

12 October 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –  
PROPOSED REVISION OF ANNUAL CAPS  
AND  
SUPPLEMENTAL AGREEMENT TO  
BUSINESS CO-OPERATION FRAMEWORK AGREEMENT**

**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 Supplemental Agreement and the proposed Revised Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 12 October 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.

On 5 September 2022, the Company entered into the Supplemental Agreement with Hisense Holdings, Hisense International and Hisense Visual Technology in relation to (i) revise the annual caps for the transactions of (a) the purchases of raw materials, parts and components; (b) the provision of services; (c) the supply of moulds; and (d) the supply of raw materials, parts and components for the year ending 31 December 2022 under the Business Co-operation Frame Agreement; and (ii) govern the supply of moulds by the Group to Hisense Holdings and/or its subsidiaries for the year ending 31 December 2022.

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; and (ii) each of Hisense International and Hisense Visual Technology is a subsidiary of Hisense Holdings. As such, Hisense Holdings, Hisense International, Hisense Visual Technology and their respective subsidiaries (the “**Relevant Connected Persons**”) are connected persons of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Business Co-operation



Framework Agreement (as amended and supplemented by the Supplemental Agreement) will continue to constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

### 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 Business Co-operation Framework Agreement, the Supplemental Agreement and the respective transactions contemplated thereunder, has been established to advise the Independent Shareholders as to (i) whether the entering into the Supplemental Agreement and the revision of the relevant annual caps contemplated thereunder (the “**Revision**”) 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 Supplemental Agreement and the Revised 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, we have been engaged as the independent financial adviser to the then independent board committee and the independent Shareholders of the Company regarding the continuing connected transactions contemplated under the Business Co-operation Framework Agreement and the financial services agreement, details of which were set out in the circular of the Company dated 4 January 2022. The professional fees in connection with such engagement have been fully settled. Given our independent role and normal professional fees received from the Company under such engagement, we consider it would not affect our independence to form our opinion in this letter. Save for the above, we have not provided any other services to the Company in the past two years.

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 Visual Technology or their respective substantial shareholders or associates that could reasonably be 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 Supplemental Agreement, the Revision and the proposed Revised 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 Visual Technology or their respective substantial shareholders or associates.

### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the Business Co-operation Framework Agreement; (ii) the Supplemental Agreement; (iii) the announcements of the Company dated 17 November 2021 and 5 September 2022 in relation to, among others, the Business Co-operation Framework Agreement and the Supplemental Agreement; (iv) the announcement of the Company dated 19 April 2022 in relation to the investment to Hisense Kitchen & Bathroom, a subsidiary of the Company, by Hisense Visual Technology; (v) the circular of the Company dated 4 January 2022 (the “**Previous Circular**”); (vi) the annual reports of the Company for the years ended 31 December 2020 and 2021 (the “**2020 Annual Report**” and “**2021 Annual Report**”, respectively); (vii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); and (viii) 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 and/or Hisense Visual Technology 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 and/or Hisense Visual Technology. 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 Supplemental Agreement, the Revision and the proposed Revised 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 Supplemental Agreement, the Revision and the proposed Revised Caps, we have considered the following principal factors and reasons:

### **1. Background of the Supplemental Agreement**

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

The Group is principally engaged in research and development, manufacturing and marketing of electrical products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines and kitchen appliances, etc. and automotive air conditioner compressor and integrated thermal management system.

According to the announcement of the Company dated 19 April 2022, the Company, Hisense Visual Technology and Qingdao Yuanli Information Consulting Co., Ltd. (青島員利信息諮詢股份有限公司) entered into the capital increase agreement in relation to the capital increase of an aggregate of RMB20,170,000 new registered capital in Hisense Kitchen & Bathroom, a non-wholly owned subsidiary of the Company, by way of equipment injection contributed by Hisense Visual Technology. The Company considers that such capital increase by way of equipment injection is beneficial to, among others, the integration of injection molding and sheet metal business within the system and enhance the scale of business of the injection molding and sheet metal supporting business.

#### *(b) Information on the parties to the Supplemental Agreement*

##### *(1) Hisense Holdings*

Hisense Holdings was incorporated in 2001 and has a registered capital of RMB3,860,393,984. Its scope of business includes, among others, import and export of technology; import and export of goods; medical services; 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 internet of things equipment; sales of internet of things equipment; software development; education and consultancy services; property management; non-residential property leasing; residential leasing; machinery and equipment leasing.

(2) *Hisense International*

Hisense International was incorporated in 2008 and is a subsidiary of Hisense Holdings. Its principal businesses includes, among others, import and export of goods and technology; marketing strategies planning; sales of intelligent home consumer equipment.

(3) *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. It is mainly engaged in the research and development, production and sales of display products, as well as cloud platform services.

