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News release

[Translation]
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Issuance of New Shares through Third-Party Allotment and Shelf Registration in respect of Issuance of New Shares, Partial Amendment to the Articles of Incorporation and Expected Changes in Parent Company and Largest Shareholder among the Major Shareholders

Sanden Holdings Corporation (hereinafter referred to as the 'Company') hereby announces that it has passed a resolution at the board of directors meeting held today for the matters set out in the items 1. and 2. below. The Company also announces that this transaction is expected to result in the change in the parent company and the largest shareholder among the major shareholders.

1. The Company will enter into a share purchase agreement (hereinafter referred to as the 'Share Purchase Agreement') with Hisense Home Appliances Group Co., Ltd. (hereinafter referred to as 'Hisense Home Appliances Group') to issue new shares of common stock of the Company, the aggregate amount to be paid in for which is 21,408,512,000 yen, through third-party allotment to a special purpose company (hereinafter referred to as the 'Planned Allottee') to be incorporated by Hisense Home Appliances Group (hereinafter referred to as the 'Capital Increase through Third-Party Allotment', for details, please see "I. Capital Increase through Third-Party Allotment" below) and will make the shelf registration (hereinafter referred to as the 'Shelf Registration') in respect of the Capital Increase through

Third-Party Allotment (for details, please see "II. Shelf Registration" below).

2. The Company will propose to its extraordinary general meeting of shareholders scheduled to be held on May 7, 2021 (hereinafter referred to as the 'Extraordinary General Meeting of Shareholders') agenda items regarding (i) the partial amendment to the Articles of Incorporation relating to the increase of total number of shares authorized to be issued (hereinafter referred to as the 'Amendment to the Articles of Incorporation', for details, please see "III. Amendment to the Articles of Incorporation" below); and (ii) the Capital Increase through Third-Party Allotment. (For details, please see the notice titled "Notice of Convocation of Extraordinary General Meeting of Shareholders and Setting of the Record Date for Extraordinary General Meeting of Shareholders" released today.)

I. Capital Increase through Third-Party Allotment

1. Overview of the Offering

(1)	Payment period	From May 10, 2021 to December 31, 2021 (Note)
(2)	Number of shares to be issued	83,627,000 shares of common stock
(3)	Amount to be paid in	256 yen per share
(4)	Aggregate amount to be paid in	21,408,512,000 yen For the estimated amount less the estimated issuance expenses, please see “3. Amount, Usage and Scheduled Timing of Use of the Funds to be Raised” below.
(5)	Method of offering or allotment (Allottee)	All of the shares of common stock will be allotted to the Planned Allottee (a special purpose company to be 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).
(6)	Other	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, the following agenda items are approved at the Extraordinary General Meeting of Shareholders: (i) the Amendment to the Articles of Incorporation; and (ii) the Capital Increase through Third-Party Allotment; and that, at the adjourned creditors meeting for a resolution on a proposed turnaround plan, which is scheduled to be held on April 27, 2021 in accordance with the specified certified dispute resolution proceedings with respect to the Company and its certain subsidiaries (hereinafter collectively referred to as the ‘Filing Companies’) under the Industrial Competitiveness Enhancement Act of Japan (hereinafter referred to as the ‘Turnaround ADR Proceedings’), the proposed turnaround plan formulated by the Filing Companies (hereinafter referred to as the ‘Proposed Turnaround Plan’) is resolved by agreement of all creditors under the Turnaround ADR Proceedings (hereinafter referred to as the ‘Creditors’).

(Note) It was resolved that the payment period for the Capital Increase through Third-Party Allotment under the Companies Act of Japan will be from May 10, 2021 to December 31, 2021. The reason for setting this payment period is that the payment is subject to the completion of procedures under the Foreign Exchange and Foreign Trade Act of Japan and other applicable regulations on foreign investment in other jurisdictions and obtaining the necessary clearances from the relevant competition authorities, and it is impossible to identify when these procedures will be completed and such clearances will be obtained as of today. In addition, under the Share Purchase Agreement, it is agreed that, in principle, the payment will be made on the fifth (5th) business day immediately after all of the conditions precedent are satisfied or waived (which is limited to a date during the payment period).

