB'000</i>	For the year ended 31 December 2014 (audited) <i>RMB'000</i>	For the year ended 31 December 2013 (audited) (restated) <i>RMB'000</i>	Change from 2013 to 2014 %
Turnover	1,628,881	3,450,690	4,096,035	(15.76)
– Electronic equipment products	794,035	1,530,780	1,433,402	6.79
– Consumer electronic products	258,063	800,701	1,798,702	(55.48)
– Electronic manufacturing products	485,194	958,801	717,295	33.67
– Other operations	91,589	160,408	146,636	9.39
Gross profit for the period/year	219,826	470,567	468,823	0.37
Profit after tax for the period/year	109,592	196,426	222,665	(11.78)
	As at 30 June 2015 (unaudited) <i>RMB'000</i>	As at 31 December 2014 (audited) <i>RMB'000</i>	As at 31 December 2013 (audited) (restated) <i>RMB'000</i>	Change from 2013 to 2014 %
Restricted bank deposits	132,876	115,626	70,846	63.21
Cash and cash equivalents	730,243	712,357	1,495,159	(52.36)

LETTER FROM GRAM CAPITAL

According to the above table and the 2014 Annual Report, during the year ended 31 December 2014, the sales revenue of electronic equipment products remained a stable growth and amounted to approximately RMB1,530.78 million, representing an increase of approximately 6.79% as compared to 2013. Under the influence of recession in overseas market, the sales revenue of consumer electronics products amounted to approximately RMB800.70 million, representing a decrease of approximately 55.48% as compared to 2013. Due to the increase in liquid crystal accessories, the sales revenue of electronic manufacturing service amounted to approximately RMB958.80 million, representing an increase of approximately 9.39% as compared to 2013. Despite the decrease in revenue for the year ended 31 December 2014, the Company recorded a slight increase in gross profit for the year ended 31 December 2014, which was mainly due to the reduce of cost of sales of the Group from 2013 to 2014. The Company recorded decrease in profit after tax from 2013 to 2014, which was the mainly due to the decrease in other income and net gains in 2014.

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, 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 reorganised 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. CEC Finance has a registered capital of RMB1.750943 billion and is held by CEC, being the largest shareholder and ultimate controller, as to 41.9854% equity interests.

LETTER FROM GRAM CAPITAL

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.

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 transactions” 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 is conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the CCT Agreements

The tables below summarise the major terms of each of the CCT Agreements dated 12 November 2015 as referred to in the Board Letter:

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

Agreement: Sub-contracting Agreement

Date: 12 November 2015

LETTER FROM GRAM CAPITAL

Term: From 1 January 2016 to 31 December 2018

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 and SMT Chip processing; as well as composite services including property management services, catering services and labour services.

Annual Cap: RMB222,000,000 for each of the three years ending 31 December 2018

For our due diligence purpose, we have reviewed the sub-contracting agreements (including provision of sub-contracting services and composite services by the Group) entered into between the Group and independent third parties and noted that the major terms (including the pricing mechanism, payment terms, quality check, etc.) offered by the Group to those independent third parties for sub-contracting services and composite services provided by the Group are similar to those offered by the Group to the CEC Group (the “CCT 1 Findings”).

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

Agreement: Sale Agreement

Date: 12 November 2015

Term: From 1 January 2016 to 31 December 2018

Parties: (i) The Company

(ii) CEC

LETTER FROM GRAM CAPITAL

Nature of transaction: Provision of raw materials, metal and plastics components and parts necessary for flat panel display production line system and related production equipment, television sets, shortwave communication, satellite communication products and trading business, and calculators, software and other information-based office products, by the Group to the CEC Group (the “**Products**”).

Annual Cap: RMB2,333,000,000 for each of the three years ending 31 December 2018

For our due diligence purpose, we have reviewed the sale agreements entered into between the Group and independent third parties and noted that the major terms (including the pricing mechanism, payment terms, delivery terms, quality check, etc.) offered by the Group to those independent third parties for similar products provided by the Group are similar to those offered by the Group to the CEC Group (the “**CCT 2 Findings**”).

