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Hisense 海信家電

HISENSE HOME APPLIANCES GROUP CO., LTD.

海信家電集團股份有限公司

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

ANNOUNCEMENT

(1) CONTINUING CONNECTED TRANSACTIONS; AND (2) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

The Company wishes to inform the Shareholders and investors that each of the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2020 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under each of the agreements from time to time after their expiration. In view of the above and to modify the scope of the transactions between certain parties, on 30 October 2020, the Company entered into the Business Co-operation Framework Agreement and the Financial Services Agreement.

BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

As at the date of this announcement, (i) Hisense Company (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (ii) Hisense Electric Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (iii) each of Hisense International and Hisense Visual Technology is a subsidiary of Hisense Electric Holdings; and (iv) Hisense Marketing Management is an associate of Hisense Visual Technology as Hisense Visual Technology holds more than 30% of the issued shares of Hisense Marketing Management. As such, Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Visual Technology, Hisense Marketing Management and their respective subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

FINANCIAL SERVICES AGREEMENT

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

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

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although certain applicable percentage ratios for the provision of such deposit services exceed 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, since the other applicable percentage ratios for the provision of such deposit services are more than 25% but less than 75%, the transaction will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules.

GENERAL

A circular containing, inter alia, (i) further information on the Business Co-operation Framework Agreement and the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements; (ii) the letter of advice from the independent financial adviser to the independent board committee and the Shareholders; and (iii) the recommendation from the independent board committee will be despatched to the Shareholders on or before 7 January 2021 in accordance with the Hong Kong Listing Rules. In view of the transactions contemplated under the Business Co-operation Framework Agreement and the Financial Services Agreement which are to be covered in the circular, it is expected that more time may be required by the Company to prepare the circular and for the independent financial adviser to review and advise on such transactions. Therefore, it is expected that the circular will be despatched beyond 15 business days after the publication of this announcement.

BACKGROUND

References are made to:

- (i) the announcements of the Company dated 6 November 2019 and 31 July 2020 in relation to, inter alia, the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement; and
- (ii) the circulars of the Company dated 20 December 2019 and 3 September 2020 in relation to, inter alia, the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement.

The Company wishes to inform the Shareholders and investors that each of the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2020 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under each of the agreements from time to time after their expiration. In view of the above and to modify the scope of the transactions between certain parties, on 30 October 2020, the Company entered into the Business Co-operation Framework Agreement and the Financial Services Agreement.

(A) CONTINUING CONNECTED TRANSACTIONS

BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

Date: 30 October 2020

Parties: The Company;
Hisense Company;
Hisense Electric Holdings;
Hisense International;
Hisense Marketing Management; and
Hisense Visual Technology

Each of the parties to the Business Co-operation Framework Agreement shall be entitled to authorise its subsidiaries to take up its rights and obligations and perform under the Business Co-operation Framework Agreement, and to enter into definitive contract(s) with each other for the transactions to be conducted under the Business Co-operation Framework Agreement. As at the date of this announcement, as (i) Hisense Electric Holdings is controlled by Hisense Company; and (ii) each of Hisense International, Hisense Marketing Management and Hisense Visual Technology is a subsidiary of Hisense Electric Holdings, for the purpose of the transactions to be conducted under the Business Co-operation Framework Agreement, (a) subsidiaries of Hisense Company shall not include Hisense Electric Holdings and its subsidiaries; and (b) subsidiaries of Hisense Electric Holdings shall not include Hisense International, Hisense Marketing Management and Hisense Visual Technology and their respective subsidiaries.

Term:

The Business Co-operation Framework Agreement shall commence from 1 January 2021 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2021, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any exemption for connected transactions being withdrawn or revoked or becoming invalid and there is non-compliance with the relevant Hong Kong Listing Rules

and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated under it have been terminated for the above reason.

Condition:

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

Subject matters:

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

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

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

The Mixed Ownership Reform of Hisense Company and the proposed succession of part of the service function of Hisense Company and the related Caps by Hisense Electric Holdings following the completion of the Mixed Ownership Reform:

References are made to the overseas regulatory and inside information announcements of the Company both dated 28 May 2020 and the overseas regulatory and inside information announcement of the Company dated 23 October 2020 (the “Announcements”) in relation to, among other matters, the “Implementation Plan of the Mixed Ownership Reform of Hisense Company” (《海信集團深化混合所有制改革實施方案》) (the “Mixed Ownership Reform”).

As disclosed in the Announcements, Hisense Company is undergoing certain enterprise reform and restructuring work. As the subject entity of the Mixed Ownership Reform, Hisense Electric Holdings will, through enlarging its registered capital by issuing shares for listing and public trading on the Qingdao Property Rights Exchange (青島產權交易所), introduce strategic investor(s) with industrial synergy and the ability to assist Hisense Electric Holdings in its international development in order to achieve a more diversified shareholding structure as well as a more market-based corporate governance structure. As at the date of this announcement, the Mixed Ownership Reform had not yet completed.

As at the date of this announcement, (i) Hisense Company held approximately 32.36% of Hisense Electric Holdings; (ii) Hisense Electric Holdings held approximately 93.33% of Hisense Air-conditioning and wholly-owned Hisense HK; (iii) Hisense Air-conditioning held approximately 37.92% of the Shares; and (iv) Hisense HK held approximately 9.13% of the Shares. Each of Hisense Company and Hisense Electric Holdings (through their indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company.

Following the completion of the Mixed Ownership Reform, it is expected that the equity interests held by Hisense Company in Hisense Electric Holdings would be diluted to approximately 26.79% and Hisense Company would no longer control Hisense Electric Holdings. As such, the Company may change from being a company ultimately controlled by Qingdao SASAC to not having any ultimate beneficial controller. Also, Hisense Company would cease to be the controlling shareholder of the Company and a connected person of the Company under the Hong Kong Listing Rules. Notwithstanding the above, the interest of Hisense Electric Holdings in the Company held through Hisense Air-conditioning and Hisense HK will not be affected by the Mixed Ownership Reform.

Hisense Company entered into the Existing Business Co-operation Framework Agreement with the Company as a representative of Hisense Company and its subsidiaries, including Hisense Electric Holdings and its subsidiaries. Despite that Hisense Company was the signing entity who was a party to the Existing Business Co-operation Framework Agreement, save for the provision of services by the Group to Hisense Company and/or its subsidiaries, as more particularised in the section headed “(3) Provision of services” below, all other continuing connected transactions between the Group and Hisense Company and/or its subsidiaries under the Existing Business Co-operation Framework Agreement are conducted between the Group and Hisense Electric Holdings and/or its subsidiaries.

In view of the expected change of equity holding structure between Hisense Company and the Company following the completion of the Mixed Ownership Reform, that Hisense Company would cease to be the controlling shareholder of the Company and part of the service function of Hisense Company would be succeeded by Hisense Electric Holdings, Hisense Electric Holdings joins as a party to the Business Co-operation Framework Agreement, under which it acknowledges the proposed continuing connected transactions to be conducted between the Group and Hisense Company and/or its subsidiaries and agrees to succeed the rights and obligations of Hisense Company under the Business Co-operation Framework Agreement, including the relevant Caps, upon the completion of the Mixed Ownership Reform.

For the provision of services by the Group to Hisense Company and/or its subsidiaries under the Business Co-operation Framework Agreement, the Group will provide services to (i) Hisense Company and (ii) Hisense Electric Holdings and/or its subsidiaries. Following the completion of the Mixed Ownership Reform, the relevant original business of Hisense Company will be succeeded by Hisense Electric Holdings, and the Group will continue to provide services to Hisense Electric Holdings and/or its subsidiaries. As a result, the rights and obligations of Hisense Company under the Business Co-operation Framework Agreement, including the relevant Caps, are expected to be fully succeeded by Hisense Electric Holdings upon the completion of the Mixed Ownership Reform.

The Company's internal policy regarding continuing connected transactions:

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

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

Following the requirements under the CT Management Policy, the operation departments of the Group will compare the terms of the proposed continuing connected transactions to those of the similar transactions with independent third parties or quotations offered by independent third parties (as the case may be) prior to the execution of the relevant orders or contracts. Before an order or a definitive contract for a transaction is placed, accepted or entered into by the Group, the operation departments of the Group will, depending on the circumstances at that time, either obtain the pricing of similar transactions from at least three independent third parties through public channels, or invite at least three independent third parties who are interested in the transaction to provide or offer their quotations, for the purpose of comparing the pricing of similar transactions. If the operation department of the relevant business sector is of the view that the terms of the proposed orders or contracts are less favourable to the Group than those with or offered by independent third parties, it will report to the senior management who will negotiate with the connected party on the terms of the relevant orders or contracts. If, after negotiation, the connected party cannot offer terms which are no less favourable to the Group than those with or offered by independent third parties, the Group will not execute the relevant orders or contracts.