2. Purpose of and Reason for Offering

(1) 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 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 Proposed Turnaround 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 agreement of the Creditors about the content of the Proposed Turnaround 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 proposed turnaround 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 the resolution of the proposed turnaround 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 proposed turnaround plan) held on November 6, 2020, since the Company expected that it would take some more time to develop the Proposed Turnaround Plan due to the impact of COVID-19, etc., the Company reported to the Creditors on the progress of developing the Proposed Turnaround Plan. Furthermore, at the second creditors' meeting (creditors' meeting for discussing the proposed turnaround plan) and the third creditors' meeting (creditors' meeting for resolving the proposed turnaround plan), both of which were held on December 11, 2020, the Company reported to the Creditors on the progress of developing the Proposed Turnaround 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 Proposed Turnaround Plan due to the continuing impact of COVID-19, etc.

In formulating the Proposed Turnaround Plan under the Turnaround ADR Proceedings, the Company concluded that, in order to free the Company from the above-stated difficult business situations, 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 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 to be 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 to be 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 "(2) 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.

(2) 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 "(1) 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 will belong, 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.

3. Amount, Usage and Scheduled Timing of Use of the Funds to be Raised

(1) Amount of funds to be raised

(i)	Total amount to be paid in	21,408,512,000 yen
(ii)	Estimated issuance expenses	535,000,000 yen
(iii)	Estimated net proceeds	20,873,512,000 yen

(Note) 1. Estimated issuance expenses does not include consumption tax, etc.
2. Estimated issuance expenses consist of the amount equivalent to registration and license tax, legal fees and financial advisory's fees.

(2) Specific usage of funds to be raised

Specific usage	Amount (thousand yen)	Scheduled timing of use of funds

(i)	Funds for structural reform	14,140,000	May 2021 through March 2024
(ii)	Funds for growth investment	6,733,512	May 2021 through March 2026

(Note) Funds raised will be managed in a bank account until they are spent for the above usage.

As described in “2. Purpose of and Reason for Offering, (1) Background to and purpose of offering” above, the Company intends to free itself from the difficult business situations, establish the strong profit foundation, thoroughly improve its financial position and turnaround the business of the Company through the Capital Increase through Third-Party Allotment. The Company will appropriate the proceeds to the funds for (i) structural reform and (ii) growth investment as follows.

(i) Structural reform

The Company has been promoting the structural reform based on its 5-year Mid-term Management Plan (SCOPE2023), which was started in the fiscal year ended March 2020 and will be completed in the fiscal year ending March 2024. Specifically, the Company intends to improve its market competitiveness through global production sharing according to the product life cycle and sales volume, and centralized parts procurement, and establish an optimal personnel structure through by consolidating its footprints and related headcount reductions. To cover these expenses, the Company will appropriate approximately 14.14 billion yen from the proceeds of the Capital Increase through Third-Party Allotment. The followings are specific actions to be taken in each major region. The Company will flesh out the details of these actions taking into the timing of the completion of the Capital Increase through Third-Party Allotment and other factors into consideration:

- Europe

In Europe, the Company mainly manufactures and sells compressors for automotive air-conditioning. However, since the number of electric vehicles is expected to increase, the number of conventional vehicles with internal combustion engine is on the decrease. To adapt to the market characteristics, the Company intends to improve the plant utilization rate by improving the production system of products for compressors for internal combustion engines with mature product life cycles, and improve market competitiveness by consolidating parts procurement and improving production efficiency and reducing costs.

- America

In America, the Company mainly manufactures and sells conventional compressors. However, as for products of which sales are expected to decrease, the Company intends to drastically improve its production system and optimize the scale of factories including personnel system. The Company also aims to improve its profitability by rationalizing procurement and improving productivity simultaneously.

- China

In China, the Company mainly manufactures and sells automobile air-conditioning and its joint venture company manufactures and sells automobile compressors. China has become the world's biggest market of electric vehicles and the market is expected to grow continuously. To adapt to the market characteristics, the Company intends to scale down the production of air-conditionings for vehicles with internal combustion engine and improve its productivity. The Company also aims to establish the system to expand the thermal management products for electric vehicles and achieve mid-to-long term growth as well as earnings structure reform and earnings recovery.

