

20 December 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 20 December 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 2022 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, on 7 November 2022, the Company entered into the Business Co-operation Framework Agreement with Hisense Holdings and the Financial Services Agreement with Hisense Finance.

**Business Co-operation Framework Agreement**

As at the Latest Practicable Date, as Hisense Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company, Hisense Holdings and its 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 Caps in relation to the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement, the transactions contemplated under it and the related Caps are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

### **Financial Services Agreement**

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

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

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



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

The Agreements are not inter-conditional on 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, we have been engaged as the independent financial adviser to the then independent board committee and the independent Shareholders of the Company regarding (i) the continuing connected transactions contemplated under the Existing Business Co-operation Framework Agreement and the Existing Financial Services Agreement, details of which were set out in the circular of the Company dated 4 January 2022; and (ii) the supplemental agreement to the Existing Business Co-operation Framework Agreement, details of which were set out in the circular of the Company dated 12 October 2022. The professional fees in connection with such engagements 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 Group 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 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 Group 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 supplemental agreement to the Existing Business Co-operation Framework Agreement (the "**Existing Supplemental Agreement**"), the Agreements, the annual reports of the Company for the years ended 31 December 2020 and 2021 (the "**2020 Annual Report**" and "**2021 Annual Report**", respectively), the interim report of the Company for the six months ended 30 June 2022 (the "**2022 Interim Report**"), the circular of the Company dated 12 October 2022 (the "**Revision Circular**") 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 and/or Hisense Group 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 and/or Hisense Group. 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 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.

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2020 and 2021, as extracted from the 2021 Annual Report, and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 and 2022, as extracted from the 2022 Interim Report.

	For the year ended 31 December		For the six months ended 30 June	
	2020 (RMB million) (audited)	2021 (RMB million) (audited)	2021 (RMB million) (unaudited)	2022 (RMB million) (unaudited)
Revenue from principal operations	43,845	60,762	29,043	34,976
Revenue from other operations	4,548	6,800	3,381	3,331
<b>Total operating revenue</b>	<b>48,393</b>	<b>67,563</b>	<b>32,424</b>	<b>38,307</b>
<b>Total operating cost</b>	<b>45,769</b>	<b>65,691</b>	<b>31,219</b>	<b>37,093</b>
<b>Net profit attributable to the owners of the Company for the year/period</b>	<b>1,579</b>	<b>973</b>	<b>615</b>	<b>620</b>
 Revenue from principal operations by regions				
– <i>domestic</i>	29,205	37,602	18,401	20,654
– <i>overseas</i>	14,639	23,160	10,642	14,321
 <b>Total</b>	<b><u>43,844</u></b>	<b><u>60,762</u></b>	<b><u>29,043</u></b>	<b><u>34,976</u></b>

*For the years ended 31 December 2020 and 2021*

For the year ended 31 December 2021, the Group's total operating revenue reached approximately RMB67,563 million, increased by approximately 39.6% as compared to that of the year ended 31 December 2020. We also noted that the Group's overseas sales increased from approximately RMB14,639 million for the year ended 31 December 2020 to approximately RMB23,160 million for the year ended 31 December 2021, representing an increase of approximately 58.2%. The operating cost of the Group for the year ended 31 December 2021 amounted to approximately RMB65,691 million, representing an increase of 43.5% as compared to that of the year ended 31 December 2020 amounting to approximately RMB45,769 million, which was roughly in line with the increase in the total operating revenue.

The Group's net profit attributable to the owners of the Company decreased by approximately 38.4% from approximately RMB1,579 million for the year ended 31 December 2020 to approximately RMB973 million for the year ended 31 December 2021. Such decrease was mainly caused by the operating loss of residential air-conditioning business.



*For the six months ended 30 June 2021 and 2022*

The Group's total operating revenue increased by approximately 18.1% from approximately RMB32,424 million for the six months ended 30 June 2021 to approximately RMB38,307 million for the six months ended 30 June 2022. Besides, the Group's overseas sales increased from approximately RMB10,642 million for the six months ended 30 June 2021 to approximately RMB14,321 million for the six months ended 30 June 2022, representing an increase of approximately 34.6%. The operating cost of the Group for the six months ended 30 June 2022 amounted to approximately RMB37,093 million, representing an increase of 18.8% as compared to the corresponding period in 2021 amounting to approximately RMB31,219 million, which was in line with the increase in the total operating revenue.

The Group's net profit attributable to the owners of the Company increased by approximately 0.8% from approximately RMB615 million for the six months ended 30 June 2021 to approximately RMB620 million for the six months ended 30 June 2022.

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

*(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 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. Its business scope includes: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies;



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

For further details on the parties to the Agreements, please refer to the section headed “Information relating to the Group, Hisense Holdings and Hisense Finance” in the Letter from the Board.

## 2. Reasons for and benefits of the Agreements

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

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*

According to the Letter from the Board, based on the orders for projects on hand, the Group forecasts that it needs to purchase special air-conditioners from Hisense Group 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 Group 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.

According to the 2022 Interim Report, the Company’s products are released under eight brands, including “ASKO” and “Gorenje” and the Company considers that such rich brand line-up has allowed the Company to enjoy an excellent brand reputation and solid customer base. As European classic high-end brands, the “Gorenje” and “ASKO” brands have helped the Company in the high-end kitchen appliances.

#### (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 Group on a non-exclusive basis such quantities of raw materials, parts and components as it may require from time to time. According to the Letter from the Board, in view of the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. Hisense Group has better ability in



manufacturing these products with better quality, which helps to ensure the quality and performance of products. The Group is satisfied with the quality of the raw materials, parts and components provided by Hisense Group from the previous course of dealings. By purchasing certain raw materials from Hisense Group, it is conducive to guarantee the quality of the Group's products, reduce the procurement cost and logistics cost, and improve the efficiency of delivery and therefore enhances the competitiveness of the Group's products.

