

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



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



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.



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.



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
Total operating revenue	37,453	48,393	21,087	32,424
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

	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 breakdown from principal operations				
<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
Total	34,197	43,845	19,174	29,043
<i>By regions</i>				
– domestic	22,712	29,206	12,491	18,401
– overseas	11,485	14,639	6,683	10,642
Total	34,197	43,845	19,174	29,043

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



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



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.



(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.



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%
000921.SZ 00921.HK	The Company	45,309	63,594	40.4% (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%.



Stock code	Company name	Overseas	Overseas	Year-on-year
		revenue for the last 12 months ended 30 June 2020 (RMB million)	revenue for the last 12 months ended 30 June 2021 (RMB million)	2021 as compared to the 12 months ended 30 June 2020 (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%
000921.SZ	The Company	11,835	18,598	57.1%
00921.HK				(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) and the Shanghai Stock Exchange (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.



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).



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).



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



online platform and offline set sales through Hisense Marketing Management benefits the creation of synergistic 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



respective subsidiaries is incidental to the Group's business of supply of electrical appliances to these companies, which facilities 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)"



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



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.



Highlights of the PRC Financial Reports are set out below:

	For the year ended		For the nine months ended	
	31 December		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
Net assets	3,553	3,736	4,029

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.

(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	(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%		
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.



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;



- (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.



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.



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:

	Transactions	Nature of the transactions
(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 " <i>Gorenje</i> " 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.



Transactions	Nature of the transactions
(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> <ul style="list-style-type: none">(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;(b) Hisense International and/or its subsidiaries for the provision of maintenance, agency and technical support services;(c) Hisense Marketing Management for the provision of agency services; and(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>as the Group may require from time to time.</p>

Transactions	Nature of the transactions
(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.



Transactions	Nature of the transactions
(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> <ul style="list-style-type: none">(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;(b) provide property services for offices in Guangdong Province to Hisense International and/or their subsidiaries;(c) provide property services for offices in Guangdong Province to Hisense Marketing Management; and(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.

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.



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;



- (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.



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.



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



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.



(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



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



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 (RMB) (unaudited)	Estimated Annualised Transaction Amount in 2021 (RMB)	For the year ending 31 December 2021 (RMB)	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.



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.



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%



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.



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)	2022 (RMB)
Purchases of raw materials, parts and components	362,070,000	493,450,000	810,040,000 2,081,460,000 (Note)

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



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



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



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



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.

	Historical transaction amount		Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021	Estimated Annualised Transaction Amount in 2021 (RMB) (unaudited)	2021 (RMB)	For the year ending 31 December 2021 (RMB)	2022 (RMB)
Provision of services	769,760,000	1,055,840,000	1,271,470,000	1,494,200,000



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



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.



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



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	Estimated Annualised Transaction Amount in 2021	Existing annual cap	Proposed Cap
For the nine months ended 30 September 2021	2021 (RMB)	2021 (RMB)	2022 (RMB)
Supply of electrical appliances	13,310,270,000	17,425,820,000	19,552,610,000
	(unaudited)		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



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



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



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.



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	Estimated Annualised Transaction Amount in 2021 (RMB)	Existing annual cap (RMB)	Proposed Cap (RMB)
For the nine months ended 30 September 2021 (unaudited)	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)	For the year ending 31 December 2022 (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:



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.

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)	2022 (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



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.



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.



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)	2022 (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.



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



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.



Historical maximum daily closing balance For the nine months ended 30 September 2021 <i>(RMB million)</i> <i>(unaudited)</i>	Existing annual cap For the year ending 31 December 2021 <i>(RMB million)</i>	Proposed Cap 2022 <i>(RMB million)</i>
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;



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)
	2021	2022	
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



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.



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



(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.

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



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 2021		2022
	(RMB million)	(RMB million)	(RMB million)
Agency services such as settlement services for receipt and payment of fund services	0.85	3	3



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.



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.



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.