For further details on the parties to the Supplemental Agreement, please refer to the section headed “Information relating to the Group, Hisense Holdings, Hisense International and Hisense Visual Technology” in the Letter from the Board.

(c) *Information on the Business Co-operation Framework Agreement*

On 16 November 2021, the Company entered into, among others, the Business Co-operation Framework Agreement with Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK and Hisense Visual Technology. The transactions contemplated under the Business Co-operation Framework Agreement are in connection with (1) purchases of electrical appliances; (2) purchases of raw materials, parts and components; (3) provision of services; (4) supply of electrical appliances; (5) supply of moulds; (6) supply of raw materials, parts and components; and (7) provision of services by the Group.

As stated in the Letter from the Board, pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, among others, (i) purchase from the Relevant Connected Persons on a non-exclusive basis such quantities of raw materials, parts and components as it may require from time to time; (ii) on a non-exclusive basis, engage (a) Hisense Holdings and/or its subsidiaries for the provision of employee health management, material processing, installation and maintenance, distribution, property, leasing, design, equipment inspection, agency, training, technical support and information system services as the Group may require from time to time; (b) Hisense International and/or its subsidiaries for the provision of maintenance, agency and technical support services as the Group may require from time to time; (c) Hisense Marketing Management and/or its subsidiaries for the



provision of agency services as the Group may require from time to time; and (d) Hisense Visual Technology and/or its subsidiaries for the provision of property and technical support services as the Group may require from time to time; (iii) 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; and (iv) supply to the Relevant Connected Persons on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

### *Pricing*

Under the Business Co-operation Framework Agreement, (i) pricing for the purchases of raw materials, parts and components; (ii) the fees payable by the Group for receiving the services from the Relevant Connected Persons; and (iii) pricing for the supply of raw materials, parts and components are 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 purchases, services or supply (including pricing and other contractual terms taking into account factors such as the product/service quality and stability in supply of the product/service) 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 prices/fees are not less favourable than the price offered to the Group by independent third parties or the similar transaction price of independent third parties (with the pricing information supplied by the operation department) and the head of the finance department will approve the terms of the relevant orders or contracts.

In relation to the supply of moulds, under the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement), pricing for the supply of moulds, pricing is determined by the open bidding process. The bidding price is determined on the basis of a reasonable cost plus reasonable profit margin, with the maximum mark-up rate of 150%. According to the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement), pricing for the supply of moulds shall be determined by the open bidding process, which is a transparent pricing mechanism and open for any bidders who are independent third parties, and the bidding price by the Group 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. Given that there has been no supply of moulds



from the Group to Hisense Holding and/or its subsidiaries for the eight months ended 31 August 2022, we have obtained and reviewed the sales breakdown and the relevant mark-up rates over the actual costs for the supply of moulds to Hisense International and/or its subsidiaries and it is noted that mark-up rates were all below 150%. Please also refer to the section headed “4. Relevant internal control measures” below.

For the reasonableness and fairness of the pricing of (i) purchase of raw materials, parts and components; (ii) provision of services; and (iii) supply of moulds, it is noted that the pricing shall be consistent with similar transactions under the Business Co-operation Framework Agreement. We have obtained and reviewed the CT Management Policy and have obtained and reviewed, on a random basis, five samples of transaction records for the eight months ended 31 August 2022 involving each of proposed Revised Caps and compared each against the transaction records with or quotations obtained from independent third parties in order to assess the reasonableness and fairness of the transaction pricing terms, save for the supply of moulds to Hisense Holdings and/or its subsidiaries as there has been no such historical transactions for the eight months ended 31 August 2022, in which case samples of transaction records for the supply of moulds to Hisense International and/or its subsidiaries have been obtained and reviewed. Based on our review of the samples, the terms of the definitive contract(s) to be entered into between the relevant contracting parties were consistent with those of the Business Co-operation Framework Agreement, and no less favourable than terms available from/to independent third parties. Please also refer to the section headed “4. Relevant internal control measures” below. Based on the above and having considered that:

- (i) pricing for the purchases of raw materials, parts and components; and the fees payable by the Group for receiving the services from the Relevant Connected Persons shall be 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; and
- (ii) pricing for the supply of moulds shall be 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;

We are of the view that the pricing of (i) purchase of raw materials, parts and components; (ii) provision of services; and (iii) supply of moulds under the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement) shall be fair and reasonable so far as the Independent Shareholders are concerned.

For further details on the Business Co-operation Framework Agreement, please refer to the Previous Circular.



## 2. Principal terms of the Supplemental Agreement

Pursuant to the Supplemental Agreement, the Company, Hisense Holdings, Hisense International and Hisense Visual Technology have conditionally agreed to (i) revise the annual caps in relation to (a) the purchases of raw materials, parts and components by the Group from Hisense International, Hisense Visual Technology and/or their respective subsidiaries; (b) the provision of maintenance, agency and technical support services by Hisense International and/or its subsidiaries; (c) the supply of moulds by the Group to Hisense Holdings and/or its subsidiaries, and (d) the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries; and (ii) govern the supply of moulds by the Group to Hisense Holdings and/or its subsidiaries under the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement).

Save for the Revision of the Revised Caps, all other terms of the Business Co-operation Framework Agreement shall remain unchanged and continue to be in full force and effect. For further details on the terms of the Supplemental Agreement, please refer to the section headed "Supplemental Agreement to Business Co-operation Framework Agreement" in the Letter from the Board.

## 3. Proposed Revised Caps and reasons for the Revised Caps

### (a) Purchases of raw materials, parts and components

#### *Proposed Revised Caps*

Set out below (i) the original annual caps as specified in the Business Co-operation Framework Agreement ("Original Annual Cap(s)"); and (ii) the proposed Revised Caps in relation to purchases of raw materials, parts and components by the Group for the year ending 31 December 2022.

	For the year ending 31 December 2022		
	Original Annual Caps (RMB'000)	Proposed Revised Caps (RMB'000)	Changes (RMB'000)
Hisense Holdings and/or its subsidiaries	756,530	756,530	-
Hisense International and/or its subsidiaries	35,350	200,800	165,450
Hisense HK	1,200,000	1,200,000	-
Hisense Visual Technology and/or its subsidiaries	89,580	114,580	25,000
<b>Total</b>	<b>2,081,460</b>	<b>2,271,910</b>	<b>190,450</b>

As depicted in the table above, the proposed Revised Cap of RMB2,271,910,000 (exclusive of VAT) for the purchases of raw materials, parts and components by the Group represents an increase of RMB190,450,000 as



compared to the Original Annual Cap and such increase relates to the increase in annual caps for the purchases of raw materials, parts and components from Hisense International, Hisense Visual Technology and/or their respective subsidiaries.

As stated in the Letter from the Board, the above proposed Revised Cap was determined with reference to (i) the anticipated increase in the demand of raw materials from Hisense International and/or its subsidiaries for the production of household appliances by the Group's Mexico plant in the fourth quarter of 2022; and (ii) the anticipated increase in the demand of raw materials from Hisense Visual Technology and/or its subsidiaries due to the increased injection moulding and sheet metal production capacity of the Group.

#### *Reasons for the proposed Revised Caps*

According to the Letter from the Board, the Group's Mexico plant has commenced mass production of household appliances such as refrigerators. The Group's procurement of raw materials for the relevant products from Hisense International and/or its subsidiaries is mainly to leverage on the trade platform of Hisense International and/or its subsidiaries to achieve synergy and optimise the procurement cost. The Group's procurement of raw materials from Hisense Visual Technology and/or its subsidiaries is mainly due to the in-depth cooperation between the Group and Hisense Visual Technology and/or its subsidiaries commenced in the first half of 2022, which has further integrated the injection moulding and sheet metal production capacity within the system, and improved the efficiency and effectiveness of the injection moulding and sheet metal business.

As discussed in the section headed "1. Background of the Supplemental Agreement – (a) Information on the Group" above, it is noted from the announcement of the Company dated 19 April 2022 that Hisense Visual Technology subscribed for an aggregate of RMB20,170,000 new registered capital in Hisense Kitchen & Bathroom by way of equipment injection. The Company considers that such capital increase by way of equipment injection is beneficial to, among others, the integration of injection molding and sheet metal business within the system and enhance the scale of business of the injection molding and sheet metal supporting business. According to the National Enterprise Credit Information Publicity System and as confirmed by the Management, such capital contribution has been completed in April 2022.

#### *Historical figures*

Set out below the Original Annual Caps and the proposed Revised Caps for the year ending 31 December 2022 and the historical transaction amounts for the eight months ended 31 August 2022 in relation to purchases of raw materials, parts and components by the Group from Hisense International, Hisense Visual Technology and/or their respective subsidiaries.



	For the year ending 31 December 2022		For the eight months ended 31 August 2022	
	Original Annual Caps (RMB'000)	Proposed Revised Cap (RMB'000)	Historical transaction amount (RMB'000) (unaudited)	
Hisense International and/or its subsidiaries	35,350	200,800	12,526	
Hisense Visual Technology and/or its subsidiaries	89,580	114,580	48,017	

It is noted that the utilisation of the Original Annual Caps for the purchases of raw materials, parts and components by the Group from Hisense International and/or its subsidiaries and Hisense Visual Technology and/or its subsidiaries for the eight months ended 31 August 2022 represented approximately 35% and 54% of the Original Annual Caps for the year ending 31 December 2022 respectively.

As stated in the Previous Circular, the Original Annual Cap for the purchases of raw materials, parts and components by the Group from Hisense International and/or its subsidiaries is mainly for the Group's overseas plant. As advised by the Management, such purchases relate to the Group's manufacturing plant in Mexico (the "Mexico Plant") and the Mexico Plant commenced mass production of household appliances such as kitchen appliances in June 2022 and refrigerators in August 2022. It is noted that as at 31 August 2022, the mass production of household appliances and refrigerators in the Mexico Plant has commenced for less than three months and one month respectively, but the utilisation rate of the Original Annual Cap for the purchases of raw materials, parts and components by the Group from Hisense International and/or its subsidiaries as at 31 August 2022 was approximately 35% and therefore it is expected that the relevant transaction amount would exceed the Original Annual Cap in the second half of 2022. We have obtained and reviewed the production plan and the procurement plan of the Mexico Plant for the year ending 31 December 2022 and the estimated purchase amount from Hisense International and/or its subsidiaries. It is noted that the expected purchases of raw materials, parts and components from Hisense International and/or its subsidiaries would exceed the Original Annual Cap for the year ending 31 December 2022 according to the production plan and the procurement plan.

In assessing the fairness and reasonableness of the proposed Revised Caps for the purchases of raw materials, parts and components by the Group from Hisense International, Hisense Visual Technology and/or their respective subsidiaries, we have considered, among others, the following factors and reasons:



(1) Hisense International and/or its subsidiaries

We have obtained and reviewed the production and procurement plan of the Mexico Plant and the estimated purchase amount of raw materials, parts and components by the Group from Hisense International and/or its subsidiaries for the year ending 31 December 2022. We understood that the procurement plan was based on the production plan and the desired inventory level in view of the uncertainties on potential disruption on the logistics services under COVID-19 pandemic. We have also obtained and reviewed the production breakdown of the Mexico Plant and the actual usage of raw materials, parts and components purchased from Hisense International and/or its subsidiaries for the eight months ended 31 August 2022. The procurement plan was determined with reference to the actual usage rate of raw materials, parts and components for the eight months ended 31 August 2022 and the maximum production volume of the Mexico Plant. We have obtained and reviewed the calculation of the maximum production volume for the four months ending 31 December 2022 which has taken into account factors including but not limited to the production lines, the expected number of working days and working hours and the expected types of household appliances under the production plan. Based on the above, the expected purchases of raw materials, parts and components by the Group from Hisense International and/or its subsidiaries would be approximately RMB200,800,000 for the year ending 31 December 2022.

(2) Hisense Visual Technology and/or its subsidiaries

As advised by the Management, the Group and Hisense Visual Technology and/or its subsidiaries have commenced in-depth cooperation following to its capital contribution to Hisense Kitchen & Bathroom in April 2022 and it is therefore expected the purchases of raw materials, parts and components by the Group from Hisense Visual Technology would increase and exceed the Original Annual Cap for the year ending 31 December 2022 and the proposed increase to the relevant Original Annual Cap, amounting to RMB25,000,000, represent the expected purchases of raw materials, parts and components by Hisense Kitchen & Bathroom from Hisense Visual Technology for the year ending 31 December 2022 following such capital contribution.

To ascertain the expected purchases of raw materials, parts and components by Hisense Kitchen & Bathroom from Hisense Visual Technology for the year ending 31 December 2022 following such capital contribution, we have obtained and reviewed the actual usage as recognised in the cost of sales by Hisense Kitchen & Bathroom from 1 May 2022 to 31 August 2022, amounting to approximately RMB11,000,000, and the procurement plan of Hisense Kitchen & Bathroom from 1 September 2022 to 31 December 2022, amounting to RMB14,000,000. To ascertain the expected purchases from 1 September 2022 to 31 December 2022, it is noted that the actual monthly usage as recognised in the cost of sales increased from approximately RMB2,800,000 in May 2022 to approximately RMB3,500,000 in August 2022 and the expected purchases of raw materials, parts and components by Hisense Kitchen & Bathroom from Hisense



Visual Technology and/or its subsidiaries from 1 September 2022 to 31 December 2022 are based on RMB3,500,000 per month which is similar to the actual monthly usage in August 2022. Therefore, the expected purchases of raw materials, parts and components by Hisense Kitchen & Bathroom from Hisense Visual Technology for the year ending 31 December 2022, which shall be the aggregate of the actual usage as recognised in the cost of sales for the four months ended August 2022 of approximately RMB11,000,000, and the expected procurement for the four months ending 31 December 2022 of RMB14,000,000, would be approximately RMB25,000,000, representing the proposed increase of the Revised Cap against the Original Annual Cap in relation to the purchases of raw materials, parts and components by the Group from Hisense Visual Technology and/or its subsidiaries.

Having considered the aforementioned, we concur with the Directors and are of the view that the Revision in relation to the purchases of raw materials, parts and components by the Group are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole and the proposed Revised Cap in relation to the purchases of raw materials, parts and components by the Group are fair and reasonable.

*(b) Provision of services*

*Proposed Revised Caps*

Set out below are (i) the Original Annual Caps; and (ii) the proposed Revised Caps in relation to the provision of maintenance, agency and technical support services to the Group for the year ending 31 December 2022.

	For the year ending 31 December 2022		
	Original Annual Caps (RMB'000)	Proposed Revised Caps (RMB'000)	Changes (RMB'000)
Hisense Holdings and/or its subsidiaries	1,134,260	1,134,260	-
Hisense International and/or its subsidiaries	22,230	118,520	96,290
Hisense Marketing Management and/or its subsidiaries	282,880	282,880	-
Hisense Visual Technology and/or its subsidiaries	54,830	54,830	-
<b>Total</b>	<b>1,494,200</b>	<b>1,590,490</b>	<b>96,290</b>

As depicted in the table above, the proposed Revised Cap of RMB1,590,490,000 (exclusive of VAT) for the provision of services to the Group represents an increase of RMB96,290,000 as compared to the Original Annual Cap and such increase relates to the increase in annual cap for the provision of services by Hisense International and/or its subsidiaries.



As stated in the Letter from the Board, the above proposed Revised Cap is determined with reference to (i) the expected increase in the demand of the provision of services by Hisense International and/or its subsidiaries because of the increasing emphasis on the quality of the Group's overseas products under the Group's work priorities in 2022; and (ii) based on the sales of the Group's overseas products in different regions of the world, the corresponding increasing demand for the agency, technical support and maintenance services for the Group's products in the relevant regions.

#### *Reasons for the proposed Revised Caps*

As stated in the Letter from the Board, one of the Group's work priorities in 2022 is to actively promote the smart new life strategy and continue to upgrade the home appliance smart terminal. The Group needs Hisense International and/or its subsidiaries to provide more quality services such as agency, technical support and maintenance services to further refine the quality of the Group's overseas products, promote new breakthroughs in the Group's overseas business development and enhance competitiveness in overseas markets.

As stated in the 2021 Annual Report, the Company will actively promote the strategy of smart new life, give full play to the home appliance category and Hisense Group's leading edge of intelligent technology, continue to upgrade the home appliance smart terminal, improve the intelligent scene and ecological construction, realize the seamless connection from smart home to smart community and smart city, create a simple and loving quality of life, and build a perfect picture of smart new life. Also, in 2022, the Company will continuously adhere to the strategic thought of "doing longer and better" and focus on key tasks, including but not limited to improving the quality management standards of the whole process and reducing quality loss and strengthening independent brand strategy, continuing to focus on sports marketing, and promoting healthy growth in overseas market.

Furthermore, as disclosed in the 2022 Interim Report, during the six months ended 30 June 2022, the Company carried forward its synchronised efforts in achieving a unified global platform, unified research and development, unified standards and unified market launch, and has established research and development centres in the United States, Japan and Europe to gather global wisdom and provide high-quality products to consumers worldwide with the most stringent product standards. In addition, by focusing on the source of product quality, the Group has strengthened the supervision and management of product development and quality, systematically improved the quality of products and continuously offered high quality products and services.

According to the 2022 Interim Report, the operating revenue from overseas market of the Group has increased from approximately RMB10.6 billion for the six months ended 30 June 2021 to RMB14.3 billion for the six months ended 30 June 2022, representing an increase of approximately 34.6%. Besides, according to the 2021 Annual Report and the 2022 Interim Report, the operating revenue



from overseas market of the Group has been growing in terms of its weighting to the total operating revenue, increased from approximately 30.3% for the year ended 31 December 2020 to approximately 34.3% for the year ended 31 December 2021, and further increased to approximately 37.4% for the six months ended 30 June 2022. Therefore, we concur with the Directors that it is fair and reasonable for the Group to further promote its overseas business and the Group requiring more quality services such as agency, technical support and maintenance services to further refine the quality of the Group's overseas products, promote new breakthroughs in the Group's overseas business development and enhance competitiveness in overseas markets is in line with the business strategies of the Group.

#### *Historical figures*

Set out below the Original Annual Cap and the proposed Revised Cap for the year ending 31 December 2022 and the historical transaction amount for the eight months ended 31 August 2022 in relation to the provision of services by Hisense International and/or its subsidiaries to the Group.

	For the eight months ended 31 August 2022	Historical transaction amount (RMB'000) (unaudited)
For the year ending 31 December 2022		
Original Annual Cap (RMB'000)	Proposed Revised Cap (RMB'000)	
Hisense International and/or its subsidiaries	22,230	118,520
		15,371

It is noted that the utilisation of the Original Annual Cap for the provision of services by Hisense International and/or its subsidiaries to the Group for the eight months ended 31 August 2022 represented approximately 69% of the Original Annual Cap for the year ending 31 December 2022.

As discussed with the Management, the Group actively promotes the smart new life strategy and enhance competitiveness in overseas market by means of providing more quality services such as agency, technical support and maintenance services to further refine the quality of the overseas products of the Group. Hence, the Group needs Hisense International and/or its subsidiaries to provide more quality services such as agency, technical support and maintenance services to further refine the quality of the Group's overseas products, promote new breakthroughs in the Group's overseas business development and enhance competitiveness in overseas markets.



According to the 2022 Interim Report, the operating revenue from overseas market of the Group has increased from approximately RMB10.6 billion for the six months ended 30 June 2021 to RMB14.3 billion for the six months ended 30 June 2022, representing an increase of approximately 34.6%. Besides, according to the 2021 Annual Report and 2022 Interim Report, the operating revenue from overseas market of the Group has been growing in terms of its weighting to the total operating revenue, increased from approximately 30.3% for the year ended 31 December 2020 to approximately 34.3% for the year ended 31 December 2021, and further increased to approximately 37.4% for the six months ended 30 June 2022. Besides, as stated in the 2021 Annual Report, the Company will continuously adhere to the strategic thought of "doing longer and better" and focus on key tasks, including but not limited to improving the quality management standards of the whole process and reducing quality loss and strengthening independent brand strategy, continuing to focus on sports marketing, and promoting healthy growth in overseas market.

Therefore, we concur with the Directors that enhancing agency, technical support and maintenance services to further refine the quality of the overseas products of the Group is in line with the ongoing international expansion strategy of the Group.

In assessing the fairness and reasonableness of the proposed Revised Cap in relation to the provision of services by Hisense International and/or its subsidiaries to the Group, we have obtained and reviewed the actual sales of overseas products of the Group for the six months ended 30 June 2022, the actual sales volume of the overseas products of the Group for the two years ended 31 December 2021 under the refinement plan, the anticipated participation rate and the estimated demand of the provision of services by Hisense International and/or its subsidiaries for the year ending 31 December 2022, and noted that the expected service fee required for such services would be approximately RMB118,520,000 for the year ending 31 December 2022.

We have obtained and reviewed the services refinement plan of overseas products for the year ending 31 December 2022 and samples of historical transaction records of similar services for the eight months ended 31 August 2022. We noted the historical service fees per unit of products are in line with the estimated service fees per unit of products as in the refinement plan and the proposed increase in the relevant Original Annual Cap represents the estimated amount of provision of services of RMB96,290,000 under the refinement plan.

Having considered the aforementioned, we concur with the Directors and are of the view that the Revision in relation to the provision of services to the Group are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the proposed Revised Cap in relation to the provision of services to the Group are fair and reasonable.



(c) *Supply of moulds*

*Proposed Revised Caps*

Set out below are (i) the Original Annual Caps; and (ii) the proposed Revised Caps the supply of moulds by the Group for the year ending 31 December 2022.

	For the year ending 31 December 2022		
	Original	Proposed	
	Annual Cap before revision (RMB'000)	Revised Cap (RMB'000)	Changes (RMB'000)
Hisense Holdings and/or its subsidiaries	–	3,500	3,500
Hisense International and/or its subsidiaries	52,000	52,000	–
Hisense Visual Technology and/or its Subsidiaries	77,190	77,190	–
<b>Total</b>	<b>129,190</b>	<b>132,690</b>	<b>3,500</b>

As depicted in the table above, the proposed Revised Cap of RMB132,690,000 (exclusive of VAT) for the supply of moulds by the Group represents an increase of RMB3,500,000 as compared to the Original Annual Cap and such increase relates to the increase in annual cap for the supply of moulds by the Group to Hisense International and/or its subsidiaries.

As stated in the Letter from the Board, the proposed Revised Cap is determined with reference to the expected amount of purchases by Hisense Holdings and/or its subsidiaries, being approximately RMB3,500,000, after the consultation and negotiation between the Group and Hisense Holdings and/or its subsidiaries.

*Reasons for the proposed Revised Caps*

As stated in the Letter from the Board, the manufacture and sale of moulds have become important parts of the business of the Group, and the sale of moulds by the Group to Hisense Holdings and/or its subsidiaries can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group. After the consultation and negotiation between the Group and Hisense Holdings and/or its subsidiaries, the Group will supply moulds to Hisense Holdings and/or its subsidiaries in the second half of 2022.

