DILIGENT CAPITAL

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3 January 2024

To the Independent Board Committee and the Independent Shareholders of Hisense Home Appliances Group Co., Ltd.

Dear Sirs and Madams,

(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 3 January 2024 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 2023 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 28 November 2023, the Company entered into the Business Co-operation Framework Agreement with Hisense Holdings and the Financial Services Agreement with Hisense Finance.

Business Co-operation Framework Agreement

As at the Latest Practicable Date, as Hisense Holdings (through its indirect interest in the Company held by Hisense Air-conditioning and Hisense HK) is the controlling shareholder of the Company, Hisense Holdings and its subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the Caps in relation to the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK$10,000,000, the Business

Co-operation Framework Agreement, the transactions contemplated under it and the related Caps are subject to the reporting, announcement, annual review and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In view of the interests of Hisense Holdings in the Business Co-operation Framework Agreement, Hisense Holdings and its associates will abstain from voting in relation to the resolution(s) to approve the Business Co-operation Framework Agreement, the transactions contemplated under it and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.23% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 8.97% 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 finance company 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 a transaction under Chapter 14 of the Hong Kong Listing Rules. Although an applicable percentage ratio for the provision of such deposit services exceed 100%, this transaction does not constitute an acquisition or a series of acquisitions of assets by the Company and hence the transaction does not fall into the classification of very substantial acquisition under Rule 14.06(5) of the Hong Kong Listing Rules. Instead, since the other applicable percentage ratios for the provision of such deposit services are more than 25% but less than 75%, the transaction will constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement, the transactions contemplated under it and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 516,758,670 Shares (representing approximately 37.23% of the issued share capital of the Company) and Hisense HK, which held 124,452,000 Shares (representing approximately 8.97% 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. Zhong Geng Shen and Mr. Cheung Sai Kit and Mr. Li Zhi Gang), 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.

OUR INDEPENDENCE

We, Diligent Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, and such appointment has been approved by the Independent Board Committee pursuant to the Listing Rules.

Diligent Capital Limited is a licensed corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Huen Felix Ting Cheung ("**Mr. Huen**") is the person signing off the opinion letter from Diligent Capital Limited contained in the Circular. Mr. Huen has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2019 and he was participated in and completed various independent financial advisory transactions in Hong Kong.

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

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the Existing Business Co-operation Framework Agreement, the Existing Financial Services Agreement, the Agreements, the annual reports of the Company for the years ended 31 December 2021 and 2022 (the "**2021 Annual Report"** and **"2022 Annual Report**", respectively), the interim report of the Company for the six months ended 30 June 2023 (the "**2023 Interim Report**"), the third quarterly report of the Company for the nine months ended 30 September 2023 (the "**2023 Third Quarter Report**") and the Circular.

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

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the Agreements

(a) Information on the Group

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

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2021 and 2022, as extracted from the 2022 Annual Report, and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 and 2023, as extracted from the 2023 Interim Report.

	For the year ended 31 December		**For the six months ended 30 June**	
	2021	**2022**	**2022**	**2023**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
	(audited)	(audited)	(audited)	(audited)
Revenue from principal operations	60,762	67,495	34,976	38,703
Revenue from other operations	6,800	6,620	3,331	4,240
Total operating revenue	**67,562**	**74,115**	**38,307**	**42,943**
Total operating cost	**65,691**	**71,261**	**37,093**	**40,474**
Net profit attributable to the owners of the Company for the year/period	**973**	**1,435**	**620**	**1,498**
Revenue from principal operations by regions				
– domestic	*37,602*	*42,624*	*20,654*	*24,466*
– overseas	*23,160*	*24,871*	*14,322*	*14,237*
Total	**60,762**	**67,495**	**34,976**	**38,703**

For the years ended 31 December 2021 and 2022

For the year ended 31 December 2022, the Group's total operating revenue reached approximately RMB74,115 million, increased by approximately 9.70% as compared to that of the year ended 31 December 2021. According to the 2022 Annual Report, the increase was mainly due to the increase in sales of air-conditioners. We also noted that the Group's overseas sales increased from approximately RMB23,160 million for the year ended 31 December 2021 to approximately RMB24,871 million for the year ended 31 December 2022, representing an increase of approximately 7.39%. The operating cost of the Group for the year ended 31 December 2022 amounted to approximately RMB71,261 million, representing an increase of approximately 8.48% as compared to that of the year ended 31 December 2021 amounting to approximately RMB65,691 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 increased by approximately 47.49% from approximately RMB973 million for the year ended 31 December 2021 to approximately RMB1,435 million for the year ended 31 December 2022. Such increase was mainly attributable to the abovementioned effects.

For the six months ended 30 June 2022 and 2023

The Group's total operating revenue increased by approximately 12.11% from approximately RMB38,307 million for the six months ended 30 June 2022 to approximately RMB42,943 million for the six months ended 30 June 2023. According to the 2023 Interim Report, the increase was mainly due to the increase in sales of air-conditioners and refrigerators and washing machines. Besides, the Group's overseas sales remained stable during the six months ended 30 June 2023 as compared to the corresponding period in 2022, representing a decrease of approximately 0.59%. The operating cost of the Group for the six months ended 30 June 2023 amounted to approximately RMB40,474 million, representing an increase of approximately 9.11% as compared to the corresponding period in 2022 amounting to approximately RMB37,093 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 141.61% from approximately RMB620 million for the six months ended 30 June 2022 to approximately RMB1,498 million for the six months ended 30 June 2023. Such increase was mainly attributable to the abovementioned effects.

(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; 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; and car park services.

(2) Hisense Finance

Hisense Finance is a non-bank financial institution established in the PRC in 2008 with the approval from the NFRA and other regulatory authorities in the PRC. Its business scope includes: providing financial and financing consultation services, credit appraisal and other relevant consultancy and agency services to member companies; assisting member companies in the receipt and payment of transaction proceeds; conducting approved insurance agency services; providing guarantees for member companies; handling of entrusted loans and entrusted investment among member companies; handling of draft acceptance and discount services for member companies; handling of intra-group transfer settlement and other related settlement between member companies and formulating settlement schemes; accepting deposit of member companies; arranging loan and finance leasing to member companies; engaging in lending and borrowing with business counterparts; underwriting corporate bonds for member companies; investing in securities other than investment in secondary markets for stocks; and providing consumer credit and buyer credit for products of member companies. The controlling shareholder of Hisense Finance is Hisense Holdings.

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

2. Reasons for and benefits of the Agreements

(a) Business Co-operation Framework Agreement

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

(i) Purchases of products

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, raw materials, parts and components, and engage Hisense Group for the provision of services as the Group may require from time to time.

According to the Letter from the Board, the Group's purchase of electrical appliances from Hisense Group is conducive to expanding the domestic sales scale, optimising the product structure and enhancing the efficiency of the Group's daily management, thereby driving the overall product scale and business development of the Company.

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 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.

(ii) Supply of products

Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply, on a non-exclusive basis, moulds and electrical appliances, raw materials, parts and components and provide services to Hisense Group as it may require from time to time.

According to the Letter from the Board, the supply of products 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.

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.

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

Based on the above and having considered that (i) the Group is principally engaged in research and development, manufacturing and marketing of electrical products; (ii) the Group is satisfied with the quality of the raw materials, parts and components provided by Hisense Group from the previous course of dealings; (iii) the Group is satisfied with the quality of the services provided by Hisense Group from the previous course of dealings and considers that Hisense Group possesses the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly; (iv) the purchase and the supply of electrical appliances, the supply of raw materials, parts and components and the supply of services by the Group help enhance the market competitiveness of the Group's products and can bring benefit to the Group from the synergy and sharing of resources and the maximisation of the economies of scale; and (v) the Group and Hisense Group have established long-term business relationship with Hisense Group and Hisense Group can help to ensure stable and quality supply of products and services to the Group due to their familiarity and understanding of the operations of the Group, thereby reducing the operational risk exposure of the Group while enhancing the efficiency of its operations and the business development as a whole, we concur with the view of the Directors that the entering into the Business Co-operation Framework Agreement and the respective transactions contemplated thereunder are in the ordinary and usual course of business of the Group in the interests of the Company and the Shareholders as a whole.

(b) Financial Services Agreement

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

(i) having reviewed the historical sample deposit rates offered by Hisense Finance and other major commercial banks (including the Five Major PRC Commercial Banks), the Board noted that the interest rates offered by Hisense Finance are no less favourable than those offered by major commercial banks for the deposit with the same type and tenure. Moreover, Hisense Finance may offer to the Group tailor-made beneficial loan mix that can specifically cater for the Group's funding needs which may not be readily available from other commercial banks;

(ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more suitable, expedient and efficient service provision than those offered by PRC commercial banks; and

(iii) Hisense Finance is regulated by the NFRA 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 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, 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 NFRA 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 NFRA. 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 NFRA 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 NFRA (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. 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.