(ii) Growth investment

In addition to drastically improving its production system and improving its core profitability through structural reforms, the Company believes that it is essential to improve profitability and generate stable cash flows for medium-to long-term growth so that the Company can achieve the turnaround of its business. Therefore, the Company plans to make growth investment in integrated thermal management for electric vehicles in addition to conventional air-conditioning systems, as outlined in SCOPE2023. For this reason, of the remaining proceeds of the Capital Increase through Third-Party Allotment (approximately 6.73 billion yen which is the amount after excluding the amount necessary for "(i) Structural reform" above), 5.6 billion yen will be used for investment in production facilities related to integrated thermal management systems using electric compressors, heat pumps, etc. and the remaining amount will be used for R&D investment related to the integrated thermal management systems. Since appropriate thermal management can help reduce battery consumption and improve vehicle range, the Company expects the higher demand for the automobile thermal management with the electrification of vehicles. Such growth investment will be made to meet the demand for products that can achieve thermal management for electric vehicles, and the Company believes such investment is essential for the Company's mid-to-long term growth.

4. Views on Reasonableness of Usage of Funds

The Company will appropriate the funds to be raised by the Capital Increase through Third-Party Allotment for the structural reform and growth investment in order to free the Company from the difficult business situations, establish the strong profit base and improve the financial position (for the details, please see "3. Amount, Usage and Scheduled Timing of Use of the Funds to be Raised (2) Specific usage of funds to be raised" above), and turnaround the business of the Company. The Company also believes that by using fund for such purpose, the Capital Increase through Third-Party Allotment will further improve its corporate value. Therefore, the Company considers using the funds for such purpose reasonable.

5. Reasonableness of Terms and Conditions, etc. of Issuance

(1) 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 '<u>Preceding Closing Price</u>') of 457 yen of the Company's stock on Tokyo Stock Exchange, Inc. (hereinafter referred to as the '<u>Tokyo Stock Exchange</u>') 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 'the <u>Date of Board Resolution</u>'), 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.

(2) 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 off 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 "2. Purpose of and Reason for Offering (2) 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 "(1) 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 "2. Purpose of and Reason for Offering (1) 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 Proposed Turnaround Plan, the Company plans to request the Creditors to agree to the Proposed Turnaround Plan, which includes the financial support by the discharge of debt of a substantial amount. In light of the burden which the Company plans to request 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.

6. Reasons for Selecting the Planned Allottee, etc.

(1) Outline of the Planned Allottee

Hisense Home Appliances Group will, through the Planned Allottee, a special purpose company to be incorporated by the end of March 2021, subscribe for the shares of common stock to be issued upon the Capital Increase through Third-Party Allotment.

However, the Planned Allottee has not been incorporated as of today. The contractual status of Hisense Home Appliances Group under the Share Purchase Agreement and all of its rights and obligations thereunder will be transferred from Hisense Home Appliances Group to the Planned Allottee after the incorporation of the Planned Allottee, provided that Hisense Home Appliances Group will undertake to perform the Planned Allottee’s obligations thereunder jointly and severally with Planned Allottee even after such transfer.

The Company requested JP Research & Consulting, Inc. (Address: Toranomon Annex 6F, 3-7-12, Toranomon, Minato-ku, Tokyo, Representative: Keisuke Furuno, Representative Director), a third party research institution, to investigate whether or not Hisense Home Appliances Group and Kelon Development Company Limited (a direct wholly-owned subsidiary of Hisense Home Appliances Group), which will directly incorporate the Planned Allottee, or their directors or major equity investors including their major shareholders (the same applies hereinafter) (hereinafter referred to as ‘Hisense and Affiliates’) is a member of antisocial forces and whether or not Hisense and Affiliates have any relationship with antisocial forces. The investigation report that the Company received states that none of Hisense and Affiliates is a member of antisocial forces and has relationship with any antisocial forces.In addition, Hisense Home Appliances Group represents and warrants to the Company that, in the Share Purchase Agreement, none of Hisense and Affiliates is a member of antisocial forces and has relationship with antisocial forces, and the Planned Allottee will make representations and warranties to the Company to the same effect upon the transfer of the contractual status of Hisense Home Appliances Group under the Share Purchase Agreement and all of its rights and obligations thereunder to the Planned Allottee after its incorporation.