The Group's procurement of raw materials related to the injection moulding business from Hisense Group is mainly due to the in-depth cooperation between the Group and Hisense Group in injection moulding business, which has further integrated the injection moulding production capacity within the system, and improved the efficiency and effectiveness of the injection moulding business.

As stated in the 2021 Annual Report, one of the key tasks of the Company included focusing on the new intelligent living strategy and improving the intelligence level of home appliance products. Besides, 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 moulding and sheet metal business within the system and enhance the scale of business of the injection moulding 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.

### *(iii) Provision of services*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage Hisense Group 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.

According to the Letter from the Board, the Group is satisfied with the quality of the services provided by Hisense Group from the previous course of dealings and considers that Hisense Group possesses 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, a subsidiary of Hisense Holdings is responsible for the integrated management and organisation of both the online e-commerce and offline set sales in certain markets of the Hisense full-range electrical appliance products (mainly brown and white goods), which is conducive to enhancing the synergy and sharing effect of



the Hisense full-range electrical appliance products, improving the Group's marketing capability and efficiency, thereby increasing the sales scale of the Group's products and profitability of the Group.

*(iv) Supply of electrical appliances*

According to the Letter from the Board, the production and supply of electrical appliances by the Group to Hisense Group can help to increase production and sales scale and enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. Developing online platform and offline set sales through Hisense Group benefits the creation of a synergetic effect, which can further increase the Group's sales scale and boost the Group's market share and income.

*(v) Supply of moulds*

According to the Letter from the Board, the manufacture and sale of moulds from the Group to Hisense Group have become important parts of the business of the Company's subsidiaries, and the sale of moulds by the Group to Hisense Group can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group.

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

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

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

Hisense Group 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 Group 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 Group can also enhance the efficiency of the operation of the Group.



For the injection moulding and sheet metal business of the Group and Hisense Group, the change to the business mode of sale material processing will further enhance the supporting capacity of the Group's injection moulding and sheet metal business, and improve the effectiveness and efficiency of the Group.

*(vii) Provision of services by the Group*

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

Based on the above and having considered that (i) the Group is principally engaged in research and development, manufacturing and marketing of electrical products; (ii) the Group is satisfied with the quality of the raw materials, parts and components provided by Hisense Group from the previous course of dealings; (iii) the Group is satisfied with the quality of the services provided by Hisense Group from the previous course of dealings and considers that Hisense Group possesses the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly; (iv) the purchase and the supply of electrical appliances, the supply of raw materials, parts and components and the supply of services by the Group help enhance the market competitiveness of the Group's products and can bring benefit to the Group from the synergy and sharing of resources and the maximisation of the economies of scale; and (v) the Group and Hisense Group have established long-term business relationship with Hisense Group and Hisense Group can help 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 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 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 containing the indicator data submitted by Hisense Finance to the CBIRC (the **“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 2020 and 2021 and the PRC unaudited financial statements for the nine months ended 30 September 2022 (collectively, the “**PRC Financial Reports**”). Based on the PRC Financial Reports, the net assets of Hisense Finance increased from approximately RMB3,736 million as at 31 December 2020 to approximately RMB4,112 million as at 31 December 2021, and further to approximately RMB4,446 million as at 30 September 2022. 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 2020 and 2021.

Highlights of the PRC Financial Reports are set out below:

	For the year ended 31 December		For the nine months ended 30 September	
	2020 (RMB million) (audited)	2021 (RMB million) (audited)	2021 (RMB million) (unaudited)	2022 (RMB million) (unaudited)
Operating revenue	503	616	471	458
Net profit	293	367	285	331
				As at 30 September
	As at 31 December 2020 (RMB million) (audited)		2021 (RMB million) (audited)	2022 (RMB million) (unaudited)
Total assets	29,011	28,432	25,129	
Total liabilities	25,275	24,320	20,682	
Net assets	3,736	4,112	4,446	

In view of the above financial highlights, given that (i) the net profit of Hisense Finance for the nine months ended 30 September 2022 increased to approximately RMB331 million from approximately RMB285 million as compared to the corresponding period in 2021, representing a year-on-year increase of approximately 16.1%, indicating a growing trend of business; (ii) its net assets increased from approximately RMB4,112 million as at 31 December 2021 to approximately RMB4,446 million as at 30 September

2022; and (iii) its current ratio (as shown in the table below) was approximately 131.15% as at 30 September 2022, which has far exceeded the statutory requirement of 25%, we are not aware of any matters which would cast doubt on the Group being 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 31 March 2021, 31 March 2022 and 8 November 2022, respectively and noted from such reports that Hisense Finance complied with regulatory requirements on the relevant indicators 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 2020, 31 December 2021, and 30 September 2022, respectively. Relevant indicators are extracted and set out below:

Relevant indicators	Requirements for finance companies	Hisense Finance			As at 30 September 2022	
		As at 31 December				
		2020	2021			
Capital adequacy ratio	Shall not be lower than 10%	19.76%	19.49%	21.06%		
Current ratio	Shall not be lower than 25%	68.38%	109.72%	131.15%		
Inter-bank borrowing balances over the total registered capital of relevant finance company	Shall not exceed the total registered capital	0.00% (not higher than the registered capital)	0.00% (not higher than the registered capital)	0.00% (not higher than the registered capital)		
Investment to total capital ratio	Shall not be higher than 70%	33.33%	39.77%	48.75%		
Outstanding guaranteed amount over the total capital	Shall not exceed the total capital	76.73% (not higher than the total capital)	74.69% (not higher than the total capital)	67.91% (not higher than the total capital)		
Non-performing asset ratio	Shall not be higher than 4%	0.00%	0.00%	0.00%		
Bad loan ratio	Shall not be higher than 5%	0.00%	0.00%	0.00%		

As illustrated above, Hisense Finance has been continuously maintaining the requisite financial ratios at a higher standard exceeding the regulatory requirement as stipulated by the CBIRC as at 31 December 2020, 31 December 2021, and 30 September 2022, 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. We have also compared the relevant indicators as at 30 September 2022 in such confirmation and the Risk Assessment Report published by the Company on the website of the Shenzhen Stock Exchange on 8 November 2022 and noted that the indicators were consistent and complied with regulatory requirements.

