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

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

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Hisense 海信家電

HISENSE HOME APPLIANCES GROUP CO., LTD.

海信家電集團股份有限公司

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

- (1) CONTINUING CONNECTED TRANSACTIONS;
- (2) CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTION;
- (3) PROPOSED APPOINTMENT OF INDEPENDENT
NON-EXECUTIVE DIRECTOR; AND
- (4) THE EXPECTED LIMITS OF GUARANTEE IN 2023

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



財通國際融資有限公司
CAITONG INTERNATIONAL CAPITAL COMPANY LIMITED

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

A letter from the Board is set out on pages 7 to 51 of this circular. A letter from the Independent Board Committee is set out on pages 52 to 53 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 54 to 102 of this circular.

A notice of the EGM to be held on Monday, 9 January 2023 at 3:00 p.m. at the conference room of Hisense Building, No.17 Donghai West Road, Qingdao City, Shandong Province, the PRC, a proxy form for use at the EGM and a reply slip have been despatched by the Company on Wednesday, 30 November 2022 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hxjd.hisense.cn>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

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DEFINITIONS

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

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Business Co-operation Framework Agreement”	the Business Co-operation Framework Agreement (業務合作框架協議) dated 7 November 2022 entered into between the Company and Hisense Holdings in relation to the sale and purchase of electrical appliances, raw materials, parts and components, supply of moulds and the provision of various services between the Group and Hisense Group
“Cap(s)”	(A) the annual caps for the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2023, being (1) RMB604,960,000 in respect of the purchases of electrical appliances by the Group from Hisense Group; (2) RMB3,109,350,000 in respect of the purchases of raw materials, parts and components by the Group from Hisense Group; (3) RMB1,770,160,000 in respect of the provision of services by Hisense Group; (4) RMB29,309,610,000 in respect of the supply of electrical appliances by the Group to Hisense Group; (5) RMB142,820,000 in respect of the supply of moulds by the Group to Hisense Group; (6) RMB3,059,510,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group; and (7) RMB75,640,000 in respect of the provision of services by the Group to Hisense Group; and

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(B) the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Financial Services Agreement, being (1) RMB27,000,000,000 (inclusive of interest) in respect of the maximum daily closing balance of the deposits placed by the Group with Hisense Finance; (2) RMB18,000,000,000 (inclusive of interest and service fees) in respect of the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group; (3) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services; (4) US\$300,000,000 in respect of the annual amount of foreign currency settled or sold by Hisense Finance for the Group; and (5) RMB3,000,000 in respect of the maximum annual amount of service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds

“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
“close associates”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Company”	Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	director(s) of the Company

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“EGM”	the 2023 first extraordinary general meeting of the Company to be held at the conference room of Hisense Building, No.17 Donghai West Road, Qingdao City, Shandong Province, the PRC on Monday, 9 January 2023 at 3:00 p.m. to, among other things, consider and, if thought fit, approve the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements, the appointment of an independent non-executive Director and the expected limits of guarantee in 2023
“Existing Business Co-operation Framework Agreement”	the business co-operation framework agreement (業務合作框架協議) dated 16 November 2021 entered into between the Company, Hisense Holdings, Hisense International, Hisense Marketing Management, Hisense HK and Hisense Visual Technology in relation to the sale and purchase of electrical appliances, raw materials, parts and components, supply of moulds, and the provision of various services, as amended and supplemented by the supplemental agreement (業務合作框架協議之補充協議) dated 5 September 2022 entered into between the Company, Hisense Holdings, Hisense International and Hisense Visual Technology
“Existing Financial Services Agreement”	the financial services agreement (金融服務協議) dated 16 November 2021 entered into between the Company and Hisense Finance in relation to the provision of financial services by Hisense Finance to the Group
“Financial Services Agreement”	the financial services agreement (金融服務協議) dated 7 November 2022 entered into between the Company and Hisense Finance in relation to the provision of financial services by Hisense Finance to the Group
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
“Hisense Air-conditioning”	Qingdao Hisense Air-conditioning Company Limited* (青島海信空調有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Holdings, and holds approximately 37.92% of the Shares as at the Latest Practicable Date

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“Hisense Company”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability
“Hisense Finance”	Hisense Finance Ltd* (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Holdings
“Hisense Group”	Hisense Holdings and its subsidiaries from time to time (for the avoidance of doubt, excluding the Group)
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Holdings, and holds approximately 9.13% of the Shares as at the Latest Practicable Date
“Hisense Holdings”	Hisense Group Holdings Co., Ltd. (海信集團控股股份有限公司), a company incorporated in the PRC with limited liability, which holds approximately 93.33% of Hisense Air-conditioning and wholly owns Hisense HK as at the Latest Practicable Date
“Hisense International”	Hisense International Co., Ltd. (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Holdings
“Hisense Marketing Management”	Hisense Marketing Management Co., Ltd.* (海信營銷管理有限公司), a company incorporated in the PRC with limited liability and owned as to 50% by the Company
“Hisense Visual Technology”	Hisense Visual Technology Co., Ltd. (海信視像科技股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange and is a subsidiary of Hisense Holdings
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors (namely Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit)

DEFINITIONS

“Independent Financial Adviser”	Caitong International Capital Co., Limited, a corporation licensed to carry Type 1 (Dealing in securities) and Type 6 (Advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements
“Independent Shareholders”	(i) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Holdings and its associates and other Shareholders which are required to abstain from voting in relation to the Business Co-operation Framework Agreement under the Hong Kong Listing Rules and/or Shenzhen Listing Rules; and (ii) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates and other Shareholders which are required to abstain from voting in relation to the Financial Services Agreement under the Hong Kong Listing Rules and/or Shenzhen Listing Rules
“independent third parties”	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and its connected persons and its ultimate beneficial owner(s) or their respective associates
“Latest Practicable Date”	16 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Mr. Li”	Mr. Li Zhi Gang (李志剛先生), the proposed independent non-executive Director
“PRC”	the People’s Republic of China
“Sanden”	Sanden Holdings Corporation, a joint stock corporation organised under the laws of Japan, whose shares are listed on the First Section of the Tokyo Stock Exchange, which is also a non-wholly owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所股票上市規則)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“VAT”	value-added tax
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JPY”	Japanese Yen, the lawful currency of Japan
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

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

LETTER FROM THE BOARD

Hisense 海信家電

HISENSE HOME APPLIANCES GROUP CO., LTD.

海信家電集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00921)

Executive Directors:

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

Registered office:

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

Independent non-executive Directors:

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

Principal place of business in Hong Kong:

Room 3101-05
Singa Commercial Centre
No. 148 Connaught Road West
Hong Kong

20 December 2022

To the Shareholders

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS;
(2) CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTION;
(3) PROPOSED APPOINTMENT OF INDEPENDENT
NON-EXECUTIVE DIRECTOR; AND
(4) THE EXPECTED LIMITS OF GUARANTEE IN 2023**

I. BACKGROUND

Reference is made to the announcement of the Company dated 7 November 2022 in respect of the Business Co-operation Framework Agreement and the Financial Services Agreement.

As disclosed in the announcement of the Company dated 7 November 2022, 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 and the Financial Services Agreement.

LETTER FROM THE BOARD

As disclosed in the announcement of the Company dated 30 November 2022, Mr. Li has been nominated as an independent non-executive Director of the eleventh session of the Board.

As disclosed in the overseas regulatory announcement of the Company dated 30 November 2022, the Group intends to provide guarantee for its controlled subsidiaries in 2023, in the aggregate amount of not more than RMB7,700,000,000.