Therefore, the Company believes that none of Hisense and Affiliates is a member of antisocial forces and has relationship with any antisocial forces. Furthermore, the Company submitted to the Tokyo Stock Exchange the certificate of confirmation to the effect that the Company believed that none of Kelon Development Company Limited or its directors or major equity investors is a member of antisocial forces and has relationship with any antisocial forces.

After the incorporation of the Planned Allottee, the Company will also request JP Research & Consulting, Inc. to investigate whether or not the Planned Allottee or its directors or major equity investors (hereinafter referred to as ‘Planned Allottee and Affiliates’) is a member of antisocial forces and whether or not the Planned Allottee and Affiliates have any relationship with antisocial forces. If the Company believes that none of the Planned Allottee and Affiliates is a member of antisocial forces and has relationship with any antisocial forces considering the result of such investigation, etc., the Company will submit the certificate of confirmation to that effect to the Tokyo Stock Exchange.

(2) Reason for selecting the Planned Allottee

With respect to the reason for selecting the Planned Allottee, please see "2. Purpose of and Reason for Offering".

Under the Share Purchase Agreement, the Company and the Planned Allottee (meaning Hisense Home Appliances Group until the Planned Allottee has been incorporated, and then Hisense Home Appliances Group's contractual status under the Share Purchase Agreement and all of its related rights and obligations thereunder has been transferred to the Planned Allottee; hereinafter the same applicable in "(i) Covenants of the Company" and "(ii) Conditions precedent to the payment" below) have agreed on matters regarding the covenants of the Company, the conditions precedent to the payment by the Planned Allottee and other certain matters. The outline is as follows.

(i) Covenants of the Company

The Company has made the following covenants to the Planned Allottee:

(a) Prior to the completion of payment for the Capital Increase through Third-Party Allotment, certain material matters (such as making amendments to the Articles of Incorporation and entering into merger) shall not be conducted unless consent in writing of the Planned Allottee is obtained, provided that the Planned Allottee shall not unreasonably withhold, condition or delay such consent;

(b) The Company shall make its best efforts to obtain necessary consents from the Creditors to the Proposed Turnaround Plan;

(c) Until the completion of payment for the Capital Increase through Third-Party Allotment, the commercially reasonable efforts shall be made to maintain and preserve the rights and relationships of the employees, customers, lenders, suppliers and other stakeholders; and

(d) When requested by the Planned Allottee in writing, the Company shall (i) propose an agenda to nominate persons recommended by the Planned Allottee as its candidates of directors at its extraordinary general meeting of shareholders and/or annual general meeting of shareholders and (ii) seek approval from its shareholders with respect to the appointment of such candidates as directors at such meetings, provided that the effective date of such appointment shall be any date on or after the completion of payment for the Capital Increase through Third-Party Allotment.

(ii) Conditions precedent to the payment

The conditions precedent to payment for the shares of common stock by the

Planned Allottee are as follows:

