

Securities Code: 6444
May 12, 2021

Notice of Convocation of the Extraordinary General Meeting of Shareholders

Dear Shareholders:

We hereby announce that the Extraordinary General Meeting of Shareholders of Sanden Holdings Corporation (hereinafter referred to as “Sanden” or “Company”) will be held as stated below.

In order to prevent the spread of infection of novel coronavirus (COVID-19), we recommend that shareholders refrain from attending the Extraordinary General Meeting of Shareholders wherever possible, and request that you exercise your voting rights in advance by mail or via the Internet, etc.

Please review “The Reference Materials for the General Meeting of Shareholders” attached below and exercise your voting rights by no later than 5:30 p.m. on Wednesday, May 26, 2021 (Japan Standard Time) in accordance with the Information on the Exercise of Voting Rights on page 4.

Sincerely,

Katsuya Nishi
Representative Director & President,
Sanden Holdings Corporation
20, Kotobuki-cho, Isesaki City,
Gunma Prefecture

Details of the Meeting

1. Date and time: Thursday, May 27, 2021, 10:00 a.m. (Japan Standard Time)
(The reception will start at 9:30 a.m.)
2. Venue: Isesaki City Cultural Hall
3918 Showa-cho, Isesaki City, Gunma Prefecture
* Please note that the venue differs from that of the previous year's Ordinary General Meeting of Shareholders.
3. Meeting agenda:
Agenda items to be resolved

Item 1: Partial Amendment to the Articles of Incorporation

Item 2: Issuance of New Shares through Third-Party Allotment

**This English-language translation is an abridged version of the original notice in Japanese. In the event of any discrepancy, the Japanese version shall prevail.*

- When you attend the meeting, please submit the enclosed Voting Right Exercise Form at the reception desk at the place of the Meeting.
- If any revisions are made to the Reference Materials for the General Meeting of Shareholders, those revisions will be published on our website on the Internet (<https://www.sanden.co.jp>).

Information on the Exercise of Voting Rights

If You Attend the General Meeting of Shareholders

Please bring the enclosed Voting Right Exercise Form and submit it at the reception desk at the place of the Meeting.

Date and Time: Thursday, May 27, 2021, 10:00 a.m. (Japan Standard Time)
(The reception desk is scheduled to open at 9:30 a.m.)

If You Do Not Attend the General Meeting of Shareholders

[Vote by mail]

Please indicate your approval or disapproval of each agenda item on the Voting Rights Exercise Form and return it so that it will arrive by the exercise deadline.

Deadline to Exercise: Arrival by Wednesday, May 26, 2021, 5:30 p.m. (Japan Standard Time)

[Vote by the Internet etc.]

Access from smartphone

Please access the Voting Rights Exercise website by scanning the QR Code® on the enclosed Voting Rights Exercise Form through your smartphone with its barcode reading function, and input your approval or disapproval of each agenda item following the on-screen instructions.

(QR code is a registered trademark of Denso Wave Inc.)

Deadline to Exercise: Wednesday, May 26, 2021, 5:30 p.m. (Japan Standard Time)

*Voting right can be exercised using the above method only once.

Access from PC

Please access the Voting Rights Exercise website, enter the “Voting Rights Exercise Code” and “Password” noted on the enclosed Voting Rights Exercise Form, and input your approval or disapproval of each agenda item following the on-screen instructions.

Voting Rights Exercise website: <https://www.web54.net>

Deadline to Exercise: Wednesday, May 26, 2021, 5:30 p.m. (Japan Standard Time)

[Voting Rights Exercise platform for Institutional Investors]

Institutional investors may also vote by the ICJ platform, a voting platform provided by ICJ, Inc. subject to the application for use of the platform in advance.

The Reference Materials for the General Meeting of Shareholders

Proposals and References

Item 1: Partial Amendment to the Articles of Incorporation

1. Reason for the Amendment

In order to enable the issuance of the offered shares (common stock) through third-party allotment described in Item 2, Article 6 (Total Number of Shares Issuable) of the current Articles of Incorporation will be amended to change the total number of shares authorized to be issued from 79,200,000 shares to 112,200,000 shares. Please refer to Item 2 about the reason for the issuance of such offered shares (common stock).