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 2021 and 2022 and the PRC unaudited financial statements for the nine months ended 30 September 2023 (collectively, the "**PRC Financial Reports**"). Based on the PRC Financial Reports, the net assets of Hisense Finance increased from approximately RMB4,112 million as at 31 December 2021 to approximately RMB4,556 million as at 31 December 2022, and further to approximately RMB4,810 million as at 30 September 2023. 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 2021 and 2022.

Highlights of the PRC Financial Reports are set out below:

	For the year ended 31 December		**For the six months ended 30 September**	
	2021	**2022**	**2022**	**2023**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
	(audited)	(audited)	(unaudited)	(unaudited)
Operating revenue	616	556	458	323
Net profit	367	442	331	249

	As at 31 December		As at 30 September
	2021	**2022**	**2023**
	(RMB million)	*(RMB million)*	*(RMB million)*
	(audited)	(audited)	(unaudited)
Total assets	28,432	25,696	22,593
Total liabilities	24,320	21,140	17,783
Net assets	**4,112**	**4,556**	**4,810**

In view of the above financial highlights, given that (i) the net profit of Hisense Finance for the nine months ended 30 September 2023 decreased to approximately RMB249 million from approximately RMB331 million as compared to the corresponding period in 2022, representing a year-on-year decrease of approximately 24.77%, indicating a decline trend of business; (ii) its net assets increased from approximately RMB4,556 million as at 31 December 2022 to approximately RMB4,810 million as at 30 September 2023; and (iii) its current ratio (as shown in the table below) was approximately 176.68% as at 30 September 2023, which has far exceeded the statutory requirement of 25.00%, 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 2022, 31 March 2023 and 28 November 2023, 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 as at 31 December 2021, 31 December 2022, and 30 September 2023, respectively. Relevant indicators are extracted and set out below:

Relevant indicators	**Requirements for finance companies**	**Hisense Finance**		
		As at 31 December		**As at 30 September**
		2021	**2022**	**2023**
Capital adequacy ratio	Shall not be lower than 10% *(Note 1)*	19.49%	22.08%	28.31%
Current ratio	Shall not be lower than 25%	109.72%	117.81%	176.68%
Loan balance over sum of deposit balance and paid-in capital	Shall not be higher than 80%	*Not Applicable*	59.34%	56.47%
External liabilities over net capital	Shall not exceed net capital	*Not Applicable*	0.61% *(not higher than net capital)*	0.79% *(not higher than net capital)*

Relevant indicators	Requirements for finance companies	Hisense Finance		
		As at 31 December		As at 30 September
		2021	2022	2023
Acceptance bill balance over total assets	Shall not be higher than 15%	*Not Applicable*	38.63% *(Note 2)*	9.15%
Acceptance bill balance over deposit from other finance companies	Shall not be higher than 300%	*Not Applicable*	177.48%	80%
Acceptance bill and draft discount amount over net capital	Shall not exceed net capital	*Not Applicable*	206.60% *(Note 2)*	41.24% *(not higher than net capital)*
Margin balance of acceptance bill over total deposits	Shall not be higher than 10%	*Not Applicable*	3.83%	0.54%
Investment to net capital ratio	Shall not be higher than 70%	39.77%	63.09%	53.90%
Net fixed assets over total capital	Shall not be higher than 20%	*Not Applicable*	0.07%	0.05%
Non-performing asset ratio	Shall not be higher than 4% *(Note 1)*	0.00%	0.00%	0.00%
Bad loan ratio	Shall not be higher than 5% *(Note 1)*	0.00%	0.00%	0.00%

Note 1: As at 30 September 2023, regulatory requirements on the relevant indicators pursuant to the Measures for the Administration of Finance Companies of Enterprise Group implemented with effect from 13 November 2022 (Capital adequacy ratio, Non-performing asset ratio and Bad loan ratio) have been revised, and they shall not exceed 10.5%, 3% and 2%, respectively.

Note 2: The financial ratios of acceptance bill balance over total assets and acceptance bill and draft discount amount over net capital as at 31 December 2022 (the "**Financial Ratios**") had exceeded the new regulatory requirements under the Measures for the Administration of Finance Companies of Enterprise Group. In accordance with transitional requirements of the Measures for Administration of Finance Companies of Enterprise Group, Hisense Finance had gradually reduced the scale of its bill acceptance business and lowered the outstanding bill acceptance balance within the six months transitional period from 13 November 2022 to ensure compliance with the regulatory requirements for the Financial Ratios. Accordingly, the Financial Ratios as at 30 June 2023 were below the stipulated threshold, and hence meeting the new regulatory requirements.

Note 3: The relevant indicators refer to new regulatory indicators and were not applicable in the risk assessment report of Hisense Finance as at 31 December 2021.

Having considered the factors mentioned above, Hisense Finance has been continuously maintaining the requisite financial ratios at a higher standard exceeding the regulatory requirement as stipulated by the NFRA as at 31 December 2021, 31 December 2022, and 30 September 2023, respectively.

(iii) Obtained and reviewed the confirmation issued by Hisense Finance to the Company confirming that, among others, Hisense Finance was in compliance with the relevant regulatory indicators and did not have any record of administrative penalties or compulsory enforcement by the NFRA and other regulatory authorities. We have also compared the relevant indicators as at 30 September 2023 in such confirmation and the Risk Assessment Report published by the Company on the website of the Shenzhen Stock Exchange on 28 November 2023 and noted that the indicators were consistent and complied with regulatory requirements.

(iv) Conducted search on the website of NFRA and are not aware of any administrative penalties or compulsory enforcement by the CBIRC imposed on Hisense Finance in 2023, up to the Latest Practicable Date.

(v) As advised by the Company, 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 serve 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 NFRA, 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 2023 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 2023 to 30 September 2023 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 2023 (together with the interest rates reviewed as discussed above, the "**Samples for Financial Services Agreement**") and compared against at least three quotations or charging standards obtained by the Group from other commercial banks in the PRC. It is noted that the interest rates and the financial service fees offered by Hisense Finance were no less favourable than those quoted by other commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (as appropriate).

Having considered the reasons for and benefits of the Financial Services Agreement as set out in the Letter from the Board and our above analyses on (i) the transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company, which is part of ordinary treasury activities of the Group, (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
(1)	Purchases of products	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, raw materials, parts and components, and engage Hisense Group for the provision of services as the Group may require from time to time: (i) such electrical appliances including but not limited to, dryers, dishwashers, and air-conditioners for the engineering projects; (ii) such raw materials, parts and components including but not limited to, electric control boards, Wi-Fi modules; and (iii) such services including but not limited to, installation and maintenance services, technical support services, information system services and material processing services.

	Transactions	Nature of the transactions
(2)	Supply of products	Pursuant to the terms of the Business Co-operation Framework Agreement, the Group will supply, on a non-exclusive basis, moulds and electrical appliances, raw materials, parts and components and provide services to Hisense Group as it may require from time to time: (i) such moulds and electrical appliances including but not limited to freezers, refrigerators, washing machines, residential air-conditioners; (ii) such raw materials, parts and components including but limited to raw materials for producing electric control boards (such as resistors), and raw materials, parts and components for the production of refrigerators, washing machines, residential air-conditioners, central air-conditioners and kitchen appliances; and (iii) such services including but not limited to property services, material processing services and installation services.

In relation to the purchase of products transaction categories 1(i) to (iii) and the supply of products transactions categories 2(i) to (iii) (except for the moulds), 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 such as ownership transfer, invoice issuance and confidentiality, taking into account factors such as the product/service quality and stability in supply of the product/service in respect of transaction categories 1(i) to (iii), the credit rating and qualification of Hisense Group such as their asset scale in respect of transaction categories 2(i) to (iii)) 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 supply of moulds transaction, 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 profit margin, with the maximum mark-up rate of 150%. For determining reasonable costs, the Company will take into account fixed cost (e.g.

depreciation of machinery), cost of raw material, and labour cost for the production of the moulds. The profit margin of the Group in such bidding price is determined by taking into account the specification of different mould order which are customised as per the customers' requirements. We have discussed with the Management and understood that the mark-up rate is calculated by dividing the profit margin by 1 minus profit margin, and the profit margin for the supply of moulds to Hisense Group will not be lower than the profit margin of the Group in the bidding price for supply of similar and comparable moulds to independent third parties during the same period. As advised by the Management, 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. 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 and profit margins for the supply of moulds to Hisense Group for the ten months ended 31 October 2023 and it is noted that mark-up rates were all below 150%. Having considered the above, we consider the profit margin is reasonable. 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 a longer term (i.e. three years from 1 January 2024) than the Existing Business Co-operation Framework Agreement (i.e. one year from 1 January 2023) and has been simplified as compared to the Existing Business Co-operation Framework Agreement to the extent that the transaction categories are consolidated into two major transaction categories, namely, the purchase of products and the supply of products 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 2023 involving each of the six major sub-categories of transactions under the Existing Business Co-operation Framework Agreement including (i) purchase of electrical appliances, (ii) purchase of raw materials, parts and components, (iii) purchases of services by the Group from Hisense Group, (iv) supply of electrical appliances and moulds, (v) supply of raw materials, parts and components, and (vi) provision of services by the Group, and compared against the transaction records with or quotations obtained from independent third parties in order to assess the transaction pricing terms. For those transactions which are customised as per customers' requirements and there are no exactly the same products to be compared, we discussed with the management and understood that regarding the supply of moulds, the price was determined through a transparent bidding process and the bidding price is determined on the basis of a reasonable cost plus profit margin. We have obtained and reviewed at least three sample transactions from the same categories or similar categories for the comparison to justify the profit margin under the Existing Business Co-operation Framework