(a) All the authorizations or approvals required for the implementation of the Capital Increase through Third-Party Allotment have been received or obtained;
(b) In accordance with the Turnaround ADR Proceedings, the Proposed Turnaround Plan is approved by the Creditors with the content which does not conflict with the Capital Increase through Third-Party Allotment;
(c) The passing of a resolution by the shareholders of Hisense Home Appliances Group at its general meeting of shareholders approving the entering into and performance of the Share Purchase Agreement and the transactions contemplated thereunder;
(d) The following agenda items are approved at the Extraordinary General Meeting of Shareholders: (i) the Amendment to the Articles of Incorporation; and (ii) the Capital Increase through Third-Party Allotment;
(e) The relevant shelf registration under the Financial Instruments and Exchange Act of Japan in respect of the Capital Increase through Third-Party Allotment becomes effective and the relevant shelf registration supplement has been filed;
(f) Except as would not reasonably be expected, individually or in the aggregate, to have an effect that is materially adverse to the assets, properties, operations, business, or condition (financial or otherwise) of the group companies taken as a whole, or the ability of the Company to perform its obligations under the Share Purchase Agreement, no material customers shall have terminated their relationship with the group companies, or threatened to terminate or reduce their relationship with the group companies;
(g) No laws or regulations have been newly enacted, issued or promulgated which has the effect of prohibiting consummation of the Capital Increase through Third-Party Allotment;
(h) Nothing has occurred that would, or would be likely to have after the completion of payment for the Capital Increase through Third-Party Allotment, an effect that is materially adverse to the assets, properties, operations, business, or condition (financial or otherwise) of the group companies taken as a whole, or the ability of the Company to perform its obligations under the Share Purchase Agreement; and
(i) It is reasonably expected that the shares of common stock of the Company will continue to be traded on the Tokyo Stock Exchange after the completion of payment for the Capital Increase through Third-Party Allotment.

(3) Shareholding policy of Planned Allottee

The Company has received an explanation from Hisense Home Appliances Group that it, in principle, plans for Hisense Group to hold the allotted shares of common stock over a long term through the Planned Allottee (or a company under Hisense Group) because the capital contribution to the Company is a strategic investment for Hisense Group.

The Company plans to receive a written confirmation from the Planned Allottee by the payment date, to the effect that the Planned Allottee will agree that in the event the Planned Allottee transfers all or part of the allotted shares within two (2) years from the payment date, the Planned Allottee shall immediately report in writing the details of the said transfer, such as the name and address of the transferee, the number of transferred shares, the transfer date, the transfer price, the reason for transfer, and the method of transfer, to the Company, and that the Planned Allottee consents to the Company making a report to the Tokyo Stock Exchange based on that report and that the said details of the report will be made publicly available.

(4) Confirmation of funds required for the Planned Allottee to make payment

Under the Share Purchase Agreement, Hisense Home Appliances Group has made representations and warranties to the Company to the effect that the funds for the payment by the Planned Allottee will be secured by the day when the payment is made, and the Planned Allottee will make representations and warranties to the Company to the same effect upon the transfer of Hisense Home Appliances Group's contractual status under the Share Purchase Agreement and all of its related rights and obligations thereunder to the Planned Allottee after its incorporation. While the Planned Allottee has not been incorporated as of today, it will be incorporated as a special purpose company by Hisense Home Appliances Group for the purpose of subscribing for the shares of common stock to be issued through the Capital Increase through Third-Party Allotment. According to Hisense Home Appliances Group, Hisense Home Appliances Group will use its own funds for the payment of the Capital Increase through Third-Party Allotment. The Company confirmed the balance sheet as of the end of June 2020 as described in the Interim Report (FY2020) announced by Hisense Home Appliances Group, and that Hisense Home Appliances Group has sufficient fund. For these reasons, the Company concluded that there would be no obstacle to the payment of the Capital Increase through Third-Party Allotment.

7. Major Shareholders and Their Shareholding Ratios after the Offering

Before the Capital Increase through Third-Party Allotment (As of September 30, 2020)		After the Capital Increase through Third-Party Allotment	
BBH(LUX) FOR FIDELITY FUNDS PACIFIC FUND	7.66%	Planned Allottee	74.88%
Sanden's Business Partner Share Holding Association	4.96%	BBH(LUX) FOR FIDELITY FUNDS PACIFIC FUND	1.93%
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.00%	Sanden's Business Partner Share Holding Association	1.24%
Mizuho Bank, Ltd.	3.63%	The Master Trust Bank of Japan, Ltd. (Trust Account)	1.00%

