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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Hisense Home Appliances Group Co., Ltd.**, you should hand this circular at once to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

- (1) CONTINUING CONNECTED TRANSACTIONS;**
- (2) CONTINUING CONNECTED TRANSACTIONS AND  
MAJOR TRANSACTION; AND**
- (3) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR**

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



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

A letter from the Board is set out on pages 7 to 70 of this circular. A letter from the Independent Board Committee is set out on pages 71 to 72 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 73 to 140 of this circular.

A notice of the EGM to be held on Wednesday, 19 January 2022 at 3:00 p.m. at the conference room of the Company's head office, No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC, a proxy form for use at the EGM and a reply slip have been despatched by the Company on Wednesday, 17 November 2021 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hxjd.hisense.cn>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

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## DEFINITIONS

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

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“Articles of Association”	the articles of association of the Company
“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 16 November 2021 entered into between the Company, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK 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
“Cap(s)”	(A) the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2022, being (1) RMB310,500,000 in respect of the purchases of electrical appliances by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (2) RMB2,081,460,000 in respect of the purchases of raw materials, parts and components by the Group from Hisense Holdings, Hisense International, Hisense HK, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (3) RMB1,494,200,000 in respect of the provision of services by Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (4) RMB25,036,390,000 in respect of the supply of electrical appliances by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management,

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## DEFINITIONS

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Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (5) RMB129,190,000 in respect of the supply of moulds by the Group to Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (6) RMB930,750,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries under the Business Co-operation Framework Agreement; and (7) RMB473,390,000 in respect of the provision of services by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or 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) RMB27,000,000,000 (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) RMB18,000,000,000 (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”

中國銀行業監督管理委員會 (China Banking Regulatory Commission)

“close associates”

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

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## DEFINITIONS

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“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 2022 first extraordinary general meeting of the Company to be held at the conference room of the Company’s head office, No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC on Wednesday, 19 January 2022 at 3:00 p.m. to, among other things, consider and, if thought fit, approve the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements and the appointment of an executive Director
“Existing 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 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
“Existing Financial Services Agreement”	the financial services 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
“Financial Services Agreement”	the financial services agreement (金融服務協議) dated 16 November 2021 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

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## DEFINITIONS

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“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 Holdings, and holds approximately 37.92% of the Shares as at the Latest Practicable Date
“Hisense Company”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability
“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 Holdings
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Holdings, and holds approximately 9.13% of the Shares as at the Latest Practicable Date
“Hisense Holdings”	Hisense Group Holdings Co., Ltd. (海信集團控股股份有限公司), 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 Latest Practicable Date
“Hisense International”	Hisense International Co., Ltd. (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense 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. (海信視像科技股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange and is a subsidiary of Hisense 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

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors (namely Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit)
“Independent Financial Adviser”	Caitong International Capital Co., Limited, a corporation licensed to carry Type 1 (Dealing in securities) and Type 6 (Advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, 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
“Latest Practicable Date”	28 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

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## DEFINITIONS

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“Mixed Ownership Reform”	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》), which was completed on 30 December 2020 and details of which were disclosed in the overseas regulatory and inside information announcements of the Company dated 28 May 2020, 23 October 2020 and 30 December 2020 and the circular of the Company dated 28 December 2020
“PRC”	the People’s Republic of China
“Sanden”	Sanden Holdings Corporation, a joint stock corporation organised under the laws of Japan, whose shares are listed on the First Section of the Tokyo Stock Exchange, which is also a non-wholly owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所股票上市規則)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value-added tax
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JPY”	Japanese Yen, the lawful currency of Japan
“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 circular which are marked with “\*” are for identification purposes only.*

*References to time and dates in this circular are to Hong Kong time and dates.*

# 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)

*Executive Directors:*

Mr. Dai Hui Zhong  
Mr. Lin Lan  
Mr. Jia Shao Qian  
Mr. Fei Li Cheng  
Mr. Xia Zhang Zhua

*Registered office:*

No. 8 Ronggang Road  
Ronggui Street  
Shunde District  
Foshan City  
Guangdong Province  
PRC

*Independent non-executive Directors:*

Mr. Ma Jin Quan  
Mr. Zhong Geng Shen  
Mr. Cheung Sai Kit

*Principal place of business in Hong Kong:*  
Room 3101-05  
Singga Commercial Centre  
No. 148 Connaught Road West  
Hong Kong

4 January 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS;  
(2) CONTINUING CONNECTED TRANSACTIONS AND  
MAJOR TRANSACTION; AND  
(3) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 17 November 2021 in respect of the Business Co-operation Framework Agreement and the Financial Services Agreement.

As disclosed in the announcement of the Company dated 17 November 2021, each of the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2021 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 engage Hisense HK as a party to the relevant transactions, on 16 November 2021, the Company entered into the Business Co-operation Framework Agreement and the Financial Services Agreement.

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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 28 October 2021, Ms. Gao Yu Ling (“Ms. Gao”) has been nominated as an executor Director of the eleventh session of the Board.

The purpose of this circular is to:

- (a) provide you with 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;
- (b) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements;
- (c) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements; and
- (d) set out the biographical and other relevant details of Ms. Gao.

### (A) CONTINUING CONNECTED TRANSACTIONS

#### BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

**Date:** 16 November 2021

**Parties:** The Company;  
Hisense Holdings;  
Hisense International;  
Hisense Marketing Management;  
Hisense HK; 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 Latest Practicable Date, as each of Hisense International, Hisense Marketing Management, Hisense HK and Hisense Visual Technology is a subsidiary of Hisense Holdings, for the purpose of clarifying the subject scope of the subsidiaries of Hisense Holdings under the Business Co-operation Framework Agreement and for the purpose of the transactions to be conducted under the Business Co-operation Framework Agreement, subsidiaries of Hisense Holdings shall not include Hisense International, Hisense Marketing Management, Hisense HK and Hisense Visual Technology and their respective subsidiaries.

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## LETTER FROM THE BOARD

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**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2022 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 2022, which can be terminated before its expiration by mutual agreement of the parties.

In the event any exemption for connected transactions is withdrawn or revoked or becomes 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).

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## LETTER FROM THE BOARD

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

The Company has established connected transaction management policy (關連交易管理辦法) (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 department 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 department 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 department and securities department of the Company are 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 periodically and make timely report to the senior management regarding the operating status of the continuing connected transactions of the Group. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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## LETTER FROM THE BOARD

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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 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. The electrical appliances to be purchased by the Group include but not limited to televisions, projectors, “ASKO” and “Gorenje” high-end electrical appliances and air-conditioners for the engine rooms.

#### *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 prices of similar transactions from 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 prices 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB327,370,000 (exclusive of VAT). For the nine months ended 30 September 2021, the aggregate transaction amount for the purchases of electrical appliances by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB116,100,000 (exclusive of VAT).

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## LETTER FROM THE BOARD

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and unaudited) (of which RMB1,630,000 was for the purchases from Hisense Holdings and/or its subsidiaries, RMB113,520,000 was for the purchases from Hisense International and/or its subsidiaries and RMB950,000 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB310,500,000 (exclusive of VAT), of which:

- (i) RMB10,490,000 will be allocated to the purchases of electrical appliances from Hisense Holdings and/or its subsidiaries;
- (ii) RMB298,740,000 will be allocated to the purchases of electrical appliances from Hisense International and/or its subsidiaries; and
- (iii) RMB1,270,000 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 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 2021 in the amount of approximately RMB173,930,000.

The estimated annualised unaudited transaction amount for the year 2021 comprises: (a) the historical transaction amount for the nine months ended 30 September 2021 as mentioned above; and (b) the projected transaction amount from October 2021 to December 2021, 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 2021 (the composition of the estimated annualised unaudited transaction amount for the year 2021, together with the above projection basis of the transaction amount for the final quarter of 2021, in relation to each type of transactions under the Business Co-operation Framework Agreement as presented in this circular shall hereinafter be referred to as the "**Estimated Annualised Transaction Amount in 2021**").

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## LETTER FROM THE BOARD

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(ii) The projected 30% year-on-year increase in the level of sales scale of the Group for the financial year ending 31 December 2022 (the “**2022 Projected Sales Increment**”):

Such increase was projected based on: (a) the Group’s leverage of the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup to continue its efforts in sports marketing, and it is expected that the sales scale will be further expanded; (b) the Group’s perseverance to its high-end strategy and continual optimisation of its product structure, and it is expected that the sales scale of mid-to-high-end products will be further expanded; 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 sales increment.

As mentioned in the section headed “1. Background of the Agreements – (c) Prevailing market conditions about the demand for electrical appliances” in the letter from the Independent Financial Adviser on pages 82 to 85 of this circular, the largest year-on-year growth rate of the revenue of various listed major Chinese white goods companies (other than the Company, which achieved a 40.4% growth) for the twelve months ended 30 September 2021, with reference to their revenue for the twelve months ended 30 September 2020, is 20.7%.

The Company recorded a total revenue of approximately RMB32,423.8 million for the six months ended 30 June 2021, representing an increase of approximately 53.8% as compared to the corresponding period in 2020. For the nine months ended 30 September 2021, the Group recorded unaudited consolidated operating revenue of approximately RMB50,067.2 million, representing a year-on-year increase of approximately 43.6% as compared to unaudited consolidated operating revenue of approximately RMB34,866.0 million for the nine months ended 30 September 2020. In view of the Company’s revenue growth for the six months ended 30 June 2021 and the first three quarters of 2021, the Directors are of the view that the 2022 Projected Sales Increment of 30% is fair and reasonable.

The 2022 Projected Sales Increment is higher than the largest revenue growth rate of other major listed Chinese white goods companies and is supported by the historical revenue growth rate of the Group.

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## LETTER FROM THE BOARD

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(iii) The anticipated increase in the relevant purchases of the Group in 2022:

Such anticipated increase includes: (a) the projected purchases of special air-conditioners from Hisense Holdings and/or its subsidiaries in the amount of RMB10,000,000 in 2022, based on the purchase schedule of the special air-conditioners between the Group and Hisense 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 RMB298,740,000 for the year 2022.

The expected purchases of “ASKO” and “Gorenje” high-end electrical appliances from Hisense International and/or its subsidiaries by the Group in the amount of RMB298,740,000 for the year 2022 is based on the following: (1) the estimated annualised transaction amount for importing “ASKO” and “Gorenje” electrical appliances in 2021 of approximately RMB170,000,000, which comprises: (a) the historical purchase amount of approximately RMB110,000,000 for the nine months ended 30 September 2021; and (b) the projected purchase amount of approximately RMB60,000,000 for the period from 1 October 2021 to 31 December 2021; and (2) the projected sales increment of such high-end electrical appliances is expected to reach an increase of 76% in 2022 from 2021, which is based on the following: (a) the projected sales increment for such high-end electrical appliances in 2021 as compared to 2020 is expected to reach 74% as such revenue is expected to increase from approximately RMB195,000,000 in 2020 to an estimated annualised revenue of approximately RMB340,000,000 in 2021; and (b) a growth of 2% of such business in 2022 as compared to 2021, because the Group will continue to focus on expanding the scale of its high-end products in the PRC through increased market investment, active channel development and other methods. With the Group’s continued efforts to expand the scale of the business and actively develop its channel networks, the Group is confident that it will further expand the sales of these electrical appliances in the PRC market.

(iv) The Group’s plan of marketing and product promotion activities for the year 2022:

The Group plans to purchase electrical appliances as gifts for marketing and product promotion activities for the year 2022 with an aggregate value of RMB1,740,000.

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## LETTER FROM THE BOARD

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### *Reasons and benefits:*

The Group forecasts, based on the orders for projects in hand, that it will need to purchase precision air conditioners from Hisense Holdings and/or its subsidiaries for the ancillary needs of the projects. The Group's purchase of precision air conditioners from Hisense Holdings and/or its subsidiaries is beneficial to the Group's business development. The Group's purchase of "ASKO" and "Gorenje" high-end electrical appliances from Hisense International and/or its subsidiaries is conducive to expanding the domestic sales scale of the Company's high-end products and optimising the product structure, thereby driving the overall high-end product scale of the Company. The Group's purchase of electrical appliances from Hisense Visual Technology and/or its subsidiaries as gifts for the Company's marketing and promotional activities can increase the sales revenue of the Company's electrical appliances, boost the Company's sales revenue and enhance the overall image of the Company.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchases of electrical appliances from Hisense 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 interests 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 Holdings, Hisense International, Hisense HK, 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. The raw materials, parts and components to be purchased by the Group include but not limited to electric control boards, Wi-Fi modules, raw materials for high-end kitchen, display panels, electronic materials, pellets and steel coils.

### *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 prices of similar transactions from 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 prices offered by independent

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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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB810,040,000 (exclusive of VAT). For the nine months ended 30 September 2021, the aggregate transaction amount for the purchases of raw materials, parts and components by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB362,070,000 (exclusive of VAT and unaudited) (of which RMB325,030,000 was for the purchases from Hisense Holdings and/or its subsidiaries, RMB5,430,000 was for the purchases from Hisense International and/or its subsidiaries and RMB31,610,000 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 raw materials, parts and components by the Group from Hisense Holdings, Hisense International, Hisense HK, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB2,081,460,000 (exclusive of VAT), of which:

- (i) RMB756,530,000 will be allocated to the purchases of raw materials, parts and components from Hisense Holdings and/or its subsidiaries;
- (ii) RMB35,350,000 will be allocated to the purchases of raw materials, parts and components from Hisense International and/or its subsidiaries;
- (iii) RMB1,200,000,000 will be allocated to the purchases of raw materials, parts and components from Hisense HK; and
- (iv) RMB89,580,000 will be allocated to the purchases of raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries.

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The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021 in the amount of approximately RMB493,450,000;
- (ii) the 2022 Projected Sales Increment; and
- (iii) the anticipated increase in the relevant purchases of the Group in 2022, including but not limited to:
  - (a) in view of the strong ability of a subsidiary of Hisense Holdings in manufacturing raw materials such as electric control boards and Wi-Fi templates, the scale of purchases of raw materials, parts and components from the subsidiary of Hisense Holdings in 2022 is expected to increase to the amount of approximately RMB440,000,000, having taken into account the Estimated Annualised Transaction Amount in 2021 of approximately RMB330,000,000 between the Group and the subsidiary of Hisense Holdings and the 2022 Projected Sales Increment of 30%;
  - (b) the projected purchases of certain materials by the Group from another subsidiary of Hisense 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 approximately RMB250,000,000;
  - (c) the Group's procurement of raw materials from Hisense International and/or its subsidiaries is mainly for the Group's overseas plant to leverage on the overseas supply chain resources of Hisense International and/or its subsidiaries to achieve synergy and optimise the procurement cost. The expected purchase amount in 2022 is approximately RMB35,350,000;
  - (d) the Group needs to purchase a huge number of raw materials and components overseas for its production and operation demands. The expected purchase amount for raw materials and components through Hisense HK in 2022 is approximately RMB1,200,000,000;

Prior to the Business Co-operation Framework Agreement, the Company entered into a purchase financing agency framework agreement on 5 November 2019 with Hisense HK (the “**Purchase Financing Agency Framework Agreement**”) which commenced on 17 January 2020 (being the date of the

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first extraordinary general meeting of the Company in 2020 approving the Purchase Financing Agency Framework Agreement) and will end on 31 December 2021. Pursuant to the Purchase Financing Agency Framework Agreement, the Company engaged Hisense HK to provide financing agency services to the Company to import raw materials, components and equipment from overseas. The Estimated Annualised Transaction Amount in 2021 for the purchases of raw materials, parts and components through Hisense HK amounts to approximately RMB640,000,000. The transaction amount for the purchases of raw materials through Hisense HK primarily consists of the purchases of electronic materials and pellets, which are expected to increase by 85% (or an increase from the Estimated Annualised Transaction Amount in 2021 of approximately RMB607,650,000 to the expected transaction amount in 2022 of approximately RMB1,125,000,000) and 132% (or increase from the Estimated Annualised Transaction Amount in 2021 of approximately RMB32,360,000 to the expected purchase amount of approximately RMB75,000,000 in 2022), respectively; The purchases of electronic materials and pellets are for the Group's production of intelligent electrical appliances, the use of which has become the latest trend. The expected increase in the purchases of raw materials is a result of (1) the 2022 Projected Sales Increment of 30% which will lead to a corresponding increase in the purchases of raw materials; and (2) the Group's plan of stocking up additional inventory with reference to its production schedule in order to ensure sufficiency of raw materials for production in view of the tight supply and other potential uncertainties such as the potential impact from the COVID-19 pandemic; and

- (e) it is expected that the Group will purchase raw materials such as display panels from Hisense Visual Technology and/or its subsidiaries for use in high-end refrigerator products. The expected purchase amount is approximately RMB12,000,000.

***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 Holdings have better ability in manufacturing these products with better quality, which helps to ensure the quality and performance of products. The Group is satisfied with the quality of the raw materials, parts and components provided by Hisense Holdings and/or its subsidiaries from the previous course of dealings. Quality of the Group's

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## LETTER FROM THE BOARD

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products is guaranteed by purchasing certain raw materials from Hisense Holdings and/or its subsidiaries, which, in turn, increases product competitiveness.

In view of the advantages of Hisense Holdings and/or its subsidiaries in purchasing certain specific materials (for example, raw materials, parts and components for high-end kitchen and hygiene products), purchasing such specific materials from Hisense Holdings and/or its subsidiaries helps to lower the Group's cost of purchase.

With the increase in demand for high-end electrical appliances, the Group's use of raw materials, parts and components for high-end refrigerators also increases. Purchasing such raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries helps to meet the demand of the Group in producing high-end electrical appliances.

As a free trade port, Hong Kong offers mature logistics and transportation services. Centralising the sourcing of raw materials and components through Hisense HK and using Hong Kong as a transfer station for both the collection and delivery of goods will help to reduce the logistics costs and improve the efficiency in collecting raw materials and components.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchases of raw materials, parts and components from Hisense Holdings, Hisense International, Hisense HK, 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 interests 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 Holdings and/or its subsidiaries for the provision of employee health management, material processing, installation and maintenance for refrigerators, residential air-conditioners and kitchen appliances, distribution, property (for offices and staff apartments in Shandong Province and offices in Shenzhen), leasing, design, equipment inspection, agency, training, technical support and information system services as the Group may require from time to time; (ii) 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; (iii) Hisense Marketing Management for the provision of agency services as the Group may require from time to time; and (iv) Hisense Visual Technology and/or its subsidiaries for the provision of property (for staff apartments in Shandong Province, warehouses in Guangdong Province and warehouses in Guizhou Province) and technical support services as the Group may require from time to time.

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### *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 prices for the provision of similar transactions from 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 prices 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 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 as specified in the Existing Business Co-operation Framework Agreement is RMB1,271,470,000. For the nine months ended 30 September 2021, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group amounted to approximately RMB769,760,000 (unaudited) (of which RMB581,470,000 was for the provision of relevant services by Hisense Holdings and/or its subsidiaries, RMB5,300,000 was for the provision of relevant services by Hisense International and/or its subsidiaries, RMB163,950,000 was for the provision of relevant services by Hisense Marketing Management and RMB19,040,000 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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group for the financial year ending 31 December 2022 are subject to the Cap of RMB1,494,200,000, of which:

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- (i) RMB1,134,260,000 will be allocated to the provision of employee health management, 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, equipment inspection, agency, training, technical support and information system services by Hisense Holdings and/or its subsidiaries;
- (ii) RMB22,230,000 will be allocated to the provision of maintenance, agency and technical support services by Hisense International and/or its subsidiaries;
- (iii) RMB282,880,000 will be allocated to the provision of agency services by Hisense Marketing Management; and
- (iv) RMB54,830,000 will be allocated to the provision of property and technical support services by Hisense Visual Technology and/or its subsidiaries.

## LETTER FROM THE BOARD

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

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)		Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
		Cap for the financial year ending 31 December 2021	Actual transaction amount for the nine months ended 30 September 2021	Proposed Cap for the financial year ending 31 December 2022	Proposed Cap for the financial year ending 31 December 2022	
Hisense Holdings and/or its subsidiaries	Equipment inspection services	21,690,000	16,930,000	30,000,000	30,000,000	Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB21,690,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB30,000,000, representing an increase of approximately 38%, taking into account that the Group will increase its purchases of these services from Hisense Holdings and/or its subsidiaries given the 2022 Projected Sales Increment.
Material processing services		169,870,000	104,990,000	184,990,000	184,990,000	Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB143,590,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB184,990,000, representing an increase of approximately 29%, taking into account that the Group will correspondingly increase its purchases of material processing services from Hisense Holdings and/or its subsidiaries given the 2022 Projected Sales Increment.
Installation and maintenance services		305,280,000	164,300,000	284,870,000	284,870,000	Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB225,150,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB284,870,000, representing an increase of approximately 27%, taking into account that the Group will correspondingly increase its appointment of Hisense Holdings and/or its subsidiaries to provide installation and maintenance services given the 2022 Projected Sales Increment.