Agreement. In view of (i) the aforementioned sampling coverage ranging across all major and majority type of transaction categories and contracting party during the ten-months period under the Existing Business Co-operation Framework Agreement and the comparison performed, (ii) 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. We are not aware of any violation of the terms under the Business Co-operation Framework Agreement after reviewing the samples for similar type of transactions at the relevant time, and (iii) the annual review requirements for continuing connected transactions by the independent non-executive Directors and auditors pursuant to the Hong Kong Listing Rules and such confirmations given in the 2021 Annual Report and the 2022 Annual Report, we consider the Samples are sufficient and representative for the basis of our opinion.

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 will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the prevailing market price of similar products/services and no less favourable than terms available from independent third parties;

(b) the pricing for the supply of moulds is determined by the open bidding process, which is a transparent pricing mechanism, and the bidding price by the Group is determined on the basis of a reasonable cost plus reasonable profit margin;

(c) the supply of electrical appliances, raw materials, parts and components, and services by the Group 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, 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, the similar transactions contemplated under the Existing Business Co-operation Framework Agreement in the past, and upon our review of the relevant samples of the transaction records as well as our discussion with the Management there is no indication that the terms of the transactions between the Group and the contracting parties and/or their respective subsidiaries were more favourable than those available to independent third parties,

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

(b) Financial Services Agreement

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

(i) deposit services;

(ii) loan and electronic finance company acceptance bill services (貨款及電子財務公司承兑匯票服務);

(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 Financial Services Agreement, please refer to the section headed "(III) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – Financial Services Agreement" in the Letter from the Board.

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

(i) Deposit services

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

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

(iii) Draft discount services

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. Prior to the execution of the relevant contracts for the draft discount services, the Group's staff will obtain and compare the quotations from Hisense Finance and the Five Major PRC Commercial Banks. The Group would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of discount rate via conducting online and telephone enquiries.

(iv) Settlement and sale of foreign exchange services

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. Prior to the execution of the relevant contracts for the services for settlement and sale of foreign exchange, the Group's staff will obtain and compare the quotations from Hisense Finance and the Five Major PRC Commercial Banks. The Company would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of service fees (including the level of exchange rates) via conducting online and telephone enquiries.

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

Hisense Finance will provide agency services such as settlement services for receipt and payment of funds to the Group in accordance with its instructions. The charging standard for service fees chargeable for the provision of agency services such as settlement services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services by normal commercial banks or similar agencies in the PRC during the corresponding period. Hisense Finance announces its scale of charges at the beginning of every year. Currently, the said scale of charges has been lower than those of the major commercial banks in the PRC. The finance department of the Group conducts monthly review on the service fees charged by external commercial banks, namely the Five Major PRC Commercial Banks. The Group would randomly select three banks out of the Five Major PRC Commercial Banks to obtain their quotations of service fees via conducting online and telephone enquiries. These monthly reviews are conducted for the provision of agency services to ensure that the service fees charged by Hisense Finance are not higher than those charged by commercial banks. If the expected scale of charges of Hisense Finance is found to be more expensive than that of other major commercial banks, the Company will select the bank with cheaper charging rates.

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. We have obtained and reviewed, on a random basis, at least three samples of transaction records for the ten months ended 31 October 2023 involving each of the five categories of transactions under the Existing Financial Services Agreement including (i) deposit services, (ii) loan and electronic finance company acceptance bill services, (iii) draft discount services, (iv) settlement and sale of foreign exchange services, and (v) agency services such as settlement services for receipt and payment of funds, and compared the interest rates and financial service fees offered by Hisense Finance to those provided or charged by other commercial banks in PRC to justify the pricing under the Financial Services Agreement. Based on our comparison, we note that the interest rate and the financial service fees offered by Hisense Finance were no less favourable than those offered by other commercial banks and financial institutions and the relevant benchmark rates stipulated by the PBOC (as appropriate). In view of (i) the sampling coverage ranging across all transaction categories during the ten-months period under the Existing Financial Services Agreement and the comparison performed, (ii) the discussion with the Management, we understood that the terms stipulated under the Existing Financial Services 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. We are not aware of any violation of the terms under the Financial Services Agreement after reviewing the samples for similar type of transactions at the relevant time, and (iii) the annual review requirements for continuing connected transactions by the independent non-executive Directors and auditors pursuant to the Hong Kong Listing Rules and such confirmations given in the 2021 Annual Report and the 2022 Annual Report, we consider the Samples for Financial Services Agreement are sufficient and representative for the basis of our opinion.

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

4. Proposed Caps

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

(a) Business Co-operation Framework Agreement

(i) Purchases of products

As advised by the Company, set out below are (i) the aggregate annual caps of the purchase of products (including electrical appliances, raw materials, parts and components, and services) by the Group from Hisense Group for the two years ended 31 December 2022 and the aggregate existing annual cap for the year ending 31 December 2023 as specified in the Existing Business Co-operation Framework Agreement; (ii) the historical transaction amounts for the two years ended 31 December 2022 and the nine months ended 30 September 2023; (iii) the estimated aggregate annualised transaction amounts in 2023; and (iv) the proposed caps of the purchase of products for each of the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	**For the year ended 31 December 2022** *(RMB)*	**For the year ending 31 December 2023** *(RMB)*
Aggregate annual cap	2,352,280,000	4,172,900,000	5,484,470,000

	For the year ended 31 December 2021 *(RMB)* (audited)	**For the year ended 31 December 2022** *(RMB)* (audited)	**For the nine months ended 30 September 2023** *(RMB)* (unaudited)
Aggregate historical transaction amount	1,729,947,200	2,516,267,100	2,796,235,700

	Historical transaction amount for the nine months ended 30 September 2023 *(RMB)* (unaudited)	Estimated annualised transaction amount for the year ending 31 December 2023 *(RMB)*	Existing annual cap for the year ending 31 December 2023 *(RMB)*
Aggregate amounts for the purchase of products			
– *Purchase of electrical appliances*	333,150,000	444,200,000	604,960,000
– *Purchase of raw materials, parts and components*	1,502,680,000	2,003,570,000	3,109,350,000
– *Purchase of services*	960,410,000	1,280,540,000	1,770,160,000
	2,796,240,000	3,728,310,000	5,484,470,000

	Proposed Caps For the year ending 31 December		
	2024 *(RMB)*	**2025** *(RMB)*	**2026** *(RMB)*
Purchase of products	5,526,320,000	6,921,750,000	8,495,960,000

As stated in the Letter from the Board, the above proposed caps were determined with reference to (i) the estimated annualised amount of similar transactions between the Group and Hisense Group for the year 2023; (ii) the projected increase in the level of sales scale of the Group for each of the three years ending 31 December 2026 (the "**Projected Sales Increment**"). The Projected Sales Increment was projected based on: (a) the Group's leverage of the opportunity of Hisense becoming the official sponsor of the 2024 UEFA EURO to continue its efforts in sports marketing and it is expected that the sales scale will be further expanded; (b) the Group's continual robust and vigorous marketing activities in developing key markets and expanding professional channels for overseas own brand; (c) the Group's perseverance to its high-end strategy and continual optimisation of its product structure and it is expected that the sales scale of mid-to-high-end products will be further expanded; and (d) the Group's plan to further optimise channel strategy, strengthen terminal retail capacity and enhance the services quality, thereby bringing sales increment. After taking into consideration of the above factors, the Group estimated that the Projected Sales Increment will be a CAGR of approximately 30%; and (iii) the estimated purchase of products for the three years ending 31 December 2026.