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

Agreement: Financial Services Agreement

Date: 12 November 2015

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: Deposit Service:

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.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we have enquired into the Directors regarding the interest rate on deposits received from (i) commercial banks; and (ii) CEC Finance for similar period, and noted that the interest rate provided by CEC Finance is not less than the interest rate provided by other PRC commercial banks.

With reference to the 2014 Annual Report and as confirmed by the Directors, the then independent non-executive Directors have, within their scope of duties, reviewed, among other things, the CCTs for the year ended 31 December 2014 and confirmed that the CCTs: (i) were entered into by the Company in the ordinary and usual course of business; (ii) were on normal commercial terms or on terms no less favourable than those offered by or to independent third parties as far as the Company was concerned, if there were no applicable comparables; (iii) were carried out in accordance with the agreement governing such transaction, and the terms of such transaction were fair and reasonable and in the interests of the Shareholders as a whole; and (iv) did not exceed the relevant cap disclosed previously.

With reference to the 2014 Annual Report and as confirmed by the Directors, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with "Hong Kong Standard on Assurance Engagements 3000" "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on CCTs under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the auditors of the Company confirmed to the Board that, among other things, nothing has come to their attention that causes them to believe that the CCTs for the year ended 31 December 2014: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the CCTs; and (iv) have exceeded the relevant cap disclosed previously.

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 officers of the sales department and officers of the marketing department of the Company. The Price Lists are mark-to-market, updated twice every three months and applicable to transactions with both the connected persons and the independent third parties. For our due diligence purpose, we have obtained the most updated Price Lists for selling price of the goods and services respectively and also noted from the CCT 1 Findings and CCT 2 Findings that the price of such goods and services are not less than the price as set out in Price Lists.

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

LETTER FROM GRAM CAPITAL

Market price basis

Market price basis will be applied to the preparation of price lists (the “**Market Price Lists**”) for (i)(a) composite services; and (b) SMT Chip processing under CCT 1; and (ii) provision of raw materials 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. Made-in-China.com won the 2013 China’s B2B Impact Award. We also noted from annual report Focus Technology for the year ended 31 December 2014, Made-in-China.com has over 10,000 members as at 31 December 2014.

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 in determining the Market Price List 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 13.6% for the year ended 31 December 2014 and approximately 11.4% for the year ended 31 December 2013; 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.

LETTER FROM GRAM CAPITAL

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 and Engineering of Jiangsu Province (《江蘇省建築與裝飾工程計價定額》), Pricing Quota of Installation and 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》. Having considered that (i) the gross profit margin of the Group was approximately 13.6% for the year ended 31 December 2014 and approximately 11.4% for the year ended 31 December 2013; and (ii) 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.

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 fees under such transactions are not less than the price as set out under the Price Lists for the products. 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 for the continuing connected transactions

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, NEHC 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 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, where 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; and

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- 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.

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.

For the utilisation of financial services provided by CEC Finance, the Company 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. 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 higher than it offered by commercial bank 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 interest 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.

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》 (Guidelines on the Management of Group Financing Company*) (the “**Guidelines**”) issued by CBRC to regulate the operation of group financing companies and reduce the possible financial risk. We noted that the Guidelines 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, reporting to CBRC and experience of directors and senior management.

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The table below sets out the key financial ratio requirements of the Guidelines and the respective financial ratios of CEC Finance as provided by the Company as at 30 June 2015 and 31 December 2014:

Financial ratio	Requirements	Financial ratios of CEC Finance	
		As at 30 June 2015 <i>(approximate %)</i>	As at 31 December 2014 <i>(approximate %)</i>
Capital adequacy ratio <i>(Note 1)</i>	Not less than 10%	29.64	24.71
Inter-financial institution borrowing balances to total capital ratio <i>(Note 2)</i>	Not more than 100%	Nil	4.25
Total amount of outstanding guarantees to total capital ratio <i>(Note 3)</i>	Not more than 100%	20.30	22.68
Long-term and short-term investment to total capital ratio <i>(Note 4)</i>	Not more than 70%	23.38	2.71
Self-owned fixed assets to total capital ratio	Not more than 20%	1.28	1.41

Notes:

- Capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets.
- According to the Guidelines, inter-financial institution borrowing balances should not exceed total capital.
- According to the Guidelines, total amount of outstanding guarantees should not exceed total capital.
- According to the Guidelines, long-term investment to total capital ratio should not exceed 40% and short-term securities investment to total capital ratio should not exceed 30%.