The purpose of this circular is to:

- (a) provide you with further information on the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements;
- (b) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements;
- (c) set out the recommendation from the Independent Board Committee in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements;
- (d) set out the biographical and other relevant details of Mr. Li; and
- (e) provide you with the details in relation to the expected limits of guarantee in 2023 to be provided by the Group for its controlled subsidiaries.

II. CONTINUING CONNECTED TRANSACTIONS

Business Co-operation Framework Agreement

Date: 7 November 2022

Parties: The Company; and
Hisense Holdings

Term:

The Business Co-operation Framework Agreement shall commence from 1 January 2023 or the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders at the EGM (whichever is the later) until 31 December 2023, which can be terminated before its expiration by mutual agreement of the parties.

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In the event any exemption for connected transactions is withdrawn or revoked or becomes invalid and there is non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated under it have been terminated for the above reason.

Condition:

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

Subject matters:

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

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

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

The Business Co-operation Framework Agreement has been simplified compared to the Existing Business Co-operation Framework Agreement. While the Existing Business Co-operation Framework Agreement was entered into among the Company and all relevant connected parties (that is, Hisense Holdings and its subsidiaries), the Business Co-operation Framework Agreement was entered into between the Company (for itself and on behalf of its relevant subsidiaries) and Hisense Holdings (for itself and on behalf of its relevant subsidiaries) only, as there is no requirement under the Hong Kong Listing Rules or the Shenzhen Listing Rules for the Company to enter into the Business Co-operation Framework Agreement with all relevant connected persons which are under the same group. Under the Existing Business Co-operation Framework Agreement, for each of the transaction categories, the proposed annual cap was divided

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into sub-caps for each of the relevant connected parties. However, as it is allowed under the Shenzhen Listing Rules to reallocate the amount among the sub-caps within each of the transaction categories, the sub-caps have been removed in the Business Co-operation Framework Agreement to increase flexibility for the transactions contemplated under the Business Co-operation Framework Agreement.

The Company's internal policy regarding continuing connected transactions:

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

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

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

The finance department and securities department of the Company are responsible for the collection and summarisation of all information in relation to the continuing connected transactions from each operation department (including but not limited to the control list for the continuing connected transactions, and transaction invoices and contracts) and will prepare a summary report regarding the conduct of the continuing

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connected transactions monthly and make timely report to the senior management regarding the operating status of the continuing connected transactions of the Group. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group.

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

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

(1) Purchases of electrical appliances

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group on a non-exclusive basis electrical appliances as it may require from time to time. Such electrical appliances include, but are not limited to, dryers, dishwashers, and air-conditioners for the engineering projects.

Pricing:

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

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

Historical figures:

The annual cap allocated to the purchases of electrical appliances by the Group from Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB310,500,000 (exclusive of VAT). For the nine months ended 30 September 2022, the aggregate transaction amount for the purchases of electrical appliances by the Group from Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB180,820,000 (exclusive of VAT and unaudited).

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Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchases of electrical appliances by the Group from Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB604,960,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) Similar transactions between the Group and Hisense Group in the past, that is, the estimated annualised unaudited amount of the similar transactions for the year 2022 in the amount of approximately RMB251,190,000.

The estimated annualised unaudited transaction amount for the year 2022 comprises: (a) the historical transaction amount for the nine months ended 30 September 2022 as mentioned above; and (b) the projected transaction amount from October 2022 to December 2022, having taken into account the current progress of the Group's projects, the contemplated transactions under the contracts already entered into by the Group and the development of the Group's business operations in the first three quarters of 2022 (the composition of the estimated annualised unaudited transaction amount for the year 2022, together with the above projection basis of the transaction amount for the final quarter of 2022, in relation to each type of transactions under the Business Co-operation Framework Agreement as presented in this circular shall hereinafter be referred to as the **"Estimated Annualised Transaction Amount in 2022"**).

- (ii) The projected increase in the level of sales scale of the Group, which is not more than a 30% year-on-year increase, for the financial year ending 31 December 2023 (the **"2023 Projected Sales Increment"**):

For the year ended 31 December 2021, the Group's total operating revenue amounted to approximately RMB67,563,000,000, representing an increase of approximately 39.6% as compared to that of the year ended 31 December 2020. For the six months ended 30 June 2022, the Group's total revenue amounted to approximately RMB38,307,000,000, representing an increase of approximately 18.1% as compared to that of the six months ended 30 June 2021.

The 2023 Projected Sales Increment was projected based on (a) the increase of approximately 39.6% in terms of the Group's total operating revenue for the year ended 31 December 2021 as compared to that of the year ended 31 December 2020, (b) the fact that the overall operation of Sanden remained steady for the six months ended 30 June 2022, (c) the Group's continual robust and vigorous marketing activities in developing key markets and focusing on emerging channels, (d) the

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Group's perseverance to its high-end strategy and continual optimisation of its product structure and it is expected that the sales scale of mid-to-high-end products will be further expanded, and (e) the Group's plan to further enhance the competitiveness of its sales channel and the effectiveness of its sales point and sales network, thereby bringing sales increment.

The increase in terms of the Group's total operating revenue for the six months ended 30 June 2022 as compared to that of the six months ended 30 June 2021 was not taken into account for the 2023 Project Sales Increment, as the Group's operating revenue in 2022 may be affected by a number of extraordinary incidents that occurred in 2022, including the control measures for COVID-19 pandemic in the PRC, the Russia-Ukraine conflict and the global economy downturn. Therefore, the Company considers that in determining the 2023 Projected Sales Increment, the increase in terms of the Group's total operating revenue for the six months ended 30 June 2022 as compared to that of the six months ended 30 June 2021 has not been relied on as the projection may not be accurate. The Group has taken a prudent approach and estimated that the 2023 Project Sales Increment will not be more than a 30% year-on-year increase.

- (iii) The anticipated increase in the relevant purchases of the Group in 2023:

Such anticipated increase includes: (a) the projected purchases of special air-conditioners from Hisense Group in the amount of RMB100,000,000 in 2023 driven by the tender submitted by the Group for the sales for the year ending 31 December 2023 and the expected tender for the year ending 31 December 2023 based on similar tenders from a recurring customer for the two years ending 31 December 2022; and (b) the projected purchases of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group in the amount of RMB475,000,000 for the year 2023.

The expected purchases of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group by the Group in the amount of RMB475,000,000 for the year 2023 is based on the following: (1) the estimated annualised transaction amount of the business for 2022 of approximately RMB239,920,000: (a) the revenue of the business amounted to approximately RMB177,380,000 for the nine months ended 30 September 2022; and (b) the revenue of the business is expected to reach approximately RMB62,540,000 for the period from 1 October 2022 to 31 December 2022; and (2) the projected sales increment for the business is expected to reach 98% in 2023, which is based on the following: (a) the projected sales increment of the business in 2022 compared to 2021 is expected to reach 76%; and (b) the Group will continue to focus on expanding the scale of its

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mid-to-high-end product in the PRC through increased market investment, active channel development and other methods. With the Group's continued efforts to expand the scale of the business and actively develop its channel networks, the Group is confident that it will further expand the sales of these electrical appliances in the PRC market.

Reasons and benefits:

The Group forecasts, based on the orders for projects in hand, that it will need to purchase special air-conditioners from Hisense Group for the ancillary needs of the projects. The Group's purchase of special air-conditioners from Hisense Group 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.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchases of electrical appliances from Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) *Purchases of raw materials, parts and components*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will purchase from Hisense Group on a non-exclusive basis such quantities of raw materials, parts and components as it may require from time to time. Such raw materials, parts and components include, but are not limited to, electric control boards, Wi-Fi modules, pellets, steel coils and electronic chips.