In assessing the fairness and reasonableness of the proposed caps for the purchases of products (including electrical appliances, raw materials, parts and components, and services) by the Group from Hisense Group, we have considered, among others, the following factors and reasons:

In relation to the purchase of electrical appliances

As stated in the Letter from the Board, the estimated purchases of electrical appliances by the Group from Hisense Group for each of the three years ending 31 December 2026 amounted to approximately RMB660,620,000, RMB971,860,000 and RMB1,401,620,000, respectively, based on (a) the projected purchases of special air-conditioners from Hisense Group in the amount of RMB325,000,000, RMB488,320,000 and RMB732,570,000 respectively, which is based on the purchase schedule of the special air-conditioners between the Group and Hisense Group; and (b) the projected purchases of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group in the amount of RMB335,620,000, RMB483,540,000 and RMB669,050,000 respectively. The Group intends to further expand the sales of these high-end electrical appliances in the PRC market. We have obtained and reviewed the breakdown of the expected demands and purchase schedule for the relevant electrical appliances of the Group for the three years ending 31 December 2026, which included:

(a) the expected demand of special air-conditioners from Hisense Group in the amount of RMB325,000,000, RMB488,320,000 and RMB732,570,000 for the three years ending 31 December 2026; and

(b) the expected demand of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group in the amount of RMB335,620,000, RMB483,540,000 and RMB669,050,000 for the three years ending 31 December 2026.

To assess the fairness and reasonableness of the expected purchase demands of electrical appliances by the Group from Hisense Group, we have obtained and reviewed:

(a) the breakdown of the expected demands for the relevant electrical appliances of the Group for the two years ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised purchase amount for 2023 and the expected demands of purchase for the three years ending 31 December 2026. We have obtained and reviewed the sales contracts and tender documents submitted by the Group for special air-conditioners which form the basis of deriving the historical sales amounts of special air-conditioners for the nine months ended 30 September 2023, the estimated annualised sales amount for 2023 and the expected sales amount for the year ending 31 December 2024;

(b) the gross profit margin, which was the ratio between the historical purchase costs from Hisense Group and the Group's sales special air-conditioners for the nine months ended 30 September 2023 and relevant estimated amounts for the year ending 31 December 2023, was adopted to estimate the expected purchase amounts for the three years ending 31 December 2026 based on the expected sales amount for the three years ending 31 December 2026;

(c) as advised by the Management, due to most engineering projects were delayed to 2023, the historical purchase amounts of special air-conditioners from Hisense Group for 2021 and 2022 were only RMB1.9 million and RMB10.3 million respectively, as compared with the historical purchase amounts from Hisense Group for the nine months ended 30 September 2023 of RMB162.8 million and the estimated annualised purchase amount for 2023 of approximately RMB217 million;

(d) the historical sales of "ASKO" and "Gorenje" high-end electrical appliances by the Group and the relevant purchase of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group for the two years ended 31 December 2022 and the nine months ended 30 September 2023, as well as the relevant estimated annualised sales and purchase amount for 2023;

(e) the historical growth rate of sales of "ASKO" and "Gorenje" high-end electrical appliances by the Group for the year ended 31 December 2022 was approximately 41% as compared to the year ended 31 December 2021, and the relevant growth rate of the estimated annualised sales amount for 2023 is approximately 5% as compared to the year ended 31 December 2022. Besides. the historical growth rate of purchase of "ASKO" and "Gorenje" high-end electrical appliances from Hisense Group for the year ended 31 December 2022 was approximately 6% as compared to the year ended 31 December 2021, and the relevant growth rate of the estimated annualised purchase amount for 2023 is approximately 27% as compared to the year ended 31 December 2022;

(f) as advised by the Management, despite the growth rate of the estimated annualised sales amount of 2023 for "ASKO" and "Gorenje" high-end electrical appliances is approximately 5% as compared to the year ended 31 December 2022, which is lower than the growth rate of 41% in the previous year. The Company has derived a business strategic plan for the next three years to enhance the products branding and competitiveness as well as expanding the sales channel in order to boost the sales of "ASKO" and "Gorenje" high-end electrical appliances to achieve the expected annual sales growth rates for the three years ending 31 December 2026 to the range of 40% to 50%. We noted that the expected annual purchase growth rate of high-end electrical appliances from Hisense Group for the three years ending 31 December 2026 are in the range of 38% to 48%, which would be approximate to the above expected sales growth rates;

(g) we noted that the gross profit margin, which was the ratio between the historical purchase costs from Hisense Group and the Group's sales amounts of the relevant "ASKO" and "Gorenje" high-end electrical appliances for the nine months ended 30 September 2023 and relevant estimated amounts for the year ending 31 December 2023, was adopted to estimate the expected purchase amounts for the three years ending 31 December 2026 based on the expected sales amount for the three years ending 31 December 2026;

(h) the historical growth rate of purchase of special air-conditioners and high-end electrical appliances by the Group for the year ended 31 December 2022 was approximately 11% as compared to the year ended 31 December 2021, and the relevant growth rate of the estimated annualised sales amount for 2023 is approximately 134% as compared to the year ended 31 December 2022. We noted that the annual growth rate of the proposed caps of the purchase of products for the three years ending 31 December 2026 are in the range of 44% to 49%, which would be within the range of such historical growth rate; and

(i) according to the 2021 Annual Report, the Group's total operating revenue for the year ended 31 December 2021 increased by approximately 40% as compared to the year ended 31 December 2020. According to the 2022 Annual Report, the Group's total operating revenue for the year ended 31 December 2022 increased by approximately 10% as compared to the year ended 31 December 2021, and such increase was mainly due to the increase in sales of air-conditioners. According to the 2023 Interim Report, the Group's total operating revenue for the six months ended 30 June 2023 increased by approximately 12% as compared to the six months ended 30 June 2022, and the increase was mainly due to the increase in sales of air-conditioners and refrigerators and washing machines. We note that the Projected Sales Increment of CAGR of approximately 30% would be within the range of above historical operating revenue growth rates, which we consider is reasonable.

In relation to the purchases of raw materials, parts and components

As stated in the Letter from the Board, the estimated purchases of raw materials, parts and components by the Group from Hisense Group for each of the three years ending 31 December 2026 amount to approximately RMB2,769,140,000, RMB3,569,470,000 and RMB4,427,950,000 respectively, based on the following assumptions:

(a) the Group needs to purchase a substantial quantity of raw materials and electrical components for its production and operation demands. The estimated amounts of purchases for raw materials and components from certain overseas subsidiaries of Hisense Holdings amount to approximately RMB850,340,000, RMB1,150,420,000 and RMB1,489,330,000 for the each of three years ending 31 December 2026, respectively, having taken into account the Estimated Annualised Transaction Amount in 2023 of approximately RMB690,390,000 between the Group and Hisense Group; and

(b) in view of the high production capacity and standard of certain PRC subsidiaries of Hisense Holdings in manufacturing raw materials and components such as electric control boards and WiFi templates, and having advantages in purchasing some raw materials, it is conducive to procure raw materials and components from such PRC subsidiaries of Hisense Holdings to ensure the quality of the Group's products and optimise procurement costs. The estimated amounts of purchases of raw materials, parts and components from certain PRC subsidiaries of Hisense Group amount to approximately RMB1,918,800,000, RMB2,419,050,000 and RMB2,938,620,000 for each of the three years ending 31 December 2026, respectively, having taken into account the Estimated Annualised Transaction Amount in 2023 of approximately RMB1,313,170,000 between the Group and Hisense Group.

To assess the fairness and reasonableness of the expected purchase demands of raw materials, parts and components by the Group from Hisense Group, we have obtained and reviewed:

(a) the breakdown of the purchases of raw materials, parts and components by the Group from Hisense Group for the year ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised purchase amount for 2023 and the expected demands of purchase for the three years ending 31 December 2026, as well as the purchase amounts of raw materials, parts and components from the PRC subsidiaries and the overseas subsidiaries of Hisense Group for the above periods;

(b) the historical growth rate of purchase of raw materials, parts and components by the Group from Hisense Group for the estimated annualised purchase amount for 2023 is approximately 101% as compared to the year ended 31 December 2022. We noted that the annual growth rate of the proposed caps of the purchase of raw materials, parts and components for the three years ending 31 December 2026 are in the range of 24% to 38%, which would be lower than the above relevant historical growth rate;

(c) 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 is expected to increase in view of the high production capacity and standard of certain PRC subsidiaries of Hisense Holdings to ensure the quality of the Group's products and optimise procurement costs. The historical growth rate of purchase of raw materials, parts and components from the PRC subsidiaries of Hisense Group for the estimated annualised purchase amount for 2023 is approximately 128% as compared to the year ended 31 December 2022. We noted that the annual growth rate of the expected purchase of raw materials, parts and components from the PRC subsidiaries of Hisense Group for the three years ending 31 December 2026 are in the range of 21% to 46%, which would be lower than the above relevant historical growth rate;

(d) as stated from the Letter from the Board, the Group needs to purchase a substantial quantity of raw materials and electrical components for its production and operation demands from the overseas subsidiaries of Hisense Group. The historical growth rate of purchase of raw materials, parts and components from the overseas subsidiaries of Hisense Group for the estimated annualised purchase amount for 2023 is approximately 64% as compared to the year ended 31 December 2022. We noted that the annual growth rate of the expected purchase of raw materials, parts and components from the overseas subsidiaries of Hisense Group for the three years ending 31 December 2026 are in the range of 23% to 35%, which would be lower the above relevant historical growth rate;

(e) we note that the Group's overseas plant in Mexico has commenced production of household appliances such as kitchen appliances in June 2022 and refrigerators in August 2022 and therefore it is expected that the demands of the relevant raw materials, parts and components by the Group from Hisense Group for the coming years would be increasing. We have obtained and reviewed the production and procurement plan of the Group's Mexico plant and the estimated purchase amounts of raw materials, parts and components by the Group from Hisense Group for the three years ending 31 December 2026. We understood that the procurement plan was based on the production plan. The procurement plan was determined with reference to the actual usage rate of raw materials, parts and components and the maximum production volume of the Group's overseas plant; and

(f) the injection moulding business with Hisense Group has been changed 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 involve purchases of raw materials from Hisense Group under the new sale material processing mode since 2023. As advised by the Management, the Group will gradually change to purchase such materials from independent third parties for processing. The expected purchase of materials for the injection moulding and sheet metal business from Hisense Group for the year ending 31 December 2024 will be decreased by 22% as compared to the estimated annualised purchase amount for 2023. The annual growth rate of the expected purchase for the years ending 31 December 2025 and 2026 are in the range of 15% to 18%, representing a CAGR of 2% from 2024 to 2026.