As shown in the table above, we note that CEC Finance complied with the relevant financial ratio requirements as set out in the Guidelines as at 30 June 2015 and 31 December 2014 respectively. As also confirmed by the Directors that to the best of their knowledge, up to the Latest Practicable Date, there was no record of non-compliance with relevant laws and regulations of the PRC on CEC Finance.

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Having considered the above, we concur with the Directors that the financial risks of placing deposit to CEC Finance are addressed.

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.

The Annual Caps under the CCT Agreements

With reference to the Board Letter, each of the CCTs will be subject to, among other things, the Annual Caps for the three years ending 31 December 2018. According to the Board Letter, the historical amounts of the actual transactions and the Annual Caps for each of the CCTs are as follows:

		Historical amounts			
		Existing			
		Annual Caps			
		for the year	For the	For the	For the
		ending	six months	year ended	year ended
		31 December	ended	31 December	31 December
Annual caps		2015	30 June 2015	2014	2013
RMB'000		RMB'000	RMB'000	RMB'000	RMB'000
CCT 1	222,000	90,500	43,300	35,510	58,340
CCT 2	2,333,000	1,600,000	529,990	970,840	598,400
			As at 30	As at 31	As at 31
			June 2015	December	December
				2014	2013
RMB'000		RMB'000	RMB'000	RMB'000	RMB'000
CCT 3 (Deposit balance)					
(Note)	500,000	500,000	177,922.4	221,910	197,900

Note: Maximum daily deposit balance for the six months ended 30 June 2015, for the year ended 31 December 2014 and for the year ended 31 December 2013 were approximately RMB311,238,000, RMB249,170,000 and RMB197,907,000 respectively.

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Annual caps under CCT 1

With reference to the Board Letter, the annual caps under Sub-contracting Agreement were determined by the Company after taking into account of: (i) the historical transaction amounts of the sub-contracting and composite services provided by the Group to CEC Group; and (ii) the expected increase in demand for the sub-contracting and composite services from the PEGL Group, in particular the land development project in No. 301 Zhongshan Road East, and the expected growth of CEC Group's business (particularly its flat panel display industry). For our due diligence purpose, we have obtained and reviewed the estimation from the CEC Group on the demand of sub-contracting and composite services to be provided by the Group (the "**Expected Demand**"), which the Annual Cap is to cater for. With reference to the Board Letter, such increase is mainly attributable to the expected increase in 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 new project of PEGL Group at No. 301 Zhongshan Road East (the "**No. 301 Project**"), as well as the expansion of the sub-contracting and composite services by Information Industry Company and the Xinxing Industrial Company with LCD Technology, Panel Display Technology and LCD Material Technology, the subsidiaries of NEHC.

For our due diligence purpose, we have (i) discussed with management of the Company regarding the nature and estimated total contract value of the No. 301 Project (i.e. RMB200 million) and intelligent engineering project (the "**Intelligent Engineering Project**") from phase II of Communication Industrial Park of the PEGL Group (i.e. RMB30 million); (ii) obtained the detailed breakdown of total contract value for the No. 301 Project for the composite services to be proposed by the Group to PEGL Group in 2016 (i.e. RMB70 million); (iii) obtained the estimated contract value of the Intelligent Engineering Project, its breakdown and time schedule (i.e. RMB30 million in 2016).