The amendment to the Articles of Incorporation is subject to the approval of Item 2.

2. Details of the Amendment

The details of the amendment are as follows.

(Underlines indicate the portions that are to be amended.)

Current Articles of Incorporation	Proposed Amendment
(Total Number of Shares Issuable) Article 6 The total number of shares issuable by the Company shall be <u>seventy nine million and two hundred thousand (79,200,000)</u> shares.	(Total Number of Shares Issuable) Article 6 The total number of shares issuable by the Company shall be <u>one hundred twelve million and two hundred thousand (112,200,000)</u> shares.

Item 2: Issuance of New Shares through Third-Party Allotment

We would like to request your approval for the issuance of offered shares (common stock) through third-party allotment (hereinafter referred to as the “Capital Increase through Third Party Allotment”) to Hisense Japan Automotive Air-Conditioning Systems Corporation (hereinafter referred to as the “Planned Allottee”), which is a special purpose company incorporated by Hisense Home Appliances Group Co., Ltd. (hereinafter referred to as the “Hisense Home Appliances Group”) for the purpose of subscribing for the shares of common stock to be issued upon the Capital Increase through Third-Party Allotment, for the reasons as described in 1. Below, in accordance with the details as described in 2. below, pursuant to the provisions of Article 199 of the Companies Act of Japan.

The Capital Increase through Third-Party Allotment is subject to the conditions that the relevant shelf registration under the Financial Instruments and Exchange Act of Japan becomes effective and the relevant shelf registration supplement has been filed, Item 1 is approved, and that, at the creditors’ meeting for a resolution on a draft business revitalization plan in accordance with the specified certified dispute resolution proceedings under the Industrial Competitiveness Enhancement Act of Japan (hereinafter referred to as the “Turnaround ADR Proceedings”) that is currently undertaken by the Company, the draft business revitalization plan formulated by the Company (hereinafter referred to as the “Business Revitalization Plan”) is resolved by approval of all of the creditors under the Turnaround ADR Proceedings (hereinafter referred to as the “Creditors”). The Business Revitalization Plan has been resolved by approval of the Creditors at the re-continuation meeting for creditors’ meeting for a resolution on the draft business revitalization plan in accordance with the Turnaround ADR Proceedings, which was held on May 7, 2021.

Also, the ratio of the number of voting rights (836,270 voting rights) entitled to the shares of the common stock to be issued through the Capital Increase through Third-Party Allotment to the total number of 278,757 voting rights of the Company based on the shareholders’ register as of September 30, 2020 will be approximately 299.99% (rounded down to the second decimal place). Accordingly, the Capital Increase through Third-Party Allotment will cause the dilution, the rate of which is 25% or more as well as the change in the controlling shareholder. Consequently, the Company would also like to confirm the intent of shareholders concerning this Item at this Extraordinary General Meeting of Shareholders as provided for in Article 432 of the Securities Listing Regulations set forth by Tokyo Stock Exchange, Inc. (hereinafter referred to as the “Tokyo Stock Exchange”).

1. Reasons for Issuance of Offered Shares at a Specially Favorable Amount to be Paid In

(1) Purpose of and Reason for Offering

(i) Background to and purpose of offering

With the founding spirit of “Let us Develop Wisdom and Prosper in Harmony” as its basic philosophy, since its foundation in 1943, Sanden Group has been engaged in developing new products, based on new technologies, such as power generation lamps for bicycles, home electric appliances, vending machines, freezer and refrigerator showcases, and automotive air-conditioners, in order to constantly anticipate the needs of the times. Currently, Sanden Group’s main business is the manufacture and sale of automobile equipment such as automotive compressors and automotive air-conditioner systems, and it is also engaged in other business activities, including related logistics, research, and other services.