In relation to the purchase of services

As stated in the Letter from the Board, The estimated purchases of services by the Group from Hisense Group for each of the three years ending 31 December 2026 amount to approximately RMB2,096,550,000, RMB2,380,420,000 and RMB 2,666,390,000, respectively, based on the estimated purchases of Hisense Group's services including 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.

In assessing the fairness and reasonableness of the expected demand for the purchase of services from Hisense Group, we have obtained and reviewed:

(a) the breakdown of the purchases of services by the Group from Hisense Group for the year ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised purchase amount for 2023 and the expected demands of purchase for the three years ending 31 December 2026;

(b) as advised by the Management, the Group plans to relocate its functional departments and certain subsidiaries in Qingdao to Hisense International Centre in 2024. The Group expects to demand more supporting services provided by Hisense Group such as property services (including property management and property leasing), installation and maintenance, equipment inspection, technical support and information system services in conjunction with the office relocation. In addition, the Group also needs Hisense Group to provide more services to the Group's Mexico plant in establishing the new information system, in order to further refine the quality of the Group's overseas product, promote new breakthroughs in the Group's overseas business development and enhance competitiveness in overseas markets. Therefore, the expected purchase of services by the Group from

Hisense Group for the year ending 31 December 2024 would be increased by 64% to approximately RMB2,097 million, as compared with the estimated annualised amount for 2023; and

(c) the historical growth rate of purchase of services from Hisense Group for the year ended 31 December 2022 was approximately 34% as compared to the year ended 31 December 2021, and the relevant estimated annualised purchase amount for 2023 is decreased by approximately 4% as compared to the year ended 31 December 2022. We noted that the annual growth rate of the expected purchase of services from Hisense Group for the years ending 31 December 2025 and 2026 are in the range of 12% to 14%, which would be within the range of the above relevant historical growth rate.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed caps in relation to the purchase of products (including electrical appliances, raw materials, parts and components, and services) are fair and reasonable.

(ii) Supply of products

As advised by the Company, set out below are (i) the aggregate historical transaction amounts of the supply of products (including electrical appliances and moulds, raw materials, parts and components, and services) by the Group to Hisense Group for the two years ended 31 December 2022 and the aggregate existing annual cap for the year ending 31 December 2023 as specified in the Existing Business Co-operation Framework Agreement; (ii) the historical transaction amounts for the two years ended 31 December 2022 and the nine months ended 30 September 2023; (iii) the estimated aggregate annualised transaction amounts in 2023; and (iv) the proposed caps of the supply of products for each of the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	**For the year ended 31 December 2022** *(RMB)*	**For the year ending 31 December 2023** *(RMB)*
Aggregate annual cap	20,188,610,000	26,646,850,000	32,587,580,000

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the nine months ended 30 September 2023
	(RMB)	*(RMB)*	*(RMB)*
	(audited)	(audited)	(unaudited)
Aggregate historical transaction amount	17,872,397,800	17,993,095,200	16,514,960,000

	Historical transaction amount for the nine months ended 30 September 2023	Estimated annualised transaction amount for the year ending 31 December 2023	Existing annual cap for the year ending 31 December 2023
	(RMB)	*(RMB)*	*(RMB)*
	(unaudited)		
Aggregate amounts for the supply of products			
– *Supply of electrical appliances and moulds*	15,663,160,000	20,714,550,000	29,452,430,000
– *Supply of raw materials, parts and components*	801,660,000	1,068,880,000	3,059,510,000
– *Provision of services by the Group*	50,140,000	66,860,000	75,640,000
	16,514,960,000	21,850,290,000	32,587,580,000

	Proposed Caps For the year ending 31 December		
	2024	2025	2026
	(RMB)	*(RMB)*	*(RMB)*
Supply of products	30,852,220,000	40,334,050,000	47,652,240,000

As stated in the Letter from the Board, the above proposed caps were determined with reference to (i) similar transactions between the Group and Hisense Group in the past and the estimated annualised transaction amount in 2023; (ii) the Projected Sales Increment; and (iii) the estimated supply of products for the three years ending 31 December 2026.

In assessing the fairness and reasonableness of the proposed caps for supply of products (including electrical appliances and moulds, raw materials, parts and components, and services) by the Group to Hisense Group, we have considered, among others, the following factors and reasons:

In relation to the supply of electrical appliances and moulds

(i) As stated from the Letter from the Board, the estimated sales of electrical appliances from the Group to Hisense Group amount to approximately RMB28,390,550,000, RMB37,416,420,000 and RMB44,192,080,000 for each of the three years ending 31 December 2026, respectively, based on the assumption that with the sale of full-range products and set products becoming the market development trend through the sale plan of the Hisense full-range electrical appliance products which is integrated, managed and organised by Hisense Group, Hisense Group will continue to leverage the strength of its full-range sales platform to continue to expand its sales revenue and develop potential customers to expand its business scale; and

(ii) The estimated sales of moulds from the Group to Hisense Group amount to approximately RMB97,750,000, RMB130,000,000 and RMB172,900,000 for each of the three years ending 31 December 2026, respectively, based on the assumption that the demand for the Group's moulds may further increase due to the growth in the business scale and addition of new customers of Hisense Group.

To assess the fairness and reasonableness of the expected supply of moulds and electrical appliances to Hisense Group, we have obtained and reviewed:

(a) the breakdown of the estimated sales of electrical appliances and moulds of the Group for the two years ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised sales amount for 2023 and the expected sales for the three years ending 31 December 2026;

(b) we note that the estimated sales sale of electrical appliances from the Group to Hisense Group such as full-range products are primarily categorised into PRC domestic sales and overseas sales. The estimated PRC domestic sales of electrical appliances from the Group to Hisense Group amount to approximately RMB1,987 million, RMB2,484 million and RMB3,105 million for each of the three years ending 31 December 2026, respectively. The estimated overseas sales of electrical appliances from the Group to Hisense Group amount to approximately RMB26,404 million, RMB34,933 million and RMB41,087 million for each of the three years ending 31 December 2026, respectively;

(c) we note that the overseas sales of electrical appliances from the Group to Hisense Group accounted for approximately 93% and 91% of the estimated sales of full-range products and the total estimated sales of electrical appliances and moulds to Hisense Group, respectively. We have obtained and reviewed the breakdown of overseas sales of electrical appliances by regions. The historical growth rate of overseas sales of electrical appliances to Hisense Group for the estimated annualised purchase amount for 2023 is approximately 18% as compared to the year ended 31 December 2022. The annual growth rates of the expected overseas sales of electrical appliances to Hisense Group for the years ending 31 December 2024, 2025 and 2026 would be 40%, 32% and 18% respectively, which approximate the Projected Sales Increment of a CAGR of 30%;

(d) as stated from the Letter from the Board, the Group has leverage of the opportunity of Hisense and becomes the official sponsor of the 2024 UEFA EURO to continue its efforts in sports marketing and the Group expects the sales scale will be further expanded along with the continual robust and vigorous marketing activities and continual optimization of its product structure. As advised by the Management, Hisense Group has sponsored the UEFA European Football Championship three times. Considering the above factors, the Management expect a strong demand of overseas products by Hisense Group in 2024. We have obtained and reviewed the letter of intent from Hisense Group pursuant to which its expected purchase amounts of electrical appliances from the Group in respect of overseas markets for the three years ending 31 December 2026 amounted to approximately RMB26 billion, RMB35 billion and RMB41 billion, respectively;

(e) as advised by the Management, 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 Group can facilitate the expansion of the sales scale of the Group and increase the sales revenue of the Group. The annual growth rate of the expected supply of moulds to Hisense Group for the three years ending 31 December 2026 are in the range of 33% to 47%. We have obtained and reviewed the letter of intent from Hisense Group pursuant to which its expected purchase amounts of electrical appliances and moulds from the Group for the three years ending 31 December 2026 amounted to approximately RMB88 million, RMB146 million and RMB225 million, respectively; and

(f) according to the 2021 Annual Report, the Group's total operating revenue for the year ended 31 December 2021 increased by approximately 40% as compared to the year ended 31 December 2020. According to the 2022 Annual Report, the Group's total operating revenue for the year ended 31 December 2022 increased by approximately 10% as compared to the year ended 31 December 2021, and such increase was mainly due to the increase in sales of air-conditioners. According to the 2023 Interim Report, the Group's total operating revenue for the six months ended 30 June 2023 increased by approximately 12% as compared to the six months ended 30 June 2022, and the increase was mainly due to the increase in sales of air-conditioners and refrigerators and washing machines. We note that the Projected Sales Increment of CAGR of approximately 30% would be within the range of above historical operating revenue growth rates, which we consider to be reasonable.