The finance and securities department of the Company is responsible for the collection and summarisation of all information in relation to the continuing connected transactions from each operation department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of the Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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

The transactions contemplated under the Business Co-operation Framework Agreement are

in connection with the following aspects:

(1) Purchases of electrical appliances

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

Pricing:

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

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

Historical figures:

The annual cap allocated to the purchases of electrical appliances by the Group from Hisense Company, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB93,360,000 (exclusive of VAT). For the nine months ended 30 September 2020, the aggregate transaction amount for the purchases of electrical appliances by the Group from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB22,960,000 (exclusive of VAT and unaudited) (of which RMB1,890,000 was for the purchases from Hisense Electric Holdings and/or its subsidiaries, RMB21,040,000 was for the purchases from Hisense International and/or its subsidiaries and RMB30,000 was for the purchases from Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchases of electrical appliances by the Group from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB327,370,000 (exclusive of VAT), of which:

- (i) RMB3,920,000 will be allocated to the purchases of electrical appliances from Hisense

Electric Holdings and/or its subsidiaries;

- (ii) RMB321,120,000 will be allocated to the purchases of electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB2,330,000 will be allocated to the purchases of electrical appliances from Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) Similar transactions between the Group and Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the estimated annualised unaudited amount of the similar transactions for the year 2020 in the amount of approximately RMB75,120,000.

The estimated annualised unaudited transaction amount for the year 2020 comprises: (a) the historical transaction amount for the nine months ended 30 September 2020 as mentioned above; and (b) the projected transaction amount from October 2020 to December 2020, having taken into account the current progress of the Group's projects, the contemplated transactions under the contracts already entered into by the Group and the development of the Group's business operations in the first three quarters of 2020 (the composition of the estimated annualised unaudited transaction amount for the year 2020, together with the above projection basis of the transaction amount for the final quarter of 2020, in relation to each type of transactions under the Business Co-operation Framework Agreement as presented in this announcement shall hereinafter be referred to as the "**Estimated Annualised Transaction Amount in 2020**").

- (ii) The projected 20% year-on-year increase in the level of sales scale of the Group for the year ending 31 December 2021 (the "**2021 Projected Sales Increment**")

Such increase was projected based on: (a) the Group's continual improvement in the structure of its product sale by increasing the sale of mid- to high-end products and introducing products of high-end brands, which is expected to further increase the average selling price of the Group's products and bring in sales increment; (b) the Group's further effort in promotion and marketing activities with an aim to further increase its market share to boost its sales scale; and (c) the Group's plan to further enhance the competitiveness of its sales channel and the effectiveness of its sales point and sales network, thereby bringing in sales increment.

- (iii) The anticipated percentage increase in the relevant purchases of the Group in 2021

Such anticipated increase includes: (a) the projected purchases of special air-conditioners from Hisense Electric Holdings and/or its subsidiaries in the amount of RMB3,500,000 in 2021, based on the purchase schedule of the special air-conditioners between the Group and Hisense Electric Holdings and/or its subsidiaries; and (b) the projected purchases of "ASKO" and "Gorenje" high-end electrical appliances from Hisense International and/or its subsidiaries in the amount of approximately RMB300,000,000 for the year 2021.

- (iv) The Group's plan of marketing and product promotion activities for the year 2021

The Group plans to offer electrical appliances as gifts for its marketing and product promotion activities for the year 2021 with an aggregate value of RMB2,750,000.

Reasons and benefits:

The sales and overall image of the Group can be enhanced by purchasing electrical appliances from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries as gifts for the Group's marketing and promotion activities which aim at boosting the sale of the Group's electrical appliances. At the same time, the intended purchases of "ASKO" and "Gorenje" high-end electrical appliances by the Group from Hisense International and/or its subsidiaries are expected to further expand the business scale of the Group's sale of high-end electrical appliances in the PRC market, optimise the Group's product structure, and thereby drive the enhancement of the overall high-end electrical appliances business of the Group. The Company has appointed Hisense International and/or its subsidiaries to purchase, on its behalf, prototype of electrical appliances from overseas markets for the purpose of conducting analysis and research, and to carry out product market research. Since the pricing for the purchases of electrical appliances will be determined with reference to the market price of similar electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain electrical appliances through Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the purchases of electrical appliances from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(2) Purchases of raw materials, parts and components

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

Pricing:

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

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

favourable than the price offered to the Group by independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

Historical figures:

The annual cap allocated to the purchases of raw materials, parts and components by the Group from Hisense Company, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB659,580,000 (exclusive of VAT). For the nine months ended 30 September 2020, the aggregate transaction amount for the purchases of raw materials, parts and components by the Group from Hisense Electric Holdings, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB287,990,000 (exclusive of VAT and unaudited) (of which RMB265,730,000 was for the purchases from Hisense Electric Holdings and/or its subsidiaries and RMB22,260,000 was for the purchases from Hisense Visual Technology and/or its subsidiaries).

Under the Existing Business Co-operation Framework Agreement and as of the date of this announcement, the Group had not purchased any raw materials, parts and components from Hisense International and/or its subsidiaries.

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchases of raw materials, parts and components by the Group from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB810,040,000 (exclusive of VAT), of which:

- (i) RMB700,860,000 will be allocated to the purchases of raw materials, parts and components from Hisense Electric Holdings and/or its subsidiaries;
- (ii) RMB35,000,000 will be allocated to the purchases of raw materials, parts and components from Hisense International and/or its subsidiaries; and
- (iii) RMB74,180,000 will be allocated to the purchases of raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Electric Holdings, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 in the amount of approximately RMB384,370,000;
- (ii) the 2021 Projected Sales Increment; and
- (iii) the anticipated percentage increase in the relevant purchases of the Group in 2021, including but not limited to:

- (a) the projected amount of relevant purchases of the Group in 2021 given the historical transaction amount mentioned in (i) above and the projected increase in the level of sales scale as mentioned in (ii) above;
- (b) the expected increase in the scale of purchases of raw materials, parts and components from Hisense Electric Holdings and/or its subsidiaries in 2021 with corresponding quota in the amount of approximately RMB449,280,000 given the strong ability of the subsidiaries of Hisense Electric Holdings in manufacturing raw materials such as electric control boards and Wi-Fi templates;
- (c) the projected purchases of certain materials by the Group from another subsidiary of Hisense Electric Holdings, which principally engages in domestic and import and export business in the PRC and has the purchase advantage in obtaining such materials at a lower cost, in the aggregate amount of RMB251,200,000;
- (d) as a business incidental to the purchase of “ASKO” and “Gorenje” high-end electrical appliances from Hisense International and/or its subsidiaries, the Group expects to purchase raw materials, parts and components from Hisense International and/or its subsidiaries in 2021. Having considered the projected sales increment of such high-end electrical appliances in the PRC market in 2021 and that the Group intends to increase the quota of spare parts for its domestic customers, the projected purchase amount of spare parts in 2021 is increased to approximately RMB5,000,000. In addition, Hisense International and/or its subsidiaries have the advantages in purchasing certain overseas specific materials (for example, raw materials, parts and components for high-end kitchen and hygiene products) and the projected purchases of these overseas specific materials by the Group from Hisense International and/or its subsidiaries in 2021 is approximately RMB30,000,000; and
- (e) the projected purchases of voice control module, which are to be used to produce intelligent products, by the Group from Hisense Visual Technology and/or its subsidiaries in 2021 in the amount of approximately RMB23,000,000.

Reasons and benefits:

With the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. The subsidiaries of Hisense Electric Holdings have better ability in manufacturing those products with better quality and is beneficial to ensure the quality and performance of products. The Company is satisfied with the quality of the raw materials, parts and components provided by Hisense Electric Holdings and/or its subsidiaries from the previous course of dealings. Quality of the Group’s products is guaranteed by purchasing certain raw materials from Hisense Electric Holdings and/or its subsidiaries, which, in turn, increases product competitiveness.

The Group imports “ASKO” and “Gorenje” high-end electrical appliances from Hisense international and/or its subsidiaries for sale in the PRC market. The purchases of raw materials, parts and components from Hisense International and/or its subsidiaries help to meet the business demand of the Group in selling such high-end electrical appliances products. Furthermore, in view of the advantages of Hisense International and/or its subsidiaries in purchasing certain overseas specific materials (for example, raw materials,

parts and components for high-end kitchen and hygiene products), purchasing such overseas specific materials from Hisense International and/or its subsidiaries help to lower the Group's cost of purchase.