Sanden Group’s sales had been stable over the period from the fiscal year ended March 2008 (the sales for such fiscal year was 263,728 million yen) to the fiscal year ended March 2018 (the sales for such fiscal year was 287,609 million yen). However, the Company’s profitability deteriorated due to several factors such as the rapid change of customers’ needs in core compressors from higher margin model to lower margin model, and the increase in upfront investment related to products for electric vehicles, which is expected to become the growth area. Further, the Company recorded large extraordinary losses due to withdrawal from unprofitable business after reviewing the business portfolio, withdrawal from Middle East business because of America’s economic sanction, payment of surcharges and other penalties pursuant to the Anti-Monopoly Act, and structural reform for cash flow generation. As a result, net assets, which stood at about 75.5 billion yen in fiscal year ended March 2016, fell to about 23.5 billion yen in fiscal year ended March 2019. In the face of this situation, with the aim of implementing further structural reform, improving profitability, further growth in its business, and restructuring of its financial foundation including capital reinforcement, the Company developed the new 5-year Mid-term Management Plan (SCOPE2023) in April 2019, which was started in the fiscal year 2019 and will be completed in the fiscal year 2023, and has implemented it since then. In addition, in August 2019, the Company decided to sell its commercial store systems business, which was one of its core businesses, and accelerated the concentration of management resources into the automotive systems business. These and other measures were taken proactively to achieve the sustainable growth of Sanden Group.

However, in the automotive systems business, which is the group’s core business, vehicle sales have been decreasing since the second half of 2019, mainly in China (specifically, the automobile sales in 2019 decreased 8% in China and 4% globally compared with the previous year). Furthermore, major factories of the Sanden Group, chiefly in China, Europe and Asia, were forced to suspend operations for a while in 2020 because of the COVID-19 pandemic. As a result, the group has been facing extremely difficult situation during the fiscal year ended March 2020; sales in the automotive systems segment decreased by 21% to 153,776 million yen and there was a segment loss of 5,303 million yen compared with a profit of 560 million yen in the previous fiscal year. As of March 31, 2020, the total borrowings and bonds increased to 100,252 million yen, which was substantial amount compared with cash and cash equivalents of 23,711 million yen, and operating cash flow of 7,219 million yen for the fiscal year ended March 2020, and the current liabilities was more than current assets. In the fiscal year ended March 2020, profit attributable to owners of parent was 2,287 million yen because of extraordinary income of 25,403 million yen resulting from the sale of all shares of Sanden Retail Systems Corp., the primary subsidiary in the commercial store systems business. However, due in part to the sale of this company, the sales for such fiscal year decreased by 25% to 204,880 million yen compared with the fiscal year ended March 2019. Furthermore, there was an operating loss of 3,401 million yen (operating income for the fiscal year ended March 2019 was 889 million yen) and an ordinary loss of 9,735 million yen (ordinary income for the fiscal year ended March 2019 was 564 million yen). For these reasons, the current status of the Sanden Group raises doubts about the going concern assumption. As a result, “Notes to going concern assumptions” were stated in the notes to its consolidated and non-consolidated financial statements of the Sanden Group.

In response to this difficult business situation, on June 30, 2020, the Company and its certain subsidiaries (hereinafter collectively referred to as the “Filing Companies”), based on the discussions with the major financial institutions, decided to file formal applications for the Turnaround ADR Proceedings with the Japanese Association of Turnaround Professionals (an organization that has been certified by the Ministry of Justice as a certified dispute resolution business and that has obtained the approval from the Ministry of Economy, Trade and Industry as a certified operator of the Turnaround ADR Proceedings) in order to establish a robust earnings structure for future regrowth and drastically improve their financial position. The applications were accepted on the same day and the Filing Companies sent a standstill notice to the Creditors in the joint names of the Filing Companies and the Japanese Association of Turnaround Professionals. The receipt of formal applications enabled the Filing Companies to develop the Business Revitalization Plan while obtaining impartial, neutral and objective review, guidance and advice from the Japanese Association of Turnaround Professionals during such process. At the same time, the Filing Companies would hold discussions with the Creditors in such process. The Filing Companies would aim to obtain approval of the Creditors about the content of the Business Revitalization Plan, while considering a capital and business alliance with a sponsor selected through a process of sponsor selection in addition to implementing measures to improve its management through their own self-help efforts.