In relation to the supply of raw materials, parts and components

(i) As stated in the Letter from the Board, the estimated sales of raw materials, parts and components from the Group to Hisense Group amount to approximately RMB1,792,000,000, RMB2,029,570,000 and RMB2,284,620,000 for each of the three years ending 31 December 2026, respectively, based on the following assumptions: (a) the estimated sales of raw materials from the Group to certain PRC subsidiaries of Hisense Holdings amount to approximately RMB1,498,750,000, RMB1,684,030,000 and RMB1,886,110,000 for each of the three years ending 31 December 2026, respectively, based on the procurement plan for the production and operation from Hisense Group; and (b) the estimated sales of raw materials, parts and components from the Group to certain overseas and PRC subsidiaries of Hisense Holdings are a business incidental to the sale of electrical appliances by the Group to Hisense Group. The estimated sales of such raw materials, parts and components to Hisense Group amount to approximately RMB293,250,000, RMB345,540,000 and RMB398,510,000 for each of the three years ending 31 December 2026, respectively.

To assess the fairness and reasonableness of the expected supply of raw materials, parts and components to Hisense Group, we have obtained and reviewed:

(a) the breakdown of the estimated sales of raw materials, parts and components to Hisense Group for the two years ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised sales amount for 2023 and the expected sales for the three years ending 31 December 2026;

(b) we understood that the Group's injection moulding and sheet metal business with Hisense Group has been changed from the mode of processing with supplied materials from Hisense Group to the mode of processing with purchased materials provided to Hisense Group by the Group in 2023. The relevant estimate sales amount of raw materials (including processing fee) for the injection moulding and sheet metal business to Hisense Group for the three years ending 31 December 2026 would be approximately RMB976 million, RMB1,054 million and RMB1,122 million respectively, and the annual growth rate of the relevant expected sales are in the range of 6% to 26%. We have obtained and review the historical and estimated sales amount of the processing fee, and noted the processing fee are similar before and after the change of injection moulding and sheet metal business mode;

(c) as advised by the Management, 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. 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. The relevant estimate sales amount of such raw materials to Hisense Group for the three years ending 31 December 2026 would be approximately RMB131 million, RMB170 million and RMB221 million respectively, and the annual growth rate of the relevant expected sales is 30%, which would be in line with the Project Sales Increment;

(d) as advised by the Management, the Group has advantages in sourcing certain specific materials for Hisense Group. We have obtained and reviewed the letter of intent from Hisense Group pursuant to which its expected purchase amount of the specific raw materials, other parts and components from the Group for the three years ending 31 December 2026 amounting to approximately RMB408 million, RMB489 million and RMB574 million respectively; and

(e) the annual growth rate of the expected supply of raw materials, parts and components to certain overseas and PRC subsidiaries of Hisense Group for the three years ending 31 December 2026 are in the range of 15% to 40%. Considering the sales of parts and components is a business incidental to the sale of electrical appliances by the Group to Hisense Group, the expected sales growth rates would be within the range of historical operating revenue growth rates as discussed above, which we consider to be reasonable.

In relation to the provision of services by the Group

(i) As stated in the Letter from the Board, the estimated provision of services by the Group to Hisense Group for each of the three years ending 31 December 2026 amount to approximately RMB86,920,000, RMB112,990,000 and RMB146,890,000, respectively, based on the estimated provision of property services, material processing services and installation services by the Group to Hisense Group.

To assess the fairness and reasonableness of the expected provision of services by the Group to Hisense Group, we have obtained and reviewed:

(a) the breakdown of the estimated provision of services by the Group to Hisense Group for the two years ended 31 December 2022, the nine months ended 30 September 2023, the estimated annualised sales amount for 2023 and the expected sales for the three years ending 31 December 2026;

(b) as advised by the Management, 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 changed to under the sales of raw materials, parts and components (including processing fee) pursuant to the mode of processing with purchased materials. Therefore, it is noted that the historical transaction amount for the nine months ended 30 September 2023 and the estimated annualised amount for 2023 decreased significantly by 79%, as compared with the previous year;

(c) the annual growth rates of the expected provision of services from Hisense Group for the three years ending 31 December 2026 are 30%, which would be in line with the Project Sales Increment; and

(d) further, considering the proposed caps cover the period for three years ending 31 December 2026, it is normal and reasonable practice for a listed company to add a sufficient buffer into the cap amounts for a certain continuing connected transaction to accommodate for any unexpected fluctuation in the annual growth of transactions volume from/to the Group/ Hisense Group and/or fluctuation in the market price of the electrical appliances, raw materials, parts and components and services, which we consider to be reasonable.

Having considered the aforementioned, we concur with the Directors and are of the view that the proposed caps in relation to the supply of products (including electrical appliances and moulds, raw materials, parts and components, and services) are fair and reasonable.

(b) Financial Services Agreement

(i) Deposit services

Set out below are (i) the annual caps of deposits services for the two years ended 31 December 2022 and the existing annual cap for the year ending 31 December 2023 as specified in the Existing Financial Services Agreement; (ii) the historical maximum daily closing balance of deposits for the two years ended 31 December 2022 and the nine months ended 30 September 2023; and (iii) the proposed caps for the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	**For the year ended 31 December 2022** *(RMB)*	**For the year ending 31 December 2023** *(RMB)*
Annual cap of deposit services	18,500,000,000	27,000,000,000	27,000,000,000

	For the year ended 31 December 2021 *(RMB)* (audited)	**For the year ended 31 December 2022** *(RMB)* (audited)	**For the nine months ended 30 September 2023** *(RMB)* (unaudited)
Historical maximum daily closing balance	17,018,000,000	17,478,000,000	15,900,000,000

	Proposed Caps For the year ending 31 December		
	2024 *(RMB)*	**2025** *(RMB)*	**2026** *(RMB)*
Deposit services	27,000,000,000	27,000,000,000	27,000,000,000

As set out in the Letter from the Board, the proposed caps of deposits services were determined with reference to: (a) the historical cashflow figures of the Group; and (b) the Group's performance growth for the year 2023 and the Group's business development plan for the three years ending 31 December 2026.

Taking into account:

(i) the Group does not intend to deposit all its cash with Hisense Finance, a buffer in the maximum daily closing cash balance of the deposits placed by the Group with Hisense Finance is required as 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;

(ii) the historical maximum daily balance of deposits placed by the Group with Hisense Finance was approximately RMB15,900 million (inclusive of interest) for the nine months ended 30 September 2023, utilising approximately 59% of the existing annual cap of RMB27,000 million during the terms of the Existing Financial Services Agreement;

(iii) according to the 2022 Annual Report, 2023 Interim Report and 2023 Third Quarter Report, the Group had cash and bank deposits amounting to approximately RMB16,831 million, RMB15,395 million and RMB16,985 million as at 31 December 2022, 30 June 2023 and 30 September 2023, respectively. Besides, there was a significant increase in the net cash flow from operating activities for the six months ended 30 June 2023 and nine months ended 30 September 2023 of approximately RMB3,812 million and RMB8,701 million, respectively, as compared to the corresponding periods in 2022, which was indicative of the increasing trend of further net cash inflow for the whole year of 2023;

(iv) as advised by the Management, the estimated maximum daily closing balance of the deposits placed by the Group with Hisense Finance may increase from RMB16 billion for the nine months ended 30 September 2023 to a range from RMB18.0 billion to RMB20.0 billion for the year ending 31 December 2023. Given the level of growth in cash inflow that might be brought by the Projected Sales Increment, being a CAGR of not more than 30%, the maximum daily closing balance of the deposits placed by the Group with Hisense Finance (without taking into account the buffer for the temporary deposit of loan proceeds) for the deposit services may falls within a range from RMB23 billion to RMB26 billion for each of three years ending 31 December 2026; and

(v) a buffer in the maximum daily closing cash balance of the deposits placed by the Group with Hisense Finance is provided for the temporary deposit of proceeds of the loans from Hisense Finance. The buffer is determined with reference to the estimated loan amount from Hisense Finance to be allocated for the three years ending 31 December 2026 of approximately RMB2.0 billion, RMB2.4 billion and RMB2.9 billion respectively.