As discussed with the Management, the Company has been notified by Hisense Holdings that Hisense Holdings and/or its subsidiaries shall require procurement of moulds for its operation for the second half of 2022. In assessing the fairness and reasonableness of the proposed Revised Cap in relation to the



supply of moulds by the Group to Hisense Holdings and/or its subsidiaries, we have obtained and reviewed the procurement plan of moulds by Hisense Holdings and noted that the estimated transaction amount would be approximately RMB3,500,000 for the year ending 31 December 2022. We have also obtained and reviewed the letter of intent from a subsidiary of Hisense Holdings pursuant to which its expected purchase amount of moulds from the Group for the fourth quarter in 2022 amounted to approximately RMB3,500,000. Furthermore, according to the 2020 Annual Report and 2021 Annual Report, we noted that the Group has supplied moulds to Hisense Holdings and/or its subsidiaries in 2020 and the historical transaction amount for the years ended 31 December 2020 and 2021 in relation to supply of moulds by the Group to Hisense Holdings and/or its subsidiaries were approximately RMB39.3 million and nil, respectively.

Having considered the aforementioned, we concur with the Directors and are of the view that the Revision in relation to the supply of moulds by the Group are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole and the proposed Revised Cap in relation to the supply of moulds by the Group are fair and reasonable.

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

*Proposed Revised Caps*

Set out below are (i) the Original Annual Caps; and (ii) the proposed Revised Caps in relation to the supply of raw materials, parts and components by the Group for the year ending 31 December 2022.

	For the year ending 31 December 2022		
	Original Annual Caps (RMB'000)	Proposed Revised Caps (RMB'000)	Changes (RMB'000)
Hisense Holdings and/or its subsidiaries	706,650	706,650	-
Hisense International and/or its subsidiaries	220,000	293,630	73,630
Hisense Visual Technology and/or its Subsidiaries	4,100	4,100	-
<b>Total</b>	<b>930,750</b>	<b>1,004,380</b>	<b>73,630</b>

As depicted in the table above, the proposed Revised Cap of RMB1,004,380,000 (exclusive of VAT) for the supply of raw materials, parts and components by the Group represents an increase of RMB73,630,000 as compared to the Original Annual Cap and such increase relates to the increase in annual cap for the supply to Hisense International and/or its subsidiaries.



As stated in the Letter from the Board, the proposed Revised Cap is determined with reference to (i) the expected increase in the demand of raw materials, parts and components by Hisense International and/or its subsidiaries because of the expected increase in the demand of the provision of services by Hisense International and/or its subsidiaries; (ii) based on the demand for the agency, technical support and maintenance services for the Group's products in different regions of the world, the corresponding increasing demand of raw materials, parts and components by Hisense International and/or its subsidiaries for the Group's products in the relevant regions.

#### *Reasons for the proposed Revised Caps*

As stated in the Letter from the Board, the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries is a business incidental to the sale of electrical appliances by the Group to Hisense International and/or its subsidiaries. As a result of the Group's smart new life strategy, the transaction amounts of the provision of technical support, maintenance and agency services by Hisense International and/or its subsidiaries will increase, and the demand of raw materials, parts and components by Hisense International and/or its subsidiaries is expected to increase accordingly.

For further details on the proposed Revised Cap for the provision of service by Hisense International and/or its subsidiaries to the Group for the year ending 31 December 2022, please refer to the paragraph headed "(b) Provision of services" in this section above. As advised by the Management, the provision of technical support, maintenance and agency services by Hisense International and/or its subsidiaries would require certain raw materials, parts and components by the Group. Therefore, in view of the expected increase in demands for the technical support, maintenance and agency services from Hisense International and/or its subsidiaries by the Group, it is expected that the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries shall increase as well. Therefore, we are of the view that increasing the annual cap for such supply would be fair and reasonable.

#### *Historical figures*

Set out below the Original Annual Cap and the proposed Revised Cap for the year ending 31 December 2022 and the historical transaction amount for the eight months ended 31 August 2022 in relation to the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries.



	For the eight months ended 31 December 2022	For the year ending 31 December 2022	August 2022	For the eight months ended 31 August 2022
Original Annual Cap (RMB'000)	Proposed Revised Cap (RMB'000)	amount (RMB'000)	Historical transaction (unaudited)	
Hisense International and/or its subsidiaries	220,000	293,630	92,252	

It is noted that the utilisation of the Original Annual Cap for the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries for the eight months ended 31 August 2022 represented approximately 42% of the Original Annual Cap for the year ending 31 December 2022.

In assessing the fairness and reasonableness of the proposed Revised Cap in relation to the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries, we have obtained and reviewed the estimated demand of the provision of services by Hisense International and/or its subsidiaries for the year ending 31 December 2022 and the estimated procurement plan of raw materials, parts and components by Hisense International and/or its subsidiaries for the year ending 31 December 2022. We have also obtained and reviewed the list of raw materials, parts and components involved in the services refinement plan and samples of historical transaction records involving such raw materials, parts and components for the eight months ended 31 August 2022, and noted that the expected transaction amount would be approximately RMB293,630,000 for the year ending 31 December 2022. Please also refer to the paragraph headed “3. Proposed Revised Caps and reasons for the Revised Caps – (b) Provision of services” above.