With the increase in demand for smart electrical appliances, the Group's use of raw materials, parts and components for voice control module also increases. Purchasing such raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries help to meet the demand of the Group in producing smart electrical appliances.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the purchases of raw materials, parts and components from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(3) Provision of services

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage (i) Hisense Company for the provision of property, employee health management, technical support and information system development and maintenance services as the Group may require from time to time; (ii) Hisense Electric Holdings and/or its subsidiaries for the provision of material processing, installation and maintenance, distribution, property, leasing, design, inspection, agency services, management consultancy, technical support and information system development and maintenance services as the Group may require from time to time; (iii) Hisense International and/or its subsidiaries for the provision of maintenance, agency and technical support services as the Group may require from time to time; (iv) Hisense Marketing Management and/or its subsidiaries for the provision of agency services as the Group may require from time to time; and (v) Hisense Visual Technology and/or its subsidiaries for the provision of property and technical support services as the Group may require from time to time.

Pricing:

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

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

Historical figures:

The annual cap allocated to the provision of services by Hisense Company, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB1,017,960,000. For the nine months ended 30 September 2020, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group amounted to approximately RMB623,720,000 (unaudited) (of which RMB34,840,000 was for the provision of relevant services by Hisense Company, RMB449,180,000 was for the provision of relevant services by Hisense Electric Holdings and/or its subsidiaries, RMB3,810,000 was for the provision of relevant services by Hisense International and/or its subsidiaries, RMB117,310,000 was for the provision of relevant services by Hisense Marketing Management and/or its subsidiaries and RMB18,580,000 was for the provision of relevant services by Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group for the financial year ending 31 December 2021 are subject to the Cap of RMB1,271,470,000, of which:

- (i) RMB56,600,000 will be allocated to the provision of property, employee health management, technical support and information system development and maintenance services by Hisense Company;
- (ii) RMB857,120,000 will be allocated to the provision of material processing, installation and maintenance, distribution, property (including: (a) property leasing services mostly for office buildings; and (b) property management services in relation to office buildings and factories. The majority of the aforementioned properties are located in the Guangdong Province and Shandong Province of the PRC), leasing, design, inspection, agency services, management consultancy, technical support and information system development and maintenance services by Hisense Electric Holdings and/or its subsidiaries;
- (iii) RMB36,590,000 will be allocated to the provision of maintenance, agency and technical support services by Hisense International and/or its subsidiaries;
- (iv) RMB288,190,000 will be allocated to the provision of agency services by Hisense Marketing Management and/or its subsidiaries; and
- (v) RMB32,970,000 will be allocated to the provision of property and technical support services by Hisense Visual Technology and/or its subsidiaries.

Historical figures, proposed Caps, basis of and reasons for determining the proposed Caps are listed in the table below:

Entities providing services	Historical figures (Unit: RMB)	Proposed Caps (Unit: RMB)
Hisense Company	<p>Types of services provided to the Group</p> <p>Cap for the financial year ending 31 December 2020</p> <p>Actual transaction amount for the nine months ended 30 September 2020</p>	<p>Proposed Cap for the financial year ending 31 December 2021</p> <p>Proposed Cap for the financial year ending 31 December 2021</p> <p>34,710,000</p>
Hisense Company	<p>Property services (including property management and property leasing)</p> <p>25,920,000</p> <p>20,660,000</p>	<p>Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021</p> <p>Similar transactions between the Group and Hisense Company in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB25,820,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB34,710,000, representing an increase of approximately 34%, taking into account:</p> <ul style="list-style-type: none"> (i) the corresponding increase in charges for electricity and water and property management in 2021 in view of the expected increase in the operating revenue of the Group; (ii) in addition to the existing leases, the Group will procure leasing of new properties or expand the size of leasing area to meet its increased leasing needs in view of the expected increase in the operating revenue of the Group; and (iii) the expected increase in property service fees in view of the expected increase in rental fees in the property market in 2021. <p>Similar transactions between the Group and Hisense Company in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB3,880,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB4,570,000, representing an increase of approximately 20%, taking into account:</p> <ul style="list-style-type: none"> (i) the Estimated Annualised Transaction Amount in 2020 for the provision of information system maintenance services by Hisense Company to the Group; and (ii) in addition to the existing information system of the Group, in view of the 2021 Project Sales Increment and the increase in the level and demand of information of the Group, the Group is expected to incur additional information system development and maintenance fees.

Historical figures
(Unit: RMB)

Proposed Caps
(Unit: RMB)

Entities providing services	Types of services provided to the Group	Cap for the financial year ending 31 December 2020	Actual transaction amount for the nine months ended 30 September 2020	Proposed Cap for the financial year ending 31 December 2021	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
Hisense Company	Employee health management and technical support services	17,550,000	12,710,000	17,220,000	Similar transactions between the Group and Hisense Company in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB14,520,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB17,220,000, representing an increase of approximately 19%, taking into account: <ul style="list-style-type: none"> (i) the Group will increase its purchases of these services from Hisense Company given the 2021 Projected Sales Increment; and (ii) the Group will increase its appointment of Hisense Company to provide technical support services to its “Laboratory Development Project”.
Total		48,380,000	34,840,000	56,600,000	

Historical figures
(Unit: RMB)

Proposed Caps
(Unit: RMB)

Entities providing services	Types of services provided to the Group	Cap for the financial year ending 31 December 2020	Actual transaction amount for the nine months ended 30 September 2020	Proposed Cap for the financial year ending 31 December 2021
Hisense Electric Holdings and/or its subsidiaries	Material processing services	144,770,000	87,280,000	169,870,000
Installation and maintenance services		290,660,000	138,810,000	305,280,000

Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021

Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised transaction Amount in 2020, amount to approximately RMB123,180,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB169,870,000, representing an increase of approximately 38%, taking into account:

- the Group will correspondingly increase its purchases of material processing services from Hisense Hisense Electric Holdings and/or its subsidiaries given the 2021 Projected Sales Increment; and
- the Group will increase the purchases of material processing services from Hisense Electric Holdings and/or its subsidiaries so as to ensure the Group's product quality as the Group is satisfied with their high service quality.

Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB207,420,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB305,280,000, representing an increase of approximately 47%, taking into account:

- the Group will correspondingly increase its appointment of Hisense Electric Holdings and/or its subsidiaries to provide installation and maintenance services given the 2021 Projected Sales Increment; and
- the Group will increase the range of products for which Hisense Electric Holdings and/or its appointed to provide installation and maintenance services as the Group is satisfied with their high service quality.

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap (Unit: RMB)	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
		Cap for the financial year ending 31 December 2020	Actual transaction amount for the year ending 31 December 2020		
Hisense Electric Holdings and/or its subsidiaries	Property services (including property management and property leasing)	18,060,000	8,910,000	22,940,000	<p>Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB17,170,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB22,940,000, representing an increase of approximately 34%, taking into account:</p> <ul style="list-style-type: none"> (i) the corresponding increase in charges for electricity and water and property management in 2021 in view of the expected increase in the operating revenue of the Group; (ii) in addition to the existing leases, the Group will procure leasing of new properties or expand the size of leasing area to meet its increased leasing needs in view of the expected increase in the operating revenue of the Group; and (iii) the expected increase in property service fees in view of the expected increase in rental fees in the property market in 2021.
	Information system development and maintenance services	101,220,000	68,640,000	128,190,000	<p>Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 for the provision of information system maintenance services by Hisense Electric Holdings and/or its subsidiaries to the Group; and</p> <ul style="list-style-type: none"> (i) the Estimated Annualised Transaction Amount in 2020 for the provision of information system maintenance services by Hisense Electric Holdings and/or its subsidiaries to the Group; and (ii) in addition to the existing information system of the Group, in view of the 2021 Project Sales Increment and the increase in the level and demand of information of the Group, in particular, in the areas of “intellectual manufacturing”, “instant communication application”, “sales management” and “intelligent office”, the Group is expected to incur additional information system development and maintenance fees.