Then, on July 14, 2020, the Filing Companies held a creditors’ meeting (the first creditors’ meeting) to explain the outline of the draft business revitalization plan based on the Turnaround ADR Proceedings with the presence of the Creditors and obtained the consent from the Creditors regarding a standstill notice. The Filing Companies also obtained the consent from the Creditors for extending the standstill period until the conclusion of the creditors’ meeting for a resolution of the draft business revitalization plan (if the meeting is postponed or adjourned, until the postponed or adjourned meeting is held). On this occasion, the Company obtained the consent from the Creditors that the Company would receive financial support including bridge loans from major financial institutions to prepare for the emergency. After that, the Company entered into the bridge loan agreement with major financial institutions. At the second creditors’ meeting (creditors’ meeting for discussing the draft business revitalization plan) held on November 6, 2020, since the Company expected that it would take some more time to develop the Business Revitalization Plan due to the impact of COVID-19, etc., the Company reported to the Creditors on the progress of developing the Business Revitalization Plan. Furthermore, at the second creditors’ meeting (creditors’ meeting for discussing the draft business revitalization plan) and the third creditors’ meeting (creditors’ meeting for a resolution on the draft revitalization plan), both of which were held on December 11, 2020, the Company reported to the Creditors on the progress of developing the Business Revitalization Plan, and presented a new extended schedule to the Creditors and obtained their consent on it on the assumption that the Company would take some more time to develop the Business Revitalization Plan due to the continuing impact of COVID-19, etc.

In formulating the Business Revitalization Plan under the Turnaround ADR Proceedings, the Company concluded that, in order to free the Company from the above-stated difficult business situations and turnaround its business, it is essential that the Company establish a strong profit foundation and thoroughly improve its financial position as early as possible by securing equity capital from a new sponsor successfully to obtain the funds necessary for structural reform and future growth investment, as well as by obtaining the Creditors’ agreement on the financial support. Moreover, in order to achieve its future vision of “affluent society where the environment and comfort are in harmony,” the Company believes that in selecting sponsors, it is important to select a sponsor who will provide various business support such as know-how and response resources in the technologies related to the integrated thermal management for electric vehicles (meaning the thermal management that integrates temperature adjustment for batteries, inverters and motors as well as interior air conditioning management in electric vehicles; it utilizes waste heat and generated heat effectively and contribute to higher mileage for electric vehicles) and Internet connection in vehicles and artificial intelligence-powered air conditioning. Then, in proceeding with the sponsor selection process, the Company appointed Nagashima Ohno & Tsunematsu as the legal advisor and GCA Advisors Corporation (Address: 1-11-1 Marunouchi, Chiyoda-ku, Tokyo, Representative: Akihiro Watanabe, Representative

Director) as the financial advisor, and, in order to find the sponsor who would provide the Company with substantial equity capital and business support, the Company requested more than 25 investors (including companies and financial investors) as the sponsor candidates to consider capital contributions, in and after June 2020. As a result of such search for sponsors, only a few candidates expressed their primary intentions, and several investors among them actually implemented due diligence. As a result of such due diligence, Hisense Group, whose ultimate parent company is Hisense Group Holdings Co., Ltd., was an only candidate that expressed its final legally binding intention with respect to such sponsor support, and the contents of Hisense Group's proposal was reasonable and consistent with the purposes of the turnaround of the business of the Company through establishing a strong profit foundation and thoroughly improving the financial position. Therefore, the Company selected Hisense Group as the sponsor.