We concur with the Directors that the proposed caps for the deposit services are fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Loan and electronic finance company acceptance bill services

Set out below are (i) the annual caps of loans and electronic finance company acceptance bills services for the two years ended 31 December 2022 and the existing annual cap for the year ending 31 December 2023 as specified in the Existing Financial Services Agreement; (ii) the historical maximum daily closing balance of loans and electronic finance company acceptance bills for the two years ended 31 December 2022 and the nine months ended 30 September 2023; and (iii) the proposed caps for the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	**For the year ended 31 December 2022** *(RMB)*	**For the year ending 31 December 2023** *(RMB)*
Annual cap of loans and electronic finance company acceptance bills services	11,500,000,000	18,000,000,000	18,000,000,000

	For the year ended 31 December 2021 *(RMB)* (audited)	For the year ended 31 December 2022 *(RMB)* (audited)	For the nine months ended 30 September 2023 *(RMB)* (unaudited)
Historical maximum daily closing balance	10,515,000,000	10,741,000,000	6,551,000,000

	Proposed Caps For the year ending 31 December		
	2024 *(RMB)*	2025 *(RMB)*	2026 *(RMB)*
Loans and electronic finance company acceptance bills services	5,000,000,000	5,400,000,000	5,900,000,000

As set out in the Letter from the Board, the proposed caps of loans and electronic finance company acceptance bills services were determined with reference to: (a) the Measures for the Administration of Enterprise Group Finance Companies as amended by the China Banking and Insurance Regulatory Commission have been formally implemented with effect from 13 November 2022, which set out regulatory guidelines in relation to, among others, the ratios of deposit and loans, liquidity ratios and balances of acceptance bills for finance companies; (b) in accordance with the Measures for the Administration of Enterprise Group Finance Companies, the balance of finance company acceptance bills shall neither exceed 15% of the total assets of that finance company nor three times of the deposit from other finance companies, and the total balance of acceptance bills and draft discount shall not exceed the net capital of that finance company, therefore, the maximum daily closing balance of electronic finance company acceptance bills provided by Hisense Finance to the Group shall not exceed RMB3,000,000,000 per year (inclusive of interest and service fees) for the three years ending 31 December 2026; and (c) based on the Group's business development plan (including but not limited to building the light-house factories, continuously investing in research and development activities, and expanding the operation and production in the overseas markets), it is expected that a loan amount of RMB2,000,000,000, RMB2,400,000,000 and RMB2,900,000,000 will be allocated for each of the three years ending 31 December 2026, respectively, to cater to the financing needs of the Group; (d) the terms for the provision of the loans and electronic finance company 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 finance company acceptance bill services application process by the Group.

Taking into account:

(i) the historical maximum daily balance of loans and electronic finance company acceptance bills provided by Hisense Finance to the Group was approximately RMB6,551 million (inclusive of interest and service fees) for the nine months ended 30 September 2023, utilising approximately 36% of the existing annual cap of RMB18,000 million (inclusive of interest and service fees) during the term of the Existing Financial Services Agreement;

(ii) as stated in the Letter from the Board, Hisense Finance is required to adhere to the new requirements under the Measures for the Administration of Enterprise Group Finance Companies as amended by the China Banking and Insurance Regulatory Commission have been formally implemented with effect from 13 November 2022. We have obtained and reviewed the Measures for the Administration of Enterprise Group Finance Companies, with the new requirements stipulated therein. According to the above new requirements, the electronic finance company acceptance bills balance of the finance companies shall not exceed 15% of the total assets of that finance company nor three times of the deposit from other finance companies, and the total balance of acceptance bills and draft discount shall not exceed the net capital of that finance company. Based on the above, the maximum amount of electronic finance company acceptance bills services provided by Hisense Finance to the Group shall not exceed RMB3,000 million per year (inclusive of interest and service fees). Hence, the expected electronic finance company acceptance bills services provided by Hisense Finance to the Group for each of the three years ending 31 December 2026 of RMB3,000 million is significantly lower than the maximum daily closing balance of electronic bank acceptance bills under the existing annual caps of approximately RMB16,500 million;

(iii) it is expected that the loan amount of RMB2,000 million, RMB2,400 million and RMB2,900 million for the years ending 31 December 2024, 2025 and 2026 respectively will be allocated to cater to the financing needs of the Group, representing an expected annual growth rate of 20%. Considering the Projected Sales Increment will be a CAGR of approximately 30% and the annual caps cover the period for three years ending 31 December 2026, we note that the above annual growth rate of 20% was applied to cater for any possible financing needs of the Group in view of its business expansion, which we consider to be reasonable;

(iv) as stated in the Letter from the Board, the expected loan amount of RMB2,000 million, RMB2,400 million and RMB2,900 million for the years ending 31 December 2026, which were determined based on the Group's business development plan (including but not limited to building the light-house factories, continuously investing in research and development activities, and expanding the operation and production in the overseas markets), were higher than the historical allocated loan amount of RMB1,500 million under the existing annual caps. As advised by the Management the expected loan from Hisense Finance is mainly designated for a subsidiary to create end-to-end value chain "lighthouse" factories in promoting advanced factories and integrated supply chains in particularly. The abovementioned business plans of the Group were stated in the 2023 Interim Report;

(v) according to the 2022 Annual Report and 2023 Interim Report, the Group had total loans from Hisense Finance and other financial institutions amounting to approximately RMB3,464 million and RMB3,889 million as at 31 December 2022 and 30 June 2023, respectively. Besides, there was an increase in the net cash flow from financing activities for the six months ended 30 June 2023 of approximately RMB945 million as compared to the corresponding period in 2022, which was mainly due to the increase in borrowings and therefore, an indicative of the increasing financing needs of the Group;

(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. In order to mitigate the liquidity risk, the availability of loan financing from Hisense Group is necessary for the Group to maintain adequate funding to fulfil its short-term obligations and capital expenditure requirements; and

(vii) as advised by the Management, the interest rate and service fees charged for the loans and the provision of electronic finance company 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 caps for the loan and electronic finance company acceptance bill services are fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Draft discount services

Set out below are (i) the annual caps of discount services for the two years ended 31 December 2022 and the existing annual cap for the year ending 31 December 2023 as specified in the Existing Financial Services Agreement; (ii) the historical amount of discount interest for the two years ended 31 December 2022 and the nine months ended 30 September 2023; and (iii) the proposed caps for the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	**For the year ended 31 December 2022** *(RMB)*	**For the year ending 31 December 2023** *(RMB)*
Annual cap of discount services	50,000,000	50,000,000	50,000,000

	For the year ended 31 December 2021 *(RMB)* (audited)	**For the year ended 31 December 2022** *(RMB)* (audited)	**For the nine months ended 30 September 2023** *(RMB)* (unaudited)
Historical amount of discount interest	4,118,200	2,240,700	520,200

	Proposed Caps For the year ending 31 December		
	2024 *(RMB)*	**2025** *(RMB)*	**2026** *(RMB)*
Discount services	50,000,000	50,000,000	50,000,000

As set out in the Letter from the Board, the proposed caps of discount services were determined with reference to: (a) the expected financial needs of the Group during the peak season for production for the three years ending 2026; and (b) 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.

Taking into account:

(i) as advised by the Management, 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, and the Company's need to have more methods and flexibility in "cashing" the drafts to better meet its funding needs from time to time;

(ii) the historical discount interests paid by the Group to Hisense Finance was approximately RMB0.5 million for the nine months ended 30 September 2023, utilising approximately 1.0% of the existing annual cap of RMB50.0 million during the term of the Existing Financial Services Agreement. The existing annual cap for the discount services during the term of the Existing Financial Services Agreement has not been fully utilised, the proposed caps remain intact;

(iii) we have obtained and reviewed the historical amount of discount interest paid by the Group to Hisense Group for the nine months ended 30 September 2023 amounted to approximately RMB0.5 million. As advised the by the Management, the estimated annualised amount of discount interest for 2023 would be approximately RMB0.7 million;

(iv) we have 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 2023, and noted that the current bank quoted discount interest rates ranged from approximately 1.1% to 3.2%;

(v) as advised by the Management, the Group's operating cashflow was gradually better managed which reduce the funding needs by draft discount services in 2023. Considering the unexpected funding needs occur during the production peak season and hence the necessity of draft discount services, the estimated annual draft amounted to approximately RMB800 million;