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Cap (Unit: RMB)		Proposed Cap for the financial year ending 31 December 2021		Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
		Cap for the financial year ending December 2020	Actual amount for the nine months ended 31 December 2020	Proposed Cap for the financial year ending 30 September 2020	Proposed Cap for the financial year ending 31 December 2021			
Hisense Electric Holdings and/or its subsidiaries	Equipment inspection services	21,230,000	12,450,000	21,690,000	21,690,000	Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB18,220,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB21,690,000, representing an increase of approximately 19%, taking into account:		
				(i) based on the Estimated Annualised Transaction Amount in 2020 for the provision of equipment inspection services by Hisense Electric Holdings and/or its subsidiaries to the Group, it is expected that the percentage increase in the relevant purchases of the Group in 2021 would be similar to the 2021 Projected Sales Increment; and				
				(ii) the Group will increase its appointment of Hisense Electric Holdings and/or its subsidiaries to provide equipment inspection services as the Group is satisfied with their high service quality.				
	Distribution, leasing, design, agency services, management consultancy and technical support services	158,280,000	133,090,000	209,150,000	209,150,000	Similar transactions between the Group and Hisense Electric Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB157,800,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB209,150,000, representing an increase of approximately 33%, taking into account:		
				(i) the Group will increase its purchases of these services from Hisense Electric Holdings and/or its subsidiaries given the 2021 Projected Sales Increment; and				
				(ii) the Group will increase its appointment of Hisense Electric Holdings and/or its subsidiaries to provide technical support services to its “smart appliances”.				
	Total	734,220,000	449,180,000	857,120,000	857,120,000			

Entities providing services	Types of services provided to the Group	Cap for the financial year ending	Actual transaction amount for the financial year ending	Proposed Cap for the financial year ending	Proposed Cap for nine months ended	Basis of and reasons for determining the proposed Cap for the financial year ending	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
						(Unit: RMB)	(Unit: RMB)
Hisense International and/or its subsidiaries	Maintenance services	31,430,000	2,810,000	24,210,000	24,210,000	Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB18,580,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB24,210,000, representing an increase of approximately 30%, taking into account:	<ul style="list-style-type: none"> (i) the Estimated Annualised Transaction Amount in 2020 for the provision of maintenance services by Hisense International and/or its subsidiaries to the Group; (ii) the expected increase in the sales revenue of the overseas market for the year 2021 to approximately RMB18,571,000,000, representing a year-on-year increase of 26% (the “2021 Projected Overseas Sales Increment”), and (iii) the extension in warranty period of products which leads to the increase in demand for related product maintenance services.
	Agency services	2,030,000	1,000,000	2,380,000	2,380,000	Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB1,830,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB2,380,000, representing an increase of approximately 30%, taking into account:	<ul style="list-style-type: none"> (i) the Group will correspondingly increase its purchases of agency services from Hisense International and/or its subsidiaries given the 2021 Projected Sales Increment; and (ii) the Group will increase the purchases of agency services from Hisense International and/or its subsidiaries as the Group is satisfied with their high quality and efficient service.

Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)				
Entities providing services	Types of services provided to the Group	Cap for the financial year ending December 2020	Actual transaction year 31 December 2020	Proposed Cap for the financial year ending December 2021	Proposed Cap for the year ended September 2020	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
Hisense International and/or its subsidiaries	Technical support services	Nil	Nil	10,000,000	10,000,000	It is expected that the anticipated purchase amount in 2021 is approximately RMB10,000,000, taking into account the Group will increase the purchases of technical support services from Hisense International and/or its subsidiaries as the Group expects to develop new projects for the research and development of high- end kitchen electrical appliances in 2021, and Hisense International and/or its subsidiaries have the experience in the research and development of high-end kitchen electrical appliances.
Total		33,460,000		3,810,000		36,590,000

Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
Entities providing services	Types of services provided to the Group	Cap for the financial year ending 31 December 2020	Proposed Cap for the financial year ending 31 December 2021
Hisense Marketing Management and/or its subsidiaries	Agency services	167,000,000	117,310,000
		Actual transaction amount for the nine months ended 30 September 2020	Similar transactions between the Group and Hisense Marketing Management and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB159,080,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB288,190,000, representing an increase of approximately 81%, taking into account:
			<p>(i) the Estimated Annualised Transaction Amount in 2020 for the provision of agency services by Hisense Marketing Management and/or its subsidiaries to the Group; and</p> <p>(ii) the Group will increase the purchases of agency services from Hisense Marketing Management and/or its subsidiaries in view of the expected increase in sales of white goods through the business of sale of Hisense full-range electrical appliance products.</p>
			Total
		167,000,000	117,310,000
			288,190,000

Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)			
Entities providing services	Types of services provided to the Group	Cap for the financial year ending 31 December 2020	Actual transaction amount for the nine months ended 30 September 2020	Proposed Cap for the financial year ending 31 December 2021	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2021
Hisense Visual Technology and/or its subsidiaries	Property services (including property management and property leasing)	24,870,000	17,720,000	27,440,000	Similar transactions between the Group and Hisense Visual Technology and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB21,050,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB27,440,000, representing an increase of approximately 30%, taking into account:
					<ul style="list-style-type: none"> (i) the Estimated Annualised Transaction Amount in 2020 for the provision of property services by Hisense Visual Technology and/or its subsidiaries to the Group; (ii) in addition to the existing leases, the Group will procure leasing of new properties or expand the size of leasing area to meet its increased leasing needs in view of the increase in operating revenue of the Group; and (iii) the expected increase in property service fees in view of the increase in rental fees in the property market in 2021.
	Technical support services	10,030,000	860,000	5,530,000	Similar transactions between the Group and Hisense Visual Technology and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020, amount to approximately RMB3,150,000. It is expected that the anticipated purchase amount in 2021 is approximately RMB5,530,000, representing an increase of approximately 76%, taking into account:
					<ul style="list-style-type: none"> (i) the Group will correspondingly increase its purchases of technical support services from Hisense Visual Technology and/or its subsidiaries given the 2021 Projected Sales Increment; and (ii) in 2021, the Group anticipates to appoint Hisense Visual Technology and/or its subsidiaries to provide technical support to, among other platform and laboratory development projects, its “Smart Food Ingredients Management Application Module”.
	Total	34,900,000		18,580,000	32,970,000

Reasons and benefits:

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

In response to the needs of customers and the market, Hisense Marketing Management is responsible for the integrated management and organisation of both the online e-commerce and offline set sales in certain markets of the Hisense full-range electrical appliance products (mainly brown and white goods), which is conducive to enhancing the synergy and sharing effect of the Hisense full-range electrical appliance products, improve the Group's marketing capability and efficiency, thereby increase the sales scale of the Group's products and revenue of the Group.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the engagement of services of Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(4) Supply of electrical appliances

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

Pricing:

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

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

Historical figures:

The annual cap allocated to the supply of electrical appliances by the Group to Hisense Company, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB16,473,940,000 (exclusive of VAT). For the nine months ended 30 September 2020, the aggregate transaction amount for the supply of electrical appliances by the Group to Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB9,889,080,000 (exclusive of VAT and unaudited) (of which RMB177,160,000 was for the supply to Hisense Electric Holdings and/or its subsidiaries, RMB9,465,790,000 was for the supply to Hisense International and/or its subsidiaries, RMB245,860,000 was for the supply to Hisense Marketing Management and/or its subsidiaries and RMB270,000 was for the supply to Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of electrical appliances by the Group to Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB19,552,610,000 (exclusive of VAT), of which:

- (i) RMB319,270,000 will be allocated to the supply of electrical appliances by the Group to Hisense Electric Holdings and/or its subsidiaries;
- (ii) RMB18,571,080,000 will be allocated to the supply of electrical appliances by the Group to Hisense International and/or its subsidiaries;
- (iii) RMB657,910,000 will be allocated to the supply of electrical appliances by the Group to Hisense Marketing Management and/or its subsidiaries; and
- (iv) RMB4,350,000 will be allocated to the supply of electrical appliances by the Group to Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 in the amount of approximately RMB15,406,720,000;
- (ii) the 2021 Projected Sales Increment;
- (iii) the 2021 Projected Overseas Sales Increment, having considered that in 2021, the Group will (a) focus on its major customers to ensure the continual development of its matured markets and customers scale; (b) further expand its business by exploring into other potential markets; and (c) continue to develop the potential of the overseas markets and increase the sales revenue of its brand products;

- (iv) the expected increase in the sale of full-range products and set products, which have become the market development trend, with the sales revenue to be generated via the sale plan of the Hisense full-range electrical appliance products which is integrated, managed and organised by Hisense Marketing Management expected to amount to approximately RMB657,910,000, representing an increase of 65% year-on-year. Hisense Marketing Management will (a) continue to leverage the strength of its full-range sales platform to continue to expand its sales revenue; and (b) continue to develop potential customers to expand its business scale;
- (v) Hisense Electric Holdings and/or its subsidiaries are expected to further increase their bidding for the provision of special air-conditioners projects in 2021, as a result of which Hisense Electric Holdings and/or its subsidiaries are expected to entrust the Group with the production of special air-conditioners units, with the corresponding amount of approximately RMB214,030,000. In addition, Hisense Electric Holdings and/or its subsidiaries will enhance the development of home appliance ancillary projects and is expected to purchase home appliance products from the Group in the amount of approximately RMB69,000,000; and
- (vi) Hisense Visual Technology and/or its subsidiaries will increase the purchases of electrical appliance products from the Group in the amount of approximately RMB4,350,000 as promotional gifts.