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Actual transaction amount for the nine months ended 31 December 2021	Proposed Cap for the financial year ending 31 December 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
		Cap for the financial year ending 31 December 2021	Cap for the financial year ending 31 December 2022				
Hisense Holdings and/or its subsidiaries	Property services (including property management and property leasing)	57,650,000 <i>(Notes 1 and 2)</i>	38,570,000	82,980,000	Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB57,650,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB82,980,000, representing an increase of approximately 44%, taking into account:	<ul style="list-style-type: none"> <li>(i) the corresponding increase in charges for electricity and water and property management in 2022 in view of the expected increase in the operating revenue of the Group;</li> <li>(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</li> <li>(iii) the expected increase in property service fees in view of the expected increase in rental fees in the property market in 2022.</li> </ul>	

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Cap for the financial year ending 31 December 2021	Actual transaction amount for the nine months ended 30 September 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense Holdings and/or its subsidiaries	Information system services	132,860,000 <i>(Notes 1 and 3)</i>	97,490,000	204,770,000	<p>Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB132,860,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB204,770,000, representing an increase of approximately 54%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Estimated Annualised Transaction Amount in 2021 for the provision of information system services by Hisense Holdings and/or its subsidiaries to the Group; and</li> <li>(ii) in addition to the existing information system of the Group, in view of the 2022 Project Sales Increment and the increase in the level and demand of informatisation of the Group, Hisense Holdings and/or its subsidiaries will integrate IT resources for the Group, provide information technology planning and build information systems for the Group, and the Group is expected to incur additional information system fees.</li> </ul>

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Cap for the financial year ending 31 December 2021	Actual transaction amount for the nine months ended 30 September 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense Holdings and/or its subsidiaries	Distribution, leasing, design, agency, training, employee health management and technical support services	226,370,000 <i>(Notes 1 and 4)</i>	159,190,000	346,650,000	<p>Similar transactions between the Group and Hisense Holdings and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB213,250,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB346,650,000, representing an increase of approximately 63%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Group will increase its purchases of these services from Hisense Holdings and/or its subsidiaries given the 2022 Projected Sales Increment;</li> <li>(ii) as the Group is satisfied with its high quality and efficient services, the Group will increase the procurement of relevant services from Hisense Holdings and/or its subsidiaries;</li> <li>(iii) to increase efficiency of the Group's delivery logistics, the Group plans to appoint Hisense Holdings and/or its subsidiaries to provide distribution services to shorten the delivery time for and to enhance the shopping experience of customers. It is expected that the purchase amount in 2022 for distribution services is approximately RMB50,000,000; and</li> <li>(iv) the Group will continue to appoint Hisense Holdings and/or its subsidiaries to provide technical support services for the Group's intelligent electrical appliances to enhance the level of intelligence of the Group's electrical appliances. It is expected that the purchase amount in 2022 for technical support services is approximately RMB33,650,000.</li> </ul>
<b>Total</b>		<b>913,720,000</b>		<b>581,470,000</b>	<b>1,134,260,000</b>

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*Note 1:* Following the completion of the Mixed Ownership Reform, part of the service function of Hisense Company has been succeeded by Hisense Holdings which joined as a party to the Existing Business Co-operation Framework Agreement, under which it acknowledged the continuing connected transactions conducted between the Group and Hisense Company and/or its subsidiaries and agreed to succeed the rights and obligations of Hisense Company under the Existing Business Co-operation Framework Agreement, including the relevant Caps, upon the completion of the Mixed Ownership Reform.

*Note 2:* Before the completion of the Mixed Ownership Reform, the cap in respect of property services (including property management and property leasing) to be provided by Hisense Company was RMB34,710,000. In addition to its cap of RMB22,940,000 in respect of the same services, Hisense Holdings succeeded the abovementioned cap of Hisense Company. No actual transaction amount with Hisense Company was incurred under the Existing Business Co-operation Framework Agreement.

*Note 3:* Before the completion of the Mixed Ownership Reform, the cap in respect of information system development and maintenance services to be provided by Hisense Company was RMB4,670,000. In addition to its cap of RMB128,190,000 in respect of the same services, Hisense Holdings succeeded the abovementioned cap of Hisense Company. No actual transaction amount with Hisense Company was incurred under the Existing Business Co-operation Framework Agreement.

*Note 4:* Before the completion of the Mixed Ownership Reform, the cap in respect of employee health management and technical support services to be provided by Hisense Company was RMB17,220,000. Hisense Holdings succeeded the abovementioned cap of Hisense Company and included the abovementioned cap under the services of distribution, leasing, design, agency, training, employee health management and technical support services. No actual transaction amount with Hisense Company was incurred under the Existing Business Co-operation Framework Agreement.

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## LETTER FROM THE BOARD

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Cap for the financial year ending 31 December 2021	Actual transaction amount for the nine months ended 30 September 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense International and/or its subsidiaries	Maintenance	24,210,000	3,000,000	14,910,000	Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB3,950,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB14,910,000, representing an increase of approximately 277%, taking into account:

(i) the Estimated Annualised Transaction Amount in 2021 for the provision of maintenance services by Hisense International and/or its subsidiaries to the Group;

(ii) the expected increase in the sales of the overseas market for the year 2022; and

(iii) the extension in warranty period of products which leads to the increase in demand for related product maintenance services.

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## LETTER FROM THE BOARD

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)		Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
		Actual transaction amount for the nine months ended 31 December 2021	Cap for the financial year ending 31 December 2021	Proposed Cap for the financial year ending 31 December 2022	Proposed Cap for the financial year ending 31 December 2022	
Hisense International and/or its subsidiaries	Technical support services	10,000,000	1,240,000	5,000,000	5,000,000	Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB 1,530,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB 5,000,000, representing an increase of approximately 227%, taking into account:

(i) the Estimated Annualised Transaction Amount in 2021 for the provision of technical support services by Hisense International and/or its subsidiaries to the Group; and

(ii) Hisense International and/or its subsidiaries have extensive research and development experience in high-end kitchen appliance products and the Group will increase the procurement of technical support services from Hisense International and/or its subsidiaries.

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## LETTER FROM THE BOARD

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Actual transaction amount for the nine months ended 31 December 2021	Cap for the financial year ending 31 December 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense International and/or its subsidiaries	Agency services	2,380,000	1,060,000	2,320,000	Similar transactions between the Group and Hisense International and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB 1,660,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB2,320,000, representing an increase of approximately 40%, taking into account:
					<ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its purchases of agency services from Hisense International and/or its subsidiaries given the 2022 Projected Sales Increment; and</li> <li>(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.</li> </ul>
<b>Total</b>		<b>36,590,000</b>	<b>5,300,000</b>	<b>22,230,000</b>	

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## LETTER FROM THE BOARD

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Cap for the financial year ending 31 December 2021	Actual transaction amount for the nine months ended 30 September 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense Marketing Management	Agency services	288,190,000	163,950,000	282,880,000	Similar transactions between the Group and Hisense Marketing Management in the past, that is, the Estimated Annualised 'Transaction Amount' in 2021, amount to approximately RMB224,000,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB282,880,000, representing an increase of approximately 26%, taking into account:
					(i) the Estimated Annualised Transaction Amount in 2021 for the provision of agency services by Hisense Marketing Management to the Group; and
					(ii) the 2022 Projected Sales Increment.
	<b>Total</b>	<b><u>288,190,000</u></b>	<b><u>163,950,000</u></b>	<b><u>282,880,000</u></b>	

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## LETTER FROM THE BOARD

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Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Actual transaction amount for the nine months ended 31 December 2021	Cap for the financial year ending 31 December 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense Visual Technology and/or its subsidiaries	Property services (including property management and property leasing)	27,440,000	17,640,000	44,980,000	<p>Similar transactions between the Group and Hisense Visual Technology and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB26,570,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB44,980,000, representing an increase of approximately 69%, taking into account:</p> <ul style="list-style-type: none"> <li>(i) the Estimated Annualised Transaction Amount in 2021 for the provision of property services by Hisense Visual Technology and/or its subsidiaries to the Group;</li> <li>(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</li> <li>(iii) the expected increase in property service fees in view of the increase in rental fees in the property market in 2022.</li> </ul>

## LETTER FROM THE BOARD

Entities providing services	Types of services provided to the Group	Historical figures (Unit: RMB)		Proposed Caps (Unit: RMB)	
		Actual transaction amount for the nine months ended 31 December 2021	Cap for the financial year ending 31 December 2021	Proposed Cap for the financial year ending 31 December 2022	Basis of and reasons for determining the proposed Cap for the financial year ending 31 December 2022
Hisense Visual Technology and/or its subsidiaries	Technical support services	5,530,000	1,400,000	9,850,000	Similar transactions between the Group and Hisense Visual Technology and/or its subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021, amount to approximately RMB3,940,000. It is expected that the anticipated purchase amount in 2022 is approximately RMB9,850,000, representing an increase of approximately 150%, taking into account:
					<ul style="list-style-type: none"> <li>(i) the Group will correspondingly increase its purchases of technical support services from Hisense Visual Technology and/or its subsidiaries given the 2022 Projected Sales Increment;</li> <li>(ii) in 2022, the Group anticipates to appoint Hisense Visual Technology and/or its subsidiaries to develop product intelligence features to provide technical support to the online voice module of the products; and</li> <li>(iii) in 2022, the Group will entrust Hisense Visual Technology and/or its subsidiaries to jointly develop key experimental projects.</li> </ul>
<b>Total</b>		<b><u>32,970,000</u></b>	<b><u>19,040,000</u></b>	<b><u>54,830,000</u></b>	

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### *Reasons and benefits:*

The Group is satisfied with the quality of the services provided by Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries from the previous course of dealings and considers that Hisense 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, improving the Group's marketing capability and efficiency, thereby increasing the sales scale of the Group's products and profitability of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the engagement of services of Hisense 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 interests 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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries as they may require from time to time. The electrical appliances to be supplied by the Group include but not limited to freezers, refrigerators, washing machines, residential air-conditioners, central air-conditioners, air-purifiers, kitchen appliances and special air-conditioners (基站空調).

### *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 prices of similar transactions from at least three independent third parties.

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## LETTER FROM THE BOARD

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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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB19,552,610,000 (exclusive of VAT). For the nine months ended 30 September 2021, the aggregate transaction amount for the supply of electrical appliances by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB13,310,270,000 (exclusive of VAT and unaudited) (of which RMB154,150,000 was for the supply to Hisense Holdings and/or its subsidiaries, RMB12,755,210,000 was for the supply to Hisense International and/or its subsidiaries, RMB400,000,000 was for the supply to Hisense Marketing Management and RMB910,000 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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB25,036,390,000 (exclusive of VAT), of which:

- (i) RMB474,820,000 will be allocated to the supply of electrical appliances by the Group to Hisense Holdings and/or its subsidiaries;
- (ii) RMB23,213,270,000 will be allocated to the supply of electrical appliances by the Group to Hisense International and/or its subsidiaries;

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## LETTER FROM THE BOARD

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- (iii) RMB1,337,900,000 will be allocated to the supply of electrical appliances by the Group to Hisense Marketing Management; and
- (iv) RMB10,400,000 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 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 2021 in the amount of approximately RMB17,425,820,000;
- (ii) the 2022 Projected Sales Increment;
- (iii) in 2022, the Group will leverage the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup to continue its efforts in sports marketing and it is expected that the overseas sales scale of electrical appliances will be further expanded. In 2022, the projected year-on-year increase in the overseas sales scale of electrical appliances is 40% for Hisense International, which is the source of the overseas sales of electrical appliances of the Company.

The Estimated Annualised Transaction Amount in 2021 of electrical appliances attributable to Hisense International and/or its subsidiaries amounts to approximately RMB16,580,900,000. The increase in the overseas sales scale of electrical appliances of 40% is determined after considering that (a) the estimated transaction units of approximately 21,000,000 units in 2022 represents an increase of approximately 25.7% as compared to the estimated annualised transaction units of approximately 16,700,000 units in 2021; (b) the overseas revenue increased from approximately RMB10,783 million for the nine months ended 30 September 2020 to approximately RMB17,099 million for the corresponding period in 2021, or an increase of approximately 58.6% (or approximately 31.9%, excluding the revenue contribution from Sanden since the acquisition of Sanden completed in May 2021); (c) the overseas revenue increased from approximately RMB11,835 million for the twelve months ended 30 June 2020 to approximately RMB18,598 million for the twelve months ended 30 June 2021, or a year-on-year increase of approximately 57.1% (or approximately 50.4%, excluding the revenue contribution from Sanden since the acquisition of Sanden was completed in May 2021); and (d) as mentioned in the section headed “1. Background of the Agreements – (c) Prevailing market conditions about the demand

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for electrical appliances" in the letter from the Independent Financial Adviser on pages 82 to 85 of this circular, the largest year-on-year growth rate of the overseas revenue of various major listed Chinese white goods companies (other than the Company) for the twelve months ended 30 June 2021, with reference to their revenue for the twelve months ended 30 June 2020, is 29.6%. In view of the Company's overseas revenue growth for the nine months ended 30 September 2021 and the twelve months ended 30 June 2021, the Directors are of the view that the projected overseas sales scale increment of 40% is fair and reasonable;

- (iv) with the sale of full-range products and set products becoming the market development trend, through the sale plan of the Hisense full-range electrical appliance products which is integrated, managed and organised by Hisense Marketing Management, the sales of electrical appliance products from the Group to Hisense Marketing Management in 2022 is expected to amount to approximately RMB1,337,900,000. 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) as it is expected that Hisense Holdings and/or its subsidiaries will increase the level of bidding for the provision of special air-conditioners projects in 2022, Hisense Holdings and/or its subsidiaries are expected to entrust the Group with the production of more special air-conditioners units, with the corresponding amount of approximately RMB380,000,000; and
- (vi) it is expected that the purchases of electrical appliances from Hisense Visual Technology and/or its subsidiaries will amount to approximately RMB10,400,000 in 2022.

***Reasons and benefits:***

The production and supply of electrical appliances by the Group to Hisense 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.

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## LETTER FROM THE BOARD

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In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of electrical appliances to Hisense 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 interests 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 International, Hisense Visual Technology and/or their respective subsidiaries as they may require from time to time. The moulds to be supplied by the Group include but not limited to moulds for cars and sheet metals.

***Pricing:***

In response to the invitations to tender from 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 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB151,500,000 (exclusive of VAT). For the nine months ended 30 September 2021, the aggregate transaction amount for the supply of moulds by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB60,160,000 (exclusive of VAT and unaudited) (of which RMB23,230,000 was for the supply to Hisense International and/or its subsidiaries and RMB36,930,000 was for the supply to Hisense Visual Technology and/or its subsidiaries).

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### *Proposed Cap:*

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB129,190,000 (exclusive of VAT), of which:

- (i) RMB52,000,000 will be allocated to the supply of moulds to Hisense International and/or its subsidiaries; and
- (ii) RMB77,190,000 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 International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021 of approximately RMB100,640,000; and
- (ii) the expected growth in the sales scale of the moulds of the Group in 2022, including but not limited to:
  - (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 RMB52,000,000; and
  - (b) the expected amount of purchases by Hisense Visual Technology and/or its subsidiaries is approximately RMB77,190,000 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 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 (including the independent non-executive Directors) are of the view that the terms of the supply of moulds to Hisense International, Hisense Visual Technology and/or their

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## LETTER FROM THE BOARD

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respective subsidiaries under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests 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 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. The raw materials, parts and components to be supplied by the Group include but not limited to (i) raw materials for producing electric control boards (such as resistors); and (ii) raw materials, parts and components for the production of refrigerators, washing machines, residential air-conditioners, central air-conditioners and kitchen appliances.

#### ***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 prices of similar transactions from 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 similar transaction price of 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB445,010,000 (exclusive of VAT). For the nine months ended 30 September 2021, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately

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RMB273,450,000 (exclusive of VAT and unaudited) (of which RMB184,690,000 was for the supply to Hisense Holdings and/or its subsidiaries and RMB88,760,000 was for the supply to Hisense International and/or its subsidiaries).

***Proposed Cap:***

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB930,750,000 (exclusive of VAT), of which:

- (i) RMB706,650,000 will be allocated to the supply of raw materials, parts and components to Hisense Holdings and/or its subsidiaries;
- (ii) RMB220,000,000 will be allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries; and
- (iii) RMB4,100,000 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021 in the amount of approximately RMB371,290,000;
- (ii) the 2022 Projected Sales Increment;
- (iii) it is expected that the Group will continue to purchase raw materials such as electric control boards processed by a subsidiary of Hisense Holdings to meet the Group's production needs in 2022. Since these operations are carried out by means of material sales processing, the Group will first sell raw materials such as resistors to the subsidiary of Hisense Holdings for processing, and the amount of raw materials expected to be supplied to the subsidiary of Hisense Holdings for the production of raw materials such as electric control boards is approximately RMB170,000,000;
- (iv) another subsidiary of Hisense Holdings is principally engaged in domestic and import and export trading business and will further expand its trading business in 2022. As the Group has advantages

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in sourcing certain specific materials, parts and components, it is expected that the subsidiary of Hisense Holdings will purchase these materials from the Group in the amount of approximately RMB500,000,000, representing an increase of approximately 281.2% from the Estimated Annualised Transaction Amount in 2021 of approximately RMB130,000,000. The expected increase in the supply of raw materials, parts and components is determined after taking into account that in 2022, this subsidiary of Hisense Holdings will (a) increase its sales to existing customers, resulting in an expected transaction amount of approximately RMB200,000,000 with the Group; (b) expand its business to new customers, resulting in an expected transaction amount of approximately RMB160,000,000 with the Group; and (c) expand the variety of pellets for sale, resulting in an expected transaction amount of approximately RMB140,000,000. The major raw materials, parts and components supplied by the Group include but not limited to compressors; and

- (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 electrical appliances by the Group to Hisense International and/or its subsidiaries. Based on the 2022 projected overseas sales increment of electrical appliances of 40% from Hisense International, 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 2022 is estimated to be approximately RMB220,000,000.

***Reasons and benefits:***

A subsidiary of Hisense Holdings has better ability in manufacturing raw materials (such as electric control boards and Wi-Fi modules) required for manufacturing electrical appliances 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 the subsidiary of Hisense Holdings, which, in turn, increases product competitiveness. Such businesses are carried out by means of raw material processing. The Group supplies Hisense Holdings with the raw materials required for processing and producing raw materials such as electric control boards and Wi-Fi modules, which facilitates the development of the aforementioned businesses.

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Another subsidiary of Hisense Holdings principally engages in domestic and import and export business in the PRC. As the Group has the 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/or its subsidiaries can enhance the efficiency of the operation of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of raw materials, parts and components to Hisense 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 interests 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 for factories in Shandong Province and Guangdong Province, material processing services and installation services of central air-conditioners to Hisense Holdings and/or its subsidiaries; (ii) provide property services for offices in Guangdong Province to Hisense International and/or its subsidiaries; (iii) provide property services for offices in Guangdong Province to Hisense Marketing Management; and (iv) provide property services for factories in Zhejiang Province and Shandong Province, material processing services and installation services of central air-conditioners to Hisense Visual Technology and/or its subsidiaries.

#### ***Pricing:***

The fees payable by Hisense Holdings, Hisense International, Hisense Marketing Management, 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 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

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## LETTER FROM THE BOARD

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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 of 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 Holdings, Hisense International, Hisense Visual Technology and/or its subsidiaries for the financial year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement is RMB39,490,000. For the nine months ended 30 September 2021, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries amounted to approximately RMB17,160,000 (unaudited) (of which RMB12,090,000 was for the provision of relevant services by the Group to Hisense Holdings and/or its subsidiaries, RMB2,060,000 was for the provision of relevant services by the Group to Hisense International and/or its subsidiaries and RMB3,010,000 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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the financial year ending 31 December 2022 are subject to the Cap of RMB473,390,000, of which:

- (i) RMB15,910,000 will be allocated to the provision of property services, material processing services and installation services by the Group to Hisense Holdings and/or its subsidiaries;
- (ii) RMB3,980,000 will be allocated to the provision of property services by the Group to Hisense International and/or its subsidiaries;
- (iii) RMB3,990,000 will be allocated to the provision of property services by the Group to Hisense Marketing Management; and

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- (iv) RMB449,510,000 will be allocated to the provision of property services, material 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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in the past, that is, the Estimated Annualised Transaction Amount in 2021 in the amount of approximately RMB22,300,000;
- (ii) related business needs of Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries for the year 2022; and
- (iii) the following expected growth in the businesses of the Group in 2022: (a) property services in the sum of approximately RMB17,180,000 to be provided by the Group; (b) processing services in the sum of approximately RMB445,910,000 to be provided by the Group; and (c) installation services in the sum of approximately RMB3,000,000 to be provided by the Group.

The significant increase in the processing services is primarily due to the provision of injection moulding and sheet metal business services being centralised in the Group starting from 2022 as the Group intends to enhance the supporting capabilities of its injection moulding and sheet metal business and integrate its production capacity and talents within the system. After the implementation of the centralisation strategy, Hisense Visual Technology will cease to process its raw materials in relation to injection moulding and sheet metals and will engage the Group to process some of these raw materials instead to enjoy economies of scale. In addition, it is expected that there will be an increase in the sales scale of Hisense Visual Technology which will lead to an increase in the procurement of these raw materials for injection moulding and sheet metals by Hisense Visual Technology in 2022, resulting in an increase in the demand for the processing services from the Group. The Group expects that the estimated demand for these raw materials for injection moulding and sheet metals of Hisense Visual Technology and/or its subsidiaries which will be allocated to be processed by the Group will increase by approximately 36.0% to approximately RMB1,760,000,000 in 2022, of which approximately RMB440,000,000 or approximately 25% is the processing fee to be charged by the Group to Hisense Visual Technology and/or its subsidiaries. The estimated demand comprises purchase cost and processing fee of these raw materials for injection moulding and sheet metals.