Pricing:

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

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

LETTER FROM THE BOARD

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

Historical figures:

The annual cap allocated to the purchases of raw materials, parts and components by the Group from Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB2,271,910,000 (exclusive of VAT). For the nine months ended 30 September 2022, the aggregate transaction amount for the purchases of raw materials, parts and components by the Group from Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB723,960,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchases of raw materials, parts and components by the Group from Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB3,109,350,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB1,353,010,000. For the projected transaction amount from October 2022 to December 2022 which was taken into account for calculating such Estimated Annualised Transaction Amount in 2022, (a) the increment in the sum of RMB190,450,000 of the revised cap for the year ending 31 December 2022, which was approved by the Shareholders on 27 October 2022 (the bases for such revised cap do not include the expected purchases of raw materials, parts and components by the Group from Hisense Group set out in (b) and (c) in this paragraph), (b) the expected purchases of raw materials, parts and components by the Group from Hisense Group in the amount of approximately RMB190,000,000 in the fourth quarter of 2022 to maintain the Group's inventory level in view of uncertainties on the potential disruptions on the logistics services and supply of certain components, such as chips, under the uncertainty of the global economy and COVID-19 pandemic, and (c) the expected purchases of raw materials, parts and components by the Group from Hisense Group in the amount of approximately RMB240,000,000 in the fourth quarter of 2022, with reference to the aggregate transaction amount in the sum of approximately RMB723,960,000 for the nine months ended 30 September 2022, were also considered;
- (ii) the 2023 Projected Sales Increment; and

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- (iii) the anticipated increase in the relevant purchases of the Group in 2023, including but not limited to:
- (a) in view of the high ability and standard of a subsidiary of Hisense Holdings in manufacturing raw materials such as electric control boards and Wi-Fi templates, it is conducive to ensure the quality of the Group's products. The scale of purchases of raw materials, parts and components from Hisense Group in 2023 is expected to increase to the amount of approximately RMB480,780,000, having taken into account the Estimated Annualised Transaction Amount in 2022 of approximately RMB322,920,000 between the Group and Hisense Group;
 - (b) the projected purchases of certain materials by the Group from a subsidiary of Hisense Holdings, which principally engages in domestic and import and export business in the PRC and has the purchase advantage in obtaining such materials at a lower cost, in the aggregate amount of approximately RMB695,974,000 (excluding the VAT in the amount of RMB87,406,000 which has been included in the announcement of the Company dated 7 November 2022);
 - (c) the Group's procurement of raw materials from Hisense Group is mainly for the Group's overseas plant to leverage on the overseas supply chain resources of Hisense Group to achieve synergy and optimise the procurement cost. The expected purchase amount in 2023 is approximately RMB776,600,000;
 - (d) the Group needs to purchase a huge number of raw materials and electrical components overseas for its production and operation demands. The expected purchase amount for raw materials and components through a subsidiary of Hisense Holdings in Hong Kong in 2023 is approximately RMB803,310,000, having taken into account the Estimated Annualised Transaction Amount in 2022 of approximately RMB627,520,000 between the Group and such a subsidiary of Hisense Holdings in Hong Kong; and
 - (e) given that a subsidiary of Hisense Holdings has advantages in purchasing some raw materials for injection molding business, the Group will purchase relevant raw materials from Hisense Group for injection molding business. As stated in paragraph (vii) of the section headed "II. Continuing Connected Transactions – Business Co-operation Framework Agreement – (6) Supply of raw materials, parts and components – Proposed Cap" in this 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 in 2023. Under the mode of processing with

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supplied materials, raw materials owned by Hisense Group will be provided by Hisense Group to the Group for processing as a service provider and processing fees will be paid by Hisense Group to the Group. The ownership of the raw materials supplied by Hisense Group to the Group for processing would remain unchanged and not be transferred to the Group. As for the mode of processing with purchased materials, the Group will source raw materials from Hisense Group and third parties for processing. The ownership of such raw materials will be transferred to the Group after the Group purchases them from Hisense Group and third parties. The raw materials, after being processed by the Group, will be provided by the Group to Hisense Group and the ownership of such processed raw materials will be transferred to Hisense Group. Therefore, due to the change of business mode, it is expected that the Group will purchase raw materials from Hisense Group for the mode of processing with purchased materials. The expected purchase amount is approximately RMB352,260,000.

Reasons and benefits:

With the gradual increase in intelligent electrical appliances, the usage of raw materials and spare parts of intelligent product also increases. 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.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchases of raw materials, parts and components from Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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(3) 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.

Pricing:

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

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

Historical figures:

The annual cap allocated to the provision of services by Hisense Group to the Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB1,590,490,000. For the nine months ended 30 September 2022, the aggregate transaction amount for the provision of services by Hisense Group to the Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB909,990,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group to the Group for the financial year ending 31 December 2023 are subject to the Cap of RMB1,770,160,000 (exclusive of VAT).

The above Cap was determined with reference to:

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- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB1,385,510,000;
- (ii) the 2023 Projected Sales Increment, being not more than a 30% year-on-year increase for the year ending 31 December 2023. Therefore, the Cap of RMB1,770,160,000, representing an increment of approximately 28% compared to the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB1,385,510,000, is in line with the 2023 Projected Sales Increment; and
- (iii) the anticipated increase in the relevant purchases of the Group in 2023, including but not limited to:
 - (a) RMB379,500,000 is expected to be allocated to the provision of installation and maintenance services;
 - (b) RMB101,920,000 is expected to be allocated to the provision of technical support services;
 - (c) RMB208,870,000 is expected to be allocated to the provision of information system services;
 - (d) RMB190,000,000 is expected to be allocated to the provision of material processing services;
 - (e) RMB414,100,000 is expected to be allocated to the provision of agency services;
 - (f) RMB168,900,000 is expected to be allocated to the provision of property services; and
 - (g) RMB306,890,000 is expected to be allocated to the provision of equipment inspection, distribution, leasing, training and employee health management services.

The above allocation is for reference only and may be subject to change.

Reasons and benefits:

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

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Hisense full-range electrical appliance products (mainly brown and white goods), which is conducive to enhancing the synergy and sharing effect of the Hisense full-range electrical appliance products, improving the Group's marketing capability and efficiency, thereby increasing the sales scale of the Group's products and profitability of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the engagement of services of Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(4) Supply of electrical appliances

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis electrical appliances to Hisense Group as they may require from time to time. Such electrical appliances include, but are not limited to, freezers, refrigerators, washing machines, residential air-conditioners, central air-conditioners, air-purifiers, and kitchen appliances.

Pricing:

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

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

Historical figures:

The annual cap allocated to the supply of electrical appliances by the Group to Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB25,036,390,000 (exclusive of VAT). For the nine months ended 30 September 2022, the aggregate

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transaction amount for the supply of electrical appliances by the Group to Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB13,816,140,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of electrical appliances by the Group to Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB29,309,610,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB23,086,450,000. Such Estimated Annualised Transaction Amount in 2022 also took into account (a) the expected sales increment in the fourth quarter of 2022 as a result of the 2022 Qatar World Cup, of which Hisense is an official sponsor, and the surge of energy price in Europe which leads to the demands for energy saving electrical appliances; and (b) a letter of intent from Hisense Group, pursuant to which its expected purchase amount of electrical appliances from the Group for the fourth quarter of 2022 amounted to approximately RMB9,000,000,000;
- (ii) the 2023 Projected Sales Increment;
- (iii) the Group continues to develop its marketing activities, and it is expected that the export sales scale will be further expanded. In 2023, the projected year-on-year increase in export sales scale is not more than 30%. Such export sales scale is projected based on the export sales for the year ended 31 December 2021, instead of the estimated export sales for the year ending 31 December 2022. Due to a number of factors including the Russia-Ukraine conflict, exchange rate fluctuations and the global economy downturn which occurred particularly during the first nine months of 2022, export sales for the first nine months of 2022 was affected by the above extraordinary incidents and, as a result, the Company considers that in determining the projected increase in export sales, the estimated export sales for the year ending 31 December 2022 have not been relied on as the projection may not be accurate; and
- (iv) with the sale of full-range products and set products becoming the market development trend through the sale plan of the Hisense full-range electrical appliance products which is integrated, managed and organised by 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

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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.