Reasons and benefits:

The production and supply of electrical appliances by the Group to Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries can help to increase production and sales scale and enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. Developing online platform and offline set sales through Hisense Marketing Management benefits the creation of a synergistic effect, which can further increase the Group's sales scale and boost the Group's market share and income.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of electrical appliances to Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(5) Supply of moulds

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

Pricing:

In response to the invitations to tender from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. The bidding price is determined on the basis of a reasonable cost plus reasonable profit margin. For determining reasonable costs, the Company will take into account fixed cost (e.g. depreciation of machinery), cost of raw material, and labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period.

Historical figures:

The annual cap allocated to the supply of moulds by the Group to Hisense Company, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB263,140,000 (exclusive of VAT). For the nine months ended 30 September 2020, the aggregate transaction amount for the supply of moulds by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB78,590,000 (exclusive of VAT and unaudited) (of which RMB nil was for the supply to Hisense Electric Holdings and/or its subsidiaries, RMB34,580,000 was for the supply to Hisense International and/or its subsidiaries and RMB44,010,000 was for the supply to Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB151,500,000 (exclusive of VAT), of which:

- (i) RMB2,000,000 will be allocated to the supply of moulds to Hisense Electric Holdings and/or its subsidiaries;
- (ii) RMB70,000,000 will be allocated to the supply of moulds to Hisense International and/or its subsidiaries; and
- (iii) RMB79,500,000 will be allocated to the supply of moulds to Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 of approximately

RMB87,380,000; and

- (ii) the expected growth in the sales scale of the moulds of the Group in 2021, as:
 - (a) the demand for the Group's moulds is expected to further increase due to the growth in the business scale and addition of new customers of Hisense International and/or its subsidiaries, and the corresponding sales amount is expected to be approximately RMB70,000,000; and
 - (b) the expected amount of purchases by Hisense Visual Technology and/or its subsidiaries is approximately RMB79,500,000 after consultation and negotiation between the Group and Hisense Visual Technology and/or its subsidiaries.

Reasons and benefits:

The manufacture and sale of moulds have become important parts of the business of the Company's subsidiaries, and the sale of moulds by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of moulds to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(6) Supply of raw materials, parts and components

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

Pricing:

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

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

parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

Historical figures:

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Company, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB385,220,000 (exclusive of VAT). For the nine months ended 30 September 2020, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB122,800,000 (exclusive of VAT and unaudited) (of which RMB88,240,000 was for the supply to Hisense Electric Holdings and/or its subsidiaries, RMB33,870,000 was for the supply to Hisense International and/or its subsidiaries and RMB690,000 was for the supply to Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB445,010,000 (exclusive of VAT), of which:

- (i) RMB351,350,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric Holdings and/or its subsidiaries;
- (ii) RMB90,000,000 will be allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries; and
- (iii) RMB3,660,000 will be allocated to the supply of raw materials, parts and components to Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 in the amount of approximately RMB205,990,000;
- (ii) the 2021 Projected Sales Increment;
- (iii) the anticipated percentage increase in the relevant purchases of the Group in 2021, as it is expected that the Group will increase its purchases of raw materials such as electric control boards processed by the subsidiaries of Hisense Electric Holdings to meet the Group's production needs in 2021. The Group will first sell to Hisense Electric Holdings and/or its subsidiaries raw materials for their processing, and it is expected that the purchases of the raw materials by Hisense Electric Holdings and/its subsidiaries will increase to the amount of approximately RMB200,000,000;

- (iv) another subsidiary of Hisense Electric Holdings is principally engaged in domestic and import and export trading business. As the Group has advantages in sourcing certain specific materials, it is expected that Hisense Electric Holdings and/or its subsidiaries will purchase these materials from the Group in the amount of approximately RMB130,000,000;
- (v) the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries is a business incidental to the sale of products by the Group to Hisense International and/or its subsidiaries. Based on the 2021 Projected Overseas Sales Increment, having also taken into account the increase in the quota of spare parts required by overseas customers and the expected increase in the revenue from the sale of spare parts, the amount for exporting raw materials, parts and components for the year 2021 is estimated to be approximately RMB90,000,000; and
- (vi) the Group sell raw materials, parts and components to Hisense Visual Technology and/or its subsidiaries, which mainly include the parts and components of television backboard and television case etc. produced by the Group for Hisense Visual Technology and/or its subsidiaries, and the expected amount of purchases by Hisense Visual Technology and/or its subsidiaries is approximately RMB3,660,000 after consultation and negotiation between the Group and Hisense Visual Technology and/or its subsidiaries.

Reasons and benefits:

The subsidiaries of Hisense Electric Holdings have better ability in manufacturing raw materials (such as electric control boards and Wi-Fi modules) required for manufacturing electrical appliances products with better quality and is beneficial to ensure the quality and performance of the products. Quality of the Group's products is guaranteed by purchasing certain raw materials from Hisense Electric Holdings and/or its subsidiaries, which, in turn, increases product competitiveness. Such businesses are carried out by means of raw material processing. The Group supplies Hisense Electric Holdings and/or its subsidiaries with the raw materials such as electric control boards and Wi-Fi modules required for production, which facilitates the development of the aforementioned businesses.

The subsidiaries of Hisense Electric Holdings principally engage in domestic and import and export business in the PRC. As the Group has advantages in sourcing certain specific materials, supply of these materials by the Group would increase its sourcing scale, enhance the Group's bargaining power and further reduce the sourcing cost.

Hisense International has overseas sales channels and high quality customer resources. The supply of raw materials, parts and components of export products by the Group to Hisense International can satisfy the business needs of the Group's export sales and expand the export sales scale of the Group. The provision of raw materials, parts and components to Hisense Visual Technology and its subsidiaries can also increase the revenue of the Group.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the supply of raw materials, parts and components to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation

Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(7) Provision of services by the Group

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, (i) provide property services, processing services and installation services to Hisense Electric Holdings and/or its subsidiaries; (ii) provide property services to Hisense International and/or its subsidiaries; and (iii) provide property services, processing services and installation services to Hisense Visual Technology and/or its subsidiaries.

Pricing:

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

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

Historical figures:

The annual cap allocated to the provision of services by the Group to Hisense Company, Hisense International, Hisense Visual Technology and/or its subsidiaries for the financial year ending 31 December 2020 as specified in the Existing Business Co-operation Framework Agreement is RMB48,660,000. For the nine months ended 30 September 2020, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB19,150,000 (unaudited) (of which RMB12,450,000 was for the provision of relevant services by the Group to Hisense Electric Holdings and/or its subsidiaries, RMB2,140,000 was for the provision of relevant services by the Group to Hisense International and/or its subsidiaries and RMB4,560,000 was for the provision of relevant services by the Group to Hisense Visual Technology and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Electric Holdings, Hisense

International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 are subject to the Cap of RMB39,490,000, of which:

- (i) RMB24,590,000 will be allocated to the provision of property services, processing services and installation services by the Group to Hisense Electric Holdings and/or its subsidiaries;
- (ii) RMB4,140,000 will be allocated to the provision of property services by the Group to Hisense International and/or its subsidiaries; and
- (iii) RMB10,760,000 will be allocated to the provision of property services, processing services and installation services by the Group to Hisense Visual Technology and/or its subsidiaries.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2020 in the amount of approximately RMB28,140,000;
- (ii) the 2021 Projected Sales Increment;
- (iii) related business needs of Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the year 2021; and
- (iv) the following expected growth in the businesses of the Group in 2021: (a) property services in the sum of approximately RMB25,110,000 to be provided by the Group; (b) processing services in the sum of approximately RMB2,000,000; and (c) installation services in the sum of approximately RMB7,890,000 to be provided by the Group.