The Planned Allottee is a special purpose company incorporated by Hisense Home Appliances Group, which belongs to Hisense Group, for the purpose of subscribing for the shares of common stock to be issued upon the Capital Increase through Third-Party Allotment. Hisense Group is a global electronics manufacturers group headquartered in China, which develops, manufactures, and sells mainly electronic information equipment and home electric appliances (for example, Hisense Group recorded the consolidated sales of RMB 102.3 billion (1,614.2 billion yen (the exchange rate is 15.78 yen to the RMB)) in the fiscal year 2019). Currently, Hisense Group intends to operate and expand automotive-related segments such as in-vehicle air-conditioning, autonomous driving, and Internet connection in vehicles based on the core technologies it has developed. Hisense Group is considering positioning these segments as one of its main businesses in the future. Based on such business strategy, Hisense Group has a strong interest in the Company's position, technologies, and quality in the automotive compressor and automotive air-conditioner system industries. Furthermore, Hisense Group believes that it will be able to create technological synergies with the Company and develop complementary products based on the technologies and product lines it has developed to date; therefore, Hisense Group has decided to participate in the process of sponsor selection and capital contribution in the Company. Furthermore, after also considering which group entity should beneficially invest in the Company, Hisense Group determined that the air-conditioning business of Hisense Home Appliances Group had greater relevancy to the Company's in-vehicle air-conditioning-related business and it was desirable to choose Hisense Home Appliances Group for the purpose of achieving synergies between both groups, therefore Hisense Group decided that Hisense Home Appliances Group would beneficially invest in the Company. Hisense Home Appliances Group is a company engaged in the manufacture and distribution of home electric appliances in China and globally under the brand name of "Hisense," "Kelon," "Ronshen" and other names, and its shares are currently listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange. On the other hand, given that the Company's automotive systems business was expected to be a highly independent business within Hisense Group, Hisense Home Appliances Group decided to acquire shares of the Company through a special purpose company incorporated for the purpose of subscribing for the shares of common stock to be issued through the Capital Increase through Third-Party Allotment.

As stated above, in selecting a sponsor, the Company believes it is important to select a sponsor who can provide various business support. In this regard, the Company concluded that Hisense Group is the best sponsor candidate, as a partner to improve the corporate value of the Company, because Hisense Group's business strategy is consistent with the Company's idea of a desirable sponsor, and the content of its support is, as stated in "(ii) Reason for Selecting the Capital Increase through Third-Party Allotment" below, reasonable enough for the Company to expect the realization of turnaround of the business of the Company.

After procedures for selecting a sponsor as stated above, the Company resolved at its board of directors meeting held on March 1, 2021, to implement the Capital Increase through Third-Party Allotment and on the same day, entered into a share purchase agreement concerning the Capital Increase through Third-Party Allotment with Hisense Home Appliances Group. Furthermore, subsequently at the re-continuation meeting for third creditors' meeting (creditors' meeting for a resolution on the draft revitalization plan) held on May 7, 2021, the Creditors

approved of the Business Revitalization Plan, which includes financial support by way of the debt forgiveness of 63,000 million yen (rounded off to the nearest million yen) in total, and the Turnaround ADR Proceedings have been resolved. However, such debt forgiveness shall become effective on the condition that the payment of the Capital Increase through Third-Party Allotment is completed. The implementation of the Capital Increase through Third-Party Allotment is subject to the approval of Item 1 and this Item at this general meeting of shareholders.

The approved business revitalization plan provides the measures for restructuring its business, which are comprised of fundamental changes to production structure, improvement on core profitability, growth through proactive “Co-Creation,” strengthening cash flow generation measures (improvement in working capital) and reorganization of corporate structure for execution (domestic reorganization, cost reduction and strengthening management control). Going forward, the Company will aim to realize a turnaround of its business by executing these measures. The approved business revitalization plan also provides the matters related to management responsibilities. The current management will be committed to fulfilling such responsibilities in accordance with the agreed matters. For an overview of the approved Business Revitalization Plan, please see the “Notice on Submission of “Business Revitalization Plan” to Tokyo Stock Exchange, Inc.” dated May 7, 2021.

(ii) Reason for Selecting the Capital Increase through Third-Party Allotment

Before deciding to pursue the Capital Increase through Third-Party Allotment, the Company compared and examined various funding methods as described below. The Company thought that the most important factor is, to raise substantial equity capital promptly and successfully in the desired time frame, in order to achieve its goal of obtaining the funds necessary for structural reform and growth investment, establishing a strong profit foundation and thoroughly improving the financial position, as early as possible.

For example, considering various factors such as the difficult business situations of the Company, its financial conditions and results of operations, the stock price trends, and the statement of the “Notes to going concern assumptions” stated in the notes to the consolidated and non-consolidated financial statement of the Company, the Company determined that a public offering of shares of common stock would not be a realistic option. With respect to an allotment of stock acquisition rights without contribution (rights offering) that would allocate the stock acquisition rights to the existing shareholders or an allotment of shares without contribution that would allocate the shares to the existing shareholders, all stock acquisition rights may not be exercised due to determinations by shareholders in light of stock price trends etc. and it would not be clear whether the shareholders would respond to the shareholder allotment, therefore, the amount that can be raised is uncertain and the Company reached the conclusion that these are currently not appropriate options for the Company.