With reference to the Board Letter, the No. 301 Project is not secured and the parties have not entered into any contract for this project and as expected by the Directors, such contract is expected to be entered into with relevant parties in early 2016. The price above is an estimation calculated by workload multiplied by the unit price, work load is calculated in accordance with the construction plan design of No. 301 Project located on East Zhongshan Road. 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 will be 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 issued by Ministry of Construction of the PRC; and (ii) the title of “senior engineer (高級工程師)” which was granted by 江蘇省人力資源和社會保障廳 (Jiangsu Human Resources and Social Security Department*). 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.

Furthermore, upon our further enquiry, the Directors advised us that the Expected Demand was estimated based on the figures reported by relevant members of the Group (after their discussion with respective members of the CEC Group).

Annual caps under CCT 2

With reference to the Board Letter, the annual caps under Sale Agreement were determined by the Company after taking into account of (i) the historical amounts of materials, components and parts sold by the Group to the CEC Group; (ii) continuous investment in flat panel display industry by CEC; (iii) expansion of sale of the parts of LCD panel products with different specifications by Electronics Manufacturing Company and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司) (as OEM suppliers) to major companies that will implement NEIIC's projects relating to panel display industry; (iv) continuous sale of communication product parts by Communications Technology Company and Information Industry Company to Handa Technology Company Limited; (v) the development of the Group. For our due diligence purpose, we have obtained and reviewed the estimation from the CEC Group on the demand of the Products, which the Annual Cap is to cater for. With reference to the Board Letter, the increase in the Annual Caps under Sale Agreement were mainly due to the needs of CEC for vigorous development of its flat panel display business, the subsidiaries of the Company including Electronics Equipment Company and Electronics Manufacturing Company increased supply of materials, components and parts to the subsidiaries of CEC including Panel Display Technology, LCD Technology, and LCD Material Technology.

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We noted the announcement published by TPV Technology Limited (Stock code: 903) (“**TPV**”) on 27 April 2012 that LCD Technology, a non-wholly owned subsidiary of CEC, and Top Victory Investments Limited (“**Top Victory**”), a subsidiary of TPV, entered into a joint venture agreement to establish a joint venture to build a G10 TFT-LCD factory in Nanjing, the PRC, being the first G10 TFT-LCD factory in the PRC with competitive economic cutting for 60”/70” LCD panel, and to manufacture and to sell products, including but not limited to, G10 TFT-LCD panels, colour filters and LCD modules. On 1 June 2012, LCD Technology and Top Victory 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 from LCD Technology, its parent companies, subsidiaries, associates and connected persons for the period from the effective date of the procurement agreement to 31 December 2012 and the two years ending 31 December 2014. On 24 December 2014, LCD Technology and Top Victory entered into a new procurement agreement to renew the aforesaid procurement agreement. The annual caps under the new procurement agreement is US\$617,801,000, US\$880,243,000 and US\$983,282,000 for each of the three years ending 31 December 2017. As advised by the Directors, the Products, which have been manufactured and supplied by the Group to the CEC Group, is one of the materials for the production of its products.

With reference to a proposal on a non-public issuance of A Shares published by IRICO Display on 23 October 2015, IRICO Display contemplates to make an investment for establishing the 8.5th generation of LCD glass panel production line project, with a total investment amount of RMB6.003 billion. Products manufactured from the project will be used as ancillary products for the 8.5th generation of LCD panel with production capacity of 3.49 million pieces of 8.5th generation of the LCD panel production per year. We noted that the Directors expected an increase of approximately RMB320 million per year in sales for relevant equipment supply from Electronics Equipment Company to the 8.5th generation of LCD panel production line project in Xianyang City, Shaanxi Province and the 8.5th generation of LCD glass panel production line project of IRICO Display.