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### *Reasons and benefits:*

The provision of services for property and material processing services to Hisense Holdings, Hisense International, Hisense Marketing Management, 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 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.

The Group intends to enhance the supporting capabilities of its injection moulding and sheet metal business, integrate the injection moulding and sheet metal production capacity and talents within the system, expand and strengthen the external business and enhance efficiency and effectiveness of the operation of the Group. The provision of injection moulding and sheet metal business services to Hisense Visual Technology can help the Company enlarge its business scale and increase its revenue.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the provision of services to Hisense 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 interests of the Company and the Shareholders as a whole.

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

### **FINANCIAL SERVICES AGREEMENT**

**Date:** 16 November 2021

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

**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2022 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2022, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

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## LETTER FROM THE BOARD

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**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 services (電子銀行承兌匯票服務);
- (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.

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## LETTER FROM THE BOARD

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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 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 department and securities department of the Company are 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 notes and contracts) and will prepare a summary report regarding the conduct of the continuing

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## LETTER FROM THE BOARD

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connected transactions periodically and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. 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 of each subsidiary. The finance department and securities department will closely monitor the daily closing 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 closing balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB18,500,000,000 (inclusive of interest).

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## LETTER FROM THE BOARD

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For the period commencing from 1 January 2021 to 30 September 2021, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB16,600,000,000.

***Proposed Cap:***

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB27,000,000,000 (inclusive of interest) for the year ending 31 December 2022.

The above Cap was determined with reference to:

- (i) the historical cash flow figures of the Group; and
- (ii) the level of growth in monetary funds attributable to the 2022 Projected Sales Increment. As at 30 September 2021, the balance of monetary funds held by the Group was RMB16,000,000,000, and the balance of monetary funds from wealth management was RMB4,800,000,000 (the total amount of monetary funds held by the Group and from wealth management was thus RMB20,800,000,000). Based on the 2022 Projected Sales Increment, it is anticipated that the highest daily closing cash balance held by the Group will correspondingly increase by 30% to approximately RMB27,000,000,000 (inclusive of interest) in 2022.

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 closing 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 2022 is approximately RMB10,000,000,000; 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

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## LETTER FROM THE BOARD

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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 RMB27,000,000,000 (inclusive of interest) in 2022.

### **(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 loans 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 finance 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 closing 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 2021 to 30 September 2021, the maximum daily

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## LETTER FROM THE BOARD

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closing balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB11,300,000,000.

*Proposed Cap:*

The Company currently expects that the maximum daily closing 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 RMB18,000,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2022.

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Finance:

During the period from 1 January 2021 to 30 September 2021, the maximum daily closing balance of the loan and electronic bank acceptance bill provided by Hisense Finance to the Group was approximately RMB11,300,000,000, of which: (a) the maximum daily closing balance of the loan provided by Hisense Finance to the Group was RMB500,000,000; and (b) the maximum daily closing balance of the electronic bank acceptance bill provided by Hisense Finance to the Group was RMB10,800,000,000;

- (ii) the expected proportion of payment via electronic bank acceptance bills in 2022 by the Group; 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 2022 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 2022, 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. It is expected that payment via electronic bank acceptance bills will account to approximately 45% of the payment methods of the Group and that the

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## LETTER FROM THE BOARD

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amount of payment for purchases will increase by 25%. Based on the above, it is expected that the maximum daily closing balance of electronic bank acceptance bills will not exceed RMB15,900,000,000 (inclusive of interest and service fees) in order to meet the business needs of the Group.

Furthermore, it is expected that the electronic bank acceptance bill provided by Hisense Finance to Sanden will be RMB500,000,000 in 2022 and a loan amount of RMB1,500,000,000 is allocated to cater to the future capital needs.

As a result of the above, it is expected that the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group shall not exceed RMB18,000,000,000 on any given day in 2022.

### **(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 Group 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 2021 to 30 September 2021, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB2,980,000.

#### ***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 2022.

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## LETTER FROM THE BOARD

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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 2022; 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 2022 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 that: (i) there is an expected increase in the revenue and the projected capital expenditure in 2022; (ii) it is expected that the Group will receive draft (票據) of approximately RMB28,500,000,000 in 2022, approximately RMB4,000,000,000 of which is expected to be endorsed and the Company will receive payment of cash of the remaining approximately RMB24,500,000,000; (iii) as the Company may be required to make substantial payments in different periods of time throughout a year due to its procurement strategies, production schedules and sales, there is a need for the Company to have more methods and flexibility in raising funds to better meet its funding needs. It is expected that of the amount of draft expected to be received by the Company in 2022 and which will not be endorsed, 10%, which is approximately RMB2,450,000,000, can be used to raise funds by way of utilising the draft discount services; and (iv) the Group plans to continue to enhance its management on its accounts receivables and inventory to expedite the capital turnover rate in 2022, it is estimated that the Group's annual sum of money for procurement of draft discount services from Hisense Finance will be approximately RMB2,500,000,000 in 2022 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be approximately RMB50,000,000 for the year ending 31 December 2022 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

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## LETTER FROM THE BOARD

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Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of service fees (including the level of exchange rates) via conducting online and telephone enquiries.

*Historical figures:*

Under the Existing Financial Services Agreement, the annual amount of foreign exchange 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 2021 to 30 September 2021, the amount of foreign exchange settled or sold by Hisense Finance for the Group amounted to approximately US\$42,000,000.

*Proposed Cap:*

The Group 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 2022.

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 2022. For the full year of 2021, it is expected that foreign currency received by the Group from its export business would amount to approximately US\$99,000,000, and payments to be made by the Group in foreign currency would amount to US\$120,000,000 (the total amount of foreign currency received and paid by the Group would thus be US\$219,000,000). It is expected that the foreign currency to be received by the Group from its export business would amount to approximately US\$136,000,000, and payments to be made by the Group in foreign currency would amount to US\$164,000,000 for the year ending 31 December 2022, assuming that the Group will engage Hisense Finance for the settlement and sale of foreign exchange only; and
- (ii) the 2022 projected overseas sales increment is 40%.

(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

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## LETTER FROM THE BOARD

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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 finance department of the Group conducts monthly review on the service fees charged by external commercial banks, namely the Five Major PRC Commercial Banks. The Group 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 2021 to 30 September 2021, 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 RMB851,400.

***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 2022.

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## LETTER FROM THE BOARD

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The above Cap was determined with reference to:

- (i) 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
- (ii) the charging standard for service fees chargeable for the provision of agency services such as settlement 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 2022 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2021, 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 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;

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- (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 Holdings. 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

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financial reports of Hisense Finance, arranging simulation stress test every year, formulating liquidity stress test report, 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 the Shenzhen Stock Exchange (<http://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 noted that Hisense Finance has been maintaining a relatively higher standard for capital adequacy ratio and current ratio (the Risk Assessment Report for the year ended 31 December 2020 has been published by the Company on the designated website of the Shenzhen Stock Exchange (<http://www.cninfo.com.cn>) on 31 March 2021 and the latest Risk Assessment Report for the nine months ended 30 September 2021 has been published on 17 November 2021; 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 provides financial services primarily to Hisense Holdings and its subsidiaries which Hisense Finance shall have better understanding on their financial positions and such focus of client base enables Hisense Finance to be subject to lower default risk as compared to those commercial banks which serve voluminous clients, the Directors are of the view that even with the full

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## LETTER FROM THE BOARD

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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 (for example, where the financial position of Hisense Finance has 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 (including the independent non-executive Directors) 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 interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 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 Latest Practicable Date, the Group's loan from Hisense Finance are all credit loans 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 will provide for the Group up to is less than 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 Hisense Finance 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.

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## LETTER FROM THE BOARD

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### INFORMATION RELATING TO THE GROUP, HISENSE HOLDINGS, HISENSE INTERNATIONAL, HISENSE MARKETING MANAGEMENT, HISENSE HK, HISENSE VISUAL TECHNOLOGY AND HISENSE FINANCE

#### *The Group*

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, kitchen appliances, etc and automotive air conditioner compressor and integrated thermal management system.

#### *Hisense Holdings*

Hisense Holdings was incorporated in 2001 and has a registered capital of RMB3,860,393,984. Its legal representative is Mr. Zhou Hou Jian and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, Qingdao City. Its scope of business includes: import and export of technology; import and export of goods; real estate development and operation; medical services; catering services; investment activities with own funds; asset management services for investment with own funds; research and development of household appliances; manufacture of household appliances; sale of household appliances; installation services for household appliances; repair of daily-use appliances; manufacture of refrigeration and air-conditioning equipment; sale of refrigeration and air-conditioning equipment; manufacture of communication equipment; sale of communication equipment; manufacture of network equipment; sale of network equipment; research and development of artificial intelligence industry application systematic integration services; information system integration services; manufacture of special purpose equipment; research and development of automotive parts and components; manufacture of automotive parts and accessories; manufacture of intelligent vehicle equipment; sales of intelligent vehicle equipment; manufacture of internet of things equipment; sales of internet of things equipment; software development; education and consultancy services; convention and exhibition services; leisure and tourism activities; property management; non-residential property leasing; residential leasing; machinery and equipment leasing; car leasing; catering management; car park services.

Hisense Holdings has no effective controller and details of its shareholders' interests are as follows:

1. Hisense Company holds 26.79% interest in Hisense Holdings. The ultimate beneficial owner of Hisense Company is the State-owned Assets Supervision and Administration Commission of the Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).
2. Qingdao Xinfeng Information Technology Co., Ltd.\* (青島新豐信息技術有限公司) (“**Qingdao Xinfeng**”) holds 24.36% interest in Hisense Holdings and Shanghai Haifeng Shipping Co., Ltd.\* (上海海豐航運有限公司) (“**Shanghai Haifeng**”) holds 2.64% interest in Hisense Holdings. Qingdao Xinfeng and Shanghai Haifeng are

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parties acting in concert and collectively own 27.00% interest in Hisense Holdings, The ultimate beneficial owner of Qingdao Xinfeng and Shanghai Haifeng is Mr. Yang Shaopeng\* (楊紹鵬).

3. The position incentive shareholders (崗位激勵股東) (the “**Position Incentive Shareholders**”) of Hisense Holdings hold an aggregate interest of 46.21% in Hisense Holdings. As at the Latest Practicable Date, of this 46.21% interest in Hisense Holdings, (i) 36.82% is owned by the Position Incentive Shareholders of Hisense Holdings who hold interests in Hisense Holdings directly; (ii) 6.33% is owned by Qingdao Yuanli Information Consulting Co., Ltd.\* (青島員利信息諮詢股份有限公司) (“**Qingdao Yuanli**”) and partnerships (合夥企業) (the “**Partnerships**”); and (iii) 3.06% is owned by Qingdao Hengxin Chuangshi Electronic Technology Co., Ltd.\* (青島恒信創勢電子技術有限公司) (“**Qingdao Hengxin**”). Qingdao Yuanli, Qingdao Hengxin and the Partnerships are companies holding interests in Hisense Holdings on behalf of other Position Incentive Shareholders of Hisense Holdings whose interests in Hisense Holdings are held indirectly.

The Position Incentive Shareholders of Hisense Holdings are the core staff of Hisense Holdings under its incentive plan who hold interests in Hisense Holdings directly or indirectly. They are, including but not limited to, the directors, senior management staff, core management staff and key staff of Hisense Holdings. The Position Incentive Shareholders of Hisense Holdings who hold interests in Hisense Holdings directly do not overlap with those who hold interests in Hisense Holdings indirectly through Qingdao Yuanli, Qingdao Hengxin and the Partnerships. Moreover, there is no acting in concert arrangement among the Position Incentive Shareholders of Hisense Holdings and no single Position Incentive Shareholder of Hisense Holdings holds more than 7% interest in Hisense Holdings.

Qingdao Yuanli was incorporated on 22 June 2010. Qingdao Hengxin was incorporated on 14 December 2012. The Partnerships consist of nine partnerships which were established from 2016 to 2020. Qingdao Yuanli, Qingdao Hengxin and the Partnerships act as interests holding vehicles for the relevant Position Incentive Shareholders of Hisense Holdings and they do not have any operations.

### *Hisense International*

Hisense International was incorporated in 2008 and has a registered capital of RMB30,000,000. Its legal representative is Mr. Jia Shao Qiao and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, Qingdao City. Its main businesses includes: import and export of goods; import and export of technology; marketing strategies planning; sales of Category II medical devices; sales of intelligent home consumer equipment; sales of optical communication equipment; information system integration services; sales of information security equipment; sales of network equipment; development of rail transportation operation management system; sales of special equipment, key systems and components for rail transportation.

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## LETTER FROM THE BOARD

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The controlling shareholder of Hisense International is Hisense Holdings and details of its shareholders' interests are as follows:

1. Qingdao Hisense Import & Export Co., Ltd.\* (青島海信進出口有限公司) holds 36.47% interest in Hisense International, and is a wholly-owned subsidiary of Hisense Holdings. It was established on 16 September 1998 and it principally engages in operating and conducting commodities and technology import and export business, operating sino-foreign joint ventures, cooperative production business and "three to one supplement business".
2. The Company holds 12.67% interest in Hisense International.
3. Hisense Visual Technology holds 12.67% interest in Hisense International.
4. The Position Incentive Shareholders of Hisense International hold an aggregate interest of 38.19% in Hisense International. As at the Latest Practicable Date, of this 38.19% interest in Hisense International, (i) 37.5% is owned by the Position Incentive Shareholders of Hisense International who hold interests in Hisense International directly; (ii) 0.44% is owned by Qingdao Yuanli; and (iii) 0.26% is owned by Qingdao Henghai Weijie Electronic Technology Co., Ltd.\* (青島恒海偉杰電子技術有限公司) ("Qingdao Henghai"). Qingdao Yuanli and Qingdao Henghai are companies holding interests in Hisense International on behalf of other Position Incentive Shareholders of Hisense International whose interests in Hisense International are held indirectly.

The Position Incentive Shareholders of Hisense International are the core staff of Hisense International under its incentive plan who hold interests in Hisense International directly and indirectly. They are, including but not limited to, directors, senior management staff, core management staff and key staff of Hisense International. The Position Incentive Shareholders of Hisense International who hold interests in Hisense International directly do not overlap with those who hold interests in Hisense International indirectly through Qingdao Yuanli and Qingdao Henghai. Moreover, there is no acting in concert arrangement among the Position Incentive Shareholders of Hisense International. Qingdao Henghai was established on 19 December 2018.

Qingdao Henghai acts as an interests holding vehicle for the relevant Position Incentive Shareholders of Hisense International and it does not have any operations. Please refer to the above for the information of Qingdao Yuanli.

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## LETTER FROM THE BOARD

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### *Hisense Marketing Management*

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.

The controlling shareholder of Hisense Marketing Management is Hisense Holdings. The Company and Hisense Visual Technology each holds 50% interests in Hisense Marketing Management.

### *Hisense HK*

Hisense HK was established on 22 February 1994. Its registered address is Room 3101-05, Singga Commercial Centre, 148 Connaught Road West, Sai Wan, Hong Kong. Its registered capital is HK\$1 million. Its scope of business mainly includes international trading. Hisense HK is a wholly-owned subsidiary of Hisense Holdings.

### *Hisense Visual Technology*

Hisense Visual Technology was established on 17 April 1997 and has a registered capital of RMB1,308,481,222. Its legal representative is Mr. Cheng Kai Xun 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 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; the research and development, manufacture, sales, service, repair and recycle of computer hardware and parts, software and peripheral facilities; the research and development, design and sales of LED large-screen displays, touch panels, interactive smart panels, digital signage, self-service vending machines and their ancillary products; 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.

Hisense Visual Technology is a company listed on the Shanghai Stock Exchange, and its controlling shareholder is Hisense Holdings, which holds 29.99% of its interest.

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## LETTER FROM THE BOARD

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### *Hisense Finance*

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: 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 consumer credit and buyer credit for products of member companies.

The controlling shareholder of Hisense Finance is Hisense Holdings and its shareholders' interests are as follows:

1. Hisense Holdings holds 73.08% interest in Hisense Finance.
2. Hisense Air-conditioning holds 26.92% interest in Hisense Finance.

### **IMPLICATIONS UNDER THE HONG KONG LISTING RULES**

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

As at the Latest Practicable Date, (i) Hisense Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (ii) each of Hisense International, Hisense HK and Hisense Visual Technology is a subsidiary of Hisense Holdings; and (iii) Hisense Marketing Management is an associate of Hisense Visual Technology as Hisense Visual Technology holds more than 30% interest in Hisense Marketing Management. As such, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology 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.

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## LETTER FROM THE BOARD

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In view of the interests of Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK and Hisense Visual Technology in the Business Co-operation Framework Agreement, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, 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 Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control over the voting right in respect of their Shares.

### **(B) Financial Services Agreement**

As at the Latest Practicable Date, as (i) Hisense 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 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 Group 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. 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

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## LETTER FROM THE BOARD

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Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

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

### GENERAL

Mr. Dai Hui Zhong, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Fei Li Cheng, being Directors and directors of Hisense Holdings and/or its subsidiaries, 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 aforementioned.

### III. PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 28 October 2021 in relation to, among other matters, the nomination of Ms. Gao as an executive Director of the eleventh session of the Board. In accordance with the Articles of Association and the relevant Hong Kong Listing Rules, the appointment of Ms. Gao as an executive Director of the eleventh session of the Board shall be submitted to the EGM for consideration and approval by the Shareholders.

The biographical details of Ms. Gao are set out below.

#### **Ms. Gao Yu Ling**

Ms. Gao, aged 39, holds a master of management degree and served successively as the deputy director of the finance center of Hisense Visual Technology, the chief financial officer and chief accountant of the Company, the general manager and deputy chief accountant of financial and operation management department of Hisense Company, the general manager and deputy chief accountant of financial and operation management department of Hisense Holdings. From December 2015 to December 2016, Ms. Gao was the chief financial officer and chief accountant of the Company. From December 2016 to January 2019, Ms. Gao was the supervisor of Hisense Air-conditioning and the chief financial officer and chief accountant of the Company. From January 2019 to April 2019, Ms. Gao was the general manager and deputy chief accountant of financial and operation management department of Hisense Company and the supervisor of Hisense Air-conditioning. From April 2019 to June 2019, Ms. Gao was the general manager and deputy chief accountant of financial and operation management department of Hisense Company, the supervisor of Hisense Air-conditioning and the supervisor of Hisense Visual Technology. From June 2019 to December 2020, Ms. Gao was the general manager and deputy chief accountant of financial and operation management department of Hisense Company, the supervisor of Hisense Air-conditioning, the supervisor of Hisense Visual Technology and the supervisor of the Company. From December 2020 to May 2021, Ms. Gao was the

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## LETTER FROM THE BOARD

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general manager and deputy chief accountant of financial and operation management department of Hisense Holdings, the supervisor of Hisense Air-conditioning, the supervisor of Hisense Visual Technology and the supervisor of the Company. Since June 2021, Ms. Gao has become the supervisor of Hisense Air-conditioning and the chief financial officer and chief accountant of the Company.

Ms. Gao is related to the Company's controlling shareholder, Hisense Air-conditioning due to her current position held in Hisense Air-conditioning as described above.

Save as disclosed above, as at the Latest Practicable Date, Ms. Gao did not hold (i) any directorships in any other listed companies in the last three years; and (ii) any other major appointments and professional qualifications. As at the Latest Practicable Date, Ms. Gao was not interested in any Shares within the meaning of Part XV of the SFO and did not have any relationships with any Directors, senior management, substantial shareholders (having the meaning ascribed to it in the Hong Kong Listing Rules) or controlling shareholders of the Company.

If Ms. Gao is appointed as an executive Director at the EGM, she will enter into a director's service contract with the Company and her tenure will commence from the date of the EGM until the end of the eleventh session of the Board (that is, 24 June 2024). In accordance with her service contract, Ms. Gao will not be entitled to any remuneration as a Director. Ms. Gao is also the chief financial officer and chief accountant of the Company, and she is entitled to receive a basic annual remuneration of RMB1,080,000 (before taxation) based on the responsibility of the operational work under her supervision, the main scope of the position held, the risk, the pressure and the contribution to the Company, as well as the remuneration level of the relevant positions in the peer group. In addition, according to the Company's remuneration policy, Ms. Gao is entitled to the risk annual salary, the amount of which will be determined primarily based on the Company's annual results.

Save as disclosed above, there is no other information required to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules, and there is no other matter relating to the nomination of Ms. Gao that needs to be brought to the attention of the Shareholders.