Reasons and benefits:

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.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of electrical appliances to Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(5) Supply of moulds

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply on a non-exclusive basis moulds to Hisense Group as they may require from time to time. Such moulds include, but are not limited to, moulds for cars and sheet metals.

Pricing:

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. 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 materials, and labour cost for the production of the moulds. The profit margin of the Group in such bidding price will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period.

Historical figures:

The annual cap allocated to the supply of moulds by the Group to Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB132,690,000

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(exclusive of VAT). For the nine months ended 30 September 2022, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB60,960,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB142,820,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 of approximately RMB110,180,000. The expected monthly sales of moulds for the three months ending 31 December 2022 are based on the breakdown of work-in-progress moulds which is expected to be completed and recognised as sales in October 2022, amounting to approximately RMB16 million. The Estimated Annualised Transaction Amount in 2022 is therefore expected to be approximately RMB110,180,000; 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.

Reasons and benefits:

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

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of moulds to Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(6) Supply of raw materials, parts and components

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense Group on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time. Such raw materials, parts and components include, but are not limited to, (i) raw materials for

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producing electric control boards (such as resistors); and (ii) raw materials, parts and components for the production of refrigerators, washing machines, residential air-conditioners, central air-conditioners and kitchen appliances.

Pricing:

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

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

Historical figures:

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB1,004,380,000 (exclusive of VAT). For the nine months ended 30 September 2022, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB266,800,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB3,059,510,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB583,760,000. For the projected transaction amount from October 2022 to December 2022 which was

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taken into account for calculating such Estimated Annualised Transaction Amount in 2022, (a) the expected purchases of raw materials, parts and components by a subsidiary of Hisense Holdings in the amount of approximately RMB156,000,000 in the fourth quarter of 2022 (which includes the increment in the sum of RMB73,630,000 of the revised cap for the year ending 31 December 2022, which was approved by the Shareholders on 27 October 2022), (b) a letter of intent from another subsidiary of Hisense Holdings, pursuant to which its expected purchase amount of raw materials, parts and components from the Group in the fourth quarter of 2022 amounted to approximately RMB130,000,000 for its business expansion, and (c) the expected purchases of raw materials, parts and components by other subsidiaries of Hisense Holdings in the fourth quarter of 2022 amounted to approximately RMB31,500,000 in aggregate, with reference to the aggregate transaction amount in the sum of approximately RMB85,820,000 for the nine months ended 30 September 2022, were also considered;

- (ii) the 2023 Projected Sales Increment;
- (iii) it is expected that the Group will continue to purchase raw materials such as electric control boards processed by a subsidiary of Hisense Holdings to meet the Group's production needs in 2023. Since these operations are carried out by means of material sales processing, the Group will first sell raw materials such as resistors to the subsidiary of Hisense Holdings for processing, and the amount of raw materials expected to be supplied to the subsidiary of Hisense Holdings for the production of raw materials such as electronic control boards is approximately RMB126,000,000;
- (iv) another subsidiary of Hisense Holdings is principally engaged in domestic and import and export trading business and will further expand its trading business in 2023. As the Group has advantages in sourcing certain specific materials, it is expected that the subsidiary of Hisense Holdings will purchase these materials from the Group in the amount of approximately RMB265,520,000;
- (v) the supply of raw materials, parts and components by the Group to another subsidiary of Hisense Holdings is a business incidental to the sale of electrical appliances by the Group to Hisense Group. Based on the 2023 projected overseas sales increment, having also taken into account the increase in the quota of spare parts required by overseas customers and the expected increase in the revenue from the sale of spare parts due to the implementation of the Group's smart new life strategy, the amount for exporting raw materials, parts and components for the year 2023 is estimated to be approximately RMB440,000,000;

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- (vi) due to the uncertainty of the global economy and the fluctuation of exchange rate, Hisense Group will purchase additional raw materials, parts and components from the Group for the production by its overseas plant in 2023, with the estimated amount being approximately RMB480,000,000 based on the procurement plan from Hisense Group; and
- (vii) 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 in 2023. Under the mode of processing with supplied materials, raw materials owned by Hisense Group will be provided by Hisense Group to the Group for processing as a service provider and processing fees will be paid by Hisense Group to the Group. The ownership of the raw materials supplied by Hisense Group to the Group for processing would remain unchanged and not be transferred to the Group. As for the mode of processing with purchased materials, the Group will source raw materials from Hisense Group and third parties for processing. The ownership of such raw materials will be transferred to the Group after the Group purchases them from Hisense Group and third parties. The raw materials, after being processed by the Group, will be provided by the Group to Hisense Group and the ownership of such processed raw materials will be transferred to Hisense Group. It is expected that the amount of raw materials supplied to Hisense Group is approximately RMB1,470,560,000.

Reasons and benefits:

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

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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 processing with purchased materials 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.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of raw materials, parts and components to Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(7) Provision of services by the Group

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, provide property services, material processing services and installation services to Hisense Group.

Pricing:

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

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

Historical figures:

The annual cap allocated to the provision of services by the Group to Hisense Group for the financial year ending 31 December 2022 as specified in the Existing Business Co-operation Framework Agreement is RMB473,390,000. For the nine months ended 30 September 2022, the aggregate transaction amount for

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the provision of services by the Group to Hisense Group under the Existing Business Co-operation Framework Agreement amounted to approximately RMB213,760,000 (exclusive of VAT and unaudited).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group for the financial year ending 31 December 2023 are subject to the Cap of RMB75,640,000 (exclusive of VAT).

The above Cap was determined with reference to:

- (i) similar transactions between the Group and Hisense Group in the past, that is, the Estimated Annualised Transaction Amount in 2022 in the amount of approximately RMB292,420,000; and
- (ii) the related business needs of Hisense Group for the year 2023.

As stated in paragraph (vii) of the section headed “II. Continuing Connected Transactions – Business Co-operation Framework Agreement – (6) Supply of raw materials, parts and components – Proposed Cap” in this 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 in 2023. Under the mode of processing with supplied materials, raw materials owned by Hisense Group will be provided by Hisense Group to the Group for processing as a service provider and processing fees will be paid by Hisense Group to the Group. The ownership of the raw materials supplied by Hisense Group to the Group for processing would remain unchanged and not be transferred to the Group. As for the mode of processing with purchased materials, the Group will source raw materials from Hisense Group and third parties for processing. The ownership of such raw materials will be transferred to the Group after the Group purchases them from Hisense Group and third parties. The raw materials, after being processed by the Group, will be provided by the Group to Hisense Group and the ownership of such processed raw materials will be transferred to Hisense Group. Due to the change of the business model, the processing fee will be covered as a cost of the sales of raw materials to Hisense Group, instead of being a service fee to be paid by Hisense Group. Therefore, for the provision of services by the Group, there will be a substantial decrease in the Cap from RMB473,390,000 for the year ending 31 December 2022 under the Existing Business Co-operation Framework Agreement to RMB75,640,000 for the year ending 31 December 2023.