Reasons and benefits:

The provision of services for property and processing services to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries can improve the utilisation rate of the Group's resources and increase the Group's revenue. Provision of installation services to Hisense Electric Holdings, Hisense Visual Technology and/or their respective subsidiaries is incidental to the Group's business of supply of electrical appliances to these companies, which facilitates the development of the Group's business of sale of electrical appliances and increases the Group's revenue.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the terms of the provision of services to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(B) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION FINANCIAL SERVICES AGREEMENT

Date: 30 October 2020

Parties: The Company; and
Hisense Finance

Term:

The term of the Financial Services Agreement shall commence from 1 January 2021 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Condition:

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

Subject matters:

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including but not limited to the following services and such other businesses as may be carried on by Hisense Finance as approved by the regulatory authorities:

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

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

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

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

The Company's internal policy regarding continuing connected transactions:

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

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

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly, the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications and Agricultural Bank of China (the "**Five Major PRC Commercial Banks**"). The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, the Group's finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

The finance and securities department of the Company is responsible for the collection and summarisation of all information in relation to the continuing connected transactions from the finance department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing connected transactions on a quarterly basis and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. It will also conduct a monthly review on the terms of the continuing connected transaction and compare such terms with those of the similar transactions with independent third parties based on the information provided by the finance department. The scope of the review conducted by the finance department and the securities department is the same so that the same information can be reviewed by personnel of different departments whose duties are segregated from each other. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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

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

The transactions contemplated under the Financial Services Agreement are in connection with the following aspects:

(1) Deposit services

Pricing:

The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly and the demand deposits will be reviewed monthly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the Five Major PRC Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of interest rates on deposits via conducting online and telephone enquiries.

Historical figures:

The maximum daily balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is

RMB16,800,000,000 (inclusive of interest). For the period commencing from 1 January 2020 to 30 September 2020, the maximum daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB13,000,000,000.

Proposed Cap:

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB18,500,000,000 (inclusive of interest) for the year ending 31 December 2021.

The above Cap was determined with reference to:

- (i) the historical cashflow figures of the Group; and
- (ii) the level of growth in monetary funds attributable to the 2021 Projected Sales Increment. As at 30 September 2020, the balance of monetary funds held by the Group was RMB12,380,000,000, and the balance of monetary funds from wealth management was RMB3,050,000,000 (the total amount of monetary funds held by the Group and from wealth management was thus RMB15,430,000,000). Based on the 2021 Projected Sales Increment, it is anticipated that the highest daily cash balance held by the Group will correspondingly increase by 20% to approximately RMB18,500,000,000 (inclusive of interest) in 2021.

While the Group does not intend to deposit all its cash with Hisense Finance, taking into account the following, a buffer in the maximum daily cash balance of the deposits placed by the Group with Hisense Finance is required:

- (i) although the Group intends to continue to allocate a substantial amount of its cash for subscription of entrusted wealth management products, deposit services are still required for cash involved in the transition period between the expiry of entrusted wealth management products and the subscription of new entrusted wealth management products. The expected amount of cash for subscription of entrusted wealth management products in the year 2021 is approximately RMB9,000,000,000; and
- (ii) the Group will also borrow loans from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. As the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for drawdown, the Group's funding needs in terms of loans will also affect the Group's deposit balances with Hisense Finance, as the Group would require temporary deposit of the proceeds of the loans proposed to be provided by Hisense Finance to the Group under the Financial Services Agreement.

In view of the above, in order to satisfy the business needs, it is expected that the daily closing balance of deposit will not exceed RMB18,500,000,000 (inclusive of interest) in 2021.

(2) *Loan and electronic bank acceptance bill services*

Pricing:

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

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

Historical figures:

The maximum daily balance of loan and electronic bank acceptance bills which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB11,500,000,000 (inclusive of interest and service fees). For the period commencing from 1 January 2020 to 30 September 2020, the maximum daily balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB8,870,000,000.

Proposed Cap:

The Company currently expects that the maximum daily balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB11,500,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2021.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Finance (that is, the estimated annualised unaudited amount of the similar transactions for the year 2020);
- (ii) the estimated ratio of payment by means of electronic bank acceptance bills by the Group for the year 2021; and
- (iii) the plan of the Group to continue to obtain more loans and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2021 since the terms for the provision of the loans and

electronic bank acceptance bill services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the loan and electronic bank acceptance bill services application process by the Group.

In 2021, the Group will continue to optimise payment terms, increase payment via electronic bank acceptance bills, reduce payments via cash and endorsement of bills receivable. On one hand, the Group can utilise the available capital more efficiently to obtain operational income and increase cash flow. On the other hand, the Group can reduce costs derived from endorsement of bills receivable. As such, it is expected that the Group will continue to use electronic bank acceptance bills services in the future. For the nine months ended 30 September 2020, the maximum daily balance of the loan and electronic bank acceptance bills amounted to approximately RMB8,870,000,000. It is expected that payment by means of electronic acceptance bills will increase from currently 48% to 50% in 2021; coupled with the estimated increase in the amount of purchase payment of 20% (which corresponds with the 2021 Projected Sales Increment), the daily balance of loan and electronic bank acceptance bills are expected to be not exceeding RMB11,500,000,000 (inclusive of interests and service fees) in order to meet business needs.

(3) Draft discount services

Pricing:

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

Prior to the execution of the relevant contracts for the draft discount services, the Group's staff will obtain and compare the quotations from Hisense Finance and the Five Major PRC Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of discount rate via conducting online and telephone enquiries.

Historical figures:

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2020 to 30 September 2020, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB1,290,000.

Proposed Cap:

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000 for the year ending 31 December 2021.

The above Cap was determined with reference to:

- (i) the expected financial needs of the Group during the peak season for production for the year 2021; and
- (ii) the plan of the Group to continue to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2021 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge of the background and financial status of the Group which will facilitate the draft discount application process by the Group.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2021; and (ii) the Group's plan to continue to enhance its management on its accounts receivables and inventory to expedite the capital turnover rate and reduce unused inventory and capital, it is estimated that the Company's annual sum of money for procurement of draft discount services by the Group to Hisense Finance will be RMB3,300,000,000 in 2021 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be RMB50,000,000 for the year ending 31 December 2021 taking into account the existing market interest level and the financing cycle of draft discount services.

(4) Settlement and sale of foreign exchange services

Pricing:

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

Prior to the execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and the Five Major PRC Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of service fees via conducting online and telephone enquiries.

Historical figures:

Under the Existing Financial Services Agreement, the annual amount settled or sold by Hisense Finance for the Group shall not exceed US\$300,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2020 to 30 September 2020, the amount settled or sold by Hisense Finance for the Group amounted to approximately US\$48,180,000.

Proposed Cap:

The Company expects that the annual amount of the settlement and sale of foreign exchange services provided by Hisense Finance to the Group shall not exceed the Cap of US\$300,000,000 for the year ending 31 December 2021.

The above Cap was determined with reference to:

- (i) the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the year ending 31 December 2021. For the full year of 2020, it is expected that foreign currency received by the Group from its export business would amount to approximately US\$170,000,000, and payments to be made by the Group in foreign currency would amount to US\$70,000,000 (the total amount of foreign currency received and paid by the Group would thus be US\$240,000,000); and
- (ii) the 2021 Projected Overseas Sales Increment.

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

Pricing:

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period. Hisense Finance announces its scale of charges at the beginning of every year. Currently, the said scale of charges has been lower than those of the major commercial banks in the PRC. The treasure department of the Group conducts monthly review on the service fees charged by external commercial banks, namely the Five Major PRC Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of service fees via conducting online and telephone enquiries. These monthly reviews are conducted for the provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks. If the expected scale of charges of Hisense Finance is found to be more expensive than that of other major commercial banks, the Company will select the bank with cheaper charging rates.

Historical figures:

Under the Existing Financial Services Agreement, the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds shall not exceed RMB3,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2020 to 30 September 2020, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds amounted to approximately RMB580,000.

Proposed Cap:

The Company currently expects that the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for the year ending 31 December 2021.

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

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB5 to RMB200 per transaction. As the Company is unable to ensure that the service fees payable by the Group to Hisense Finance will remain to be lower than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC, and taking into account the Group's expected demand for transfer services in 2021 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2020, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3,000,000.

Reasons for and benefits of the Financial Services Agreement:

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

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

- (i) having reviewed the historical sample deposit rates offered by Hisense Finance and other major commercial banks (including the Five Major PRC Commercial Banks), the Board has noted that the interest rates offered by Hisense Finance are not less favourable than those offered by major commercial banks for the deposit with the same type and tenure. Moreover, Hisense Finance may offer to the Group tailor-made beneficial loan mix that can specifically cater for the Group's funding needs which may not be readily available from other commercial banks;
- (ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more suitable, expedient and efficient service provision than those offered by PRC commercial banks; and
- (iii) Hisense Finance is regulated by the CBRC and engages in the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are companies within Hisense Company. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base,

Hisense Finance is able to safeguard customers' funds more effectively.