The Gunma Bank, Ltd.	3.63%	Mizuho Bank, Ltd.	0.91%
Daido Life Insurance Company	2.47%	The Gunma Bank, Ltd.	0.91%
Custody Bank of Japan, Ltd. (Trust Account 5)	1.93%	Daido Life Insurance Company	0.62%
Custody Bank of Japan, Ltd. (Trust Account)	1.89%	Custody Bank of Japan, Ltd. (Trust Account 5)	0.48%
Japan Securities Finance Co., Ltd.	1.41%	Custody Bank of Japan, Ltd. (Trust Account)	0.48%
CLEARSTREAM BANKING S.A.	1.31%	Japan Securities Finance Co., Ltd.	0.35%

(Notes)
1. The table above is based on the shareholder register as of September 30, 2020. The Company held 13,291 shares of treasury stock as of September 30, 2020, but they are excluded from the calculation of the above shareholding ratios.
2. The shareholding ratios of the major shareholders after the Capital Increase through Third-Party Allotment are calculated based on 111,693,313 shares, which number is obtained by adding the number of the shares of common stock (83,627,000 shares) to be newly issued through the Capital Increase through Third-Party Allotment, to the total number of issued shares (28,066,313 shares) as of September 30, 2020.

8. Future Prospects

The Company is currently examining the specific impact of the Capital Increase through Third-Party Allotment on the performance of the Company. Once the actual amount of the impact on the performance becomes clear, the Company will promptly disclose the relevant information.

9. Procedures under Code of Corporate Conduct

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 plans to obtain an approval by a special resolution at the Extraordinary General Meeting of Shareholders as procedures for confirming the intent of shareholders as provided for in Article 432 of the Securities Listing Regulations set forth by the Tokyo Stock Exchange.

10. Operating Results for and Status of Equity Finance Executed in the Past Three Years

(1) Operating results (consolidated) for the past three years

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Consolidated net sales	287,609 million yen	273,934 million yen	204,880 million yen
Consolidated operating income	5,469 million yen	889 million yen	(3,401) million yen
Consolidated ordinary income (loss)	4,411 million yen	564 million yen	(9,735) million yen
Profit (loss) attributable to owners of parent	4,255 million yen	(23,060) million yen	2,287 million yen
Consolidated net income per share basic	154.00 yen	(833.58) yen	82.54 yen
Dividend per share	0 yen	0 yen	0 yen
Consolidated net assets per share	1,633.99 yen	685.04 yen	747.92 yen

(2) Current number of issued shares and dilutive shares (as of March 1, 2021)

	Number of shares	Ratio to total number of issued shares
Number of issued shares	28,066,313 shares	100.00%
Number of dilutive shares at the current conversion price (exercise price)	-	-
Number of dilutive shares at minimum conversion price (exercise price)	-	-
Number of dilutive shares at maximum conversion price (exercise price)	-	-

(3) Recent share prices

(i) Share prices for the past three years

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Opening	1,830 yen	1,546 yen	767 yen
High	2,580 yen	1,823 yen	942 yen
Low	1,397 yen	642 yen	297 yen
Closing	1,531 yen	754 yen	362 yen

(Note) Five shares of common stock were consolidated into one share on October 1, 2017. The figures represent the adjusted share price as if the consolidation of shares had been carried out at the beginning of the fiscal year ended March 31, 2018.

(ii) Share prices for the past six months

	September 2020	October	November	December	January 2021	February
Opening	308 yen	308 yen	345 yen	385 yen	354 yen	400 yen
High	335 yen	406 yen	400 yen	420 yen	417 yen	507 yen
Low	289 yen	300 yen	334 yen	335 yen	334 yen	400 yen
Closing	302 yen	345 yen	372 yen	349 yen	400 yen	457 yen

(iii) Share price on the business day immediately preceding the date of resolution approving the issuance

	February 26, 2021
Opening	468 yen
High	507 yen
Low	456 yen
Closing	457 yen

(4) Equity finance executed in the past three years

Not applicable.