Reasons and benefits:

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

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is incidental to the Group's business of supply of electrical appliances to these companies, which facilitates the development of the Group's business of sale of electrical appliances and increases the Group's revenue.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the provision of services to Hisense Group under the Business Co-operation Framework Agreement and the related Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

Financial Services Agreement

Date: 7 November 2022

Parties: The Company; and
Hisense Finance

Terms:

The term of the Financial Services Agreement shall commence from 1 January 2023 or the date of approval of the Financial Services Agreement by the Independent Shareholders at the EGM (whichever is later) until 31 December 2023, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Condition:

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

Subject matters:

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

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill services (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

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- (v) agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).

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

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

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

The Company’s internal policy regarding continuing connected transactions:

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

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

Following the requirements under the CT Management Policy, the finance department of the Group will compare the interest rates on deposits and loans and the service fee for electronic bank acceptance bills offered by Hisense Finance to the Group to those offered by commercial banks in the PRC prior to the execution of the relevant transactions. For deposit services, the designated finance staff of the Group will review and compare the interest rates offered by Hisense Finance with the major commercial banks based on the nature and tenure of such deposits (e.g. the time deposits will be reviewed quarterly, the demand deposits will be reviewed monthly and the interest rates for loans will be reviewed regularly). For the purpose of ensuring the sufficiency of independent bank transactions that are subject to review, the finance staff will review the interest rates on deposits offered by the five major commercial banks in the PRC, namely, China Construction Bank, Industrial and Commercial Bank of China,

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Bank of China, Bank of Communications and Agricultural Bank of China (the “**Five Major PRC Commercial Banks**”). The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of the interest rates on deposits. For electronic bank acceptance bill services, the Group’s finance staff will conduct a monthly review on the service fees charged by external commercial banks, and the Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain quotations of service fees for issuing electronic bank acceptance bills to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks.

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

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

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

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

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

(1) Deposit services

Pricing:

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

Historical figures:

The maximum daily closing balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB27,000,000,000 (inclusive of interest). For the period commencing from 1 January 2022 to 30 September 2022, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB17,446,000,000.

Proposed Cap:

The Company currently expects that the maximum daily closing balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB27,000,000,000 (inclusive of interest) for the year ending 31 December 2023.

The above Cap was determined with reference to:

- (i) the historical cashflow figures of the Group; and
- (ii) the level of growth in monetary funds attributable to the 2023 Projected Sales Increment. As at 30 September 2022, the balance of monetary funds held by the Group was RMB15,232,000,000 and the balance of monetary funds from wealth management was RMB7,404,000,000 (the total amount of monetary funds held by the Group and from wealth management was thus RMB22,636,000,000). Based on the 2023

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Projected Sales Increment, it is anticipated that the highest daily closing cash balance held by the Group will correspondingly increase to approximately RMB27,000,000,000 (inclusive of interest) in 2023.

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

- (i) although the Group intends to continue to allocate a substantial amount of its cash for subscription of entrusted wealth management products, deposit services are still required for cash involved in the transition period between the expiry of entrusted wealth management products and the subscription of new entrusted wealth management products. The expected maximum amount of cash for subscription of entrusted wealth management products in the year 2023 is approximately RMB10,000,000,000; and
- (ii) the Group will also borrow loans from Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. As the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for drawdown, the Group's funding needs in terms of loans will also affect the Group's deposit balances with Hisense Finance, as the Group would require temporary deposit of the proceeds of the loans proposed to be provided by Hisense Finance to the Group under the Financial Services Agreement.

In view of the above, in order to satisfy the business needs, it is expected that the daily closing balance of deposit will not exceed RMB27,000,000,000 (inclusive of interest) in 2023.

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

Pricing:

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

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

Historical figures:

The maximum daily closing balance of loan and electronic bank acceptance bills which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB18,000,000,000 (inclusive of interest and service fees). For the period commencing from 1 January 2022 to 30 September 2022, the maximum daily closing balance of the loans and electronic bank acceptance bills provided by Hisense Finance to the Group amounted to approximately RMB10,600,000,000.

Proposed Cap:

The Company currently expects that the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB18,000,000,000 (inclusive of interest and service fees) on any given day for the year ending 31 December 2023.

The above Cap was determined with reference to:

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

During the period from 1 January 2022 to 30 September 2022, the maximum daily closing balance of the loan and electronic bank acceptance bill provided by Hisense Finance to the Group was approximately RMB10,600,000,000, of which: (a) the maximum daily closing balance of the loan provided by Hisense Finance to the Group was RMB800,000,000; and (b) the maximum daily closing balance of the electronic bank acceptance bill provided by Hisense Finance to the Group was RMB9,800,000,000;

- (ii) the expected proportion of payment via electronic bank acceptance bills for the year ending 31 December 2023. 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

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daily closing balance of electronic bank acceptance bills will not exceed RMB16,500,000,000 (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 RMB1,500,000,000 will be allocated to cater to the financing needs of the Group; and

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

In 2023, the Group will continue to optimise payment terms which can utilise the available capital more efficiently to obtain operational income and increase cash flow. As such, it is expected that the Group will continue to use electronic bank acceptance bills services in the future. As a result of the above, it is expected that the maximum daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group shall not exceed RMB18,000,000,000 on any given day in 2023.

(3) *Draft discount services*

Pricing:

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

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

Historical figures:

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB50,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2022 to 30 September 2022, the total discount interest paid by the Group to Hisense Finance for the provision of draft discount services amounted to approximately RMB2,240,000.

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Proposed Cap:

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000 for the year ending 31 December 2023.

The above Cap was determined with reference to:

- (i) the expected financial needs of the Group during the peak season for production for the year 2023; and
- (ii) 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.

On the basis of: (i) the expected increase in revenue and the projected capital expenditure in 2023; and (ii) the Group's plan to continue to enhance its management on its accounts 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.

(4) Settlement and sale of foreign exchange services

Pricing:

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

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

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Historical figures:

Under the Existing Financial Services Agreement, the annual amount of foreign exchange settled or sold by Hisense Finance for the Group shall not exceed US\$300,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2022 to 30 September 2022, the amount of foreign exchange settled or sold by Hisense Finance for the Group amounted to approximately US\$19,000,000.

Proposed Cap:

The Group expects that the annual amount of the settlement and sale of foreign exchange services provided by Hisense Finance to the Group shall not exceed the Cap of US\$300,000,000 for the year ending 31 December 2023.

The above Cap was determined with reference to:

- (i) the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the year ending 31 December 2023. For the full year of 2022, it is expected that foreign currency received by the Group from its export business would amount to approximately US\$114,000,000, and payments to be made by the Group in foreign currency would amount to US\$116,000,000 (the total amount of foreign currency received and paid by the Group would thus be US\$230,000,000); and
- (ii) the 2023 projected overseas sales increment is not more than 30%.

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

Pricing:

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period. Hisense Finance announces its scale of charges at the beginning of every year. Currently, the said scale of charges has been lower than those of the major commercial banks in the PRC. The 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

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than those charged by commercial banks. If the expected scale of charges of Hisense Finance is found to be more expensive than that of other major commercial banks, the Company will select the bank with cheaper charging rates.

Historical figures:

Under the Existing Financial Services Agreement, the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds shall not exceed RMB3,000,000 during the term of the Existing Financial Services Agreement. For the period commencing from 1 January 2022 to 30 September 2022, the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds amounted to approximately RMB840,000.