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## LETTER FROM THE BOARD

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### EGM

The EGM will be held at the conference room of the Company's head office, No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC on Wednesday, 19 January 2022 at 3:00 p.m., at which resolutions will be proposed for the Independent Shareholders to, among other things, consider and, if thought fit, approve (i) the Business Co-operation Framework Agreement; the transactions contemplated and the Caps thereunder; (ii) the Financial Services Agreement, the transactions contemplated and the Caps thereunder; and (iii) the appointment of Ms. Gao as an executive Director by poll.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on Wednesday, 17 November 2021 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hxjd.hisense.cn>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip to the registered office of the Company at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC (Postal code: 528303) by personal delivery, post or fax during hours between 8:30 a.m. and 11:00 a.m., 1:30 p.m. and 4:30 p.m. on every business day on or before Wednesday, 12 January 2022. Failure to complete or return the reply slip will not preclude eligible Shareholders from attending the EGM should they so wish.

The vote of the Shareholders at the EGM will be taken by poll in accordance with Rule 13.39(4) of the Hong Kong Listing Rules and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

In order to determine the holders of Shares who are eligible to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 13 January 2022 to Wednesday, 19 January 2022 (both days inclusive). In order to qualify for attending the EGM, all transfer documents of H Shares together with the relevant share certificates must have been lodged with the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 12 January 2022 for registration.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that each of 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 are on normal commercial terms and in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

The Board is of the opinion that the proposed appointment of Ms. Gao as an executive Director is in the interests of the Company and the Shareholders as a whole and accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed in the EGM to approve the same.

### ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements which are respectively set out on pages 71 to 72 and pages 73 to 140 of this circular. Additional information is also set out in the appendices to this circular for your information.

Yours faithfully,  
By order of the Board  
**Hisense Home Appliances Group Co., Ltd.**  
**Dai Hui Zhong**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

4 January 2022

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 4 January 2022 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements as to the fairness and reasonableness of the same. Caitong International Capital Co., Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 7 to 70 and pages 73 to 140 of the Circular respectively. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Caitong International Capital Co., Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 4811, 48th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

4 January 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

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

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement (collectively, the “**Agreements**”), the respective transactions contemplated thereunder and the respective proposed Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 4 January 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Each of the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement will expire on 31 December 2021 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 engage Hisense HK as a party to the relevant transactions, on 16 November 2021, the Company entered into the Agreements.

### Business Co-operation Framework Agreement

As at the Latest Practicable Date, (i) Hisense Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company; (ii) each of Hisense International, Hisense HK and Hisense Visual Technology is a subsidiary of Hisense Holdings; and (iii) Hisense Marketing Management is an associate of Hisense Visual Technology as Hisense Visual Technology holds more than 30% interest in Hisense Marketing Management. As such, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology and their respective subsidiaries are connected persons of the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 thereunder 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 their respective interests in the Business Co-operation Framework Agreement, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, 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 thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM. Each of Hisense Air-conditioning and Hisense HK controls or is entitled to exercise control over the voting right in respect of their Shares.

### **Financial Services Agreement**

As at the Latest Practicable Date, as (i) Hisense 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 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 thereunder 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

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

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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 thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.92% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 9.13% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution(s) at the EGM.

The Agreements are not inter-conditional with each other.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all of the independent non-executive Directors (namely Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit), who have no direct or indirect interest in the Agreements and the respective transactions contemplated thereunder, has been established to advise the Independent Shareholders as to (i) whether the entering into the Agreements and the respective transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Agreements and the respective proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to be proposed at the EGM. We, Caitong International Capital Co., Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **OUR INDEPENDENCE**

In the past two years preceding the Latest Practicable Date, there was no engagement between us and the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests among us and the Company, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology, Hisense Finance or their respective substantial shareholders or associates that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rules to act as the Independent Financial Adviser. Accordingly, we are considered eligible to give independent advice on the Agreements, the respective transactions contemplated thereunder and the proposed Caps. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology, Hisense Finance or their respective substantial shareholders or associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement, the Agreements, the annual reports of the Company for the years ended 31 December 2019 and 2020 (the “**2019 Annual Report**” and “**2020 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”) and the Circular.

In addition, we have relied on the information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group (the “**Management**”). We have also relied on the information, facts and representations contained or referred to in the Circular and have assumed that the information, facts and representations provided, and the opinions expressed to us are true, accurate and complete in all material respects at the time they were made and will remain true, accurate and complete in all material respects up to the Latest Practicable Date. Independent Shareholders will be notified of material changes of such information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and up to the date of the EGM. We have also assumed that all statements of beliefs and opinions made by the Directors in the Circular were reasonably made after due enquiry and the expectations and intentions made by the Company and/or the Directors and/or the Management will be met or carried out as the case may be. We have also sought and received confirmation from the Company that no material facts have been omitted from the information provided and the opinions expressed to us. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology and/or Hisense Finance in their respective existing state, nor have we carried out any independent verification of the information provided by the Company and/or the Directors and/or the Management.

The Directors jointly and severally accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology and/or Hisense Finance. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Agreements, the respective transactions contemplated thereunder and the respective proposed Caps. Except for its inclusion in the Circular, this letter may not be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Agreements, the respective transactions contemplated thereunder and the respective proposed Caps, we have considered the following principal factors and reasons:

#### 1. Background of the Agreements

##### (a) *Information on the Group*

The Group is principally engaged in research and development, manufacturing and marketing of electrical appliances products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines and kitchen appliances, etc. The Group has also expanded its business into automotive air conditioner compressor and integrated thermal management system in 2021 through the acquisition of Sanden, which principally engages in manufacture and sales of automobile equipment.

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2019 and 2020, as extracted from the 2020 Annual Report, and the unaudited consolidated financial information of the Group for the six months ended 30 June 2020 and 2021, as extracted from the 2021 Interim Report.

	For the year ended		For the six months ended	
	31 December		30 June	
	2019 (RMB million) (audited)	2020 (RMB million) (audited)	2020 (RMB million) (unaudited)	2021 (RMB million) (unaudited)
Revenue from principal operations	34,197	43,845	19,174	29,043
Revenue from other operations	3,256	4,548	1,913	3,381
<b>Total operating revenue</b>	<b>37,453</b>	<b>48,393</b>	<b>21,087</b>	<b>32,424</b>
 Total operating cost	 36,863	 45,769	 20,120	 31,219
 Net profit attributable to the owners of the Company for the year/period	 1,794	 1,579	 503	 615

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	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
<b>Revenue breakdown from principal operations</b>				
<i>By products</i>				
– refrigerators and washing machines	16,128	18,709	7,267	11,128
– air-conditioners	16,369	23,386	11,208	16,130
– other products	1,700	1,750	699	1,785
<b>Total</b>	<b>34,197</b>	<b>43,845</b>	<b>19,174</b>	<b>29,043</b>
<i>By regions</i>				
– domestic	22,712	29,206	12,491	18,401
– overseas	11,485	14,639	6,683	10,642
<b>Total</b>	<b>34,197</b>	<b>43,845</b>	<b>19,174</b>	<b>29,043</b>

*For the years ended 31 December 2019 and 2020*

With reference to the 2020 Annual Report, the Group's total operating revenue has been on a rising trend for five consecutive years up to 2020. For the year ended 31 December 2020, the Group's total operating revenue reached approximately RMB48,393 million, increasing by approximately 29.2% as compared to that of the year ended 31 December 2019 amounting to approximately RMB37,453 million. The operating cost of the Group for the year ended 31 December 2020 amounted to approximately RMB45,769 million, representing an increase of 24.2% as compared to that of the year ended 31 December 2019 amounting to approximately RMB36,863 million, which was roughly in line with the increase in the total operating revenue.

We also noted that the revenue generated from the sales of electrical appliances products, being the Group's principal operations, representing approximately 91.3% and 90.6% of the total operating revenue of the Group for the years ended 31 December 2019 and 2020, respectively. Such revenues represents a year-on-year increase of approximately 28.2% from approximately RMB34,197 million for the year ended 31 December 2019 to approximately RMB43,845 million for the year ended 31 December 2020. The Group's domestic sales of electrical appliances products also increased from approximately RMB22,712 million for the year ended 31 December 2019 to approximately RMB29,206 million for the year ended 31 December 2020, representing an increase of approximately 28.6%, while the Group's overseas sales increased from

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approximately RMB11,485 million for the year ended 31 December 2019 to approximately RMB14,639 million for the year ended 31 December 2020, representing an increase of approximately 27.5%.

The Group's net profit attributable to the owners of the Company decreased by approximately 12.0% from approximately RMB1,794 million for the year ended 31 December 2019 to approximately RMB1,579 million for the year ended 31 December 2020. Such decrease was mainly caused by the operating loss of residential air-conditioning business.

*For the six months ended 30 June 2020 and 2021*

The Group's total operating revenue increased by approximately 53.8% from approximately RMB21,087 million for the six months ended 30 June 2020 to approximately RMB32,424 million for the six months ended 30 June 2021. The operating cost of the Group for the six months ended 30 June 2021 amounted to approximately RMB31,219 million, representing an increase of 55.2% as compared to the corresponding period in 2020 amounting to approximately RMB20,120 million, which was roughly in line with the increase in the total operating revenue.

The revenue generated from the sales of electrical appliances products, being the Group's principal operations, representing approximately 90.9% and 89.6% of the total operating revenue of the Group for the six months ended 30 June 2020 and 2021, respectively. Such revenues represents a year-on-year increase of approximately 51.5% from approximately RMB19,174 million for the six months ended 30 June 2020 to approximately RMB29,043 million for the six months ended 30 June 2021. The Group's domestic sales of electrical appliances products also increased from approximately RMB12,491 million for the six months ended 30 June 2020 to approximately RMB18,401 million for the six months ended 30 June 2021, representing an increase of approximately 47.3%, while the Group's corresponding overseas sales increased from approximately RMB6,683 million for the six months ended 30 June 2020 to approximately RMB10,642 million for the six months ended 30 June 2021, representing an increase of approximately 59.2%.

The Group's net profit attributable to the owners of the Company increased by approximately 22.3% from approximately RMB503 million for the six months ended 30 June 2020 to approximately RMB615 million for the six months ended 30 June 2021.

**(b) Information on the parties to the Agreements**

**(1) Hisense Holdings**

Hisense Holdings was incorporated in 2001 and is the controlling shareholder of the Company. Its scope of business includes: import and export of technology; import and export of goods; real estate development and operation; medical services; catering services; investment activities with own funds; asset

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management services for investment with own funds; research and development of household appliances; manufacture of household appliances; sale of household appliances; installation services for household appliances; repair of daily-use appliances; manufacture of refrigeration and air-conditioning equipment; sale of refrigeration and air-conditioning equipment; manufacture of communication equipment; sale of communication equipment; manufacture of network equipment; sale of network equipment; research and development of artificial intelligence industry application systematic integration services; information system integration services; manufacture of special purpose equipment; research and development of automotive parts and components; manufacture of automotive parts and accessories; manufacture of intelligent vehicle equipment; sales of intelligent vehicle equipment; manufacture of internet of things equipment; sales of internet of things equipment; software development; education and consultancy services; convention and exhibition services; leisure and tourism activities; property management; non-residential property leasing; residential leasing; machinery and equipment leasing; car leasing; catering management; car park services.

### *(2) Hisense International*

Hisense International was incorporated in 2008 and is a subsidiary of Hisense Holdings. Its principal businesses includes: import and export of goods and technology; marketing strategies planning; sales of Category II medical devices; sales of intelligent home consumer equipment; sales of optical communication equipment; information system integration services; sales of information security equipment; sales of network equipment; development of rail transportation operation management system; sales of special equipment, key systems and components for rail transportation.

### *(3) Hisense Marketing Management*

Hisense Marketing Management was incorporated in 2017 and is owned to the Company and Hisense Visual Technology as to 50%, respectively. Its scope of business includes: wholesale, retail, agency sales, after-sale services, 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 services; internet information services; internet operation and promotion; exhibition display services; design, production, publication, agency of domestic advertisements; logistics design; supply chain management; and road freight transport.

### *(4) Hisense HK*

Hisense HK was incorporated in 1994. Its scope of business mainly includes international trading and it is a wholly-owned subsidiary of Hisense Holdings.

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### (5) *Hisense Visual Technology*

Hisense Visual Technology was established in 1997 and it is listed on the Shanghai Stock Exchange with Hisense Holdings as its controlling shareholder. Its scope of business 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; the research and development, manufacture, sales, service, repair and recycle of computer hardware and parts, software and peripheral facilities; the research and development, design and sales of LED large-screen displays, touch panels, interactive smart panels, digital signage, self-service vending machines and their ancillary products; 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; and general logistics.

### (6) *Hisense Finance*

Hisense Finance is a non-bank financial institution established in the PRC in 2008 with the approval from the CBRC (now known as China Banking and Insurance Regulatory Commission, the “**CBIRC**”) and is regulated by the CBIRC 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. Its business scope includes: 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 consumer credit and buyer credit for products of member companies. The controlling shareholder of Hisense Finance is Hisense Holdings.

For further details of the scope of services and shareholders of the parties to the Agreements, please refer to the section headed “**INFORMATION RELATING TO THE GROUP, HISENSE HOLDINGS, HISENSE INTERNATIONAL, HISENSE MARKETING MANAGEMENT, HISENSE HK, HISENSE VISUAL TECHNOLOGY AND HISENSE FINANCE**” in the Letter from the Board.

### *(c) Prevailing market conditions about the demand for electrical appliances*

With reference to the Government Work Report\* (政府工作報告) released on 5 March 2021, the PRC government targeted to achieve a 6% or above in the growth of gross domestic product (“GDP”) for the year 2021. According to the National Bureau of Statistics of China (the “NBS”), the GDP in the first three quarters of 2021 was approximately RMB82,313.1 billion, achieving a year-on-year increase of approximately 9.8%.

For total retail sales of consumer goods, according to the NBS, it recorded approximately RMB31,805.7 billion for the nine months ended 30 September 2021, representing a year-on-year increase of approximately 16.4%. Among others, the retail sales of consumer goods in household appliances and audio-visual equipment recorded approximately RMB658.0 billion for the nine months ended 30 September 2021, which increased by approximately 13.5% on a year-on-year basis.

According to the Ministry of Industry and Information Technology of the PRC, during the first eight months of 2021, the national output of household refrigerators, air-conditioners and household washing machines was approximately 59.1 million units, 152.2 million units and 55.9 million units, respectively, which represented a year-on-year increase of approximately 6.7%, 15.6% and 22.6%, respectively. In general, for the household electrical appliances industry, the total operating income for the eight months ended 31 August 2021 was approximately RMB1,103.7 billion, representing a year-on-year increase of approximately 24.9%, whilst the total profit for the corresponding period was approximately RMB70.2 billion, representing a year-on-year increase of approximately 5.7%.

For the white goods industry export market, according to the General Administration of Customs of the PRC, for the nine months ended 30 September 2021, the export volume and amount of home appliances recorded a year-on-year increase of approximately 15.9% and 20.2%, respectively. Meanwhile, the export volume and amount of air-conditioners recorded a year-on-year increase of approximately 11.4% and 6.7%, respectively. Also, the export volume and amount of refrigerators recorded a year-on-year increase of approximately 9.2% and 22.6%, respectively.

We also noted the China Household Electrical Appliances Association has issued the “Guidance Opinion on the Household Appliances Industry for the 14th Five-Year Plan (2021 to 2025)”\* (中國家電工業“十四五”發展指導意見) in May 2021 based on the release of the “14th Five-Year Plan (2021 to 2025)” by the PRC government in March 2021 to promote the growth and competitiveness of the household appliances industry in the PRC with product lines focusing on innovative technology, energy saving, high efficiency, green and intelligence in order to ride on the trend of market development.

Based on the above statistics, the refrigerators market, the air-conditioners market, the washing machines market and the household electrical appliances industry have demonstrated an increased demand in 2021, coupled with the support of the favourable policies in the PRC, thereby indicating a positive outlook in the electrical appliances industry in the PRC.

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We have also analysed the recent performance of the major Chinese white goods companies listed on the Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange which principally engaged in manufacturing of electrical appliances products and recorded total revenue of not less than RMB10.0 billion for the financial year ended 2020, of which at least 50% being generated from the sales of white goods, i.e. air-conditioners, refrigerators and washing machines (the “**Comparable Companies**”). The Comparable Companies represent an exhaustive list based on the above selection criteria. Set out below are (i) the total revenues of the Comparable Companies for the last 12 months ended 30 September 2021 (i.e. during the period from 1 October 2020 to 30 September 2021); and (ii) the overseas revenues of the Comparable Companies for the last 12 months ended 30 June 2021 (i.e. during the period from 1 July 2020 to 30 June 2021), and their respective comparative figures in the corresponding period of 2020:

Stock code	Company name	Year-on-year growth rate for the 12 months ended 30 September 2021 as compared to the 12 months ended 30 September 2020		
		Total revenue for the last 12 months ended 30 September 2020 (RMB million)	Total revenue for the last 12 months ended 30 September 2021 (RMB million)	2020
000333.SZ	Midea Group Co., Ltd.	274,059	328,802	20.0%
600690.SH	Haier Smart Home Co., Ltd.	204,942	225,278	9.9%
000651.SZ	Gree Electric Appliances, Inc. of Zhuhai	169,003	180,445	6.8%
000521.SZ	Changhong Meiling Co., Ltd.	14,869	17,946	20.7%
<b>000921.SZ</b>	<b>The Company</b>	<b>45,309</b>	<b>63,594</b>	<b>40.4%</b>
<b>00921.HK</b>				(Note 1)

*Note 1:* The Company completed the acquisition of Sanden in May 2021, if excluding the revenue contribution from Sanden during the last 12 months ended 30 September 2021 provided by the Company, the year-on-year growth rate would be approximately 34.0%.

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Stock code	Company name	Overseas	Overseas	Year-on-year
		revenue for the	revenue for the	growth rate for
		last 12 months	last 12 months	the 12 months
		ended 30 June	ended 30 June	ended 30 June
		2020	2021	2021 as
		(RMB million)	(RMB million)	compared to
				the 12 months
				ended 30 June
				(Note 2)
000333.SZ	Midea Group Co., Ltd.	116,512	133,206	14.3%
600690.SH	Haier Smart Home Co., Ltd.	93,604	112,382	20.1%
000651.SZ	Gree Electric Appliances, Inc. of Zhuhai	18,839	20,853	10.7%
000521.SZ	Changhong Meiling Co., Ltd.	4,113	5,332	29.6%
<b>000921.SZ</b>	<b>The Company</b>	<b>11,835</b>	<b>18,598</b>	<b>57.1%</b>
<b>00921.HK</b>				(Note 3)

*Note 2:* No geographical segment information was presented in the quarterly reports of the respective companies for computation of their overseas revenues for the last 12 months ended 30 September 2021 and the relevant comparative figures, and hence figures for last 12 months ended 30 June 2021 and their comparative figures in the corresponding period of 2020 were presented.

*Note 3:* The Company completed the acquisition of Sanden in May 2021, if excluding the overseas revenue contribution from Sanden during the last 12 months ended 30 June 2021 provided by the Company, the year-on-year growth rate would be approximately 50.4%.

*Source:* *Quarterly reports, interim reports and annual reports of the respective companies retrieved from the websites of the Shenzhen Stock Exchange ([www.szse.cn](http://www.szse.cn)) and the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).*

### *Total revenue*

As depicted in the table above, the year-on-year growth rate of total revenues of the Comparable Companies for the 12 months ended 30 September 2021 as compared to the 12 months ended 30 September 2020 ranged from approximately 6.8% to 20.7%, while the Company recorded the highest year-on-year growth rate of total revenue of approximately 40.4% (or 34.0% if excluding the revenue contribution from Sanden) among the Comparable Companies.

We noted from the Letter from the Board that the Group expects the 2022 Projected Sales Increment to be 30% as the year-on-year increase for its level of sales scale for the year ending 31 December 2022. Based on the discussion with the Management, we understood that such increment is based on (i) the Group expects its sales scale will be further expanded in view of the Group's leverage of the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup to continue its efforts in sports marketing; (ii) the Group's perseverance to its high-end strategy and continual optimisation of its product structure; and (iii) the Group's plan to further enhance the competitiveness of its sales channel and sales network.

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### *Overseas revenue*

As depicted in the table above, the Company's overseas revenue increased from approximately RMB11,835 million for the 12 months ended 30 June 2020 to approximately RMB18,598 million for the 12 months ended 30 June 2021. The year-on-year growth rate of overseas revenues of the Comparable Companies for the 12 months ended 30 June 2021 as compared to the 12 months ended 30 June 2020 ranged from approximately 10.7% to 29.6%, while the Company recorded the highest year-on-year growth rate of overseas revenue of approximately 57.1% (or 50.4% if excluding the revenue contribution from Sanden) among the Comparable Companies.

We noted from the Letter from the Board that the Groups expects in 2022, the projected year-on-year increase in overseas sales scale of electrical appliances is 40% for Hisense International (the “**2022 Projected Overseas Sales Increment**”), which is the major source of the overseas sales of electrical appliances of the Group. Based on the discussion with the Management, we understood that such increment primarily takes into account in 2022, the Group will leverage the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup to continue its efforts in sports marketing and hence the overseas sales scale of electrical appliances will be further expanded.