11. Schedule for Issuance of the shares of common stock

(1) Resolution at the Board of Directors and Execution of the Share Purchase Agreement	March 1, 2021
(2) Resolution at the Extraordinary General Meeting of Shareholders	May 7, 2021 (Scheduled)
(3) Payment period	From May 10, 2021 to December 31, 2021 (Scheduled)

II. Shelf Registration

1. Purpose of Shelf Registration

Since the Planned Allottee has not been incorporated as of today and the Company is not able to describe the outline of the Planned Allottee in a securities registration statement, the Company made the Shelf Registration instead of filing the securities registration statement, prior to this announcement of the Capital Increase through Third-Party Allotment. For the details of the purpose of the Capital Increase through Third-Party Allotment, please see “I. Capital Increase through Third-Party Allotment 2. Purpose of and Reason for Offering.”

2. Outline of Shelf Registration

(1)	Class of securities offered	Shares of common stock of the Company
(2)	Planned issuance period	From the date when the shelf registration is expected to become effective to the date one year after (March 17, 2021 to March 16, 2022)
(3)	Amount to be issued	Up to 21,408,512,000 yen
(4)	Method of offering	All of the shares of common stock will be allotted to the Planned Allottee (a special purpose company to be incorporated by Hisense Home Appliances Group for the purpose of subscribing for the shares of common stock to be issued through the Capital Increase through Third-Party Allotment).
(5)	Use of proceeds	As described in “I. Capital Increase through Third-Party Allotment 3 Amount, Usage and Scheduled Timing of Use of the Funds to be Raised”

III. Amendment to the Articles of Incorporation

1. Reasons for Amendment to the Articles of Incorporation

In order to enable the issuance of the new shares upon the Capital Increase through Third-Party Allotment, Article 6 (Total Number of Shares Issuable) of the Articles of Incorporation will be amended so that the total number of shares authorized to be issued will be changed from 79,200,000 shares to 112,200,000 shares.

The Amendment to the Articles of Incorporation is subject to the condition that the Capital Increase through Third-Party Allotment is approved at the Extraordinary General Meeting of Shareholders.

2. Details of Amendment to the Articles of Incorporation

(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.

3. Schedule for Amendment to the Articles of Incorporation

(1) Resolution at the Board of Directors	March 1, 2021
(2) Resolution at the Extraordinary General Meeting of Shareholders	May 7, 2021 (Scheduled)
(3) Effective Date	May 7, 2021 (Scheduled)

IV. Expected Changes in Parent Company and Largest Shareholder among the Major Shareholders

1. Background to Change

As a result of the Capital Increase through Third-Party Allotment, the Planned Allottee will hold approximately 75.00% of the voting rights of the Company. Accordingly, the Planned Allottee will become a parent company of the Company, and its largest shareholder among the major shareholders.

2. Outline of Planned Allottee

As described in "I. Capital Increase through Third-Party Allotment 6. Reasons for Selecting the Planned Allottee, etc. (1) Outline of the Planned Allottee" above, the Planned Allottee has not been incorporated as of today.

3. The number of voting rights held by Planned Allottee and the ratio to the number of voting rights held by all shareholders before and after the change

	Attribute	Number of Voting Rights (Percentage of Voting Rights Held)			Major shareholder ranking
		Direct Holding	Holding to Be Added	Total	
Before change (As of September 30, 2020)	-	0 (0%)	0 (0%)	0 (0%)	-
After change	Parent Company and Largest Shareholder among Major Shareholders	836,270 (Approximately 75.00%)	0 (0%)	836,270 (Approximately 75.00%)	First

(Note) 1. The ratio to the number of voting rights of all shareholders held before the change is calculated by using the number of voting rights of all shareholders (278,757) as of September 30, 2020.
The number of shares excluded from the total number of issued shares as non-voting shares: 190,613 shares
The total number of issued shares as of September 30, 2020: 28,066,313 shares

2. The ratio to the number of voting rights of all shareholders held after the change is calculated by using the number of voting rights of all shareholders (1,115,027) which number is obtained by adding 836,270 voting rights to be increased upon the Capital Increase through Third-Party Allotment.

4. Scheduled Date of Change

Date on which the new shares will be issued upon the Capital Increase through Third-Party Allotment (any date during the period from May 10, 2021 to December 31, 2021)

5. Future Prospects

Please see "I. Capital Increase through Third-Party Allotment 6. Reasons for Selecting the Planned Allottee, etc. (3) Shareholding Policy of Planned Allottee" above.

End