On the other hand, since a capital increase through third-party allotment of shares of common stock would enable the Company to successfully reinforce its capital to a necessary and sufficient extent, it is highly likely that the Company would secure the estimated proceeds of such third-party allotment, and such third-party allotment offers the Company flexibility in fund-raising, the Company believes that such third-party allotment will be the most effective option for the Company as long as an appropriate investor is selected. Therefore, assuming that the Company would implement a capital increase through third-party allotment of shares of common stock, as described in “(i) Background to and purpose of offering” above, the Company was negotiating with potential sponsors in pursuit of the possibility of support including funding through capital contribution since the filing for the Turnaround ADR Proceedings in order to seek funding under the most favorable conditions for the Company. As a result, Hisense Group offered sponsor support including conducting the Capital Increase through Third-Party Allotment. After considering various factors such as the difficult business situations of the Company, the process of the sponsor selection, and the proposal by Hisense Group, the Company concluded that the best possible approach for the Company would be to aim at turning around the Company under the difficult business situations it faces by successfully and flexibly obtaining the equity capital upon the implementation of the Capital

Increase through Third-Party Allotment, so that the Company can obtain the funds for growth investment to drastically improve its production system and improve its core profitability through structural reforms as well as improving profitability and generating stable cash flows for medium-to long-term growth.

Also, since the ratio of the number of voting rights to be held by the Planned Allottee upon the Capital Increase through Third-Party Allotment (836,270 voting rights) to the sum of the following numbers (1,115,027 voting rights):(i) the number of such voting rights; and (ii) the total number of voting rights based on the shareholders' register as of September 30, 2020 (278,757 voting rights) will be approximately 75.00%, the Planned Allottee will fall under a "Specified Subscriber" as set forth in Article 206-2, Paragraph 1 of the Companies Act of Japan. In this regard, four (4) Audit & Supervisory Board Members of the Company (two (2) of which are outside Audit & Supervisory Board Members) expressed their opinion that (i) the directors' decision to implement the Capital Increase through Third-Party Allotment was made after considering whether or not the Capital Increase through Third-Party Allotment is reasonable in light of the various facts such as that the Company needs to raise the equity capital on a large scale, the Capital Increase through Third-Party Allotment can be evaluated as the best option that the Company can currently take, compared with other common funding methods, the use of proceeds from the Capital Increase through Third-Party Allotment is reasonable, Hisense Group, to which the Planned Allottee belongs, is the best sponsor candidate, as a partner to improve the corporate value of the Company, and the terms and conditions of issuance for the Capital Increase through Third-Party Allotment is reasonable, and (ii) such directors' decision is a reasonable one duly made based on the business judgment principle. There are no outside director's opinion that differs from the judgment by the board of directors.

(2) Reasonableness of Terms and Conditions, etc. of Issuance

(i) Calculation grounds for amount to be paid in and detail thereof

The Company held good faith discussions with each potential sponsor taking into consideration the results of the due diligence on the Company conducted by several potential sponsor candidates, the Company's business condition, financial condition, results of operations, capital needs, stock price trends, etc., in order to realize financing with the most favorable conditions for the Company. During such discussions, given the Company's difficult financial condition, the Company needed to put the highest priority on whether or not the necessary amount of equity capital could be raised in the desired timeframe. However, only Hisense Group expressed its final legally binding intention with respect to sponsor support. Under these situations, the Company repeatedly had discussions and negotiations on the term of fundraising with Hisense Group, the proposed sponsor whose proposal was the most in line with the Company's request. In these discussions and negotiations, as the Company needed to raise approximately 21.4 billion yen, it was unrealistic for the Company to reduce the desired fundraising amount. On the other hand, Hisense Group expressed that Hisense Group would be able to invest the amount desired by the Company, but injecting equity capital of as much as approximately 21.4 billion yen into the Company, that is in a difficult business condition, would entail a substantial risk and, therefore, Hisense Group intended to acquire approximately 75% of the total number of voting rights through the Capital Increase through Third-Party Allotment as a condition for investment. Although the amount to be paid in per share was expected to be at a considerably discounted level from the Company's most recent market share price if the terms of the investment were to be as intended by Hisense Group, it would be realistically difficult to seek more desirable terms of investment given the difficult business conditions of the Company and the fact that only Hisense Group expressed its final legally binding intention with respect to sponsor support. Given that investment by Hisense Group assumes that the shares of common stock of the Company will continue to be listed, the Company has concluded that the terms of the investment are acceptable and, based on the assumption that the total amount of investment will be approximately 21.4 billion yen and the percentage of voting rights acquired by Hisense Group after the investment will be approximately 75%, the amount to be paid in for the Capital Increase through Third-Party Allotment was determined to be 256 yen.