Given (i) the Company having achieved the highest year-on-year total revenue growth rate of approximately 40.4% (or 34.0% if excluding the revenue contribution from Sanden) among the Comparable Companies; (ii) the Company having recorded a total revenue of approximately RMB48,393 million for year 2020, representing an increase of approximately 29.2% as compared to the year 2019; (iii) the Company having recorded a total revenue of approximately RMB32,424 million for the six months ended 30 June 2021, representing an increase of approximately 53.8% as compared to the corresponding period in 2020; (iv) the Company having achieved the highest year-on-year overseas revenue growth rate of approximately 57.1% (or 50.4% if excluding the revenue contribution from Sanden) among the Comparable Companies; (v) the Company having recorded an overseas revenue from approximately RMB10,783 million for the nine months ended 30 September 2020 to approximately RMB17,099 million for the corresponding period in 2021, representing a year-on-year growth of approximately 58.6% (or 31.9% if excluding the revenue contribution from Sanden) as stated in the Letter from the Board; and (vi) the positive outlook in the electrical appliances industry in the PRC to date as analysed above, it is reasonable for the Company to factor in, among others, the foregoing in setting the respective growth targets of (a) total revenue to be 30% as a benchmark for the 2022 Projected Sales Increment; and (b) overseas revenue to be 40% as a benchmark for the 2022 Projected Overseas Sales Increment to estimate the relevant proposed Caps (as discussed in the section headed “*4. Proposed Caps*” below).

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### 2. Reasons for and benefits of the Agreements

#### (a) *Business Co-operation Framework Agreement*

Pursuant to the Business Co-operation Framework Agreement, the Company shall be entitled to authorise its subsidiaries to take up its rights and obligations thereunder and enter into definite contracts(s) with the parties to the agreement (or its subsidiaries) for the transactions to be conducted under the Business Co-operation Framework Agreement in respect of the purchases and supply of electrical appliances, raw materials, parts and components, supply of moulds and provision of various services.

As stated in the Letter from the Board, the reasons and benefits for the relevant transactions under the Business Co-operation Framework Agreement are set out below:

##### (i) *Purchases of electrical appliances*

Based on the forecasted orders for projects on hand, the Group needs to purchase precision air-conditioners from Hisense Holdings and/or its subsidiaries for the ancillary needs of the projects, which is beneficial to the Group's business development.

The Group's purchase of "ASKO" and "Gorenje" high-end electrical appliances from Hisense International and/or its subsidiaries is conducive to expanding the domestic sales scale of the Company's high-end products and optimising the product structure, thereby driving the overall high-end product scale of the Company.

The Group's purchase of electrical appliances from Hisense Visual Technology and/or its subsidiaries as gifts for the Company's marketing and promotional activities can increase the sales revenue of the Company's electrical appliances, which then boost the Company's overall sales revenue and image.

##### (ii) *Purchases of raw materials, parts and components*

In view of the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. The subsidiaries of Hisense Holdings have better ability in manufacturing those raw materials and spare parts with better quality, which helps to ensure the quality and performance of products. The Group is satisfied with the quality of the raw materials, parts and components provided by Hisense Holdings and/or its subsidiaries from the previous course of dealings, which then guarantee the quality of the Group's products, and in turn enhance the Group's product competitiveness. Purchasing certain specific materials from Hisense Holdings and/or its subsidiaries also helps to lower the Group's cost of purchase in view of their advantages in purchasing certain specific materials (for example, raw materials, parts and components for high-end kitchen and hygiene products).

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As further advised by the Company, the purchases of raw materials and components from Hisense International and/or its subsidiaries is ancillary to the Group's purchases of "ASKO" and "Gorenje" high-end electrical products from Hisense International and/or its subsidiaries, which helps to satisfy the demand of the Group's business regarding high-end electrical products. In addition, leveraging on the purchasing advantage of Hisense International and/or its subsidiaries in sourcing certain raw materials and components overseas, it is expected the Group can benefit from the synergy effect and hence reduce its purchase cost.

With the increase in demand for high-end electrical appliances, the Group's use of raw materials, parts and components for high-end refrigerators also increases. Purchasing such raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries helps to meet the demand of the Group in producing high-end electrical appliances.

As a free trade port, Hong Kong offers mature logistics and transportation services. Centralising the sourcing of raw materials and components through Hisense HK and using Hong Kong as a transfer station for both the collection and delivery of goods will help to reduce the logistics costs and improve the efficiency in collecting raw materials and components.

### *(iii) Provision of services*

The Group is satisfied with the quality of the services provided by Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries from the previous course of dealings and considers that each of them 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 appliances products (mainly brown and white goods), which is conducive to enhance the synergy and sharing effect of the Hisense full-range electrical appliances products, improving the Group's marketing capability and efficiency, thereby increasing the sales scale of the Group's products and profitability of the Group.

### *(iv) Supply of electrical appliances*

The production and supply of electrical appliances by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries can help to increase the Group's production and sales scale, as well as to enhance the market competitiveness of the Group's products. Through this, the Group can also continue to develop overseas market and enhance brand competitiveness and awareness. Developing

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online platform and offline set sales through Hisense Marketing Management benefits the creation of synergetic effect, which can further increase the Group's sales scale and boost the Group's market share and income.

*(v) Supply of moulds*

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

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

A subsidiary of Hisense Holdings has better ability in manufacturing raw materials required for manufacturing electrical appliances (such as electric control boards and Wi-Fi modules), which is beneficial to ensure the quality and performance of the products. Quality of the Group's products is then guaranteed by purchasing certain raw materials from this subsidiary of Hisense Holdings, which in turn increases the Group's product competitiveness. Since such businesses are carried out by means of raw material processing, the Group supplies raw materials required to this subsidiary of Hisense Holdings for processing and producing raw materials like electric control boards and Wi-Fi modules, which facilitates the development of the aforementioned businesses.

Another subsidiary of Hisense Holdings principally engages in domestic and import and export business in the PRC. As the Group has the advantages in sourcing certain specific materials, supply of these materials by the Group would increase the Group's sourcing scale, enhance its 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/or its subsidiaries can enhance the efficiency of the operation of the Group.

*(vii) Provision of services by the Group*

The provision of services for property and material processing services to Hisense Holdings, Hisense International, Hisense Marketing Management, 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 Holdings, Hisense Visual Technology and/or their

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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.

The Group also intends to enhance the supporting capabilities of its injection moulding and sheet metal business, integrate the injection moulding and sheet metal production capacity and talents within the system, expand and strengthen the external business and enhance efficiency and effectiveness of the operation of the Group. The provision of injection moulding and sheet metal processing services to Hisense Visual Technology can help the Company enlarge its business scale and increase its revenue.

In summary, based on our discussion with the Management, the respective co-operation between the Group and each of Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK, Hisense Visual Technology and/or their respective subsidiaries, allows the Group to procure and/or supply products, raw materials or services with better quality and pricing by leveraging on its own advantages and the advantageous resources of the parties to the Agreement, such as sales channels or professional ability, experience, etc., which (i) helps enhance the market competitiveness of the Group's products; (ii) brings benefit to the Group from the synergy and sharing of resources and the maximisation of the economies of scale; and (iii) helps to ensure stable and quality supply of products and services to the Group due to their familiarity and understanding of the operations of the Group, thereby reducing the operational risk exposure of the Group while enhancing the efficiency of its operations and the business development as a whole.

We also noted the Company has established 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 the Independent Shareholders. We have obtained and reviewed the CT Management Policy, and noted that 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(ies) 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. We also understood from the Company that its operation department, finance department and securities department, as well as the legal affairs department will perform the relevant internal review, approval and monitoring procedures according to its CT Management Policy for the transactions contemplated under the Business Co-operation Framework Agreement. For details of the CT Management Policy, please refer to the paragraph headed "(A)"

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*CONTINUING CONNECTED TRANSACTIONS – BUSINESS CO-OPERATION FRAMEWORK AGREEMENT – The Company's internal policy regarding continuing connected transactions" in the Letter from the Board.*

Having considered (i) the nature of the transactions to be contemplated under the Business Co-operation Framework Agreement and the benefits expected to be brought by such transactions as discussed above; and (ii) the CT Management Policy in place by the Company in reviewing, approving and monitoring the transactions, we concur with the view of the Directors that the entering into the Business Co-operation Framework Agreement and the respective transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### ***(b) Financial Services Agreement***

As set out in the Letter from the Board, the main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- (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 noted that the interest rates offered by Hisense Finance are no 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 CBIRC 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 Holdings. 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.

As further set out in the Letter from the Board, the transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company. It would in turn strengthen the Company's ability to avoid the risk arising

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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, as stated in the Letter from the Board, 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 CBIRC 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 CBIRC. 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 the CBIRC 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.

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

- (i) Obtained and reviewed the PRC audited reports of Hisense Finance for the years ended 31 December 2019 and 2020 and the PRC unaudited financial statements for the nine months ended 30 September 2021 (collectively, the “**PRC Financial Reports**”). Based on the PRC Financial Reports, the total assets of Hisense Finance increased from approximately RMB23,833 million as at 31 December 2019 to approximately RMB29,011 million as at 31 December 2020, and further to approximately RMB29,458 million as at 30 September 2021. We also noted from the PRC audited reports of Hisense Finance that its auditor did not issue any qualified or disclaimer audit opinion regarding Hisense Finance’s financial positions and operation results for the years ended 31 December 2019 and 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Highlights of the PRC Financial Reports are set out below:

	For the year ended 31 December		For the nine months ended 30 September	
	2019 (RMB million) (audited)	2020 (RMB million) (audited)	2020 (RMB million) (unaudited)	2021 (RMB million) (unaudited)
Operating revenue	550	503	351	471
Net profit	363	293	220	285
As at				
As at 31 December		30 September		
2019 (RMB million) (audited)	2020 (RMB million) (audited)	2021 (RMB million) (unaudited)		
Total assets	23,833	29,011	29,458	
Total liabilities	20,280	25,275	25,429	
<b>Net assets</b>	<b>3,553</b>	<b>3,736</b>	<b>4,029</b>	

In view of the above financial highlights, given that (i) the net profit of Hisense Finance for the nine months ended 30 September 2021 increased to approximately RMB285 million from approximately RMB220 million as compared to the corresponding period in 2020, representing a year-on-year increase of approximately 29.5%, indicating a growing trend of business; (ii) its net assets increased from approximately RMB3,736 million as at 31 December 2020 to approximately RMB4,029 million as at 30 September 2021; and (iii) its current ratio (as shown in the table below) was approximately 60.27% as at 30 September 2021, which has far exceeded the statutory requirement of 25%, we have no reason to doubt that the Group would be exposed to higher credit risks in relation to the deposits placed with Hisense Finance than with other financial institutions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) Obtained and reviewed the Risk Assessment Reports published by the Company on the website of the Shenzhen Stock Exchange on 15 April 2020, 31 March 2021 and 17 November 2021, respectively and noticed from such reports that Hisense Finance 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 31 December 2019, 31 December 2020, and 30 September 2021, respectively. Relevant indicators are extracted and set out below:

Relevant indicators	Requirements for finance companies	Hisense Finance			As at 30 September 2021	
		As at 31 December		2019		
		2020				
Capital adequacy ratio	Shall not be lower than 10%	21.38%	19.76%	19.11%		
Current ratio	Shall not be lower than 25%	52.65%	68.38%	60.27%		
Inter-bank borrowing balances over the total registered capital of relevant finance company	Shall not exceed the total registered capital	0.00%	0.00%	0.00%		
		(not higher than the registered capital)	(not higher than the registered capital)	(not higher than the registered capital)		
Investment to total capital ratio	Shall not be higher than 70%	39.94%	33.33%	41.16%		
Outstanding guaranteed amount over the total capital	Shall not exceed the total capital	54.51%	76.73%	76.38%		
		(not higher than the total capital)	(not higher than the total capital)	(not higher than the total capital)		
Non-performing asset ratio	Shall not be higher than 4%	0.00%	0.00%	0.00%		
Bad loan ratio	Shall not be higher than 5%	0.00%	0.00%	0.00%		

As illustrated above, Hisense Finance has been continuously maintaining the requisite financial ratios at a higher standard exceeding the regulatory requirement as stipulated by the CBIRC as at 31 December 2019, 31 December 2020, and 30 September 2021, respectively.

(iii) Obtained and reviewed the confirmation issued by Hisense Finance to the Company confirming that, among others, Hisense Finance was in compliance with the relevant regulatory indicators and did not have any record of administrative penalties or compulsory enforcement by the CBIRC and other regulatory authorities.

(iv) Discussed with the Management, and we are given to understand that Hisense Finance provides financial services primarily to Hisense Holdings and its subsidiaries, which Hisense Finance shall have better understanding on their financial positions and such focus of clients base enables Hisense Finance to be subject to lower default risk as compared to those commercial banks which with voluminous clients.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account, among others, Hisense Finance's relatively sound financial positions and historical compliance with the relevant regulatory requirements as analysed above, and the fact that Hisense Finance, being a non-bank financial institution regulated by the CBIRC, is required to comply with certain compliance and risk control requirements and measures promulgated by the relevant regulatory authorities from time to time, we concur with the view of the Directors that the risk of default by Hisense Finance is likely to be manageable.

Furthermore, in light of quite a substantial amount of the Group's cash and borrowings will be handled by Hisense Finance under the Financial Services Agreement, we have obtained and reviewed the risk control measures adopted by the Group for particularly utilising the deposit, loan and the electronic bank acceptance bill services with Hisense Finance as well as the internal control procedures in connection with the connected transactions laid down by the CT Management Policy, and also discussed with the Management. Accordingly, based on our review and discussion, we understood that the following relevant risk management and internal control measures are in place:

- (i) Periodically checking the deposit closing 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 deposit, loan 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 no less favourable than other commercial banks, details of the Group's procedures in obtaining and reviewing the quotations according to the CT Management Policy are set out in the paragraph headed "*(B) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – FINANCIAL SERVICES AGREEMENT – The Company's internal policy regarding continuing connected transactions*";
- (iv) Requesting the finance department to review the interest rates on deposits and loans and the service fees for electronic bank acceptance bills offered by Hisense Finance to the Group. If such rates and service fees 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 and service fees mentioned above is not a member of the aforesaid senior management, and his duties are segregated from those of the senior management;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) Regularly reviewing the financial statements of Hisense Finance to monitor its financial positions and if there is any extraordinary issues noted (for example, where the financial positions of Hisense Finance has severely deteriorated), the Group can easily switch to other commercial banks given the non-exclusivity of the Financial Services Agreement;
- (vi) Designating the finance department and securities department of the Company responsible for the collection and summarisation of all information in relation to the continuing connected transactions from the finance department and will prepare a summary report regarding the conduct of the continuing connected transactions periodically and make timely report to the senior management regarding the operating status of the continuing connected transactions of Group. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group; and
- (vii) Designating the legal affairs department of the Company responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

With the aforementioned risk management and internal control measures in place and continued to be implemented effectively, together with the confirmation from the Management that such measures having been strictly followed and applied during the term of the Existing Financial Services Agreement, we concur with the view of the Directors that such risk management and internal control measures adopted by Group would be sufficient to mitigate the risks involved should the Group fully utilise the proposed Caps, thereby safeguarding the interests of the Company and the Shareholders as a whole.

Having considered the reasons for and benefits of the Financial Services Agreement as set out in the Letter from the Board and our above analyses on (i) the current financial positions of Hisense Finance; (ii) the continuous compliance of regulatory requirements by Hisense Finance; and (iii) the risk management and internal control measures in place, we concur with the view of the Directors that the entering into the Financial Services Agreement and the respective transactions contemplated thereunder are to satisfy the business needs of the Group in its ordinary and usual course of business, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Principal terms of the Agreements

#### (a) *Business Co-operation Framework Agreement*

**Date:** 16 November 2021

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

**Term:**

The Business Co-operation Framework Agreement shall commence from 1 January 2022 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 2022, 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 no 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

The transactions contemplated under the Business Co-operation Framework Agreement are in connection with the following aspects:

	<b>Transactions</b>	<b>Nature of the transactions</b>
(i)	Purchases of electrical appliances	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense 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. The electrical appliances to be purchased by the Group include but not limited to televisions, projectors, “ASKO” and “Gorenje” high-end electrical appliances, and air-conditioners for the engine rooms.
(ii)	Purchases of raw materials, parts and components	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Holdings, Hisense International, Hisense HK, 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. The raw materials, parts and components to be purchased by the Group include but not limited to electric control boards, Wi-Fi modules, raw materials for high-end kitchen products, display panels, electronic materials, pellets and steel coils.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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<b>Transactions</b>	<b>Nature of the transactions</b>
(iii) Provision of services	<p>Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage</p> <p class="list-item-l1">(a) Hisense Holdings and/or its subsidiaries for the provision of employee health management, material processing, installation and maintenance for refrigerators, residential air-conditioners and kitchen appliances, distribution, property (for offices and staff apartments in Shandong Province and offices in Shenzhen), leasing, design, equipment inspection, agency, training, technical support and information system services;</p> <p class="list-item-l1">(b) Hisense International and/or its subsidiaries for the provision of maintenance, agency and technical support services;</p> <p class="list-item-l1">(c) Hisense Marketing Management for the provision of agency services; and</p> <p class="list-item-l1">(d) Hisense Visual Technology and/or its subsidiaries for the provision of property (for staff apartments in Shandong Province, a warehouse in Guangdong Province and a warehouse in Guizhou Province) and technical support services,</p> <p>as the Group may require from time to time.</p>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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<b>Transactions</b>	<b>Nature of the transactions</b>
(iv) 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 Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries as they may require from time to time. The electrical appliances to be supplied by the Group include but not limited to freezers, refrigerators, washing machines, residential air-conditioners, central air-conditioners, air-purifiers, kitchen appliances and special air-conditioners (基站空調).
(v) 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 International, Hisense Visual Technology and/or their respective subsidiaries as they may require from time to time. The moulds to be supplied by the Group include but not limited to moulds for cars and sheet metals.
(vi) Supply of raw materials, parts and components	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense 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. The raw materials, parts and components to be supplied by the Group include but not limited to (i) raw materials for producing electric control boards (such as resistors); and (ii) raw materials, parts and components for the production of refrigerators, washing machines, residential air-conditioners, central air-conditioners and kitchen appliances.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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<b>Transactions</b>	<b>Nature of the transactions</b>
(vii) Provision of services by the Group	<p>Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis,</p> <p class="list-item-l1">(a) provide property services for factories in Shandong Province and Guangdong Province, material processing services and installation services of central air-conditioners to Hisense Holdings and/or its subsidiaries;</p> <p class="list-item-l1">(b) provide property services for offices in Guangdong Province to Hisense International and/or their subsidiaries;</p> <p class="list-item-l1">(c) provide property services for offices in Guangdong Province to Hisense Marketing Management; and</p> <p class="list-item-l1">(d) provide property services for factories in Zhejiang Province and Shandong Province, material processing services and installation services of central air-conditioners to Hisense Visual Technology and/or its subsidiaries.</p>

In relation to the transaction categories (i) to (iv) and (vi) to (vii), pricing for the relevant transactions is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar transactions from at least three independent third parties.

The operation department of the relevant business sector of the Group will compare the terms of the proposed transactions (including pricing and other contractual terms taking into account factors such as the product/service quality and stability in supply of the product/service in respect of transaction categories (i) to (iii), customers' credit rating and qualification in respect of transaction categories (iv), (vi) and (vii)) to those of the similar transactions with independent third parties or prices offered by/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/service fees are no less favourable than the price/fees offered by/to independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In relation to the transaction category (v), in response to the invitations to tender from 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 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.

As part of our due diligence, we have obtained and reviewed the Existing Business Co-operation Framework Agreement against the Business Co-operation Framework Agreement, and noted that the principal terms of both remain the same save for the relevant Caps which are discussed below. In addition, we have, on a random basis, obtained and reviewed at least three samples of transaction records each of the seven connected transaction categories involving each of the relevant contracting parties under the Existing Business Co-operation Framework Agreement for the ten months ended 31 October 2021 and compared against the transaction records with or quotations obtained from independent third parties in order to assess the transaction pricing terms. In view of the aforementioned sampling coverage ranging across all transaction categories and contracting parties during the ten-months period under the Existing Business Co-operation Framework Agreement and the comparison performed, together with our review of the CT Management Policy and auditors' confirmation in relation to continuing connected transactions as set out in the Company's annual reports, we consider the samples are sufficient and representative. Together with the discussion with the Management, we understood that the terms stipulated under the Existing Business Co-operation Framework Agreement had not been violated.