Proposed Cap:

The Company currently expects that the annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds during the term of the Financial Services Agreement shall not exceed the Cap of RMB3,000,000 for the year ending 31 December 2023.

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

Currently, the agency services such as settlement services for receipt and payment of funds provided by Hisense Finance to the Group is mainly transfer services and its standard service fees of RMB0.8 per transaction payable by the Group to Hisense Finance is significantly lower than the charging standard for service fees charged by normal commercial banks or similar agencies in the PRC during the same period which ranges from RMB5 to RMB200 per transaction. As the Company is unable to ensure that the service fees payable by the Group to Hisense Finance will remain to be lower than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC, and taking into account the Group's expected demand for transfer services in 2023 and the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC in 2022, it is estimated that the aggregate amount of the service fees payable by the Group to Hisense Finance for the provision of agency services will be RMB3,000,000.

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Reasons for and benefits of the Financial Services Agreement:

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

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

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

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

Despite the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, the Group is still facing a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to

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

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

- (i) reviewing the audited reports of Hisense Finance of the previous two financial years to ascertain the amount of its total assets and has found that its total assets has year-on-year increase and such reports are not qualified nor disclaimed by the auditors;
- (ii) preparing 「關於在海信集團財務有限公司開展存款金融業務的風險評估報告」 (the “**Risk Assessment Reports**”) which has been published by the Company on the designated website of the Shenzhen Stock Exchange (<http://www.cninfo.com.cn>) in which it was noted that Hisense Finance had complied with certain key regulatory requirements pursuant to the Measures for the Administration of Finance Companies of Enterprise Group (企業集團財務公司管理辦法) as at the relevant reporting dates and the Board noted that Hisense Finance has been maintaining a relatively higher standard for capital adequacy ratio and current ratio (the Risk Assessment Report for the year ended 31 December 2021 has been published by the Company on the designated website of the Shenzhen

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Stock Exchange (<http://www.cninfo.com.cn>) on 31 March 2022 and the latest Risk Assessment Report for the nine months ended 30 September 2022 was published on 7 November 2022); and

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

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

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

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

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

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

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

Pledging and other security

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

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

As at the Latest Practicable Date, the Group's loan from Hisense Finance are all credit loans and therefore no guarantee, security or pledge in respect of loan services was provided by the Group to Hisense Finance. In the future, if the Group is required to obtain loan from Hisense Finance exceeding the credit limit, Hisense Finance may require the Group to provide guarantee, security or pledge in relation to the provision of loan services. In such circumstance, the Group will use bank acceptance bills as security and such security or pledge will be on similar terms with the pledge in respect of the electronic bank acceptance bill services mentioned above.

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

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

Financial effects on the Company for the use of deposit services under the Financial Services Agreement

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

Information relating to the Group, Hisense Holdings and Hisense Finance

The Group

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

Hisense Holdings

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

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

1. Hisense Company holds 26.79% interest in Hisense Holdings. The ultimate beneficial owner of Hisense Company is the State-owned Assets Supervision and Administration Commission of the Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).
2. Qingdao Xinfeng Information Technology Co., Ltd.* (青島新豐信息技術有限公司) (“**Qingdao Xinfeng**”) holds 24.36% interest in Hisense Holdings and Shanghai Haifeng Shipping Co., Ltd.* (上海海豐航運有限公司) (“**Shanghai Haifeng**”) holds 2.64% interest in Hisense Holdings. Qingdao Xinfeng and Shanghai Haifeng are parties acting in concert and collectively own 27.00% interest in Hisense Holdings. The ultimate beneficial owner of Qingdao Xinfeng and Shanghai Haifeng is Mr. Yang Shaopeng* (楊紹鵬).
3. The position incentive shareholders (崗位激勵股東) (the “**Position Incentive Shareholders**”) of Hisense Holdings hold an aggregate interest of 46.21% in Hisense Holdings. As at the Latest Practicable Date, of this 46.21% interest in Hisense Holdings, (i) 36.25% is owned by the Position Incentive Shareholders of Hisense Holdings who hold interests in Hisense Holdings directly; (ii) 6.89% is owned by Qingdao Yuanli Information Consulting Co., Ltd.* (青島員利信息諮詢股份有限公司) (“**Qingdao Yuanli**”) and partnerships (合夥企業) (the “**Partnerships**”); and (iii) 3.06% is owned by Qingdao Hengxin Chuangshi Electronic Technology Co., Ltd.* (青島恒信創勢電子技術有限公司) (“**Qingdao Hengxin**”). Qingdao Yuanli, Qingdao Hengxin and the Partnerships are companies holding interests in Hisense Holdings on behalf of other Position Incentive Shareholders of Hisense Holdings whose interests in Hisense Holdings are held indirectly.

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

Qingdao Hengxin was incorporated on 14 December 2012. The Partnerships consist of thirteen partnerships which were established from 2016 to 2021. Qingdao Yuanli, Qingdao Hengxin and the Partnerships act as interests holding vehicles for the relevant Position Incentive Shareholders of Hisense Holdings and they do not have any operations.

LETTER FROM THE BOARD

Qingdao Yuanli was incorporated on 22 June 2010. As an interests holding vehicle for the relevant Position Incentive Shareholders of Hisense Holdings, Qingdao Yuanli is not engaged in any operating activities.

Hisense Finance

Hisense Finance is a non-bank financial institution established with the approval from the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance is not a banking company as defined in Rule 14A.88 of the Hong Kong Listing Rules. Hisense Finance was established in the PRC on 12 June 2008 and has a registered capital of RMB1,300,000,000. The business scope of Hisense Finance includes: 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 and its shareholders' interests are as follows:

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

IV. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

(A) 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

LETTER FROM THE BOARD

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.

(B) Financial Services Agreement

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

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

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

LETTER FROM THE BOARD

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

V. GENERAL

Mr. Dai Hui Zhong, Mr. Lin Lan, Mr. Jia Shao Qian, Mr. Fei Li Cheng and Ms. Gao Yu Ling, being Directors and directors of Hisense Holdings and/or its subsidiaries, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated under the agreements in view of their interest therein as aforementioned.

VI. PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 30 November 2022 in relation to, among other matters, the expiry of the term of office of Mr. Ma Jin Quan (“**Mr. Ma**”) as an independent non-executive Director and the nomination of Mr. Li as an independent non-executive Director of the eleventh session of the Board.

According to article 10.2 of the Articles of Association, the term of office of each of the Directors is three years, and upon the expiry of such term, it shall be renewable upon re-election. According to article 10.40, each of the independent non-executive Directors shall not remain in office for more than six years.

As the term of office of Mr. Ma as an independent non-executive Director will expire on 9 January 2023, in accordance with the relevant laws, regulations and the Articles of Association, Mr. Li has been nominated as an independent non-executive Director for the eleventh session of the Board and his appointment is subject to the approval by the Shareholders at the EGM. If Mr. Li is elected, his term of office will commence from the date of his appointment at the EGM and expire at the end of the eleventh session of the Board (that is, 24 June 2024).

The biographical details of Mr. Li are set out below.

LETTER FROM THE BOARD

Mr. Li Zhi Gang

Mr. Li, aged 46, Doctor of Management of Nankai University* (南開大學), is currently a professor of the Management College of Ocean University of China* (中國海洋大學管理學院).

From December 2010 to December 2016, Mr. Li served as an associate professor of the Management College of Ocean University of China. Mr. Li has been a professor of the Management College of Ocean University of China since December 2016.