Such amount to be paid in for the Capital Increase through Third-Party Allotment represents a 44.0% discount against the closing price (hereinafter referred to as the "Preceding Closing

Price”) of 457 yen of the Company’s stock on the Tokyo Stock Exchange on February 26, 2021, which is the business day immediately preceding the date of the resolution of the board of directors approving the Capital Increase through Third-Party Allotment (hereinafter referred to as the “Date of Board Resolution”), a 40.3% discount against the average Preceding Closing Price of 429 yen (rounded to the nearest yen) for the one month immediately preceding the Date of Board Resolution (from January 27, 2021 to February 26, 2021), a 34.2% discount against the average Preceding Closing Price of 389 yen (rounded to the nearest yen) for the three months immediately preceding the Date of Board Resolution (from November 27, 2020 to February 26, 2021), and a 29.1% discount against the average Preceding Closing Price of 361 yen (rounded to the nearest yen) for the six months immediately preceding the Date of Board Resolution (from August 27, 2020 to February 26, 2021).

As mentioned above, the amount to be paid in for the Capital Increase through Third-Party Allotment was finally agreed upon as a result of good faith discussions and negotiations with Hisense Group, which had been selected through the process of sponsor selection, and the Company believes that this is the best option for the Company at this point in time, given the Company’s difficult business situations.

Moreover, in order to take utmost care in determining the amount to be paid in, the Company requested that PLUTUS CONSULTING Co., Ltd. (address: 2-5, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo; representative: Mahito Noguchi, Representative Director and President) (hereinafter referred to as “PLUTUS”), which is a third-party evaluation institution independent of the Company, analyze the value of the common stock, and obtained a valuation report for the common stock (hereinafter referred to as the “Valuation Report”) from PLUTUS. Based on the business plan for the period from the fiscal year ending March 2021 up to March 2026 prepared on a stand-alone basis (i.e. the plan does not reflect business synergies with Hisense Group and is on the assumption that the business continuity can be ensured without having funding constrains) and provided by the Company, PLUTUS has valued, adopting the DCF method, the Company’s share value per share of common stock at 0 yen to 260 yen (Note). According to the Valuation Report, given the Company, a valuation target, is a company as a going concern and the Company is aiming at turning around under the Turnaround ADR Proceedings, its cash flows should be valued first in order to value the Company; therefore, PLUTUS adopted the income approach as a valuation approach. In addition, according to the Valuation Report, the DCF method is considered to be the most theoretical method for valuing corporate value based on future profitability, and is the most widely used valuation method among the income approach methods. Accordingly, PLUTUS has adopted DCF method, one of the income approach valuation methods, and considers it reasonable to adopt the DCF method.

(Note) In calculating the share value, PLUTUS assumed the accuracy and completeness of the materials and information used and does not independently verify its accuracy and completeness. The share value calculation was also based on the assumption that the Company’s future business plan has been reasonably prepared based on the best forecasts and judgments and that there are no material undisclosed facts or contingent liabilities, off-balance sheet liabilities or litigation that could have a material effect.

As stated above, the Company believes that the amount to be paid in for the Capital Increase through Third-Party Allotment (256 yen) is a reasonable price to some extent in view of the share valuation report received from the third party valuation institution.