Given the above, the Company prefers to conduct the deposit service under the Financial Services Agreement with Hisense Finance in order to maximise the benefits of the Shareholders, instead of conducting the deposit service under the Financial Services Agreement with commercial banks in the PRC to diversify risk. The transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company. It would in turn strengthen the Company's ability to avoid the risk arising from the change of national monetary policies and ensure that the Company will maintain a stable level of assets for daily operation. It would also further improve capital efficiency of the Company.

Despite the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, the Group is still facing a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed and monitored. On one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio, liquidity ratio and other regulatory indicators of Hisense Finance are in compliance with the relevant requirements of the Measures for the Administration of Finance Companies of Enterprise Group (企業集團財務公司管理辦法) issued by the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the Group's deposit arrangement with Hisense Finance and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance, obtain and review the indicator data submitted by Hisense Finance to CBRC on a quarterly basis, assess the operational and financial risks of Hisense Finance, and regularly issue risk assessment reports to the Directors for their consideration and adoption of necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital and to publish announcement timely. As the Company has been reviewing financial reports of Hisense Finance, conducting stress test on deposit periodically, assessing the operational and financial risks of Hisense Finance and regularly issuing risk assessment reports to the Directors during the period when cash is deposited with Hisense Finance pursuant to the Existing Financial Services Agreement and taking into consideration the information from the aforesaid review and comparing with the risk portfolio of other independent financial service providers, the Board considers that the risk profile of Hisense Finance, as a financial services provider to the Group, is not greater than that of the independent commercial banks in the PRC.

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

- (i) reviewing the audited reports of Hisense Finance of the previous two financial years to ascertain the amount of its total assets and has found that its total assets has year-on-year increase and such reports are not qualified nor disclaimed by the auditors;
- (ii) preparing 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」(the “**Risk Assessment Reports**”) which has been published by the Company on the

designated website of Shenzhen Stock Exchange (www.cninfo.com.cn) in which it was noted that Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group (企業集團財務公司管理辦法) as at the relevant reporting dates and the Board has noted that Hisense Finance has been maintaining a relatively higher standard for the weighted average capital adequacy ratio and current ratio (the latest Risk Assessment Reports for the year ended 31 December 2019 and the six months ended 30 June 2020 have been published by the Company on the designated website of the Shenzhen Stock Exchange (www.cninfo.com.cn) on 15 April 2020 and 21 August 2020 respectively); and

- (iii) reviewing the internal regulatory report submitted by Hisense Finance to the Company and the confirmation from Hisense Finance that there was no non-compliance events or deficiencies which resulted in suspension of business or administrative punishment.

Having considered the above findings and the fact that Hisense Finance is only allowed to provide financial services to the subsidiary companies of Hisense Company which Hisense Finance shall have better understanding on their financial positions and such focus of client base enables Hisense Finance to subject to lower default risk as compared to those commercial banks which with voluminous clients, the Directors are of the view that even with the full utilisation of the relevant Caps, the Company will not be subject to undue default risk by Hisense Finance in light of its relatively sound financial positions and historical compliance with relevant regulatory requirements.

As quite a substantial amount of the Group's cash and borrowings will be handled by Hisense Finance under the Financial Services Agreement, the Company has adopted risk control measures to mitigate the risks involved by:

- (i) periodically checking the deposit balance placed with Hisense Finance and reviewing the same by the designated finance staff of the Group;
- (ii) requesting Hisense Finance to provide monthly deposit transaction record statements to the Group so that the Group can monitor the safety of deposits;
- (iii) requesting the designated finance staff of the Group to ask for quotations and terms from other commercial banks for the deposits and electronic bank acceptance bill services that are comparable to the same provided by Hisense Finance in order to ensure that the terms offered by Hisense Finance are not less favourable than other commercial banks; and
- (iv) regularly reviewing the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (such as the financial positions of Hisense Finance is severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement.

The Directors, having taken into consideration of the above matters, are of the view that the Group can be benefited from Hisense Finance's better understanding of the operations of the Group which can provide more suitable and efficient service to the Group comparing

with those offered by other commercial banks in the PRC and the risk control measures implemented by the Group are sufficient to mitigate the risks involved should the Group fully utilise the relevant Caps.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that (i) the transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (ii) the terms of the Financial Services Agreement and the related Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

PLEDGING AND OTHER SECURITY

Hisense Finance may require the Group to provide guarantee, security or pledge in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs.

If the Group is to provide charges in favour of Hisense Finance in respect of the provision of electronic bank acceptance bills provided by Hisense Finance, pursuant to such charges, part of the bank acceptance bills held by the Group will be charged to Hisense Finance to form a portfolio of bank acceptance bills. The Group has opened a special account with Hisense Finance for depositing due and charged bank acceptance bills. The pledged amount would be the face amount of the bank acceptance bills issued by the Group multiplied by the pledge rate determined by Hisense Finance pursuant to the relevant regulations set out by the relevant banking supervision department. The maximum balance of the bank acceptance bills which Hisense Finance may provide for the Group will then be not lower than such pledged amount from time to time. It is contemplated that if the Group is required to provide security or pledge to Hisense Finance in respect of the provision of electronic bank acceptance bill services, such security or pledge will be on similar terms with the pledge mentioned above.

As at the date of this announcement, the Group did not obtain any loan from Hisense Finance and therefore no guarantee, security or pledge in respect of loan services was provided by the Group to Hisense Finance. In the future, if the Group is required to obtain loan from Hisense Finance exceeding the credit limit, Hisense Finance may require the Group to provide guarantee, security or pledge in relation to the provision of loan services. In such circumstance, the Group will use bank acceptance bills as security and such security or pledge will be on similar terms with the pledge in respect of the electronic bank acceptance bill services mentioned above.

If the Group is required to provide security or pledge to Hisense Finance in respect of the provision of electronic bank acceptance bill services or loan services which will involve pledging or charging of any assets other than electronic bank acceptance bills or if the maximum balance of the electronic bank acceptance bills services or loans which Hisense Finance may provide for the Group up to is less than 100% of the pledge value for the bank

acceptance bills which are deposited by the Group as security for such services or loans, the Company will re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules.

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

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

INFORMATION RELATING TO THE GROUP, HISENSE COMPANY, HISENSE ELECTRIC HOLDINGS, HISENSE INTERNATIONAL, HISENSE MARKETING MANAGEMENT, HISENSE VISUAL TECHNOLOG AND HISENSE FINANCE

The Group is principally engaged in research and development, manufacturing and marketing of electrical products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines and kitchen appliances.

Hisense Company was a wholly state-owned enterprise incorporated in August 1979 and has a registered capital of RMB806,170,000. Its legal representative is Mr. Zhou Houjian and its registered address is at No. 17 Donghai West Road, Shinan District, Qingdao City. The scope of business of Hisense Company includes: the entrusted operation of state-owned assets; the engagement in foreign investment with its own capital; the manufacture and sale of, and provision of service related to, television sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products; the development of software and the provision of internet services; technology development and provision of consultation services; self-operated import and export business; foreign economic and technical cooperation; operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings; property management; leasing of tangible property, leasing of immovable property; catering management services; catering services; conference services and parking services. The ultimate beneficial owner of Hisense Company is Qingdao SASAC.

Hisense Electric Holdings was incorporated in 2001 and has a registered capital of RMB199,774,600. Its legal representative is Mr. Jia Shao Qian and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, Qingdao City. The scope of business of Hisense Electric Holdings includes: capital operation management; investment of own assets; 3C technology development, achievement transfer and technical consulting services; development, manufacture and sale of consumer electronic products; import and export business; development, manufacture and sale of special-purpose electrical equipment; investment management of own funds; property leasing; property management. The ultimate beneficial owner of Hisense Electric Holdings is Qingdao SASAC.

Hisense International was incorporated in 2008 and has a registered capital of RMB30,000,000. Its legal representative is Mr. Lin Lan and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, Qingdao City. The principal of Hisense International includes: the operation and agent of import and export of goods, import and export of technology; planning of corporate marketing; carrying on sino-foreign joint venture and cooperative production business; and carrying on the business of “The Three-plus-one Trading-mix”. Hisense International is 12.67% owned by the Company. The ultimate beneficial owner of Hisense International is Qingdao SASAC.