Since April 2021, Mr. Li has been serving as an independent director of Qingdao Thunderobot Technology Co., Ltd.* (青島雷神科技股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 872190). Since May 2021, Mr. Li has been an external supervisor of Qingdao Rural Commercial Bank Co., Ltd.* (青島農村商業銀行股份有限公司) (the “Bank”), a company listed on the Shenzhen Stock Exchange (stock code: 002958), for which Mr. Li has tendered his resignation which is subject to the approval by the shareholders of the Bank at a general meeting.

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

If Mr. Li is elected as an independent non-executive Director, he will enter into a director’s service contract with the Company. Pursuant to his service contract, Mr. Li will be entitled to an annual emolument of RMB140,000 (before taxation) from the Company as an independent non-executive Director. Such emolument was determined by the remuneration and appraisal committee of the Board after taking into consideration of the scale of operation of the Company and the remuneration level of independent non-executive directors of other listed companies.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules, and there is no other matters that need to be brought to the attention of the Shareholders.

VII. THE EXPECTED LIMITS OF GUARANTEE IN 2023

Reference is made to the overseas regulatory announcement of the Company dated 30 November 2022 in relation to the expected limits of guarantee in 2023.

In view of the financing and guarantee needs and to ensure smooth progress of the business of the Group, the Group intends to provide guarantee for its controlled subsidiaries in 2023, in the aggregate amount of not more than RMB7,700,000,000. The scope of the guarantee includes, but is not limited to, the application for banking credits, loans, letters of guarantee, letters of credit, performance guarantee and bank acceptance bills.

LETTER FROM THE BOARD

The expected limits of guarantee in 2023

In view of the development and financing needs of the Company in 2023, the Group intends to provide guarantee for its controlled subsidiaries in 2023, in the aggregate amount of not more than RMB7,700,000,000. The allocation of the guarantee amount is set out below:

	Name of the guaranteed subsidiary	Shareholding of the Company (%) (Note)	Expected limit of guarantee (RMB'000)	Gearing ratio as at 30 September 2022 (%)	Whether the provision of guarantee constitutes a connected transaction
1.	Qingdao Hisense Air-conditioning Company Limited* (青島海信空調營銷股份有限公司)	76	2,000,000	99	No
2.	Hisense (Guangdong) Air-conditioning Company Limited* (海信廣東空調有限公司)	100	900,000	78	No
3.	Guangdong Hisense Refrigerator Marketing Co., Ltd.* (廣東海信冰箱營銷股份有限公司)	79	2,100,000	97	No
4.	Sanden Holdings Corporation* (三電株式會社)	75	1,270,000	88	No
5.	SANDEN INTERNATIONAL (U.S.A.), INC.	100	760,000	125	No
6.	SANDEN THAILAND CO., LTD.	95	400,000	103	No
7.	SANDEN MANUFACTURING EUROPE S.A.S.	100	120,000	81	No
8.	Sanden International (Europe) GmbH	100	50,000	71	No
9.	Tianjin Sanden Auto Air-Conditioning CO., LTD.* (天津三電汽車空調有限公司)	51	50,000	107	No
10.	Chongqing Sanden Auto Air-Conditioning CO., LTD.* (重慶三電汽車空調有限公司)	100	50,000	86	No

Note: The shareholding interests of the Company in these guaranteed subsidiaries are indirect interests. The remaining shareholding interests in these guaranteed subsidiaries are held by independent third parties. Such guaranteed subsidiaries are not connected persons and the provision of such guarantee does not constitute a connected transaction under the Hong Kong Listing Rules.

Subject to the approval of the above matters in relation to the guarantees by the Shareholders at the EGM, the Board proposes to authorise the following matters:

- The above limits of guarantee will be applied on a revolving basis. The guarantees which have been discharged, expired or terminated will not take up any amount under the limits of the guarantee. The Board will authorise (i) the management of the Company to deal with the matters relating to the guarantee within the limits, and such matters do not need to be submitted to the meeting of the Board or the general meeting of the Company for

LETTER FROM THE BOARD

consideration and approval, and (ii) the legal representative of the Company and the above subsidiaries of the Company to sign the relevant legal documents within the guarantee limits on behalf of the guarantor;

2. The limits of the guarantee among these guaranteed subsidiaries shall be adjusted and reallocated according to the business needs of the Company; and
3. The period of the authorisation will be effective from the date of approval at the EGM until 31 December 2023.

According to the Shenzhen Listing Rules and the Articles of Association, the expected limits of the guarantee in 2023 are subject to the approval of the Shareholders. Therefore, the expected limits of the guarantee in 2023 will be submitted to the EGM for the Shareholders' consideration and approval.

VIII. EGM

The EGM will be held at the conference room of Hisense Building, No.17 Donghai West Road, Qingdao City, Shandong Province, the PRC on Monday, 9 January 2023 at 3:00 p.m., at which resolutions will be proposed for the Independent Shareholders to, among other things, consider and, if thought fit, approve (i) the Business Co-operation Framework Agreement; the transactions contemplated under it and the Caps; (ii) the Financial Services Agreement, the transactions contemplated under it and the Caps; (iii) the appointment of Mr. Li as an independent non-executive Director; and (iv) the expected limits of guarantee in 2023 by poll.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on Wednesday, 30 November 2022 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hxjd.hisense.cn>). Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed on it and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment of such meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting (as the case may be) should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip to the registered office of the Company at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC (Postal code: 528303) by personal delivery, post or fax during hours between 8:30 a.m. and 11:00 a.m., 1:30 p.m. and 4:30 p.m. on every business day on or before Tuesday, 3 January 2023. Failure to complete or return the reply slip will not preclude eligible Shareholders from attending the EGM should they so wish.

LETTER FROM THE BOARD

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

In order to determine the holders of Shares who are eligible to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 4 January 2023 to Monday, 9 January 2023 (both days inclusive). In order to qualify for attending the EGM, all transfer documents of H Shares together with the relevant share certificates must have been lodged with the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 3 January 2023 for registration.

IX. RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that each of the Business Co-operation Framework Agreement and the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

The Board is of the opinion that the proposed appointment of Mr. Li as an independent non-executive Director and the expected limits of guarantee in 2023 are in the interests of the Company and the Shareholders as a whole and accordingly, the Board recommends the Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

X. ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements which are respectively set out on pages 52 to 53 and pages 54 to 102 of this circular. Additional information is also set out in the appendices to this circular for your information.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Hisense 海信家電

HISENSE HOME APPLIANCES GROUP CO., LTD.

海信家電集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00921)

20 December 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 20 December 2022 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

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

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 7 to 51 and pages 54 to 102 of the Circular respectively. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the terms of the Business Co-operation Framework Agreement, the Financial Services Agreement, the transactions contemplated under the agreements and the Caps in relation to the agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

For and on behalf of the Independent Board Committee

Ma Jin Quan Zhong Geng Shen Cheung Sai Kit

Independent non-executive Directors

Hisense Home Appliances Group Co., Ltd.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



Unit 2401-05, 24/F,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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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.

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

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.

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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;

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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

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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

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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.

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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,

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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.

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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	2021	2021	2022
	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>	<i>million)</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Operating revenue	503	616	471	458
Net profit	293	367	285	331
	As at 31 December		As at 30 September	
	2020	2021	2022	
	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>	
	<i>million)</i>	<i>million)</i>	<i>million)</i>	
	(audited)	(audited)	(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

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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

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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

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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.