- (iv) Conducted search on the website of CBIRC and are not aware of any administrative penalties or compulsory enforcement by the CBIRC imposed on Hisense Finance in 2022, up to the Latest Practicable Date.
- (v) Discussed with the Management, and we are given to understand that Hisense Finance provides financial services primarily to Hisense Group, 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, for the deposit services by Hisense Finance under the Existing Financial Services Agreement, we have obtained and reviewed the interest rates offered by Hisense Finance for the year ending 31 December 2022 and we have reviewed comparable interest rates offered by China Construction Bank, Industrial and Commercial Bank of China and Bank of China as indicated on the websites of the respective banks from 1 January 2022 to 30 September 2022 and the relevant benchmark rates stipulated by the PBOC. For each of the remaining four transaction categories under the Existing Financial Services Agreement, we have also obtained and reviewed, on a random basis, at least three samples of transaction records for the ten months ended 31 October 2022 (together with the interest rates reviewed as discussed above, the "**Samples for Financial Services Agreement**") and compared against at least three quotations or charging standards obtained by the Group from other commercial banks in the PRC. It is noted that the interest rates and the financial service fees offered by Hisense Finance were no less favourable than those quoted by other commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (as appropriate).

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 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, which is part of ordinary treasury activities of the



Group and (ii) the continuous compliance of regulatory requirements by Hisense Finance according to the Risk Assessment Reports and the confirmation issued by Hisense Finance; and (iii) the interest rates and the financial service fees offered by Hisense Finance were no less favourable than those quoted by other commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (as appropriate) according to the samples discussed above, 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 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*

For details on the terms of the Business Co-operation Framework Agreement, please refer to the section headed “(A) CONTINUING CONNECTED TRANSACTIONS – BUSINESS CO-OPERATION FRAMEWORK AGREEMENT” in the Letter from the Board.

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 Group, on a non-exclusive basis, electrical appliances as it may require from time to time.
(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 Group, on a non-exclusive basis, such quantities of raw materials, parts and components as it may require from time to time.
(iii) Provision of services	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, engage Hisense Group 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.

Transactions	Nature of the transactions
(iv)	Supply of electrical appliances
(v)	Supply of moulds
(vi)	Supply of raw materials, parts and components
(vii)	Provision of services by the Group

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 Group (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 Group in its/their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process, and the bidding price is determined on the basis of a reasonable cost plus reasonable profit margin, with the maximum mark-up rate of 150%. 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. In view of the pricing for the supply of moulds is determined by the open bidding process, which is a transparent pricing mechanism and open for any bidders who are independent third parties. 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 Group for the ten months ended 31 October 2022 and it is noted that mark-up rates were all below 150%. Please also refer to the section headed “5. Relevant internal control measures” below.

We have obtained and reviewed the Existing Business Co-operation Framework Agreement against the Business Co-operation Framework Agreement. We noted that save for (i) the Business Co-operation Framework Agreement has been simplified in terms of the contract parties and sub-caps allocation as compared to the Existing Business Co-operation Framework Agreement as discussed in the section headed “(II) CONTINUING CONNECTED TRANSACTIONS – Business Co-operation Framework Agreement” in the Letter from the Board; and (ii) the relevant Caps to be discussed below, the principal terms of both agreements remain the same. In addition, we have obtained and reviewed, on a random basis, at least three samples of transaction records for the ten months ended 31 October 2022 involving each of the seven connected transaction categories under the Existing Business Co-operation Framework Agreement 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 party 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. Please also refer to the section headed “5. Relevant internal control measures” below for further details on the CT Management Policy.

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.



*(b) Financial Services Agreement*

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

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

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.

For further details on the terms of the Business Co-operation Framework Agreement, please refer to the section headed “(III) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – Financial Services Agreement” in the Letter from the Board.

Set out below the pricing for each type of transactions contemplated under the Financial Services Agreement:

(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.

(ix) 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.

We have obtained and 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 view of the sampling coverage of the Samples for Financial Services Agreement 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 for Financial Services Agreement 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 commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (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 Samples for Financial Services Agreement 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.

#### 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised		Existing annual cap	Proposed Cap
	Historical Transaction transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Amount in 2022 2022 (RMB'000)		
Purchases of electrical appliances	180,820	251,190	310,500	604,960



As stated in the Letter from the Board, the above proposed Cap was determined with reference to (i) the Estimated Annualised Transaction Amount in 2022; (ii) the 2023 Projected Sales Increment; and (iii) the anticipated increase in the relevant purchase of Group in 2023, details of which are set out in the Letter from the Board.

In assessing the fairness and reasonableness of the proposed Cap for the purchases of raw materials, parts and components by the Group from Hisense Group, we have considered, among others, the following factors and reasons:

- (i) We have obtained and reviewed the breakdown of the expected demands for the relevant electrical appliances of the Group for the financial year ending 31 December 2023, which included:
  - (a) the expected sales of special air-conditioners from Hisense Group in the amount of RMB100,000,000 driven by the tender submitted by the Group for the sales for the financial year ending 31 December 2023 and the expected tender for the financial year ending 31 December 2023 based on similar tenders from a recurring customer for the two years ending 31 December 2022; and
  - (b) the expected demands of “ASKO” and “Gorenje” high-end electrical appliances from Hisense Group in the amount of RMB475,000,000, by the Group for the year ending 31 December 2023.

To assess the fairness and reasonableness of the expected demands, we have obtained and reviewed:

- (a) the tender document for special air-conditioners submitted by the Group as discussed above;
- (b) samples of similar historical tender documents from the recurring customer of the Group for the year ended 30 September 2022;
- (c) list of tenders for the calculation of the historical success percentage and results of similar tenders participated by the Group for the three years ended 31 December 2021 and the nine months ended 30 September 2022;
- (d) the historical sales of “ASKO” and “Gorenje” high-end electrical appliances from Hisense Group by the Group for the year ended 31 December 2021 and the nine months ended 30 September 2022; and

- (e) the historical growth rate of sales of “ASKO” and “Gorenje” high-end electrical appliances by the Group for the nine months ended 30 September 2022 of approximately 144% as compared to the nine months ended 30 September 2021 and noted that the relevant 2023 Projected Sales Increment was based on the growth rate of approximately 98%, which is less than such historical growth rate; and
- (ii) We have obtained and reviewed the historical purchase costs and sales amounts of the relevant electrical appliances for the nine months ended 30 September 2022 and noted that the historical margin, which was the ratio between such historical purchase costs from Hisense Group and the Group’s total sales amounts of the relevant electrical appliances sold by the Group for the nine months ended 30 September 2022, was adopted to estimate the expected purchase amounts for the year ending 31 December 2023 based on the expected demands for the year ending 31 December 2023.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap in relation to the purchases of electrical appliances by the Group 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised Historical Transaction transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	For the year ending 31 December 2022 (RMB'000)	Existing annual cap 2022 (RMB'000)	Proposed Cap 2023 (RMB'000)
Purchases of raw materials, parts and components	723,960	1,353,010	2,271,910	3,109,350



As stated in the Letter from the Board, the above proposed Cap was determined with reference to (i) the Estimated Annualised Transaction Amount in 2022; (ii) the 2023 Projected Sales Increment; and (iii) the anticipated increase in the relevant purchase of Group in 2023, details of which are set out in the Letter from the Board.

In assessing the fairness and reasonableness of the proposed Cap for the purchases of raw materials, parts and components by the Group from Hisense Group, we have considered, among others, the following factors and reasons:

- (i) As stated from the Letter from the Board, the scale of purchases of raw materials, parts and components, such as electric control boards and Wi-Fi templates from Hisense Group in 2023 is expected to increase to the amount of approximately RMB480,780,000.

We have obtained and reviewed the historical purchase amounts of similar raw materials, parts and components for the nine months ended 30 September 2022 and understand that the expected purchase amount is primarily based on the expected growth rate of approximately 28% of those purchases in 2023. According to the 2021 Annual Report and the 2022 Interim Report, the increase in costs of major operating businesses as compared to the corresponding year/period was approximately 47.2% and 24.1%, respectively, and the expected growth rate of 28% would be within the range of such historical growth rates.

- (ii) As advised by the Management, the Group intends to replace suppliers for certain raw materials with Hisense Group as Hisense Group would be able to offer more favourable terms and the expected relevant purchase amount for the year ending 31 December 2023 amounts to approximately RMB695,974,000.

We have obtained and reviewed the list of purchases of such raw materials by the Group for the three months ended 30 September 2022. Assuming that the purchases of such raw materials for the three months ending 31 December 2022 shall be same as that for the three months ended 30 September 2022, the total purchase amounts of such raw materials for the year ending 31 December 2022 shall be approximately RMB670 million, which shall be comparable to the expected purchase amount of RMB695,974,000 for the year ending 31 December 2023. Besides, we have obtained and reviewed samples of transaction records of such raw materials with Hisense Group and independent third party for the ten months ended 31 October 2022, and noted the terms offered by Hisense Group was more favourable than that offered by independent third parties in terms of unit price and credit terms.

- (iii) According to the Revision Circular, the Group's Mexico plant has commenced mass production of household appliances such as kitchen appliances in June 2022 and refrigerators in August 2022 and therefore,



as advised by the Management, it is expected that the demands of the relevant raw materials, parts and components by the Group from Hisense Group for the year ending 31 December 2023 would be higher than that for the year ending 31 December 2022.

We have obtained and reviewed the production and procurement plan of the Group's overseas plant and the estimated purchase amount of raw materials, parts and components by the Group from Hisense Group for the year ending 31 December 2023. We understood that the procurement plan was based on the production plan. We have also obtained and reviewed the production breakdown of the Group's overseas plant and the actual usage of raw materials, parts and components purchased from Group for the nine months ended 30 September 2022. The procurement plan was determined with reference to the actual usage rate of raw materials, parts and components for the nine months ended 30 September 2022 and the maximum production volume of the Group's overseas plant. We have obtained and reviewed the calculation of the maximum production volume for the year ending 31 December 2023 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 Group would be approximately RMB776,600,000 for the year ending 31 December 2023.

- (iv) In relation to the expected purchases of raw materials and electrical components for certain appliances, including but not limited to chips, amounting to approximately RMB803,310,000 for the year ending 31 December 2022, we understand from the Management that the Group has taken into account the historical purchase amounts, the expected growth rate in purchase amounts for the year ending 31 December 2022 amounting to approximately 28% and the desired inventory level of the relevant raw materials in view of the uncertainties on potential disruption on the logistics services and supply of certain components, such as chips, under the uncertainty of the global economy and COVID-19 pandemic.

We have obtained and reviewed the historical purchase amount for the nine months ended 30 September 2022 and the procurement plan for the desired inventory level. Besides, according to the 2021 Annual Report and the 2022 Interim Report, the increase in costs of major operating businesses as compared to the corresponding year/period was approximately 47.2% and 24.1%, respectively, and the expected growth rate of 28% would be within the range of such historical growth rates. Therefore, based on the (i) the historical purchase amount for the nine months ended 30 September 2022; (ii) the procurement plan for the desired inventory level in view of the uncertainties on potential



disruption on the logistics services and supply of certain components, such as chips, under the uncertainty of the global economy and COVID-19 pandemic; and (iii) the expected growth rate of approximately 28%, the estimated purchase amounts for the relevant raw materials would be approximately RMB803 million.

- (v) For the expected purchase amount from Hisense Group in relation to the Group's injection moulding and sheet metal business of approximately RMB352,260,000, as stated in the section headed "(II) CONTINUING CONNECTED TRANSACTIONS – Business Co-operation Framework Agreement – (6) Supply of raw materials, parts and components" in the Letter from the Board, the injection moulding business with Hisense Group will change from the mode of processing with supplied materials to the mode of processing with purchased materials in 2023. Therefore, such injection moulding and sheet metal business may involve purchases of raw materials from Hisense Group under the new sale material processing mode in 2023.

We have obtained and reviewed the relevant historical transaction amount for September 2022 and please refer to the paragraph headed "(vi) Supply of raw materials, parts and components" in this section below for further details on our assessment on the estimation in relation to the change of business mode of the Group's injection moulding and metal sheet business.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap in relation to the purchases of raw materials, parts and components by the Group are fair and reasonable.

*(iii) Provision of services*

Set out below are (i) the historical transaction amount for the nine months ended 30 September 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised Transaction Amount in 2022	Existing annual cap		Proposed Cap	
		Historical transaction amount	For the nine months ended 30 September 2022 (RMB'000) (unaudited)	For the year ending 31 December 2022 (RMB'000)	2022 (RMB'000)
Provision of services	909,990	1,385,510	1,590,490	1,770,160	

As stated in the Letter from the Board, the above proposed Cap was determined with reference to (i) the Estimated Annualised Transaction Amount in 2022; (ii) the 2023 Projected Sales Increment; and (iii) the anticipated increase in the relevant purchase of Group in 2023, details of which are set out in the Letter from the Board.

In assessing the fairness and reasonableness of the proposed Cap for the provision of services from Hisense Group, we have obtained and reviewed the historical transaction amounts for the provision of services from Hisense Group for the nine months ended 30 September 2022. It is also noted from the Revision Circular that 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, and the expected service fee required for services under the refinement plan would be approximately RMB118,520,000 for the year ending 31 December 2022, representing an increase of RMB96,290,000 in the annual cap for the year ending 31 December 2022.

As advised by the Management, the expected growth rate for the transaction amount for the year ending 31 December 2023 is assumed to be the 2023 Projected Sales Increment. According to the 2021 Annual Report and the 2022 Interim Report, the increase in costs of major operating businesses as compared to the corresponding year/period was approximately 47.2% and 24.1%, respectively, and the expected growth rate of 28% would be within the range of such historical growth rates.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised Historical Transaction transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Existing annual cap For the year ending 31 December 2022 (RMB'000)	Proposed Cap 2023 (RMB'000)
Supply of electrical appliances	13,816,140	23,086,450	25,036,390
			29,309,610

As stated in the Letter from the Board, the above proposed Cap was determined with reference to (i) the Estimated Annualised Transaction Amount in 2022; (ii) the 2023 Projected Sales Increment; (iii) the projected year-on-year increase in export sales scale is not more than 30% in 2023; and (iv) the sale of full-range products and set products becoming the market development trend through the sale plan of the Hisense full-range electrical appliance products which is integrated, managed and organised by a subsidiary of Hisense Holdings, the sales of electrical appliance products from the Group to such a subsidiary of Hisense Holdings in 2023 is expected to amount to approximately RMB1,729,490,000. Such a subsidiary of Hisense Holdings will (a) continue to leverage the strength of its full-range sales platform to continue to expand its sales revenue; and (b) continue to develop potential customers to expand its business scale.

In assessing the fairness and reasonableness of the proposed Cap for the supply of electrical appliances to Hisense Group, we have considered, among others, the following factors and reasons:

- (i) As stated from the Letter from the Board, the certain sales of full-range products and set products are integrated, managed and organised by a subsidiary of Hisense Holdings (the “**Marketing Company**”). We have obtained and reviewed the historical sales amounts to the Marketing Company for the year ended 31 December 2021 and the nine months



ended 30 September 2022 and have calculated the contribution of the sales for the nine months ended 30 September 2021 to the total sales in 2021.

Besides, we have also obtained and reviewed the historical growth rate of the sales to the Marketing Company for the nine months ended 30 September 2022 as compared to that for the corresponding period in 2021. Based on (i) the historical sales to the Marketing Company for the nine months ended 30 September 2022; (ii) the seasonality of the sales to the Marketing Company based on the contribution of the sales for the nine months ended 30 September 2021 to the total sales in 2021; (iii) the historical growth rate of the sales to the Marketing Company for the nine months ended 30 September 2022 as compared to that for the corresponding period in 2021, the expected sales to the Marketing Company would be approximately RMB1,729,490,000; and

- (ii) As stated from the Letter from the Board, the Group is an official sponsor of the 2022 Qatar World Cup and with, among others, the continual robust and vigorous marketing activities and continual optimization of its product structure, the Management expects a strong demands in the fourth quarter in 2022. We have obtained and reviewed the letter of intent from Hisense Group pursuant to which its expected purchase amount of electrical appliances from the Group for the fourth quarter in 2022 amounted to approximately RMB9 billion.
- (iii) It is noted that the proposed Cap represented an increase of approximately 27.0% as compared to the Estimated Annualised Transaction Amount in 2022. It is further noted that for the historical transaction amount for the nine months ended 30 September 2022, over 90% relates to the Group's overseas sales and as advised by the Management, it is expected that the Group's overseas sales shall continue to account for over 90% of the transactions to be conducted under the relevant proposed Cap. As discussed in the section headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – 1. Background of the Agreements – (a) Information on the Group" above, it is noted that the Group's overseas sales increased by approximately 58.2% for the year ended 31 December 2021 as compared to the year ended 31 December 2020, and by approximately 34.6% for the six months ended 30 June 2022 as compared to the six months ended 30 June 2021, which are both higher than the estimated increase of approximately 27.0% for the proposed Cap compared to the Estimated Annualised Transaction Amount in 2022.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised Historical Transaction transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)		Existing annual cap For the year ending 31 December 2022 (RMB'000)		Proposed Cap 2023 (RMB'000)
	Amount in 2022		2022	2023	
Supply of moulds	60,960		110,180	132,690	142,820

As stated in the Letter from the Board, the above proposed Cap was determined with reference to (i) the Estimated Annualised Transaction Amount in 2022; and (ii) the expected growth in the sales scale of the moulds of the Group in 2023, including but not limited to, 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 Group.

In assessing the fairness and reasonableness of the proposed Cap for the supply of moulds to Hisense Group, we have considered, among others, the following factors and reasons:

- (i) As stated in the Revision Circular, 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 would supply moulds to Hisense Holdings and/or its subsidiaries in the second half of 2022;
- (ii) We have obtained and reviewed the historical sales breakdown of moulds from the Group to Hisense Group for the nine months ended 30 September 2022;

- (iii) We have obtained and reviewed the breakdown of work-in-progress moulds which is expected to be completed and be recognised as sales in October 2022, amounting to approximately RMB16 million, and understand that the expected monthly sales for the three months ending 31 December 2022 is based on such expected sales to be recognised in October 2022. The Estimated Annualised Transaction Amount in 2022 is therefore expected to be approximately RMB110,180,000; and
- (iv) We noted that the Estimated Annualised Transaction Amount in 2022 represented a growth rate of approximately 48.2% as compared to the historical amounts in 2021, representing approximately RMB74 million;

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap in relation to the supply of moulds by the Group to Hisense Group 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.

	Estimated Annualised Historical Transaction transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	For the year ending 31 December 2022 (RMB'000)		Existing annual cap For the year ending 31 December 2022 (RMB'000)	Proposed Cap For the year ending 31 December 2023 (RMB'000)
		2022 (RMB'000)	2023 (RMB'000)		
Supply of raw materials, parts and components	266,800	583,760	1,004,380	3,059,510	

As stated in the Letter from the Board, the above proposed Cap was determined with reference to, among others, (i) the Estimated Annualised Transaction Amount in 2022; (ii) the 2023 Projected Sales Increment; (iii) change of business mode for injection moulding and sheet metal business with Hisense Group; and (iv) the anticipated increase in the relevant purchase of Group in 2023, details of which are set out in the Letter from the Board.



In assessing the fairness and reasonableness of the proposed Cap for the supply of raw materials, parts and components to Hisense Group, we have considered, among others, the following factors and reasons:

- (i) As stated in the Letter from the Board, the Group will purchase raw materials such as electric control boards processed by a subsidiary of Hisense Holdings to meet the Group's production needs in 2023. Since these operations are carried out by means of material sales processing, the Group will have to first sell raw materials such as resistors to such company for processing, which is expected to amount to approximately RMB126,000,000 in 2023.

We have obtained and reviewed the historical sales amounts of the relevant raw materials for the nine months ended 30 September 2022, and noted that the growth rate for the expected sales amount in 2023 represented approximately 30% as compared to the estimated annualised sales in 2022. According to the 2021 Annual Report and the 2022 Interim Report, the increase in costs of major operating businesses as compared to the corresponding year/period was approximately 47.2% and 24.1%, respectively, and the expected growth rate of 30% would be within the range of such historical growth rates;

- (ii) As stated in the Letter from the Board, as the Group has advantages in sourcing certain specific materials for Hisense Group, it is expected that the relevant sales amount would be approximately RMB265,520,000 in 2023. We have obtained and reviewed the letter of intent from Hisense Group pursuant to which its expected purchase amount of raw materials, parts and components from the Group for the year ending 31 December 2023 amounting to approximately RMB270 million;
- (iii) As stated in the Letter from the Board, supply of raw materials, parts and components by the Group to Hisense Group includes (i) spare parts required by overseas customers and required by the implementation of the Group's smart new life strategy; and (ii) raw materials, parts and components for the production by the overseas plant of Hisense Group, and the expected sales amounts for the spare parts and the raw materials, parts and components for the overseas plant for the year 2023 are estimated to be approximately RMB440 million and RMB480 million. We have obtained and reviewed the procurement plans of spare parts and the relevant raw materials, parts and components required for the overseas plant provided by the Hisense Group for the year ending 31 December 2022 and have obtained and reviewed the unit price of such raw materials, parts and components. It is noted that the expected sales amount for the spare parts and the raw materials, parts and components would be approximately RMB445 million and RMB481 million, respectively; and

(iv) As stated in the Letter from the Board, the Group's injection moulding and sheet metal business with Hisense Group will change from the mode of processing with supplied materials to the mode of processing with purchased materials provided to Hisense Group by the Group in 2023, details of which are set out in the paragraph headed "(II) CONTINUING CONNECTED TRANSACTIONS – Business Co-operation Framework Agreement – (6) Supply of raw materials, parts and components" in the Letter from the Board. It is expected that the amount of raw materials supplied to Hisense Group is approximately RMB1,470,560,000.

We have obtained and reviewed the estimation of the expected sales amount of approximately RMB1,470,560,000 and noted that it is based on:

- (a) the historical sales amount of the processing fee for the injection moulding and sheet metal business with the subsidiary of Hisense Group for September 2022 of approximately RMB42 million and the corresponding annualised processing fee;
- (b) the actual usage of raw materials, parts and components for September 2022 as advised by the subsidiary of Hisense Group to the Group and the corresponding annualised demand of raw materials, parts and components of approximately RMB755 million; and
- (c) the expected growth rate of injection moulding and sheet metal business for 2023 of approximately 17%. We have obtained and reviewed the audited financial statement of the subsidiary of Hisense Group for the year ended 31 December 2021 and noted that its revenue for the year ended 31 December 2021 increased by approximately 19% as compared to the year ended 31 December 2020.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap in relation to the supply of raw materials, parts and components by the Group to Hisense Group 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 2022; (ii) the Estimated Annualised Transaction Amount in 2022; (iii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement; and (iv) the proposed Cap.



	Historical Transaction transaction amount For the nine months ended 30 September	Estimated Annualised Transaction Amount in 2022		Existing annual cap		Proposed Cap	
		2022 (RMB'000)	For the year ending 31 December 2022 (RMB'000)	2022 (RMB'000)	2023 (RMB'000)		
Provision of services by the Group		213,760	292,420	473,390	75,640		

As stated in the Letter from the Board, the above proposed Cap was determined with reference to, among others, (i) the Estimated Annualised Transaction Amount in 2022; and (ii) the related business needs of Hisense Group for the year 2023.

In assessing the fairness and reasonableness of the proposed Cap for the provision of services by the Group to Hisense Group, we have considered, among others, the following factors and reasons:

- (i) As stated in the Letter from the Board, the Group's injection moulding and sheet metal business with Hisense Group will change from the mode of processing with supplied materials to the mode of processing with purchased materials provided to Hisense Group by the Group in 2023. Due to the change of the business model, the processing fees under the mode of processing with supplied materials will be included in sales of raw materials, parts and components (i.e. category (vi) supply of raw materials, parts and components) under the Business Co-operation Framework Agreement pursuant to the mode of processing with purchased materials. Therefore, it is noted that the Cap decreased significantly to RMB75,640,000 for the year ending 31 December 2023 as compared to the annual cap of RMB473,390,000 for the year ending 31 December 2022 under the Existing Business Co-operation Framework Agreement;
- (ii) We have obtained and reviewed the historical transaction amount for the service fees other than the processing fees for the Group's injection moulding and sheet metal business charged to Hisense Group for the nine months ended 30 September 2022, which was approximately RMB48.1 million. It is noted that the expected transaction amount for the provision of services by the Group to Hisense Group in 2023 of approximately RMB75,640,000 was based on the estimated annualised



service fee from such historical transaction amount of approximately RMB64.1 million and the 2023 Projected Sales Increment. As discussed above, the Group's total operating revenue increased by approximately 39.6% and 18.1% for the year ended 31 December 2021 and for the six months ended 30 June 2022 as compared to the corresponding period in the precedent year, respectively, which were both higher than the relevant 2023 Projected Sales Increment..

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed Cap in relation to the provision of services by the Group to Hisense Group are fair and reasonable.

*(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 2022; (ii) the existing annual cap for the year ending 31 December 2022 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 2022  (RMB million) (unaudited)	Existing annual cap  For the year ending 31 December 2022  (RMB million)	Proposed Cap  2023  (RMB million)
Deposit services  17,446	27,000	27,000

As depicted in the table above, the historical maximum daily balance of deposits placed by the Group with Hisense Finance was approximately RMB17,446 million (inclusive of interest) for the nine months ended 30 September 2022, utilising approximately 65% of the existing annual cap of RMB27,000 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 2023 Projected Sales Increment.



Taking into account:

- (i) the existing annual cap of RMB27,000 million (inclusive of interest) has been utilised as to approximately 65% during the terms of the Existing Financial Services Agreement;
- (ii) as noted from the Letter from the Board, as at 30 September 2022, the balance of monetary funds held by the Group was RMB15,232 million and the balance of monetary funds from wealth management was RMB7,404 million. Although the Group intends to continue to allocate a substantial amount of its cash for subscription of entrusted wealth management products, deposit services are still required for cash involved in the transition period between the expiry of entrusted wealth management products and the subscription of new entrusted wealth management products. Therefore, under such circumstances, the total amount of monetary funds held by the Group might be increased to RMB22,636 million based on the balances as at 30 September 2022; and
- (iii) as stated in the Letter from the Board, subject to the approval of the resolutions in relation to Financial Services Agreement at the EGM, the Group may also borrow loans from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. As the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for drawdown, the Group's funding needs in terms of loans will also affect the Group's deposit balances with Hisense Finance, as the Group would require temporary deposit of the proceeds of the loans proposed to be provided by Hisense Finance to the Group under the Financial Services Agreement,

we concur with the Directors that the proposed Cap for the deposit services 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 2022; (ii) the existing annual cap for the year ending 31 December 2022 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 2022 (RMB million) (unaudited)	Existing annual cap	Proposed Cap
	For the year ending 31 December 2022 (RMB million)	
Loan and electronic bank acceptance bill services	10,600	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 RMB10,600 million (inclusive of interest and service fees) for the nine months ended 30 September 2022, utilising approximately 59% of the existing annual cap of RMB18,000 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 2022 being approximately RMB10,600 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 2023 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 RMB18,000 million (inclusive of interest and service fees) has been utilised as to approximately 59% during the term of the Existing Financial Services Agreement;
- (ii) as stated in the Letter from the Board, it is expected that payment via electronic bank acceptance bills will account for approximately 45% of the payment methods of the Group for the year ending 31 December



2023 and that the amount of payment for purchases will increase by not more than 30%. Based on the above, it is expected that the maximum daily closing balance of electronic bank acceptance bills will not exceed RMB16,500 million (inclusive of interest and service fees) in order to meet the business needs of the Group. In addition, it is expected that a loan amount of RMB1,500 million will be allocated to cater to the financing needs of the Group;

- (iii) we have obtained and reviewed the historical amount of payments for purchases for the nine months ended 30 September 2022 and the annualised amount of payment for purchases amounted to approximately RMB49.3 billion. Besides, according to the 2021 Annual Report and the 2022 Interim Report, the increase in costs of major operating businesses as compared to the corresponding year/period was approximately 47.2% and 24.1%, respectively, and the expected growth rate of not more than 30% would be comparable to such historical growth rates;
- (iv) as advised by the Management, payments via electronic bank acceptance bills accounted for approximately 45% of payment methods of the Group for the nine months ended 30 September 2022;
- (v) according to the 2021 Annual Report and 2022 Interim Report, the Group had loans amounting to approximately RMB3,948 million and RMB3,076 million as at 31 December 2021 and 30 June 2022, respectively;
- (vi) 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, which is part of ordinary treasury activities of the Group; and
- (vii) as stated in the Letter from the Board, the interest rate or service fees charged for the loans and the provision of electronic bank acceptance bill services provided to the Group by Hisense Finance shall not be higher than the rate or standard service fees charged by normal commercial banks in the PRC for comparable loans and services,

we concur with the Directors that the proposed Cap for the loan and electronic bank acceptance bill services 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 2022; (ii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

Historical draft discount interest paid For the nine months ended 30 September 2022 (RMB million) (unaudited)	Existing annual cap	Proposed Cap
For the year ending 31 December 2022		2023
Draft discount services	2.24	50

As depicted in the table above, the historical draft discount interests paid by the Group to Hisense Finance was approximately RMB2.24 million for the nine months ended 30 September 2022, utilising approximately 5% 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 2023; and (b) the plan of the Group to continue to use draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2023 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 2023; and
- (b) the Group plans to continue to enhance its management on its account receivables and inventory to expedite the capital turnover rate, it is estimated that the total discount interest payable by the Group to Hisense Finance for the provision of draft discount services will be



RMB50,000,000 for the year ending 31 December 2023 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 2023;
- (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;
- (iii) the aforementioned basis for estimation of the proposed Cap;
- (iv) we have obtained and reviewed the historical amount of draft received by the Group for the nine months ended 30 September 2022, representing approximately RMB18.5 billion, and the corresponding annualised amount would be approximately RMB24.7 billion;
- (v) we have also obtained and reviewed the samples of quotations of interest rates on draft discount services from Hisense Finance and the Five Major PRC Commercial Banks by the Group for the nine months ended 30 September 2022, and noted that the quoted discount interest rates ranged from approximately 2.09% to 3.80%;
- (vi) in view of the duration of draft being three months in general and the maximum quoted discount interest rates of approximately 3.80% as discussed above, the proposed annual cap of RMB50 million would relate to drafts of approximately RMB5.3 billion (which is calculated by dividing the proposed annual cap of RMB50 million by the quoted interest rate of 3.80% and then annualising by dividing by 3 months of the general duration of drafts and multiplying 12 months), which represented approximately 21.3% of the annualised amount of draft received by the Group based on such amounts for the nine months ended 30 September 2022;
- (vii) 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, which is part of ordinary treasury activities of the Group; and



(viii) as stated in the Letter from the Board, 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,

we concur with the Directors that the proposed Cap for the draft discount services 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 2022; (ii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

Historical transaction amount  For the nine months ended 30 September 2022  (US\$ million) (unaudited)	Existing annual cap		Proposed Cap
	For the year ending 31 December 2022  (US\$ million)	2023  (US\$ million)	
Settlement and sale of foreign exchange services	19	300	300

As depicted in the table above, the historical transaction amount was approximately US\$19 million for the nine months ended 30 September 2022, 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 2023; and (b) the 2023 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 2022 would be US\$230 million



in aggregate of which foreign currency received and paid by the Group would amount to approximately US\$114 million and US\$116 million, respectively; and (b) the expected amount of foreign currency to be received and paid by the Group for its export business in 2023 would be approximately US\$148 million and US\$151 million for the year ending 31 December 2023, respectively, we concur with the Directors that the proposed Cap of US\$300 million for the settlement and sale of foreign exchange services 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 2022; (ii) the existing annual cap for the year ending 31 December 2022 as specified in the Existing Financial Services Agreement; and (iii) the proposed Cap.

For the nine months ended 30 September 2022 (RMB million) (unaudited)	Historical transaction amount	Existing annual cap	Proposed Cap
	For the year ending 31 December		
	2022 (RMB million)	2023 (RMB million)	
Agency services such as settlement services for receipt and payment of fund services	0.84	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 RMB0.84 million for the nine months ended 30 September 2022, utilising approximately 28% 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 agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the Group's revenue; and (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; and
- (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,

we concur with the Directors that the proposed Cap for agency services such as settlement services for receipt and payment of funds is fair and reasonable so far as the Independent Shareholders are concerned.

## 5. Relevant internal control measures

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 paragraphs headed “(II) CONTINUING CONNECTED TRANSACTIONS – Business Co-operation Framework Agreement – The Company’s internal policy regarding continuing connected transactions” and “(III) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – Financial Services Agreement – The Company’s internal policy regarding continuing connected transactions” in the Letter from the Board.

*(a) Business Co-operation Framework Agreement*

We have obtained and reviewed, on a random basis, at least three samples of transaction records for the ten months ended 31 October 2022 involving each of the seven connected transaction categories under the Existing Business Co-operation Framework Agreement 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 party 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.

*(b) Financial Services Agreement*

We have obtained and reviewed the Samples for Financial Services Agreement and compared against at least three quotations or charging standards obtained by the Group from other commercial banks in the PRC. It is noted that the interest rates and the financial service fees offered by Hisense Finance were no less favourable than those quoted by other commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (as appropriate).

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;
- (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 monthly 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 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 2020 Annual Report and the 2021 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 2020 and 31 December 2021, 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 Agreements to be carried out in a fair and reasonable manner and in the interests of the Company and the Shareholders as a whole.

## **6. 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 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**

**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.