Having considered the aforementioned, we concur with the Directors and are of the view that the Revision in relation to the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the proposed Revised Cap in relation to the supply of raw materials, parts and components by the Group to Hisense International and/or its subsidiaries are fair and reasonable.

#### 4. Relevant internal control measures

As stated above, save for the Revision of the Revised Caps, all other terms of the Business Co-operation Framework Agreement shall remain unchanged and continue to be in full force and effect. For the pricing of the relevant transactions under the Business



Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement), please refer to the paragraph headed “1. Background of the Supplemental Agreement – (c) Information on the Business Co-operation Framework Agreement – Pricing” above.

Besides, as stated in the Circular, 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. For details of the CT Management Policy, please refer to the paragraph headed “The Company’s internal policy regarding continuing connected transactions” in the Letter from the Board.

We have obtained and reviewed the CT Management Policy and have obtained and reviewed, on a random basis, five samples of transaction records for the eight months ended 31 August 2022 involving each of proposed Revised Caps and compared each against the transaction records with or quotations obtained from independent third parties in order to assess the reasonableness and fairness of the transaction pricing terms, save for the supply of moulds to Hisense Holdings and/or its subsidiaries as there has been no such historical transactions for the eight months ended 31 August 2022, in which case samples of transaction records for the supply of moulds to Hisense International and/or its subsidiaries have been obtained and reviewed. Based on our review of the samples, the terms of the definitive contract(s) to be entered into between the relevant contracting parties were consistent with those of the Business Co-operation Framework Agreement, and no less favourable than terms available from/to independent third parties. In view of (i) the aforementioned sampling covers all transaction categories and contracting parties for the eight months ended 31 August 2022 (save for the supply of moulds to Hisense Holdings and/or its subsidiaries as there has been no such historical transactions, in which case samples of transaction records for the supply of moulds to Hisense International and/or its subsidiaries have been obtained and reviewed); (ii) the adoption of the CT Management Policy by the Company; and (iii) the annual review requirements for continuing connected transactions by the independent non-executive Directors and auditors pursuant to the Hong Kong Listing Rules and such confirmation given in the 2020 Annual Report and the 2021 Annual Report (as further discussed in the paragraph headed “5. Hong Kong Listing Rules requirements” below), we consider the samples are sufficient and representative for the basis of our opinion.

As stated in the Previous Circular, there were similar transactions contemplated under the then effective business co-operation framework agreement. We also note from the 2021 Annual Report that the independent non-executive Directors of the eleventh session of the Board have reviewed the continuing connected transactions of the Group for the year ended 31 December 2021, and confirmed that these transactions were conducted in the ordinary and usual course of business of the Company in accordance with the relevant agreements governing them and on normal commercial terms or better which were fair and reasonable and in the interests of the Shareholders as a whole. The auditor of the Company has also confirmed that nothing has come to its attention that causes it to believe that (i) the relevant continuing connected transactions of the Group have not been approved by the Board; (ii) the transactions involving the provision of goods or services by the Group were not, in all material respects, carried out in accordance with the pricing policies of the Company; (iii)



the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) the aggregate amount of each of the disclosed continuing connected transactions has exceeded the maximum aggregate annual caps disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

Based on the above review and on the basis that:

- (i) pricing for the purchases of raw materials, parts and components; (ii) the fees payable by the Group for receiving the services from the Relevant Connected Persons; and (iii) the pricing for the supply of raw materials, parts and components shall be 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;
- (ii) pricing for the supply of moulds shall be 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;
- (iii) 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; and
- (iv) the CT Management Policy shall continue to govern the transactions under the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement),

we concur with the view of the Directors that the entering into the Supplemental Agreement and the Revision 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.

## **5. Hong Kong Listing Rules requirements**

Having reviewed the 2020 Annual Report and 2021 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 2021, we noted that the independent non-executive Directors were of the view that such continuing connected transactions were conducted in the ordinary and usual course of business of the Group and were conducted on normal commercial terms or better which were fair and reasonable and in the interests of 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 Revised Caps and the transactions contemplated under the Business Co-operation Framework Agreement (as amended and supplemented by the Supplemental Agreement)) 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 entering into the Supplemental Agreement and the Revision 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) the terms of the Supplemental Agreement and the proposed Revised Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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 Supplemental Agreement, the Revision and the proposed Revised Caps.

Yours faithfully,  
For and on behalf of  
**Caitong International Capital Co., Limited**

**Wilson Lo**  
Managing Director

*Mr. Wilson Lo 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 2006 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.