Further, Panel Display Technology has commenced production in March 2015. As expected by the Directors, when Panel Display Technology reaches its full production capacity, there will be an increase of approximately RMB530 million per year in sales of T-CON board to be provided by the Group to Panel Display Technology. As advised by the Directors, the Group is expected to be a major supplier of T-CON board to Panel Display Technology and provided approximately 90% of total demand of Panel Display Technology on T-CON board. The rate of demand was determined with reference to the ratio of annual T-CON board supplied by the Group to LCD Technology over the annual demand of T-CON board in recent years. We have also obtained the estimated annual production of LCD glass panel (each LCD glass panel is required one T-CON board as material) which was estimated by the Company and price list for T-CON board. We have further discussed with the management of the Company regarding the estimated annual production of LCD glass panel, and during our discussion with the management of the Company, we have not identified any major factor which caused us to doubt the reasonableness of the estimated annual production of LCD glass panel as well as the demand of T-CON board.

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In addition, the Company has invested in Electronics Equipment Company with the proceeds raised from the non-public issue of A Shares in 2013 and thereby Electronics Equipment Company has expanded its production capacity for automatic transmission equipment. The Company has also approved Electronics Manufacturing Company to purchase new machines and equipment in 2015 to increase the capacity for supply. Considering these further investments in the subsidiaries by the Company, the Group is with sufficient capacity to satisfy the increase in the annual caps for CCT 2.

In light of the above factors, we consider that the expected increase in annual caps for CCT 2 are justifiable.

We noted that the utilisation rate of Existing Annual Cap for the year ended 31 December 2013 is approximately 97.68% and for the year ended 31 December 2014 (as amended on 8 December 2014) is approximately 91.85%. Having also considered the expected increase in annual caps for CCT 2 are justifiable as mentioned above, we consider the annual caps for CCT 2 are fair and reasonable.

Furthermore, upon our further enquiry, the Directors advised us that the demand on the Products was estimated based on the figures reported by relevant members of the Group (after their discussion with respective members of the CEC Group).

Annual caps under CCT 3

With reference to the Board Letter, the annual caps under Financial Services Agreement (deposit services) were determined by the Company based on: (i) the existing business scale of the Group and the demands for sustainable development and expansion thereof; and (ii) the actual financial services occurred between the Group and CEC Finance. For our due diligence purpose, we have discussed with the Directors regarding the aforesaid basis for determining the Annual Caps. As confirmed by the management of the Company, the Group will deposit only part but not all of its available funds with CEC Finance. Taking into account that: (i) the Group had cash and cash equivalents of approximately RMB730.24 million and RMB712.36 million as at 30 June 2015 and 31 December 2014 respectively based on the 2015 Interim Report; (ii) the Group had approximately RMB1,197.89 million and RMB931.50 million of trade and bill receivables as at 30 June 2015 and 31 December 2014 respectively based on the 2015 Interim Report; (iii) the annual caps under CCT 3 represent approximately 68.47% and 70.19% to the cash and cash equivalents of the Group as at 30 June 2015 and 31 December 2014 respectively; (iv) the annual caps under CCT 3 represent approximately 41.74% and 53.68% to trade and bill receivables as at 30 June 2015 and 31 December 2014 respectively; (v) the Group's future business may expand; (vi) the current cash and cash equivalents and trade and bill receivables reflect the possible demand on deposit services by the Group; and (vii) the proposed annual caps can provide greater flexibility for the Group to manage its idle cash on hand, we are of the view that the annual caps for the maximum daily outstanding balance of deposits that members of the Group are expected to maintain with CEC Finance as proposed by the Group are fair and reasonable.

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We noted from a press release dated 28 September 2015 issued by Ministry of Industry and Information Technology of the PRC that the electronic and intelligent industry, for the eight months ended 31 August 2015, the sales value of the electronic information manufacturing industry has increased by approximately 8.2% as compared to the corresponding period in 2014; while the export value in the electronic information manufacturing industry has slightly increased by approximately 0.1% as compared to the corresponding period in 2014. Upon our enquiries, the Directors advised us that they are optimistic on the business expansion of the Group, the PEGL Group and the CEC Group.