(vi) in view of the duration of draft being 3 months in general and the maximum current bank quoted discount interest rates of approximately 3.2%, the proposed annual cap of RMB50.0 million would relate to drafts of approximately RMB6.2 billion (which is calculated by dividing the proposed annual cap of RMB50 million by the quoted interest rate of 3.2% and then annualising by dividing by 3 months of the maximum duration of drafts and multiplying 12 months). Considering the proposed caps cover the period for three years ending 31 December 2026, it is normal and reasonable practice for a listed company to add a sufficient buffer into the cap amounts for a certain continuing connected transaction to accommodate for any unexpected fluctuation in the annual growth of transactions volume and the financing needs, which we consider to be reasonable;

(vii) the transactions contemplated under the Financial Services Agreement are conducive to the reduction of financing expenses and the maintaining of a relatively stable scope of external financing by the Company, which is part of ordinary treasury activities of the Group; and

(viii) as stated in the Letter from the Board, the discount rate for the provision of draft discount services by Hisense Finance to the Group shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

We concur with the Directors that the proposed caps for the draft discount services are 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 annual caps of settlement and sale of foreign exchange services for the two years ended 31 December 2022 and the existing annual cap for the year ending 31 December 2023 as specified in the Existing Financial Services Agreement; (ii) the historical amount of settlement and sale of foreign exchange services for the two years ended 31 December 2022 and the nine months ended 30 September 2023; and (iii) the proposed caps for the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(US$)*	**For the year ended 31 December 2022** *(US$)*	**For the year ending 31 December 2023** *(US$)*
Annual cap of settlement and sale of foreign exchange services	300,000,000	300,000,000	300,000,000

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the nine months ended 30 September 2023
	(US$)	*(US$)*	*(US$)*
	(audited)	(audited)	(unaudited)
Historical amount of settlement and sale of foreign exchange services	54,378,600	25,306,800	9,000,000

	Proposed Caps For the year ending 31 December		
	2024	**2025**	**2026**
	(US$)	*(US$)*	*(US$)*
Settlement and sale of foreign exchange services	300,000,000	300,000,000	300,000,000

As set out in the Letter from the Board, the proposed caps of settlement and sale of foreign exchange services were determined with reference to: (a) it is estimated that foreign currency received by the Group from its export business and payments to be made by the Group in foreign currency would amount to approximately US$200,000,000 for the full year of 2023; and (b) the projected trend of overseas sales growth for the three years ending 31 December 2026.

Taking into account:

(i) the historical amount of settlement and sale of foreign exchange services at Hisense Finance was approximately US$9 million for the nine months ended 30 September 2023, utilising approximately 3% of the existing annual cap of US$300 million during the term of the Existing Financial Services Agreement. 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 caps remain intact;

(ii) the total historical amount of settlement and sale of foreign exchange services of the Group was approximately US$150 million for the nine months ended 30 September 2023, of which foreign currency received and paid by the Group would amount to approximately US$65 million and US$85 million, respectively. The estimated annualised amount of foreign currency received and paid by the Group for its export business in 2023 would be US$200 million in aggregate, of which foreign currency received and paid by the Group would amount to approximately US$87 million and US$113 million, respectively; and

(iii) the projected trend of overseas sales growth each of the years ending 31 December 2024, 2025 and 2026 will be approximately 40%, 30% and 18%, respectively as discussed above, which in turn increase the demand of foreign currency to be received and paid by the Group for its export business.

We concur with the Directors that the proposed caps for the settlement and sale of foreign exchange services are 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 annual caps of agency services such as settlement services for receipt and payment of funds for the two years ended 31 December 2022 and the existing annual cap for the year ending 31 December 2023 as specified in the Existing Financial Services Agreement; (ii) the historical amount of agency services such as settlement services for receipt and payment of funds for the two years ended 31 December 2022 and the nine months ended 30 September 2023; and (iii) the proposed caps for the three years ending 31 December 2026.

	For the year ended 31 December 2021 *(RMB)*	For the year ended 31 December 2022 *(RMB)*	For the year ending 31 December 2023 *(RMB)*
Annual cap of agency services such as settlement services for receipt and payment of funds	3,000,000	3,000,000	3,000,000

	For the year ended 31 December 2021 *(RMB)* (audited)	For the year ended 31 December 2022 *(RMB)* (audited)	For the nine months ended 30 September 2023 *(RMB)* (unaudited)
Historical amount of agency services such as settlement services for receipt and payment of funds	1,132,200	1,100,000	850,000

	Proposed Caps For the year ending 31 December		
	2024 *(RMB)*	2025 *(RMB)*	2026 *(RMB)*
Agency services such as settlement services for receipt and payment of funds	3,000,000	3,000,000	3,000,000

As set out in the Letter from the Board, the proposed caps of agency services such as settlement services for receipt and payment of funds were determined with reference to: (a) the historical expenses for agency services such as settlement services for receipt and payment of funds of the Group, taking into account the corresponding increase in agency services such as settlement services for receipt and payment of funds resulting from the increment in the scale of the

Group's revenue; and (b) the charging standard for service fees chargeable for the provision of agency services such as settlement services for receipt and payment of funds by Hisense Finance for the Group which shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC.

Taking into account:

(i) 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 RMB0.9 million for the nine months ended 30 September 2023, utilising approximately 30.0% of the existing annual cap of RMB3.0 million during the term of the Existing Financial Services Agreement. 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 caps remain 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 RMB2.0 to RMB200.0 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 caps for agency services such as settlement services for receipt and payment of funds are fair and reasonable so far as the Independent Shareholders are concerned.

5. Relevant internal control measures

We also noted the Company has established the CT Management Policy for the purpose of ensuring that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders. We have obtained and reviewed the CT Management Policy, and noted that before a definitive transaction is conducted, the Company will compare the pricing of similar transactions with or quotations obtained from at least three randomly selected independent third parties. Commencement of the definitive transaction with the connected party(ies) is conditional upon the Company's assurance that the price of such continuing connected transaction, according to the principles of fairness and reasonableness, is no less favourable to the Group than those offered by independent third parties in order to ensure fairness of the price of the continuing connected transaction as well as the interests of the Company and the Independent Shareholders as a whole. We also understood from the Company that its operation department, finance department and securities department, as well as the legal affairs department will perform the relevant internal review, approval and monitoring procedures according to its CT Management Policy for the transactions contemplated under the Business Co-operation Framework Agreement.

For details of the CT Management Policy, please refer to the paragraphs headed "(II) CONTINUING CONNECTED TRANSACTIONS – Business Co-operation Framework Agreement – The Company's internal policy regarding continuing connected transactions" and "(III) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – Financial Services Agreement – The Company's internal policy regarding continuing connected transactions" in the Letter from the Board.

(a) Business Co-operation Framework Agreement

We have obtained and reviewed, on a random basis, at least three samples of transaction records for the ten months ended 31 October 2023 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 finance company 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) Checking the term deposit closing balance every quarter and demand deposit balance every month 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 in the PRC for the deposit, loan and electronic finance company 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 finance company acceptance bills offered by Hisense Finance to the Group prior to the execution of the relevant transactions. 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 of the Group 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 of the Group, and his duties are segregated from those of the senior management of the Group;

(v) Regularly reviewing the financial statements of Hisense Finance (including the latest available financial reports of Hisense Finance during the period when cash is deposited with Hisense Finance, and the indicator data submitted by Hisense Finance to NFRA on a quarterly basis) 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 of the Group regarding the operating status of the continuing connected transactions of Group. In addition, the Company conducts annual review on the execution of the continuing connected transactions of the Group; and

(vii) Designating the legal affairs department of the Company responsible for reviewing and approving the Financial Services Agreement and the new transaction agreements contemplated under the Financial Services Agreement.

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

Having considered the aforesaid, together with (i) the review of the CT Management Policy established to govern the connected transactions to be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders; (ii) the confirmation from the Management that the internal control measures were, and would be, consistently applied to the connected transactions; and (iii) the review of the 2021 Annual Report and the 2022 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 2021 and 31 December 2022, 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 2021 Annual Report and 2022 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 2022 only of, we noted that the independent non-executive Directors were of the view that such continuing connected transactions were conducted in the ordinary and usual course of business of the Group and were conducted on normal commercial terms and were fair and reasonable and in the interests of the Company and the Shareholders as a whole. We also noted that the auditor of the Company further confirmed that, among others, nothing has come to its attention that causes it to believe that (a) such continuing connected transactions have not been approved by the Board; (b) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (c) the disclosed continuing connected transactions have exceeded the annual caps as set by the Company with respect to the aggregate amount of each of the continuing connected transactions. In light of the annual review requirements for the continuing connected transactions pursuant to Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, in particular, (i) the restriction of the value of the continuing connected transactions by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditor of the Company on the terms of the continuing connected transactions and the annual caps not being exceeded, coupled with the CT Management Policy, we are of the view that appropriate internal control measures have been put in place to govern the conduct of the continuing connected transactions (including the transactions contemplated under the Agreements) and to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

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

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

Yours faithfully
For and on behalf of

Diligent Capital Limited
Huen Felix Ting Cheung
Director

* *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*