Based on the above review and on the basis that:

- (a) the purchases of electrical appliances, raw materials, parts and components, and services by the Group (i.e. transaction categories (i) to (iii)) will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the prevailing market price of similar products/services and no less favourable than terms available from independent third parties;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (b) the pricing for the supply of moulds is determined by the open bidding process, which is a transparent pricing mechanism, and the bidding price by the Group is determined on the basis of a reasonable cost plus reasonable profit margin;
- (c) the supply of electrical appliances, raw materials, parts and components, and services by the Group (i.e. transaction categories (iv), (vi) to (vii)) will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the prevailing market price of similar products and no more favourable than terms available to independent third parties;
- (d) the non-exclusive nature of the Business Co-operation Framework Agreement provides the Group with the flexibility but not commitment or obligation on the purchases/ supplies of products/services from/to the contracting parties and/or their respective subsidiaries;
- (e) in relation to the purchases of electrical appliances, raw materials, parts and components, and services by the Group (i.e. transaction categories (i) to (iii)), the similar transactions contemplated under the Existing Business Co-operation Framework Agreement in the past and upon our review of the relevant samples of transaction records as well as our discussion with the Management there is no indication that the terms of the transactions between the Group and the contracting parties and/or their respective subsidiaries were less favourable than those available from independent third party suppliers; and
- (f) in relation to the supply of electrical appliances, moulds, raw materials, parts and components, and services by the Group (i.e. transaction categories (iv) to (vii)), the similar transactions contemplated under the Existing Business Co-operation Framework Agreement in the past, and upon our review of the relevant samples of the transaction records as well as our discussion with the Management there is no indication that the terms of the transactions between the Group and the contracting parties and/or their respective subsidiaries were more favourable than those available to independent third parties,

we are of the opinion that the terms of the Business Co-operation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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In addition, having considered the aforesaid, together with (i) the review of the CT Management Policy established to govern the connected transactions to be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders; (ii) the confirmation from the Management that the internal control measures were, and would be, consistently applied to the connected transactions; and (iii) the review of the 2019 Annual Report and the 2020 Annual Report that the auditor of the Company, being engaged to perform the independent audit on the effectiveness of the Company's internal control, was of the view that as at 31 December 2019 and 31 December 2020, the Company has maintained effective internal control related to financial reporting in accordance with the "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material respects, we consider the Group's internal control measures are in place to safeguard the transactions contemplated under the Business Co-operation Framework Agreement to be carried out in a fair and reasonable manner and in the interests of the Company and the Shareholders as a whole.

**(b) *Financial Services Agreement***

**Date:** 16 November 2021

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

**Term:**

The term of the Financial Services Agreement shall commence from 1 January 2022 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2022, 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **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 services;
- (iii) draft discount services;
- (iv) settlement and sale of foreign exchange services; and
- (v) agency services such as settlement services for receipt and payment of funds.

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

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

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

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

#### *(i) Deposit services*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

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

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 finance 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.

*(iii) Draft discount services*

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 Group 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.

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*(iv) Settlement and sale of foreign exchange services*

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 (including the level of exchange rates) via conducting online and telephone enquiries.

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

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlement 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 by 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 finance department of the Group conducts monthly review on the service fees charged by external commercial banks, namely the Five Major PRC Commercial Banks. The Group 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.

As part of our due diligence, we have reviewed the Existing Financial Services Agreement against the Financial Services Agreement, and noted that the principal terms of both remain the same, save for the relevant Caps to be discussed below. In relation to the category "*deposit services*", we have obtained and reviewed all interest rates offered by Hisense Finance and other commercial banks in the PRC. We have also, on a random basis, obtained and reviewed three samples of transaction records each of the remaining four connected transaction categories under the Existing Financial Services Agreement for the ten months ended 31 October 2021 and compared against

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the quotations or charging standards obtained from other commercial banks in the PRC. In view of the aforementioned sampling coverage ranging across all transaction categories during the ten-months period under the Existing Financial Services Agreement and the comparison performed, together with our review of the CT Management Policy and auditors' confirmation in relation to continuing connected transactions as set out in the Company's annual reports, we consider the samples are sufficient and representative. Based on the review of the foregoing and the discussion with the Management, we (i) noted that the interest rates and the financial service fees offered by Hisense Finance were no less favourable than those quoted by other normal commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC for comparable financial services (as appropriate); and (ii) understood that the terms stipulated under the Existing Financial Services Agreement had not been violated.

On the basis that (i) the transactions under the Financial Services Agreement will be conducted to satisfy the business needs of the Group in its ordinary and usual course of business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Financial Services Agreement and will be determined in accordance with the principle of fairness and reasonableness and no less favourable to the Group than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive nature of the Financial Services Agreement provides the Group with the flexibility but not commitment or obligation to obtain such financial services from Hisense Finance; and (iii) the similar transactions contemplated under the Existing Financial Services Agreement in the past, and upon our review of the relevant samples of transaction records as well as our discussion with the Management there is no indication that the terms of the transactions between the Group and Hisense Finance were less favourable than those available from other normal commercial banks and financial institutions, we are of the opinion that the terms of the Financial Services Agreement with respect to the provision of financial services to the Group are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

In addition, having considered the aforesaid, together with (i) the review of the CT Management Policy established to govern the connected transactions to be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders; (ii) the confirmation from the Management that the internal control measures were, and would be, consistently applied to the connected transactions; and (iii) the review of the 2019 Annual Report and the 2020 Annual Report that the auditor of the Company, being engaged to perform the independent audit on the effectiveness of the Company's internal control, was of the view that as at 31 December 2019 and 31 December 2020, the Company has maintained effective internal control

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related to financial reporting in accordance with the “Basic Norms for Enterprise Internal Control” and the relevant requirements in all material respects, we consider the Group’s internal control measures are in place to safeguard the transactions contemplated under the Financial Services Agreement to be carried out in a fair and reasonable manner and in the interests of the Company and the Shareholders as a whole.

### 4. Proposed Caps

In assessing the fairness and reasonableness of the proposed Caps, we have discussed with the Management the underlying basis and assumptions in determining the proposed Caps in connection with the respective transaction categories under the Agreements, details of which are elaborated below:

#### (a) *Business Co-operation Framework Agreement*

##### (i) *Purchases of electrical appliances*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Historical transaction amount	Existing annual cap		Proposed Cap	
		For the nine months ended 30 September 2021	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021	2022 (RMB)
Purchases of electrical appliances		116,100,000	173,930,000	327,370,000	310,500,000

As depicted in the table above, the proposed Cap of RMB310,500,000 (exclusive of VAT) for the purchases of electrical appliances by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in aggregate represents an increase of approximately 78.5% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB173,930,000.

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We understood such proposed Cap is determined with reference to (i) the Estimated Annualised Transaction Amount in 2021; (ii) the 2022 Projected Sales Increment; (iii) the anticipated increase in the relevant purchase of Group in 2022; and (iv) the Group's plan of marketing and product promotion activities for the year 2022, details of which are set out in the Letter from the Board.

We further noted that each Estimated Annualised Transaction Amount in 2021 as mentioned herein for each type of transaction with the respective contracting parties under the Business Co-operation Framework Agreement are prepared based on (i) the historical transaction amount for the nine months ended 30 September 2021; and (ii) the projected transaction amount from October 2021 to December 2021, having taking 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 operation in the first three quarters of 2021.

We thus have obtained the Group's 2022 transaction plan with the relevant contracting parties, which set out the actual units transacted during the nine months ended 30 September 2021 (the "**Actual Transaction Units**") and the estimated units to be transacted during October to December 2021 (the "**Estimated Transaction Units**", together with the Actual Transaction Units, the "**Estimated Annualised Transaction Units in 2021**") and the average price of the products in each transaction category, which is provided by the Company with reference to 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 operation in the first three quarters of 2021. The defined terms "*Actual Transaction Units*", "*Estimated Transaction Units*", "*Estimated Annualised Transaction Units in 2021*" and the relevant basis set out above shall apply to the other transaction categories below unless otherwise specified.

With regard to the information set out in the Group's 2022 transaction plan, among others, the relevant transaction units, the average price and the basis for determining the respective proposed Caps, we have reviewed and calculated the relevant statistics and also discussed with the Management in relation to the increment basis (where appropriate), which are detailed in below.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB10,490,000, being approximately 3.4% of the total Cap, is allocated to the purchases of electrical appliances from Hisense Holdings and/or its subsidiaries. Based on the information provided by the Company, the relevant Estimated Annualised Transaction Amount in 2021 amounts to approximately RMB2,450,000.

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Based on our discussion with the Management, such increase was primarily due to the projected purchases of precision air-conditioners from Hisense Holdings and/or its subsidiaries in the amount of RMB10,000,000 in 2022 according to the Group's purchase schedule in view of the potential tender for Metro project in the PRC and other construction projects in 2022, which the Group expects the relevant purchases to be approximately RMB6,000,000 and RMB4,000,000, respectively. We have reviewed and obtained the relevant basis and information for the Group's estimation in relation to above projects.

### Transaction between the Group and Hisense International

The proposed Cap of RMB298,740,000, being approximately 96.2% of the total Cap, is allocated to the purchases of electrical appliances from Hisense International and/or its subsidiaries, representing an increase of approximately 75.2% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB170,530,000.

As stated in the Letter from the Board, the proposed Cap of RMB298,740,000 is primarily based on (i) the estimated annualised transaction amount for importing "ASKO" and "Gorenje" electrical appliances in 2021 of approximately RMB170,530,000; and (ii) the projected sales increment of such high-end electrical appliances in 2022 from 2021, being expected to reach 76%, which is based on (a) the projected sales increment for such high-end electrical appliances of 74% in 2021 as compared to that of 2020; and (b) the Group's continued focus on expanding the scale of its high-end product in the PRC through increased market investment, active channel development and other methods.

We understood the Group purchases high-end electrical appliances with the brands "ASKO" and "Gorenje" from Hisense International and/or its subsidiaries in order to expand the Group's domestic sales of high-end products and optimise the products mix, thus the purchases of "ASKO" and "Gorenje" electrical appliances from Hisense International and/or its subsidiaries is expected to increase as the expected sales of those products increases in the domestic market. The Company expects a sales increment for such high-end electrical appliances of approximately 74% in 2021 as compared to actual sales in 2020, we thus have reviewed and compared the estimated annualised sales amount of such high-end electrical appliances of approximately RMB340,000,000 in 2021 against its corresponding actual sales amount in 2020 amounted to approximately RMB195,000,000 and noted the sales increment in 2021 to be approximately 74.4%.

Further, based on our review of the Group's 2022 transaction plan, we noted the estimated transaction units in 2022, which is prepared by the Management with reference to, among others, the Estimated Annualised Transaction Units in 2021, represents an increase of approximately 42.1%

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with the aim to further expand the sales of high-end products in the PRC market. Together with the Management's expectation in the increase in purchase price in 2022, the total amount of Cap allocated to Hisense International and/or its subsidiaries amounted to RMB298,740,000, representing an increase of approximately 75.2% as compared to the corresponding Estimated Annualised Transaction Amount in 2021, which is in line with the historical growth in 2021 from 2020.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB1,270,000 is allocated to the purchases of electrical appliances from Hisense Visual Technology and/or its subsidiaries. Based on the information provided by the Company, the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB950,000.

Based on our discussion with the Management, we understood the Group's purchase of electrical appliances from Hisense Visual Technology and/or its subsidiaries is primarily as gifts for the Group's marketing and product promotion activities for the year 2022 in an aggregate value of RMB1,740,000, of which majority will be purchased from Hisense Visual Technology and/or its subsidiaries.

To summarise, taking into account the basis for determining the respective proposed Caps, among others, by considering the respective estimated transaction units (where appropriate), our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps for the purchase of electrical appliances are fair and reasonable.

### *(ii) Purchases of raw materials, parts and components*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

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Historical transaction amount	Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021 (unaudited)	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021 (RMB)
Purchases of raw materials, parts and components	362,070,000	810,040,000
	493,450,000 <i>(Note)</i>	2,081,460,000

*Note:* Such amount refers to the aggregate amounts for the purchases of raw materials, parts and components by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology, and/or their respective subsidiaries and does not include the Estimated Annualised Transaction Amount in 2021 with Hisense HK, which is not a party to the Existing Business Co-operation Framework Agreement.

As depicted in the table above, the proposed Cap of RMB2,081,460,000 (exclusive of VAT) for the purchases of raw materials, parts and components by the Group from Hisense Holdings, Hisense International, Hisense Visual Technology, Hisense HK and/or their respective subsidiaries in aggregate represents an increase of approximately 321.8% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB493,450,000.

We understood such proposed Cap is determined with reference to (i) the Estimated Annualised Transaction Amount in 2021; and (ii) the 2022 Projected Sales Increment; (iii) the anticipated increase in the relevant purchase of the Group in 2022, details of which are set out in the Letter from the Board.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB756,530,000, being approximately 36.3% of the total Cap, allocated to the purchases of raw materials, parts and components from Hisense Holdings and/or its subsidiaries represents an increase of approximately 68.9% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB447,840,000.

As stated in the Letter from the Board, the proposed Cap is determined on the basis that: (i) in view of the strong ability of a subsidiary of Hisense Holdings in manufacturing raw materials (such as electric control boards and Wi-Fi templates), the scale of purchases of raw materials, parts and

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components from this subsidiary of Hisense Holdings in 2022 is expected to increase to the amount of approximately RMB440,000,000 (having taken into account the Estimated Annualised Transaction Amount in 2021 of approximately RMB330,000,000 between the Group and this subsidiary of Hisense Holdings and the 2022 Projected Sales Increment of 30%); and (ii) the projected purchases of certain materials by the Group from another subsidiary of Hisense 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 approximately RMB250,000,000.

With regard to the purchase of electric control boards and Wi-Fi templates, we have obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units and their respective average purchase prices provided by the Company. We noted the estimated transaction units in 2022 in relation to the purchase of electric control boards and Wi-Fi templates represent an increase of approximately 27.1% and 58.7% respectively, together with the average price of relevant raw materials in 2022 as expected by the Management, the expected purchase amount of electric control boards and Wi-Fi templates is approximately RMB397,000,000 and RMB43,000,000, respectively. Thus the aggregate amount of RMB440,000,000 represents an increment of approximately 33.3% as compared to the Estimated Annualised Transaction Amount in 2021 of approximately RMB330,000,000, which is in line with the 2022 Projected Sales Increment.

With regard to the purchase of certain raw materials by the Group from Hisense Holdings' subsidiary engaging in domestic and import and export business in the PRC, we have obtained and reviewed the relevant actual transaction amount in 2020 and the Estimated Annualised Transaction Amount in 2021. We noted there was a historical increase of approximately 204.9% from approximately RMB36,080,000 in 2020 to approximately RMB110,000,000 in 2021. The estimated transaction amount of RMB250,000,000 in 2022 represents an increase of approximately 127.3% as compared to that of 2021. Such increase in 2022 is primarily due to the corresponding increase in consumption of the relevant raw materials in view of the 2022 Projected Sales Increment and the Management's overall planning and allocation in sourcing these raw materials from various suppliers in order to ensure their sufficiency for production while optimize the purchase cost based on our discussion with the Management. We have further reviewed the Actual Transaction Units and the Estimated Transaction Units of these raw materials and their respective average purchase prices provided by the Company. We noted the raw materials purchased by the Group primarily consists of (i) electronic materials; and (ii) pellets and steel coils related materials, the respective estimated transaction units of which in 2022 represent an increase of approximately 99.8% and 198.1% as compared to those of 2021. In addition to the corresponding increase in purchase of raw materials in view of the 2022 Projected Sales Increment, we also noted

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and understood from the Management that (i) the increase in purchase for electronic materials is also primarily due to the Management's plan for stocking up additional electronic materials as inventory with reference to the Group's current consumption in order to ensure its sufficiency in view of the tight supply in the market; and (ii) the increase in purchasing units of pellets and steel coils related materials is mainly attributable to the purchase of certain particular types of pellets through Hisense Holdings' subsidiary which maintains long-term relationship with various domestic suppliers, having sourcing advantages, which in turn is expected to lower the Group's purchasing cost.

### Transaction between the Group and Hisense International

The proposed Cap of RMB35,350,000, being approximately 1.7% of the total Cap, is allocated to the purchases of raw materials, parts and components from Hisense International and/or its subsidiaries. Based on the information provided by the Company, the corresponding Estimated Annualised Transaction Amount in 2021 amounts to approximately RMB7,250,000. We also noted the proposed Cap is more or less the same as the existing annual cap in the amount of RMB35,000,000.

We noted majority of the existing annual cap has not been utilised primarily due to the delay in the construction of the Group's overseas plant. Based on our discussion with the Management, given the Group's procurement of raw materials from Hisense International and/or its subsidiaries is mainly for the Group's overseas plant to leverage on the overseas supply chain resources of Hisense International and/or its subsidiaries to achieve synergy and optimise the procurement cost, and the Company expects the aforementioned overseas plant to commence production in 2022, it is expected that such overseas plant will procure raw materials such as metal plates and hinges from Hisense International and/or its subsidiaries in the amount of RMB35,350,000. To provide the Group a buffer in procurement should this overseas plant commence production on schedule, and given the proposed Cap allocated to Hisense International in 2022 remains more or less than same, we consider such proposed Cap in the amount of RMB35,350,000 is fair and reasonable.

### Transaction between the Group and Hisense HK

The proposed Cap allocated to the purchases of raw materials, parts and components from Hisense HK amounted to RMB1,200,000,000. As discussed with the Management, we understood the Company engaged Hisense HK (not being a party to the Existing Business Co-operation Framework Agreement) to provide financing agency services to the Company to import raw materials, components and equipment overseas during the year ending 31 December 2021 pursuant to the Purchase Financing Agency Framework Agreement as set out in the Letter from the Board. Based on the information provided by the Company, the corresponding Estimated Annualised

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Transaction Amount in 2021 for the purchases of raw materials, parts and components through Hisense HK amounts to approximately RMB640,000,000.

As stated in the Letter from the Board, the Group needs to purchase a huge number of raw materials and components overseas for its production and operation demands. As further discussed with the Management, we understood that in order to reduce logistics costs and improve efficiency, the Group purchases the required raw materials and components (primarily consists of pellets and electronic materials) through Hisense HK, which coordinates and centralises the Group's purchase of such raw materials and electrical components overseas and arrange collection and delivery of the same in Hong Kong from the suppliers and to the PRC for the Group's domestic manufacturing.

We have obtained and reviewed the total actual transaction amount in 2020 and the Estimated Annualised Transaction Amount in 2021 between the Group and Hisense HK. We noted there was a historical increase of approximately 152.2% from approximately RMB253,740,000 in 2020 to approximately RMB640,000,000 in 2021. The total estimated transaction amount in 2022 of approximately RMB1,200,000,000 represents an overall increase of approximately 87.5% as compared to that of 2021.

As stated in the Letter from the Board, the corresponding estimated transaction amount in 2022 with Hisense HK for electronic materials and pellets is approximately RMB1,125,000,000 and RMB75,000,000, respectively, representing an increase of approximately 85.1% and 131.8% to the respective Estimated Annualised Transaction Amount in 2021. We have also obtained and reviewed the Actual Transaction Units and the Estimated Transaction Units of electronic materials and pellets to be purchased through Hisense HK and their respective average purchase prices provided by the Company. We noted the estimated transaction units in 2022 in relation to electronic materials and pellets, represent an increase of approximately 116.2% and 119.0%, respectively for the Group's production of intelligent electrical appliances, the use of which become the latest trend. We have further discussed with the Management and reviewed the basis for the Cap increment and noted that the purchases of raw materials through Hisense HK have taken into account the 2022 Projected Sales Increment of 30% which leads to the corresponding increase in the purchases of raw materials, plus the Management's plan for stocking up additional inventory in order to ensure sufficiency of the raw materials for production with reference to the Group's production schedule as well as the current procurement cycle of raw materials sourced overseas, which is lengthened in view of the tight supply and other potential uncertainties such as the extended shipment delivery time due to COVID-19. In this connection, we have obtained and reviewed the Group's orders placement log setting out those orders for the electronic materials and pellets placed for the overseas end suppliers in which Hisense HK coordinates and centralises the Group's purchases, representing

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approximately 41.7% of the total estimated transaction amount in 2022 of approximately RMB1,200,000,000 with our sample checking of those orders on a random basis, and therefore we consider the proposed Cap in the amount of RMB1,200,000,000 is fair and reasonable.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB89,580,000, being approximately 4.3% of the total Cap, allocated to the purchases of raw materials, parts and components from Hisense Visual Technology and/or its subsidiaries represents an increase of approximately 133.5% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB38,360,000.

As stated in the Letter from the Board and further to our discussion with the Management, the proposed Cap is for the Group's purchase of raw materials for daily operating use, in addition to the Group's purchase of display panels from Hisense Visual Technology and/ or its subsidiaries for the use in high-end refrigerator products which commences in 2022 in the expected amount of approximately RMB12,000,000.

To summarise, taking into account the basis for determining the respective proposed Caps, among others, by considering the respective estimated transaction units (where appropriate), our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps in relation to the purchase of raw materials, parts and components are fair and reasonable.

### *(iii) Provision of services*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	<b>Historical transaction amount</b>		<b>Existing annual cap</b>	<b>Proposed Cap</b>
	<b>For the nine months ended 30 September 2021</b>	<b>Estimated Annualised Transaction Amount in 2021 (RMB) (unaudited)</b>		<b>For the year ending 31 December 2021</b>
Provision of services	769,760,000	1,055,840,000	1,271,470,000	1,494,200,000

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As depicted in the table above, the proposed Cap of RMB1,494,200,000 for the provision of services by Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries to the Group in aggregate represents an increase of approximately 41.5% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB1,055,840,000.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB1,134,260,000, being approximately 75.9% of the total Cap, allocated to the provision of services by Hisense Holdings and/or its subsidiaries represents an increase of approximately 42.8% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB794,190,000.

The services provided by Hisense Holdings and/or its subsidiaries includes (i) material processing services; (ii) installation and maintenance services; (iii) equipment inspection services; (iv) property services (including property management and leasing); (v) information system services; and (vi) distribution, leasing, design, agency, training, employee health management and technical support services. The respective proposed Caps for the above services are RMB184,990,000, RMB284,870,000, RMB30,000,000, RMB82,980,000, RMB204,770,000, and RMB346,650,000, respectively, representing an increase of approximately 28.8%, 26.5%, 38.3%, 43.9%, 54.1%, and 62.6% as compared to their respective Estimated Annualised Transaction Amount in 2021.