The aggregate of historical amounts of CCT 1 and CCT 2 for each of the two years ended 31 December 2014 represent approximately 29.2% and 16.0% respectively of the Group's revenue for each of the two years ended 31 December 2014. Although the aggregate proposed annual caps of CCT 1 and CCT 2 represents more than 70% of the Group's revenue for the year ended 31 December 2014, having considered that: (i) the reasons for the substantial increase in the annual caps for the three years ending 31 December 2018 of CCT 1 and CCT 2 as mentioned above and its nature; (ii) the historical amount of revenue generated from CCT 1 and CCT 2; (iii) the Group may further expand its customer base and market share, which in turn brings increasing revenue to the Group, the Directors consider both CCT 1 and CCT 2 are in the interests of the Company and Shareholders as a whole.

Given the above factors, we consider that the Annual Caps for each of the three years ending 31 December 2018 and for each of the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM (as the case may be) are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Annual Caps 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 2018 or the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM (as the case may be), and they do not represent forecasts of revenue/income to be incurred from the renewal of the Existing Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred under the renewal of the Existing Continuing Connected Transactions will correspond with the Annual Caps.

3. Listing Rules implication

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 values of the CCTs must be restricted by the Annual Caps for the period concerned under the each of the CCT Agreements; (ii) the terms of the CCT Agreements must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the CCT Agreements 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 is not, in all material respects, in accordance with the pricing policies of the Company, and whether the Annual Caps are being exceeded. In the event that the total amounts of the CCTs exceed the Annual Caps, or that there is any 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.

As also mentioned in the foregoing section of this letter, the Group has adopted the internal control measures to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders. Details of the internal control measures are set out in the section headed "Internal control measures for the continuing connected transactions" in the Board Letter.

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.

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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 is 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.

* *For identification purpose only*

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 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	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	42,009,511 A shares	6.25%	4.60%
NEIIC	Corporate interests held in the capacity of beneficial owner	3,238,000 H shares	1.33%	0.35%
China Huarong Asset Management Co., Ltd.	Corporate interests held in the capacity of beneficial owner	82,811,667 A shares	12.33%	9.06%
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 above:

Name of Director/Supervisor	Position held in CEC
Lai Weide	Deputy General Manager
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 above:

Name of Director/Supervisor	Position held in NEIIC
Lai Weide	Chairman
Xu Guofei	General Manager
Zhang Yinqian	Secretary of the Party Committee

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 above:

Name of Director/Supervisor	Position held in PEGL
Lai Weide	Chairman
Xu Guofei	General Manager
Deng Weiming	Deputy General Manager
Lu Qing	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.	43.27%
Nanjing Panda Information Industry Co., Ltd.	GALANT (HK) LIMITED	18%
Nanjing Panda International Telecommunication System Co., Ltd.	Hong Kong Shun Sing Development Co., Ltd.	28.23%
Nanjing Panda Electronics Manufacturing Co., Ltd.	GALANT (HK) LIMITED	25%
Nanjing Panda Power Supply Technology Manufacture Co., Ltd.	Shi Qingrong	11.46%

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. Lai holds offices in CEC, NEIIC and PEGL, Mr. Xu holds offices in CEC, NEIIC and PEGL and holds approximately 0.00028% of the total issued share capital of the Company and Mr. Deng and Mr. Lu hold offices 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 2014 (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 2014 (being the date to which the latest published audited accounts of the Group were made up).

8. 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 activities as defined 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 2014 (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 [2015] No. 725373) (《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[2015]第725373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.

9. 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) Sub-contracting Agreement;

- (b) Sale Agreement;
- (c) Financial Services Agreement;
- (d) CEC Sub-contracting Agreement;
- (e) Purchase Agreement;
- (f) Lease Agreement;
- (g) NEHC Group Lease Agreement;
- (h) Trademark License Agreement;
- (i) Risk Assessment Report on China Electronics Financial Co., Ltd. (Xin Kuai Shi Bao Zi [2015] No. 725373) (《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[2015]第725373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;
- (j) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (k) the letter from Gram Capital, the text of which is set out in this circular; and
- (l) the written consents referred to in the section headed “Expert and Consent” in this Appendix.

10. 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.