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	Transactions	Nature of the transactions
(iv)	Supply of electrical appliances	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply, on a non-exclusive basis, electrical appliances to Hisense Group as they may require from time to time.
(v)	Supply of moulds	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply, on a non-exclusive basis, moulds to Hisense Group as they may require from time to time.
(vi)	Supply of raw materials, parts and components	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply to Hisense Group, on a non-exclusive basis, such quantities of raw materials, parts and components as they may require from time to time.
(vii)	Provision of services by the Group	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will, on a non-exclusive basis, provide property services, material processing services and installation services to Hisense 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

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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;

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

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

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(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.

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(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

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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

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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.

	Historical transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Estimated Annualised Transaction Amount in 2022 For the year ending 31 December 2022 (RMB'000)	Existing annual cap 2022 (RMB'000)	Proposed Cap 2023 (RMB'000)
Purchases of electrical appliances	180,820	251,190	310,500	604,960

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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

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- (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.

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

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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,

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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

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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.

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	Historical transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Estimated Annualised Transaction Amount in 2022 For the year ending 31 December 2022 (RMB'000)	Existing annual cap 2022 (RMB'000)	Proposed Cap 2023 (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.

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(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.

	Historical transaction amount For the nine months ended 30 September 2022	Estimated Annualised Transaction Amount in 2022	Existing annual cap	Proposed Cap
	For the year ending 31 December 2022	For the year ending 31 December 2022	2022	2023
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(unaudited)			
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

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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.

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(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.

	Historical transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Estimated Annualised Transaction Amount in 2022 For the year ending 31 December 2022 (RMB'000)	Existing annual cap 2022 (RMB'000)	Proposed Cap 2023 (RMB'000)
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;

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- (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.

	Historical transaction amount For the nine months ended 30 September 2022 (RMB'000) (unaudited)	Estimated Annualised Transaction Amount in 2022 For the year ending 31 December 2022 (RMB'000)	Existing annual cap 2022 (RMB'000)	Proposed Cap 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.

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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

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- (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.

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	Historical transaction amount For the nine months ended 30 September 2022	Estimated Annualised Transaction Amount in 2022	Existing annual cap	Proposed Cap
	For the year ending 31 December 2022	For the year ending 31 December 2022	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(unaudited)</i>			
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

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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.

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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.

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	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)
Loan and electronic bank acceptance bill services	10,600	18,000	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

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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.

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(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 For the year ending 31 December 2022 (RMB million)	Proposed Cap 2023 (RMB million)
Draft discount services	2.24	50	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

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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

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(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 For the year ending 31 December 2022 (US\$ million)	Proposed Cap 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

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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.

	Historical transaction amount 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)
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

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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.

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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;

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- (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

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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.

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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.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://hxjd.hisense.cn>):

- (a) on pages 78 to 219 of the annual report of the Company for the year ended 31 December 2019 published on 15 May 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051501158.pdf>);
- (b) on pages 72 to 208 of the annual report of the Company for the year ended 31 December 2020 published on 30 April 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0430/2021043000979.pdf>);
- (c) on pages 89 to 224 of the annual report of the Company for the year ended 31 December 2021 published on 29 April 2022 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042901306.pdf>); and
- (d) on pages 32 to 164 of the interim report of the Company for the six months ended 30 June 2022 published on 27 September 2022 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0927/2022092701226.pdf>).

2. INDEBTEDNESS

As at the close of business on 31 October 2022, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, borrowings without guarantee or security of approximately RMB2,301,120,961, borrowings with guarantee or security of approximately RMB1,080,996,997, lease liabilities of approximately RMB405,456,082.89 and contingent liabilities of approximately RMB120,088,898.79, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowing (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, any other mortgages and charges or any other material contingent liabilities or guarantees.

3. WORKING CAPITAL

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

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the first three quarters of 2022, in the face of adverse factors such as the resurgence of COVID-19, the changes of supply chain and the downturn of the global economy, the Company adhered to the advanced manufacturing strategy, focused on capacity building, reduced costs and improved efficiency, and achieved steady growth in scale and profitability. Meanwhile, the Company actively explored the overseas markets. Leveraging on Hisense becoming the official sponsor of the 2022 Qatar World Cup, the Group has continued to develop sports marketing, actively expand the sales scale and strive to achieve growth in terms of scale and efficiency.

The Company continues to uphold the core value of “Technology Orientation” by continuing to strive for technology innovation and launch high quality and good products with the aim of turning sustainable development as its core competency. In 2023, the Company will continue to promote smart new life strategy, upgrade the home appliance smart terminal, and strengthen its leading position in the refrigerator, central air-conditioning and household air-conditioning industries. At the same time, the Company will deepen the technological research and development of washing machines, commercial cold chain and kitchen and bathroom products and accelerate the implementation of a comprehensive market layout, thereby laying a solid foundation for the Group’s medium- to long-term development and growth.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS**Interests of Directors, supervisors and chief executive of the Company in the securities of the Company**

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

Long position in the Shares

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

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

provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered into the register maintained by the Company referred to therein or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Other interests

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (c) Mr. Dai Hui Zhong, Mr. Lin Lan, Mr. Jia Shao Qian, Mr. Fei Li Cheng and Ms. Gao Yu Ling, are Directors and directors of Hisense Holdings and/or its subsidiaries. Hisense Holdings was deemed to have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE AGREEMENTS

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

4. COMPETING BUSINESS

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

5. LITIGATION

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

6. MATERIAL CONTRACTS

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

- (i) the share purchase agreement dated 1 March 2021 entered into between Sanden and the Company in respect of the subscription by the Company for 83,627,000 shares of common stock of Sanden at the subscription price of JPY256 (equivalent to approximately HK\$19) per subscription share for a total subscription amount of JPY21,408,512,000 (equivalent to approximately HK\$1,562,665,109). Details of the share purchase are set out in the announcement of the Company dated 1 March 2021 and the circular of the Company dated 7 May 2021; and
- (ii) the capital increase agreement dated 18 April 2022 entered into between the Company, Hisense Visual Technology and Qingdao Yuanli. Pursuant to the capital increase agreement, Hisense Visual Technology agreed to subscribe for an aggregate of RMB20,170,000 new registered capital in Hisense (Guangdong) Kitchen & Bathroom System* (海信(廣東)廚衛系統股份有限公司) (“**Hisense Kitchen & Bathroom**”) by way of equipment injection with a value equal to an aggregate sum of RMB63,535,500, and the Company and Qingdao Yuanli waived the capital increase of Hisense Kitchen & Bathroom. Details of the capital increase are set out in the announcements of the Company dated 19 April 2022 and 5 May 2022.

7. EXPERT

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

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

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

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any interest, direct or indirect, in any assets which have been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they are included.

8. GENERAL

- (a) The registered office of the Company is at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, the PRC. The Company's head office and principal place of business in Hong Kong is situated at Room 3101-05, Singa Commercial Centre, No. 148 Connaught Road West, Hong Kong.
- (b) The secretary of the Company is Ms. Wong Tak Fong, who is a fellow member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) in the United Kingdom, a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. from November 1994 to May 2014. She was the chief financial controller of Diamond Dragon Fashion Ltd (鑽龍時裝有限公司) from December 2010 to March 2019.
- (c) In case of inconsistency, the Chinese text of this circular shall prevail over its English text.

9. DOCUMENTS ON DISPLAY

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

- (a) the letter from the Independent Board Committee dated 20 December 2022;
- (b) the letter from the Independent Financial Adviser dated 20 December 2022;
- (c) the resolutions passed by the eleventh session of the Board on 7 November 2022;

- (d) the Business Co-operation Framework Agreement;
- (e) the Financial Services Agreement;
- (f) the consent letter issued by Caitong International Capital Co., Limited referred to in the paragraph headed “7. Expert” in this appendix; and
- (g) this circular.