We understood from the Company that the demand for material processing services, installation and maintenance services, as well as equipment inspection services will increase given the 2022 Projected Sales Increment. We noted the increment in the respective proposed Caps for material processing services, installation and maintenance services, as well as equipment inspection services is in line with the Group's 2022 Projected Sales Increment with 30% as the increment target.

In addition, as part of our due diligence, we have obtained and reviewed the estimated number of processed sets and the average processing price per set provided by the Company for the material processing services and noted the estimated number of processing sets in 2022 represents an increase of approximately 28.8% as compared to 2021, which is in line with the 2022 Projected Sales Increment. We have also obtained and reviewed the estimated number of refrigerators, air-conditioners and kitchen electrical appliances subject to installation and maintenance services in 2022 which is prepared by the Company based on the actual products units in the first three quarters in 2021 and the predicted products units from October to December 2021 with reference to the current progress of the Group's projects, the

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contemplated transactions under the contracts already entered into by the Group and the business operations development of the Group in the first three quarters of 2021, and the average services unit price. We noted the aggregated estimated number of electrical appliances products subject to installation and maintenance services in 2022 represents an increase of approximately 13.5% as compared to 2021, coupled with the expected increase in average service fees, resulting in the proposed Cap in relation to installation and maintenance services amounting to RMB284,870,000.

Regarding the property services (including property management and leasing), we understood from the Management that increase in the respective proposed Cap is primarily due to (i) the increase in the charge of electricity and water and property management in 2022 in view of the expected increase in the operating revenue of the Group; (ii) the Group's plan to procure new leasing of properties or the expansion of leasing area in view of the expected increase in the operating revenue; and (iii) the expected increase in rental fee in the property market in 2022.

As further discussed with the Management, in addition to the existing information system of the Group, in view of the 2022 Project Sales Increment and the increase in the level and demand of informatisation 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.

According to the Management, the Group will increase its purchase of distribution, leasing, design, agency, training, employee health management and technical support services in view of the 2022 Projected Sales Increment of 30%. In addition, the Group also plans to appoint (i) Hisense Holdings and/or its subsidiaries to provide distribution services to shorten the delivery time and to enhance the shopping experiences of the customers with the expected purchase amount in 2022 to be approximately RMB50,000,000; and (ii) Hisense Holdings and/or its subsidiaries to provide technical support services to its "smart appliances" in order to enhance the intelligence level of the Group's appliances with expected purchases amounts to be RMB33,650,000.

### Transaction between the Group and Hisense International

The proposed Cap of RMB22,230,000, being approximately 1.5% of the total Cap, is allocated to the provision of services by Hisense International and/or its subsidiaries. Based on the information provided by the Company, the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB7,140,000.

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The services provided by Hisense International and/or its subsidiaries includes (i) maintenance services; (ii) technical support services; and (iii) agency services with the respective proposed Caps amounting to RMB14,910,000, RMB5,000,000, RMB2,320,000, respectively. According to the Management, the respective proposed Caps are determined with reference to the historical transaction amount and the expected increase in sales in 2022 as stated in the Letter from the Board.

### Transaction between the Group and Hisense Marketing Management

The proposed Cap of RMB282,880,000, being approximately 18.9% of the total Cap, allocated to the provision of agency services by Hisense Marketing Management represents an increase of approximately 26.3% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB224,000,000. We noted such increment is in line with the Group's 2022 Projected Sales Increment with 30% as the increment target.

According to the Letter from the Board and the discussion with the Management, the Group will increase the purchases of agency services from Hisense Marketing Management in view of the expected increase in sales of white goods through the business of sale of Hisense full-range electrical appliances products, calculated based on the Management's expected revenue through the business of sale of Hisense full-range electrical appliances products and related agency fee rates in 2022. As part of our due diligence, we have obtained and reviewed the estimated sales revenue of white goods products and the agency fee rates through the business of sale of Hisense full-range electrical appliances products to the Group from Hisense Marketing Management.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB54,830,000, being approximately 3.7% of the total Cap, is allocated to the provision of services by Hisense Visual Technology and/or its subsidiaries. Based on the information provided by the Company, the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB30,510,000.

The services provided by Hisense Visual Technology and/or its subsidiaries includes (i) property services (including property management and leasing); and (ii) technical support services with the respective proposed Caps amounting to RMB44,980,000 and RMB9,850,000, respectively. According to the Management, the respective proposed Cap in relation to the property services is determined based on the Estimated Annualised Transaction Amount in 2021, the Group's plan to procure new leasing of properties or the expansion of leasing area in view of the expected increase in the operating revenue, and the expected increase in rental fee in the property market in 2022. The Group also plans to appoint Hisense Visual

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Technology and/ or its subsidiaries to develop product intelligence features and to provide technical support to the online voice module of the product, as well as to jointly develop key experimental projects in 2022, which will then increase the technical services from Hisense Visual Technology.

To summarise, taking into account the basis for determining the respective proposed Caps and our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps in relation to the provision of services are fair and reasonable.

*(iv) Supply of electrical appliances*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

Historical transaction amount For the nine months ended 30 September 2021 (unaudited)	Existing annual cap		Proposed Cap	
	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021 (RMB)	2021 (RMB)	2022 (RMB)
Supply of electrical appliances	13,310,270,000	17,425,820,000	19,552,610,000	25,036,390,000

As depicted in the table above, the proposed Cap of RMB25,036,390,000 (exclusive of VAT) for the supply of electrical appliances by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries in aggregate represents an increase of approximately 43.7% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB17,425,820,000.

We understood such proposed Cap is determined with reference to, primarily, (i) the Estimated Annualised Transaction Amount in 2021; (ii) the 2022 Projected Sales Increment; (iii) the Group's leverage of the opportunity of Hisense becoming official sponsor for the 2022 Qatar World Cup for the sports marketing and the Group's expectation on overseas sales scale of electrical appliances being further expanded; (iv) the leverage on Hisense Marketing Management's

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full-range sales platform; and (v) the expected increase in the production of more special air-conditioners units, details of which are set out in the Letter from the Board.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB474,820,000, being approximately 1.9% of the total Cap, allocated to the supply of electrical appliances by the Group to Hisense Holdings and/or its subsidiaries represents an increase of approximately 111.5% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB224,500,000.

Based on the information provided by the Company, we noted the Group supplies refrigerators, household air-conditioners, special air-conditioners, central air-conditioners and kitchen electrical appliances products to Hisense Holdings and/or its subsidiaries, while supplies of special air-conditioners accounts for majority.

We have obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the respective average prices of the products provided by the Company. We noted the estimated transaction units in 2022 represents an increase of approximately 100.2% as compared to the Estimated Annualised Transaction Units in 2021. In particular, as further discussed with the Management, we understood Hisense Holdings and/or its subsidiaries are expected to further increase their level of bidding for the provision of special air-conditioners projects in 2022, as a result of which the Group is expected to be entrusted with the production of special air-conditioners units, with the corresponding amount of approximately RMB380,000,000. We have thus reviewed the number of the production of special air-conditioners and the average selling price per unit. We noted that the estimated transaction units for special air-conditioners in 2022 represents approximately 86.8% as compared to the Estimated Annualised Transactions Units in 2021, coupled with the expected increase in the average price of special air-conditioners in 2022 as advised by the Management, it is expected that transaction amount in 2022 for the special air-conditioners units to be approximately RMB380,000,000.

### Transaction between the Group and Hisense International

The proposed Cap of RMB23,213,270,000, being approximately 92.7% of the total Cap, allocated to the supply of electrical appliances by the Group to Hisense International and/or its subsidiaries represents an increase

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of approximately 40.0% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB16,580,900,000.

Based on the information provided by the Company, we noted the Group primarily supplies refrigerators, air-conditioners, washing machines and kitchen electrical appliances products to Hisense International and/or its subsidiaries, which is the major source of the overseas sales of electrical appliances of the Group. For the 2022 Projected Overseas Sales Increment of 40%, please refer to the discussion and analysis in the paragraph headed “*– Prevailing market conditions about demand for electrical appliances*” above.

We have also obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the average price of the products provided by the Company. We noted the estimated transaction units in 2022 to be approximately 21.0 million units, represents an increase of approximately 25.7% as compared to the Estimated Annualised Transaction Units in 2021 of approximately 16.7 million units. As advised by the Management, the increment of approximately 25.7% for the estimated transaction units in 2022 is determined primarily with reference to the historical sales growth in 2021 as compared to that of 2020 and the expected increase in sales in 2022 through the Group’s leverage of the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup. We have also reviewed and noted the corresponding total sales amount to Hisense International and/or its subsidiaries represented an increase of approximately 29.4% in 2021 as compared to the actual sales amount in 2020.

Taking into account into the Group’s historical supply to Hisense International and/or its subsidiaries, the 2022 Projected Overseas Sales Increment of 40% (as discussed in the paragraph headed “*– Prevailing market conditions about the demand for electrical appliances*” above), coupled with the expected increase in the average price of the products in 2022 as advised by the Management, resulting in the expected transaction amount in 2022 to be approximately RMB23,213,270,000, which is considered to be fair and reasonable.

### Transaction between the Group and Hisense Marketing Management

The proposed Cap of RMB1,337,900,000, being approximately 5.3% of the total Cap, allocated to the supply of electrical appliances by the Group to Hisense Marketing Management represents an increase of approximately 116.9% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB616,800,000.

Based on the information provided by the Company, we noted the Group primarily supplies refrigerators, household air-conditioners and kitchen electrical appliances products to Hisense Marketing Management. We

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have obtained and reviewed the total actual transaction amount in 2020 and the Estimated Annualised Transaction Amount in 2021 between the Group and Hisense Marketing Management. We noted there was a historical increase of approximately 50.1% from approximately RMB410,810,000 in 2020 to approximately RMB616,800,000 in 2021. As further discussed with the Management, we understood that the sale plan of the Hisense full-range electrical appliances products is integrated, managed and organised by Hisense Marketing Management with various sales platforms. With the sale of full-range products and set products having become the market development trend, the Group will continue to leverage on Hisense Marketing Management's strength of full-range sales platform for expansion of the Group's sales revenue and development of potential customers to expand the business scale, thereby leading to the increase in expected supplies to Hisense Marketing Management in 2022. We have also obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the respective average prices of the products provided by the Company. We noted the estimated transaction units in 2022 represents an increase of approximately 98.0% as compared to the Estimated Annualised Transaction Units in 2021, coupled with the expected increase in the average price of the products in 2022 as advised by the Management, resulting in the expected transaction amount in 2022 to be approximately RMB1,337,900,000.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB10,400,000 is allocated to the supply of electrical appliances by the Group to Hisense Visual Technology and/or its subsidiaries, representing an increase of approximately 187.3% of the corresponding Estimated Annualised Transaction Amount in 2021 amounts to approximately RMB3,620,000 based on the information provided by the Company.

We noted the Group primarily supplies refrigerators, household purifiers and kitchen electrical appliances products to Hisense Visual Technology and/or its subsidiaries. We have obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the respective average prices of the products provided by the Company. We noted the increase in the proposed Cap is primarily due to the expected increase in the supply of household purifiers and kitchen electrical appliances products to Hisense Visual Technology and/or its subsidiaries. We further discussed with the Management and understood such increment is mainly attributable to the use for daily operation and also for the marketing and promotional activities of Hisense Visual Technology. Thus, the aggregate estimated transaction units in 2022 with Hisense Visual Technology and/or its subsidiaries represents an increase of approximately 213.6% as compared to the Estimated Annualised Transaction Units in 2021, which is roughly in line with the Cap increment.

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To summarise, taking into account the basis for determining the respective proposed Caps, among others, by considering the respective estimated transaction units (where appropriate), our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps in relation to the supply of electrical appliances are fair and reasonable.

(v) *Supply of moulds*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Historical transaction amount		Existing annual cap	Proposed Cap
	For the nine months ended 30 September 2021 (unaudited)	Estimated Annualised Transaction Amount in 2021 (RMB)		
Supply of moulds	60,160,000	100,640,000	151,500,000	129,190,000

As depicted in the table above, the proposed Cap of RMB129,190,000 (exclusive of VAT) for the supply of moulds by the Group to Hisense International, Hisense Visual Technology and/or their respective subsidiaries in aggregate represents an increase of approximately 28.4% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB100,640,000.

We understood such proposed Cap is determined with reference to, primarily, (i) the Estimated Annualised Transaction Amount in 2021; and (ii) the expected growth in the sales scale of moulds in 2022, details of which are set out in the Letter from the Board.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

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### Transaction between the Group and Hisense International

The proposed Cap of RMB52,000,000 allocated to the supply of moulds to Hisense International and/or its subsidiaries represents an increase of approximately 33.2% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB39,030,000.

According to the Letter from the Board, 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 increase. We noted the relevant increase in the proposed Cap is in line with the 2022 Projected Sales Increment.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB77,190,000 allocated to the supply of moulds to Hisense Visual Technology and/or its subsidiaries represents an increase of approximately 25.3% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB61,610,000.

As stated in the Letter from the Board, the proposed Cap is determined after consultation and negotiation between the Group and Hisense Visual Technology and/or its subsidiaries for the mould in relation to injection moulding and sheet metal. We noted the relevant increase in the proposed Cap is in line with the 2022 Projected Sales Increment.

To summarise, taking into account the basis for determining the respective proposed Caps and our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps in relation to the supply of moulds are fair and reasonable.

### *(vi) Supply of raw materials, parts and components*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

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Historical transaction amount	Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021 (RMB) (unaudited)	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021 (RMB)
Supply of raw materials, parts and components	273,450,000	371,290,000
	445,010,000	930,750,000

As depicted in the table above, the proposed Cap of RMB930,750,000 (exclusive of VAT) for the supply of raw materials, parts and components by the Group to Hisense Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries in aggregate represents an increase of approximately 150.7% as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB371,290,000.

As set out in the Letter from the Board, the above Cap is determined with reference to the (i) the Estimated Annual Transaction Amount in 2021; and (ii) the 2022 Projected Sales Increment, details of which are set out in the Letter from the Board.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB706,650,000, being approximately 75.9% of the total Cap, allocated to the supply of raw materials, parts and components to Hisense Holdings and/or its subsidiaries represents an increase of approximately 151.9% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB280,540,000.

According to the Letter from the Board, the increase in the relevant Cap is also attributed to the expected increases in supply of raw materials to two subsidiaries of Hisense Holdings. One of Hisense Holdings' subsidiaries engages in material sales processing, of which the Group will first sell raw materials (such as resistors) to that subsidiary for production of raw materials like electric control boards for the production needs of the Group. The Company expects that the Group will supply raw materials in the amount of approximately RMB170,000,000 to Hisense Holdings' subsidiary in 2022 for material sales processing in view of the 2022 Projected Sales

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Increment. We have obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the average prices of provided by the Company. We noted the estimated transaction units in 2022 represents an increase of approximately 40.3% as compared to the Estimated Annualised Transaction Units in 2021, resulting in the expected transaction amount with this Hisense Holding's subsidiary to be approximately RMB170,000,000.

We also understood from the Company that another subsidiary of Hisense Holdings is expected to expand its principal business in domestic and import and export trading in 2022, and it is expected that this another subsidiary will purchase raw materials from the Group in the amount of approximately RMB500,000,000 in view of the Group's advantages in sourcing certain specific materials, and parts and components, which represents an increase of approximately 281.2% as compared to The Estimated Annualised Transaction Amount in 2021 of approximately RMB130,000,000 that we have obtained from the Company for review. Based on the information provided by the Company, we noted the major raw materials, and parts and components supplied by the Group include but not limited to the pellets and compressors. We have also obtained and reviewed the Actual Transaction Units, the Estimated Transaction Units as well as the average prices of such raw materials provided by the Company. We noted the estimated transaction units of such raw materials in 2022 represents an increase of approximately 278.7% as compared to the Estimated Annualised Transaction Units in 2021, resulting in the expected transaction amount with this Hisense Holding's another subsidiary to be approximately RMB500,000,000.

We further discussed with the Management and noted the transaction amount of approximately RMB500,000,000 is primarily attributable to (i) the expected increase in the supply of raw materials, parts and components to this another subsidiary of Hisense Holdings to cater to the incremental monthly sales to its existing customers, resulting in an expected transaction amount of approximately RMB200,000,000 with the Group. In this connection, we have obtained and reviewed the purchasing framework agreement entered into between the Company and this another subsidiary of Hisense Holdings in relation to the sale and purchase of raw materials, parts and components amounting to approximately RMB200,000,000; and (ii) the 2022 business strategy of this another subsidiary of Hisense Holdings to expand its business to new customers and also to expand the variety of pellets sourced from the Group for sale to its existing and new customers, resulting in an expected transaction amount of approximately RMB160,000,000 and RMB140,000,000, respectively, which is determined with reference to the current monthly sales. As such, we consider the proposed Cap totalling RMB500,000,000 allocated to the supply of raw materials, parts and components to this another subsidiary of Hisense Holdings is fair and reasonable.

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### Transaction between the Group and Hisense International

The proposed Cap of RMB220,000,000, being approximately 23.6% of the total Cap, allocated to the supply of raw materials, parts and components to Hisense International and/or its subsidiaries represents an increase of approximately 144.4% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB90,000,000.

We understood from the Letter from the Board that the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries incidental to the sale of electrical appliances is primarily due to the increase in the quota of spare parts required by the overseas customers and the expected increase in export of such raw materials, parts and components such as plastics, sheet metals, etc. in 2022, which amounts to approximately RMB220,000,000 taking into account the Group's historical export of raw materials and spare parts in various overseas markets.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB4,100,000 allocated to the supply of raw materials, parts and components to Hisense Visual Technology and/or its subsidiaries represents an increase of approximately RMB3,350,000 as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB750,000. We also noted the proposed Cap in the amount of RMB4,100,000 maintains at a more or less the same level as the existing cap of RMB3,660,000.

To summarise, taking into account the basis for determining the respective proposed Caps and our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps are fair and reasonable.

### *(vii) Provision of services by the Group*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the Estimated Annualised Transaction Amount in 2021; (iii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

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Historical transaction amount	Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021 (RMB) (unaudited)	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021 (RMB)
Provision of services by the Group	17,160,000	22,300,000
	39,490,000	473,390,000

As depicted in the table above, the proposed Cap of RMB473,390,000 for the provision of services by the Group to Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense Visual Technology and/or their respective subsidiaries in aggregate represents an increase of approximately 21 times as compared to the Estimated Annualised Transaction Amount in 2021 amounting to RMB22,300,000.

As stated in the Letter from the Board, the above Cap is determined with reference to the (i) the Estimated Annual Transaction Amount in 2021; (ii) the related business needs of the contracting parties in 2022; and (iii) the expected growth in the business of the Group in 2022, details of which are set out in the Letter from the Board.

In assessing the proposed Cap's fairness, we also consider its allocation among the contracting parties as below:

### Transaction between the Group and Hisense Holdings

The proposed Cap of RMB15,910,000, being approximately 3.4% of the total Cap, is allocated to the provision of property services, material processing services and installation services by the Group to Hisense Holdings and/or its subsidiaries. We noted the proposed Cap represent a slight increase of approximately 5.9% as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB15,020,000.

### Transaction between the Group and Hisense International

The proposed Cap of RMB3,980,000 allocated to the provision of property services by the Group to Hisense International and/or its subsidiaries represents an increase of approximately RMB710,000 as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB3,270,000.

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### Transaction between the Group and Hisense Marketing Management

The proposed Cap allocated to the provision of property services by the Group to Hisense Marketing Management amounts to approximately RMB3,990,000, which is primarily for the property leasing services provided to Hisense Marketing Management in 2022 based on our discussion with the Company.

### Transaction between the Group and Hisense Visual Technology

The proposed Cap of RMB449,510,000 allocated to the provision of property services, material processing services and installation services by the Group to Hisense Visual Technology and/or its subsidiaries represents an increase of approximately 112 times as compared to the corresponding Estimated Annualised Transaction Amount in 2021 amounting to approximately RMB4,010,000.

We noted that the proposed Cap in the amount of RMB449,510,000 allocated to Hisense Visual Technology represents approximately 95.0% of the proposed Cap in the amount of RMB473,390,000 in relation to the provision of services by the Group. Based on our discussion with the Company and as stated in the Letter from the Board, such increase is primarily due to the provision of injection moulding and sheet metal processing services being centralised in the Group starting from 2022, as the Group intends to enhance the supporting capabilities of its injection moulding and sheet metal business, and integrate its production capacity and talents within the system, thereby expanding and strengthening the external business and enhance efficiency and effectiveness of the Group's operation. Upon implementation of the centralisation strategy, Hisense Visual Technology will cease its own injection moulding and sheet metal processing services and the Group will take up this role. In addition, it is expected that there will be an increase in the sales scale of Hisense Visual Technology which will lead to an increase in the total procurement cost for injection moulding and sheet metal by Hisense Visual Technology in 2022, resulting in the increase in the demand for the processing services from the Group. The Group estimates the demand for injection moulding and sheet metal by Hisense Visual Technology and/or its subsidiaries to be processed by the Group will amount to approximately RMB1,760,000,000 as a result of the centralisation strategy, representing an increase of 36.0% as compared to the Estimated Annualised Transaction Amount in 2021, which was processed by Hisense Visual Technology and/or its subsidiaries.

We have retrieved and reviewed the 2021 third quarterly report and 2020 annual report of Hisense Visual Technology from the Shanghai Stock Exchange and noted its historical revenue growth recorded an increase of approximately 23.4% and 15.3% for the nine months ended 30 September 2021 and the year ended 31 December 2020, respectively. We also noted in the 2021 interim report of Hisense Visual Technology that it will, among

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others, continue to leverage the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup, the newly release of certain high-end television products in the market, its research and development experience, in furtherance of its business development. As discussed with the Management, we understood the proposed transaction amount of approximately RMB440,000,000 for the above mentioned services is calculated based on the processing fee rate of approximately 25% to be charged by the Company on the expected total demand for the injection moulding and sheet metal required by Hisense Visual Technology and/or its subsidiaries, which is determined based on the estimated relevant total demand in 2021 with reference to the historical figures for the nine months ended 30 September 2021 of Hisense Visual Technology and/or its subsidiaries for their own processing. We further discussed with the Management and understood that the processing fee rate to be charged by the Company is determined on a reasonable cost plus margin basis. We have thus obtained and reviewed the aforementioned estimated total demand for injection moulding and sheet metal required by Hisense Visual Technology and the processing fee rate charged by the Company, which we have reviewed the calculation and also noted that the processing fee rate charged by the Company is no more favourable than those available to independent third parties for similar services.

To summarise, taking into account the basis for determining the respective proposed Caps and our review of the relevant information and discussion with the Management as stated above, we consider such respective proposed Caps in relation to the provision of services by the Group are fair and reasonable.

Overall, for illustration purpose, we also noted that the total proposed Cap under the Business Co-operation Framework Agreement amounts to approximately RMB30,455,880,000, representing an increase of approximately 34.8% as compared to the total existing annual cap of approximately RMB22,597,490,000 under the Existing Business Co-operation Framework Agreement (which Hisense HK is not a party thereto). Based on (i) the above discussion with the Management and our analysis; (ii) our review of underlying assumptions and basis in determining the respective proposed Cap, we concur with the Management's view that such respective proposed Cap is prepared on a fair and reasonable basis.

**(b) *Financial Services Agreement***

**(i) *Deposit services***

Set out below are (i) the historical maximum daily closing balance of deposits for the nine months ended 30 September 2021; (ii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

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Historical maximum daily closing balance For the nine months ended 30 September 2021 (RMB million) (unaudited)	Existing annual cap For the year ending 31 December 2021 (RMB million)	Proposed Cap 2022 (RMB million)
Deposit services 16,600	18,500	27,000

As depicted in the table above, the historical maximum daily closing balance of deposits placed by the Group with Hisense Finance was approximately RMB16,600 million (inclusive of interest) for the nine months ended 30 September 2021, utilising approximately 89.7% of the existing annual cap of RMB18,500 million (inclusive of interest) during the term of the Existing Financial Services Agreement.

As set out in the Letter from the Board, the proposed Cap of RMB27,000 million (inclusive of interest) was determined with reference to: (a) the historical cashflow figures of the Group; and (b) the level of the growth in monetary funds attributable to the 2022 Projected Sales Increment.

Taking into account:

- (i) the existing annual cap of RMB18,500 million (inclusive of interest) has been utilised as to approximately 89.7% during the terms of the Existing Financial Services Agreement, indicating that the Group has a substantial demand for the deposit services provided by Hisense Finance;
- (ii) as noted from the Letter from the Board, as at 30 September 2021, the balance of monetary funds held by the Group was RMB16,000 million and the balance of monetary funds from wealth management was RMB4,800 million (the total amount of monetary funds held by the Group and from wealth management was thus RMB20,800 million). Based on the 2022 Projected Sales Increment, which was considered reasonable (as discussed in the paragraph headed “*– Prevailing market conditions about the demand for electrical appliances*” above), it is anticipated that the highest daily closing cash balance held by the Group will correspondingly increase by 30% to approximately RMB27,000 million (inclusive of interest) in 2022; and,
- (iii) as disclosed in the 2021 Interim Report, the Group’s cash and cash equivalents balances as at 30 June 2021 was approximately RMB9,809 million, representing an increase in the cash position of the Group of approximately 37.9% as compared to that as at 31 December 2020;

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we are of the view that the proposed Cap for the deposit services is determined based on reasonable estimation after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

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

Set out below are (i) the historical maximum daily closing balance of loans and electronic bank acceptance bills for the nine months ended 30 September 2021; (ii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

Historical maximum daily closing balance For the nine months ended 30 September 2021 (RMB million) (unaudited)	Existing annual cap	Proposed Cap
	For the year ending 31 December 2021 (RMB million)	2022 (RMB million)
Loan and electronic bank acceptance bill services	11,300	11,500
		18,000

As depicted in the table above, the historical maximum daily balance of loans and electronic bank acceptance bills provided by Hisense Finance to the Group was approximately RMB11,300 million (inclusive of interest and service fees) for the nine months ended 30 September 2021, utilising approximately 98.3% of the existing annual cap of RMB11,500 million (inclusive of interest and service fees) during the term of the Existing Financial Services Agreement.

As set out in the Letter from the Board, the proposed Cap of RMB18,000 million (inclusive of interest and service fees) was determined with reference to: (a) similar transactions between the Group and Hisense Finance (that is, the maximum daily closing balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group for the nine months ended 30 September 2021 being approximately RMB11,300 million, of which the loans amounted to RMB500 million and the electronic bank acceptance bills amounted to RMB10,800 million); (b) the expected proportion of payment via electronic bank acceptance bills; and (c) the plan of the Group to continue to obtain more loan and electronic bank acceptance bill services from Hisense Finance instead of from other financial institutions for the year ending 31 December 2022 since the terms for the provision of the loan 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

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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.

Taking into account:

- (i) the existing annual cap of RMB11,500 million (inclusive of interest and service fees) has been utilised as to approximately 98.3% during the term of the Existing Financial Services Agreement, indicating that the Group has a substantial demand for the loan and electronic bank acceptance bill services provided by Hisense Finance; and
- (ii) as advised by the Management, given the Group's rising demand for electronic bank acceptance bill as a means of payment which will account for approximately 45% of the payment methods of the Group due to its efficiency and convenience, coupled with the estimated increase in the amount of purchase payment as to 25% for the year ending 31 December 2022 generally consistent with the 2022 Projected Sales Increment, which was considered reasonable (as discussed in the paragraph headed "*– Prevailing market conditions about the demand for electrical appliances*" above), the maximum daily closing balance of electronic bank acceptance bills is expected to be not exceeding RMB15,900 million (inclusive of interests and service fees) in order to meet the business needs of the Group, while RMB500 million will be allocated to Sanden, being acquired by the Company in May 2021. Also, in a bid to cater to the future capital needs of the Group, RMB1,500 million will be reserved for the loan services,

we are of the view that the proposed Cap for the loan and electronic bank acceptance bill services is determined based on reasonable estimation after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

*(iii) Draft discount services*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Historical draft discount interest paid	Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021 (RMB million) (unaudited)	For the year ending 31 December 2021 (RMB million)	2022 (RMB million)
Draft discount services	3	50

As depicted in the table above, the historical draft discount interests paid by the Group to Hisense Finance was approximately RMB3 million for the nine months ended 30 September 2021, utilising approximately 6.0% of the existing annual cap of RMB50 million during the term of the Existing Financial Services Agreement.

As set out in the Letter from the Board, the proposed Cap of RMB50 million was determined with reference to: (a) the expected financial needs of the Group during the peak season for production for the year 2022; and (b) 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 2022 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.

It is also set out in the Letter from the Board that on the basis that:

- (a) there is an expected increase in revenue and the projected capital expenditure in 2022;
- (b) it is expected that the Group will receive draft of approximately RMB28,500 million in 2022, among which, approximately (i) RMB4,000 million is expected to be endorsed; and (ii) remaining RMB24,500 million will be received by the Company in cash payment with the 10% of which with rounding adjustment amounting to RMB2,500 million can be used to raise fund by way of utilising the draft discount services;
- (c) as the Company may be required to make substantial payments in different periods of time throughout a year due to its procurement strategies, production schedules and sales, there is a need for the Company to have more methods and flexibility in raising funds to better meet its funding needs; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(d) the Group plans to continue to enhance its management on its account receivables and inventory to expedite the capital turnover rate,

it is thus estimated that the Group's annual sum of money for procurement of draft discount services from Hisense Finance will be approximately RMB2,500 million in 2022 and the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be approximately RMB50 million for the year ending 31 December 2022 taking into account the existing market interest level and the financing cycle of draft discount services.

Given the existing annual cap for the draft discount services during the term of the Existing Financial Services Agreement has not been fully utilised, the proposed Cap remains intact. Also, having considered that (i) the Group's enhancement plan in better managing, among others, its account receivables to expedite the capital turnover rate in view of the expected growth in revenue and capital expenditure in 2022; (ii) the Company's need to have more methods and flexibility in "cashing" the drafts to better meet its funding needs from time to time; and (iii) the aforementioned basis for estimation of the proposed Cap, we are of the view that the proposed Cap for the draft discount services is determined based on reasonable estimation after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

*(iv) Settlement and sale of foreign exchange services*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

Historical transaction amount For the nine months ended 30 September 2021 (US\$ million) (unaudited)	Existing annual cap		Proposed Cap
	For the year ending 31 December		2022 (US\$ million)
	2021 (US\$ million)		
Settlement and sale of foreign exchange services	42	300	300

As depicted in the table above, the historical transaction amount was approximately US\$42 million for the nine months ended 30 September 2021, utilising approximately 14.0% of the existing annual cap of US\$300 million during the term of the Existing Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Letter from the Board, the proposed Cap of US\$300 million was determined with reference to: (a) the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the year ending 31 December 2022; and (b) the 2022 Projected Overseas Sales Increment.

Given the existing annual cap for the settlement and sale of foreign exchange services during the term of the Existing Financial Services Agreement has not been fully utilised, the proposed Cap remains intact. Also, having considered that (a) the estimated annualised amount of foreign currency received and paid by the Group for its export business in 2021 would be US\$219 million in aggregate of which foreign currency received and paid by the Group would amount to approximately US\$99 million and US\$120 million, respectively; and (b) the expected amount of foreign currency received and paid by the Group for its export business in 2022 would be approximately US\$136 million and US\$164 million for the year ending 31 December 2022, respectively, assuming that the Group will engage Hisense Finance for the settlement and sale of foreign exchange only, factoring in also the 2022 Projected Overseas Sales Increment, which was considered reasonable (as discussed in the paragraph headed “*– Prevailing market conditions about demand for electrical appliances*” above), we are of the view that the proposed Cap of US\$300 million for the settlement and sale of foreign exchange services is determined based on reasonable estimation after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

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

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2021; (ii) the existing annual cap for the year ending 31 December 2021 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

Historical transaction amount For the nine months ended 30 September 2021 (RMB million) (unaudited)	Existing annual cap		Proposed Cap
	For the year ending 31 December		2022 (RMB million)
	2021 (RMB million)		
Agency services such as settlement services for receipt and payment of fund services	0.85	3	3

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As depicted in the table above, the historical expenses for agency services such as settlement services for receipt and payment of funds paid by the Group to Hisense Finance was approximately RMB0.85 million for the nine months ended 30 September 2021, utilising approximately 28.3% of the existing annual cap of RMB3 million during the term of the Existing Financial Services Agreement.

As set out in the Letter from the Board, the proposed Cap of RMB3 million was determined with reference to: (a) 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 such services resulting from the increment in the scale of the Group's revenue; and (b) the charging standard for service fees chargeable for the provision of agency services such as settlement 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.

Given that:

- (i) the existing annual cap for the agency services such as settlement services for receipt and payment of funds during the term of the Existing Financial Services Agreement has not been fully utilised, the proposed Cap remains intact;
- (ii) as noted from the Letter from the Board, 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. The Company is, however, unable to ensure that the service fees chargeable by Hisense Finance to the Group will remain constant. As such, the Management considered the need of maintaining certain level of buffers for upward adjustment in the service fees; and
- (iii) the Group's expected increasing demand for transfer services in 2022 resulting from the increment in the scale of the Group's revenue and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2021,

we are of the view that the proposed Cap for agency services such as settlement services for receipt and payment of funds is determined based on reasonable estimation after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Hong Kong Listing Rules requirements

Having reviewed the 2019 Annual Report and 2020 Annual Report regarding the confirmations by the independent non-executive Directors and the auditor of the Company in relation to the continuing connected transactions of the Group during the two years ended 31 December 2020, we noted that the independent non-executive Directors were of the view that such continuing connected transactions were in the ordinary and usual course of business of the Group and were conducted on normal commercial terms and were fair and reasonable and in the interests of the Company and the Shareholders as a whole. We also noted that the auditor of the Company further confirmed that, among others, nothing has come to its attention that causes it to believe that (a) such continuing connected transactions have not been approved by the Board; (b) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (c) the disclosed continuing connected transactions have exceeded the annual caps as set by the Company with respect to the aggregate amount of each of the continuing connected transactions.

In light of the annual review requirements for the continuing connected transactions pursuant to Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, in particular, (i) the restriction of the value of the continuing connected transactions by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditor of the Company on the terms of the continuing connected transactions and the annual caps not being exceeded, coupled with the CT Management Policy, we are of the view that appropriate internal control measures have been put in place to govern the conduct of the continuing connected transactions (including the transactions contemplated under the Agreements) and to safeguard the interests of the Independent Shareholders.

### RECOMMENDATION

Having considered the principal factors and reasons above, we are of the opinion that (i) the Agreements and the respective transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Agreements and the respective proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Agreements, the respective transactions contemplated thereunder and the respective proposed Caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Yours faithfully,  
For and on behalf of  
**Caitong International Capital Co., Limited**  
**Michael Lam**  
*Chief Executive Officer*

*Mr. Michael Lam has been a responsible officer registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO since 2004 and has participated in the provision of independent financial advisory services for various transactions across different categories involving companies listed in Hong Kong.*

\* For identification purposes only

# In case of any discrepancies between the Chinese translation and English text of this letter, the English text shall prevail.

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 December 2018, 2019 and 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://hxjd.hisense.cn>):

- (a) on pages 64 to 205 of the annual report of the Company for the year ended 31 December 2018 published on 26 April 2019  
(<https://www1.hkexnews.hk/listedco/listconews/SEHK/2019/0426/LTN201904261930.pdf>);
- (b) on pages 78 to 219 of the annual report of the Company for the year ended 31 December 2019 published on 15 May 2020  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051501158.pdf>); and
- (c) on pages 72 to 208 of the annual report of the Company for the year ended 31 December 2020 published on 30 April 2021  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0430/2021043000979.pdf>).

**2. INDEBTEDNESS**

As at the close of business on 30 November 2021, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, borrowings without guarantee or security of approximately RMB1,340,000,000, borrowings with guarantee or security of approximately RMB2,386,000,000, lease liabilities of approximately RMB317,000,000 and contingent liabilities of approximately RMB32,510,000, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowing (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, any other mortgages and charges or any other material contingent liabilities or guarantees.

**3. WORKING CAPITAL**

The Directors are of the opinion that, after due and careful enquiry, taking into account the effect of the transactions contemplated under the Financial Services Agreement, the cash flow generated from the operating activities, financial resources available to the Group, including internally generated funds and the available credit financing, the Group has sufficient working capital to meet its requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

**4. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save for the disclosures made in the announcement of the Company dated 30 August 2021 in relation to the unaudited interim results of the Group for the six months ended 30 June 2021 and the announcement of the Company dated 28 October 2021 in relation to the unaudited quarterly results of the Group for the three months ended 30 September 2021, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up).

**5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

In the first three quarters of 2021, in the face of adverse factors such as the significant increase in raw material prices, the Company focused on operations and capacity building to achieve stability in scale and profitability. At the same time, it actively explored overseas markets, with export revenue increasing by 58.6% on a year-on-year basis from January to September 2021. The Company will leverage the opportunity of Hisense becoming the official sponsor of the Qatar World Cup 2022 to continue to develop its sports marketing, actively expand its sales scale and strive to double the growth in scale and efficiency.

The Company continues to uphold the core value of “Technology Orientation” by continuing to strive for technology innovation and launch high quality and good products with the aim to turn sustainable development as its core competency. In 2022, the Company will seize new development opportunities and continue to leverage its technological advantages to strengthen its leading position in the refrigerator, central air-conditioning and household air-conditioning industries with high-quality products. At the same time, the Company will deepen the technological research and development of washing machines, commercial cold chain and kitchen and bathroom products, accelerate the implementation of a comprehensive market layout and take advantage of the acquisition of Sanden to achieve industrial expansion, thereby laying a solid foundation for the Group’s medium to long term development and growth.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

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

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

#### *Long position in the Shares*

Name of Director/ Supervisor	Nature of interest	Number of A Shares	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital of the Company (%)
Mr. Jia Shao Qian	Beneficial owner	404,360	0.045	0.030

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

be entered into the register maintained by the Company referred to therein or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

**Other interests**

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (c) Mr. Dai Hui Zhong, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Fei Li Cheng are Directors and directors of Hisense Holdings and/or its subsidiaries. Hisense Holdings was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. SERVICE AGREEMENTS**

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

**4. COMPETING BUSINESS**

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors nor their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules, as if each of them were treated as a controlling shareholder of the Company.

**5. LITIGATION**

As at the Latest Practicable Date, no litigation, arbitration or claims of material importance known to the Directors was pending or threatened by or against the Company or any member of the Group.

## 6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (i) the capital injection agreement dated 28 September 2020 entered into between Qingdao Hisense Financial Investment Co., Ltd.\* (青島海信金融投資股份有限公司) (“**Hisense Financial Investment**”), Qingdao Hisense Electronic Equipment Co., Ltd.\* (青島海信電子設備股份有限公司) (“**Hisense Electronic Equipment**”), the Company and Hisense International in relation to the injection of registered capital in the aggregate amount of RMB100,000,000 into Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司) (“**Hisense Financial Holdings**”) in proportion to the respective equity interests of the existing equity holders in Hisense Financial Holdings (that is, as to RMB24,000,000 by the Company), details of which are set out in the announcement of the Company dated 28 September 2020;
- (ii) the capital injection agreement dated 17 November 2020 entered into between Hisense Financial Investment, Hisense Electronic Equipment, the Company, Hisense International and Qingdao Intelligent & Precise Electronics Co., Ltd.\* (青島智動精工電子有限公司) (“**Hisense I&P Electronics**”) in relation to the injection of registered capital in the aggregate amount of RMB318,000,000 into Hisense Financial Holdings. Pursuant to the capital injection agreement, (i) the Company will subscribe for an additional registered capital of RMB40,000,000 at a consideration of RMB50,400,000; (ii) Hisense International will subscribe for an additional registered capital of RMB40,000,000 at a consideration of RMB50,400,000; (iii) Hisense I&P Electronics, as a new equity holder, will subscribe for registered capital of RMB238,000,000 at a consideration of RMB299,880,000; and (iv) each of Hisense Financial Investment and Hisense Electronic Equipment will not inject any additional registered capital into Hisense Financial Holdings. Details of the capital injection are set out in the announcement of the Company dated 17 November 2020; and
- (iii) the share purchase agreement entered into between Sanden and the Company dated 1 March 2021 in respect of the subscription by the Company for 83,627,000 shares of common stock of Sanden at the subscription price of JPY256 (equivalent to approximately HK\$19) per subscription share for a total subscription amount of JPY21,408,512,000 (equivalent to approximately HK\$1,562,665,109). Details of the share purchase are set out in the announcement of the Company dated 1 March 2021 and the circular of the Company dated 7 May 2021.

**7. EXPERT**

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

<b>Name</b>	<b>Qualifications</b>
Caitong International Capital Co., Limited	a corporation licensed to carry Type 1 (Dealing in securities) and Type 6 (Advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements

As at the Latest Practicable Date, Caitong International Capital Co., Limited:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any interest, direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they are included.

**8. GENERAL**

- (a) The registered office of the Company is at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC. The Company's head office and principal place of business in Hong Kong is situated at Room 3101-05, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong.
- (b) The secretary of the Company is Ms. Wong Tak Fong, who is a fellow member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) in the United Kingdom, a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright

Consultants Ltd. from November 1994 to May 2014. She was the chief financial controller of Diamond Dragon Fashion Ltd (鑽龍時裝有限公司) from December 2010 to March 2019.

- (c) In case of inconsistency, the Chinese text of this circular shall prevail over its English text.

## **9. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hxjd.hisense.cn>) from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee dated 4 January 2022;
- (b) the letter from the Independent Financial Adviser dated 4 January 2022;
- (c) the resolutions passed by the eleventh session of the Board on 16 November 2021;
- (d) the Business Co-operation Framework Agreement;
- (e) the Financial Services Agreement;
- (f) the consent letter issued by Caitong International Capital Co., Limited referred to in the paragraph headed “7. Expert” in this appendix; and
- (g) this circular.