However, as the amount to be paid in represents a substantial discount against the Company’s most recent market stock price, the Company determined that it is considered to be an amount especially favorable to the Planned Allottee. Therefore, the Capital Increase through Third-Party Allotment will be subject to the approval by way of a special resolution at the Extraordinary General Meeting of Shareholders.

- (ii) Grounds on which number of shares to be issued and scale of share dilution are determined to be reasonable

The Company is financing a total of approximately 21.4 billion yen by issuing 83,627,000 shares of the common stock upon the Capital Increase through Third-Party Allotment. Considering the aforementioned purpose of the Capital Increase through Third-Party Allotment, the usage of funds and the calculation grounds for amount to be paid in, the Company has determined that the number of the shares of common stock to be issued upon the Capital Increase through Third-Party Allotment is reasonable.

Also, the ratio of the number of voting rights (836,270 voting rights) entitled to the shares of the common stock to be issued through the Capital Increase through Third-Party Allotment to the total number of 278,757 voting rights of the Company based on the shareholders' register as of September 30, 2020 will be approximately 299.99% (rounded down to the second decimal place). Accordingly, substantial dilution of the Company's shares of common stock would occur upon the Capital Increase through Third-Party Allotment. However, as described in "(1). Purpose of and Reason for Offering (ii) Reason for Selecting the Capital Increase through Third-Party Allotment" above, the Company urgently needs to raise funds through the Capital Increase through Third-Party Allotment, and while the scale of the Capital Increase through Third-Party Allotment is large, it is limited to the necessary and sufficient extent based on the necessity of such fundraising. Moreover, compared with other fundraising methods, the Capital Increase through Third-Party is the best option that the Company can now take and the amount to be paid in is also reasonable, as stated in "(i) Calculation grounds for amount to be paid in and detail thereof" above. Given the difficult business condition of the Company, the Company believes that, the Capital Increase through Third-Party Allotment, which would enable the Company to establish a robust earnings structure and drastically improve its financial position, and turnaround the business, will also benefit the existing shareholders even considering the substantial dilution to be caused.

In addition, as stated in "(1) Purpose of and Reason for Offering (i) Background to and purpose of offering" above, with respect to the Turnaround ADR Proceedings, in addition to the approval by the Creditors for extending the period of standstill until the closing of the creditors' meeting for a resolution on the business revitalization plan, the Creditors, have subsequently approved of the Business Revitalization Plan which includes financial support by way of the debt forgiveness of 63,000 million yen (rounded off to the nearest million yen) in total. In light of the burden which the Company has requested the Creditors to take in order to realize the turnaround of the business of the Company, the Company believes that the extent of the dilution to be caused by the Capital Increase through Third-Party Allotment, which may affect the existing shareholders, is within a reasonable amount.

2. Details of Offering

- | | | |
|---|---|---------------------------------------|
| 1 | Class of shares to be issued | Shares of common stock of the Company |
| 2 | Total number of shares to be issued | 83,627,000 shares |
| 3 | Amount to be paid in | 256 yen per share |
| 4 | Aggregate amount to be paid in | 21,408,512,000 yen |
| 5 | Amount of capital stock and legal capital surplus to be increased | |
| | Amount of capital stock to be increased | 10,704,256,000 yen |
| | Amount of legal capital surplus to be increased | 10,704,256,000 yen |
- 6 Allottee
All of the shares of common stock will be allotted to Hisense Japan Automotive Air-Conditioning Systems Corporation (Note).
(Note) Special purpose company incorporated by Hisense Home Appliances Group for the purpose of subscribing for the shares of common stock to be issued upon the Capital Increase through Third-Party Allotment
- 7 Payment period
From May 10, 2021 to December 31, 2021
- 8 Other
The Capital Increase through Third-Party Allotment is subject to the following conditions: (i) the relevant shelf registration under the Financial Instruments and Exchange Act of Japan becomes effective and the relevant shelf registration supplement is filed, (ii) Item 1 and Item 2 are approved at this Extraordinary General Meeting of Shareholders (by special resolution), and (iii) that at the creditors' meeting for a resolution on the draft business revitalization plan in accordance with the Turnaround ADR Proceedings, the draft business revitalization plan formulated by the Company is resolved by approval of all of the creditors under the Turnaround ADR Proceedings.