Hisense Marketing Management was incorporated in July 2017 and has a registered capital of RMB100,000,000. Its legal representative is Mr. Cheng Kai Xun and its registered address is at No. 399, Songling Road, Laoshan District, Qingdao City, Shandong Province. The scope of business of Hisense Marketing Management includes: wholesale, retail, agency sales, after-sale service, warranty extension services for televisions, air conditioners, home appliances and components, electronic products, communication equipment, communication devices (excluding satellite antenna), sensing and control equipment, marketing planning, sales, construction and technical services for security and surveillance equipment, e-commerce technical service, internet information services, internet operation and promotion, exhibition display services, design, production, publication, agency of domestic advertisements, logistics design, supply chain management, road freight transport. Hisense Marketing Management is 50% owned by the Company. The ultimate beneficial owner of Hisense Marketing Management is Qingdao SASAC.

Hisense Visual Technology was established on 17 April 1997 and has a registered capital of RMB1,308,481,222. Its legal representative is Mr. Liu Hong Xin and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. The scope of business of Hisense Visual Technology includes: the research and development, manufacture, sales, service, repair and recycling of television sets, flat panel display sets, mobile phones, electric refrigerators, electric freezers, washing machines, water heaters, microwave ovens, small household appliance products (such as dishwashers, electric irons, electric hair dryers, electric cookers), broadcasting appliances, electronic computers, communication products, mobile communication appliances, information technology products, household and commercial appliances and electronic products; non-standardised equipment processing, installation and after-sales services; self-operated import and export business; production of terrestrial broadcasting receiver equipment for satellite televisions; leasing of houses, leasing of machinery and equipment, property management; general logistics. The ultimate beneficial owner of Hisense Visual Technology is Qingdao SASAC.

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance is not a banking company as defined in Rule 14A.88 of the Hong Kong Listing Rules. Hisense Finance was established in the PRC on 12 June 2008 and has a registered capital of RMB1,300,000,000. The business scope of Hisense Finance includes: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment

among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies. The ultimate beneficial owner of Hisense Finance is Qingdao SASAC.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

(A) Business Co-operation Framework Agreement

As at the date of this announcement, (i) Hisense Company (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (ii) Hisense Electric Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (iii) each of Hisense International and Hisense Visual Technology is a subsidiary of Hisense Electric Holdings; and (iv) Hisense Marketing Management is an associate of Hisense Visual Technology as Hisense Visual Technology holds more than 30% of the issued shares of Hisense Marketing Management. As such, Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Visual Technology, Hisense Marketing Management and their respective subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

In view of the interests of Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management and Hisense Visual Technology in the Business Co-operation Framework Agreement, Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and their respective associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement, the transactions contemplated under it and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the date of this announcement, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control over the voting right in respect of their Shares.

(B) Financial Services Agreement

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

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

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Although certain applicable percentage ratios for the provision of such deposit services exceed 100%, the provision of financial assistance does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, since the other applicable percentage ratios for the provision of such deposit services are more than 25% but less than 75%, the transaction will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement, the transactions contemplated under it and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the date of this announcement, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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

GENERAL

Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Duan Yue Bin and Mr. Fei Li Cheng, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated under the agreements in view of their interest therein as set out below:

(i) Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong are

directors or senior management of Hisense Company; and

(ii) Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Duan Yue Bin and Mr. Fei Li Cheng are directors of Hisense Electric Holdings and/or some of its subsidiaries.

An independent financial adviser will be appointed to advise the independent board committee of the Company and the Shareholders regarding the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements. An independent board committee of the Company will also be formed to advise the Shareholders on whether or not the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

A circular containing, *inter alia*, (i) further information on the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements; (ii) the letter of advice from the independent financial adviser to the independent board committee and the Shareholders; and (iii) the recommendation from the independent board committee will be despatched to the Shareholders on or before 7 January 2021 in accordance with the Hong Kong Listing Rules. In view of the transactions contemplated under the Business Co-operation Framework Agreement and the Financial Services Agreement which are to be covered in the circular, it is expected that more time may be required by the Company to prepare the circular and for the independent financial adviser to review and advise on such transactions. Therefore, it is expected that the circular will be despatched beyond 15 business days after the publication of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set out below:

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Business Co-operation Framework Agreement”	the Business Co-operation Framework Agreement (業務合作框架協議) dated 30 October 2020 entered into between the Company, Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management and Hisense Visual Technology in relation to the sale and purchase of

electrical appliances, raw materials, parts and components, supply of moulds and the provision of various services

“Caps”

(A) the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2021, being (1) RMB327,370,000 in respect of the purchases of electrical appliances by the Group from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; (2) RMB810,040,000 in respect of the purchases of raw materials, parts and components by the Group from Hisense Electric Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; (3) RMB1,271,470,000 in respect of the provision of services by Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (4) RMB19,552,610,000 in respect of the supply of electrical appliances by the Group to Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; (5) RMB151,500,000 in respect of the supply of moulds by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; (6) RMB445,010,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; and (7) RMB39,490,000 in respect of the provision of services by the Group to Hisense Electric Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries under the Business Co-operation Framework Agreement; and

(B) the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (1) RMB18,500,000,000 (inclusive of interest) in respect

of the maximum daily closing balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (2) RMB11,500,000,000 (inclusive of interest and service fees) in respect of the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (3) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services under the Financial Services Agreement; (4) US\$300,000,000 in respect of the annual amount of foreign currency settled or sold by Hisense Finance for the Group under the Financial Services Agreement; and (5) RMB3,000,000 in respect of the maximum annual amount of service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds under the Financial Services Agreement

“CBRC”

中國銀行業監管管理委員會 (China Banking Regulatory Commission)

“Company”

Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange

“connected person(s)”

has the meaning ascribed to it in the Hong Kong Listing Rules

“controlling shareholder(s)”

has the meaning ascribed to it in the Hong Kong Listing Rules

“Director(s)”

director(s) of the Company

“EGM”

the 2021 first extraordinary general meeting of the Company to be held for, among other things, considering and, if thought fit, approving the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements

“Existing Business Co-operation Framework Agreement”

the business co-operation framework agreement (業務合作框架協議) dated 5 November 2019 entered into between the Company, Hisense Company, Hisense

	International, Hisense Marketing Management and Hisense Visual Technology in relation to the sale and purchase of electrical appliances, raw materials, parts and components, supply of equipment and moulds, and the provision of various services, as supplemented by the supplemental agreement (業務合作框架協議之補充協議) dated 31 July 2020 entered into between the Company and Hisense International
“Existing Financial Services Agreement”	the financial services agreement (金融服務協議) dated 5 November 2019 entered into between the Company and Hisense Finance in relation to the provision of financial services by Hisense Finance to the Group
“Financial Services Agreement”	the financial service agreement (金融服務協議) dated 30 October 2020 entered into between the Company and Hisense Finance in relation to the provision of financial services by Hisense Finance to the Group
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
“Hisense Air-conditioning”	Qingdao Hisense Air-conditioning Company Limited* (青島海信空調有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Electric Holdings, and holds approximately 37.92% of the Shares as at the date of this announcement
“Hisense Company”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability
“Hisense Electric Holdings”	Qingdao Hisense Electric Holdings Company Limited* (青島海信電子產業控股股份有限公司), a company incorporated in the PRC with limited liability, which holds approximately 93.33% of Hisense Air-conditioning and wholly owns Hisense HK as at the date of this announcement
“Hisense Finance”	Hisense Finance Co., Ltd* (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Electric Holdings
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company

	incorporated in Hong Kong with limited liability and a subsidiary of Hisense Electric Holdings, and holds approximately 9.13% of the Shares as at the date of this announcement
“Hisense International”	Hisense International Co., Ltd. (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Electric Holdings
“Hisense Marketing Management”	Hisense Marketing Management Co., Ltd.* (海信營銷管理有限公司), a company incorporated in the PRC with limited liability and owned as to 50% by the Company
“Hisense Visual Technology”	Hisense Visual Technology Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange and is a subsidiary of Hisense Electric Holdings
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Company, Hisense Electric Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and their respective associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Shenzhen Listing Rules; and (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Services Agreement under the Shenzhen Listing Rules
“independent third parties”	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and its connected persons and its ultimate beneficial owner(s) or their respective associates

“PRC”	the People’s Republic of China
“Qingdao SASAC”	State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳証券交易所上市規則)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value-added tax
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

English translations of names in Chinese or another language in this announcement which are marked with “” are for identification purposes only.*

By order of the Board
Hisense Home Appliances Group Co., Ltd.
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 30 October 2020

As at the date of this announcement, the Company’s executive directors are Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Duan Yue Bin and Mr. Fei Li Cheng; and the Company’s independent non-executive directors are Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit.