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HAIER SMART HOME CO., LTD.*
海爾智家股份有限公司
(a joint stock company incorporated in the
People's Republic of China with limited liability)


HAIER ELECTRONICS GROUP CO., LTD.
海爾電器集團有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 1169)

JOINT ANNOUNCEMENT

**(1) PRE-CONDITIONAL PROPOSAL FOR PRIVATISATION OF
HAIER ELECTRONICS GROUP CO., LTD.
BY HAIER SMART HOME CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT**

(2) PROPOSED WITHDRAWAL OF LISTING OF HEG SHARES

AND

(3) RESUMPTION OF TRADING IN HEG SHARES

Joint Financial Advisers to HSH



J.P.Morgan

Financial Adviser to HEG



Valuation Adviser to HSH



Independent Financial Adviser to the Independent Board Committee

 **SOMERLEY CAPITAL LIMITED**

* For identification purpose only

INTRODUCTION

HSH and HEG jointly announce that, on 30 July 2020, HSH has formally requested the HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward a proposal to the Scheme Shareholders for the privatisation of HEG by way of a scheme of arrangement under Section 99 of the Companies Act.

For further details regarding the procedures for approval of the Privatisation Proposal by HEG Shareholders, please refer to the sections headed “10. SCHEME SHARES, COURT MEETING AND THE SGM”, “11. INDEPENDENT BOARD COMMITTEE” and “12. INDEPENDENT FINANCIAL ADVISER”. The Independent Board Committee has been established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders as to: (i) whether the terms of the Privatisation Proposal are, or are not, fair and reasonable; and (ii) whether to vote in favour of the resolutions for the approval of the Scheme at the Court Meeting and the resolutions necessary to implement the Privatisation Proposal at the SGM, taking into account the advice of the Independent Financial Adviser.

THE PRE-CONDITIONAL PRIVATISATION PROPOSAL

Subject to the satisfaction of the Pre-Conditions, HSH proposes to make the Privatisation Proposal. Upon the fulfilment of the Conditions and the Scheme becoming effective, all Scheme Shares will be cancelled and the Scheme Shareholders will be entitled to receive from HSH (in respect of the new HSH H Shares) and from HEG (in respect of the Cash Payment):

**For every Scheme Share cancelled 1.60 new HSH H Shares and
the Cash Payment of HK\$1.95**

The Listing will take place and the new HSH H Shares will be issued to the Scheme Shareholders only if the Scheme becomes effective.

The Cash Payment will be paid by HEG only if the Scheme becomes effective.

It is proposed that, under the Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and sold on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

Valuation and Comparison of value

Platinum, the independent valuer appointed by HSH to value the HSH H Shares, has estimated that the value of each HSH H Share as at 30 July 2020 is in the range of RMB16.45 to RMB16.90 (equivalent to approximately HK\$18.23 to HK\$18.72 respectively). On the basis of such valuation and that Scheme Shareholders will receive (i) 1.60 HSH H Shares and (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal will be in the range of approximately HK\$31.11 to HK\$31.90. Accordingly, with 2,816,995,978 HEG Shares in issue as at 31 July 2020, the entire issued share capital of HEG as at 31 July 2020 would be theoretically valued under the Privatisation Proposal in the range of approximately HK\$87,644 million to HK\$89,873 million.

The foregoing paragraph is subject to and should be read in conjunction with the bases, limitations and assumptions set out in the Valuation Report set out in Annex 1 of this Announcement, which has been reported on by the Joint Financial Advisers. **In particular, Scheme Shareholders, investors and potential investors should note that the value of HSH H Shares estimated by the Valuation Adviser does not represent the trading price of HSH H Shares immediately following completion of the Introduction or at any time. The trading price of HSH H Shares may fluctuate subject to prevailing market conditions and may materially differ from the value estimated by the Valuation Adviser. Moreover, as the Independent Board Committee will make a recommendation only after taking into account of the advice from the Independent Financial Adviser to be included in the Scheme Document, it is not expressing any view as to the contents of the Valuation Report. Accordingly, Scheme Shareholders, investors and potential investors should not rely on the Valuation Adviser's estimated value of HSH H Shares as the basis for the trading price of the HSH H Shares upon completion of the Introduction.**

On the basis of (i) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 30 July 2020 of HK\$18.47 per HSH H Share, together with (ii) the Cash Payment under the Scheme of HK\$1.95 for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment under the Privatisation Proposal is equivalent to approximately HK\$31.51 for each Scheme Share and represents:

- (a) a premium of approximately 44.20% over the closing price of HK\$21.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 42.65% over the average closing price of approximately HK\$22.09 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (c) a premium of approximately 46.62% over the average closing price of approximately HK\$21.49 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 51.38% over the average closing price of approximately HK\$20.81 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 52.28% over the average closing price of approximately HK\$20.69 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (f) a premium of approximately 17.35% over the closing price of HK\$26.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the publication of this Announcement;
- (g) a premium of approximately 28.34% over the average closing price of approximately HK\$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the last trading day prior to the publication of this Announcement;

- (h) a premium of approximately 36.79% over the average closing price of approximately HK\$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the last trading day prior to the publication of this Announcement;
- (i) a premium of approximately 42.98% over the average closing price of approximately HK\$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the last trading day prior to the publication of this Announcement; and
- (j) a premium of approximately 41.86% over the average closing price of approximately HK\$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the last trading day prior to the publication of this Announcement.

SHAREHOLDING STRUCTURE OF THE COMPANY AND SCHEME SHARES

As at the Announcement Date, there are 2,816,995,978 HEG Shares in issue. HSH and the HSH Concert Parties directly and indirectly hold and/or control the exercise of voting rights over 1,645,392,177 HEG Shares in aggregate, representing approximately 58.41% of the outstanding issued share capital of HEG.

Based on the shareholding as at the Announcement Date, out of the 1,645,392,177 HEG Shares held and/or controlled by HSH and the HSH Concert Parties:

- (i) a total of 1,286,820,592 HEG Shares held by HSH and its wholly-owned subsidiary (representing approximately 45.68% of the outstanding issued share capital of HEG) will not form part of the Scheme Shares; and
- (ii) the remaining 358,571,585 HEG Shares held and/or controlled by other HSH Concert Parties (in total representing approximately 12.73% of the outstanding issued share capital of HEG), being (A) 336,600,000 HEG Shares (representing approximately 11.95% of the outstanding issued share capital of HEG) held by HCH (HK), a subsidiary of Haier Group (the voting rights of which are exercised by HSH under a voting rights entrustment arrangement), (B) 11,632,146 HEG Shares (representing approximately 0.41% of the outstanding issued share capital of HEG) held by the directors of HSH and Haier Group and (C) 10,339,439 HEG Shares (representing approximately 0.37% of the outstanding issued share capital of HEG) held by the HKI/HIC Trustee, will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.

FINANCIAL RESOURCES

The majority of the cash and cash equivalents of HEG Group is kept onshore in mainland China as the business operations of HEG Group are mostly carried out in mainland China. After taking into account various costs, it is considered more appropriate to settle the Cash Payment primarily by external debt financing. As such, upon completion of the Privatisation Proposal and the Scheme becoming effective, it is expected that settlement of the Cash Payment under the Scheme by HEG will be funded by external debt financing primarily and also internal resources.

CICC, as a financial adviser to HSH in connection with the Privatisation Proposal and the Scheme, is satisfied that sufficient financial resources are available to HEG to satisfy the maximum amount of the Cash Payment required to effect the Privatisation Proposal as set forth in part (b) of the section headed “2.4. Value of the Privatisation Proposal”.

BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION

The HSH Board believes that, after the completion of the Privatisation Proposal and the Listing by Introduction, the Enlarged HSH Group represents an attractive investment opportunity for Scheme Shareholders. The benefits to Scheme Shareholders include an attractive premium represented by the theoretical total value of the HSH H Shares and the Cash Payment under the Privatisation Proposal (being an integral part of the Privatisation Proposal) as compared to the market value of HEG Shares, immediate realisable return in the form of cash through the Cash Payment, improved liquidity due to enlarged market capitalisation and diversified investor profile of the Enlarged HSH Group, as well as the long-term capital appreciation potential of the Enlarged HSH Group.

Going forward, the Enlarged HSH Group will continue to optimise its operations and management, maintain robust financial performance and raise capital market profile to generate greater return for its shareholders. HSH believes the Privatisation Proposal could also contribute to the long-term development of the Enlarged HSH Group in the following ways:

- (a) stronger growth supported by full-suite smart home products and service solutions on a global platform; and
- (b) improved operational efficiency with greater economies of scale and enhanced outlook.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising all non-executive directors and independent non-executive directors of HEG who are not interested in the Privatisation Proposal, namely, Mr. Yang Guang, Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma, has been established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders as to: (i) whether the terms of the Privatisation Proposal are, or are not, fair and reasonable; and (ii) whether to vote in favour of the Scheme at the Court Meeting and the resolutions necessary to implement the Privatisation Proposal at the SGM. The Independent Board Committee has approved the engagement of Somerley Capital Limited as the Independent Financial Adviser and the Independent Board Committee will make its recommendation to the Disinterested Scheme Shareholders after taking into account of the letter of advice from the Independent Financial Adviser to be contained in the Scheme Document.

Mr. Liang Haishan, a non-executive director of HEG, is an HSH Concert Party and is therefore not considered as independent for the purpose of giving advice or recommendations to the Disinterested Scheme Shareholders. Accordingly, Mr. Liang Haishan has been precluded from the Independent Board Committee.

FINANCIAL ADVISERS

HSH has appointed CICC and J.P. Morgan to act as its joint financial advisers in connection with the Privatisation Proposal and the Scheme.

HEG has appointed UBS as its financial adviser in connection with the Privatisation Proposal and the Scheme.

DESPATCH OF SCHEME DOCUMENT

Subject to the satisfaction of the Pre-Conditions, HEG will send to HEG Shareholders a Scheme Document containing, among other things, further details about the Scheme (including the Cash Payment as an integral part of the Scheme), a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the recommendations of the Independent Board Committee, notices to convene the Court Meeting and the SGM, and an advanced draft of the Listing Document as soon as possible in accordance with the Takeovers Code, the requirements of the Court and other applicable regulations.

WITHDRAWAL OF LISTING OF SHARES

If the Scheme becomes effective

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HEG will apply to the Stock Exchange in accordance with Rule 6.15 of the Listing Rules for the withdrawal of the listing of the HEG Shares on the Stock Exchange, immediately following the Scheme Effective Date.

If the Scheme is not approved or if the Privatisation Proposal lapses

The Scheme will lapse if any of the Conditions has not been satisfied or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, the listing of the HEG Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, neither HSH nor the HSH Concert Parties under the Privatisation Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months from the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses, announce an offer or possible offer for shares in HEG.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Privatisation Proposal, and the Scheme is not approved, all expenses incurred by HEG in connection with the Scheme will be borne by HSH in accordance with Rule 2.3 of the Takeovers Code.

RESUMPTION OF TRADING IN HEG SHARES

At the request of HEG, trading in HEG Shares on the Stock Exchange was halted from 9:00 a.m. on 30 July 2020, pending the release of this Announcement. An application will be made by HEG to the Stock Exchange for the resumption of trading in HEG Shares on the Stock Exchange with effect from 9:00 a.m. on 3 August 2020.

WARNING: Shareholders and other investors of HSH and HEG should be aware that the making of the Privatisation Proposal is subject to the satisfaction of the Pre-Conditions. Even if the Privatisation Proposal is made, the implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and other investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

1. BACKGROUND AND INTRODUCTION

References are made to (1) the announcement of HSH dated 16 December 2019 and the announcement of HEG dated 16 December 2019 respectively pursuant to Rule 3.7 of the Takeovers Code in relation to, among others, a proposal to privatise HEG; (2) the announcement of HSH dated 17 December 2019, and the announcements of HEG made on various dates pursuant to Rule 3.8 of the Takeovers Code in relation to updates on the number of relevant securities; and (3) the various joint announcements of HSH and HEG between 16 January 2020 and 16 July 2020 pursuant to Rule 3.7 of the Takeovers Code in relation to updates on the proposal to privatise HEG.

HSH and HEG jointly announce that, on 30 July 2020, HSH has formally requested the HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward a proposal to the Scheme Shareholders for the privatisation of HEG by way of a scheme of arrangement under Section 99 of the Companies Act.

HSH is a joint stock company incorporated in the PRC with limited liability, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600690) and whose D shares are listed on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange (stock code: 690D).

Subject to the satisfaction of the Pre-Conditions, HSH will make the Privatisation Proposal to privatise HEG by issuing new HSH H Shares as consideration for the cancellation of the Scheme Shares. Accordingly, HSH will be making an application to the Stock Exchange for the listing of the HSH H Shares by way of a listing by introduction. In addition, as an integral part of the Privatisation Proposal, upon the Scheme becoming effective, HEG will make the Cash Payment to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time.

Upon the fulfilment of the Conditions and following completion of the Privatisation Proposal:

- (a) the listing of HEG Shares on the Stock Exchange will be withdrawn;
- (b) HSH H Shares will be listed on the Stock Exchange;
- (c) the Scheme Shareholders will become shareholders of HSH; and
- (d) the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal, as detailed in the section headed “4. HSH EXCHANGEABLE BONDS — 4.3. EB-to-CB Proposal” below, becomes unconditional and effective), while HSH will remain a subsidiary of Haier Group.

As at the Announcement Date, there are 2,816,995,978 HEG Shares in issue. HSH and the HSH Concert Parties directly and indirectly hold and/or control the exercise of voting rights over 1,645,392,177 HEG Shares in aggregate, representing approximately 58.41% of the outstanding issued share capital of HEG.

Based on the shareholding as at the Announcement Date, out of the 1,645,392,177 HEG Shares held and/or controlled by HSH and the HSH Concert Parties:

- (i) a total of 1,286,820,592 HEG Shares held by HSH and its wholly-owned subsidiary (representing approximately 45.68% of the outstanding issued share capital of HEG) will not form part of the Scheme Shares; and
- (ii) the remaining 358,571,585 HEG Shares held and/or controlled by other HSH Concert Parties (in total representing approximately 12.73% of the outstanding issued share capital of HEG), being (A) 336,600,000 HEG Shares (representing approximately 11.95% of the outstanding issued share capital of HEG) held by HCH (HK), a subsidiary of Haier Group (the voting rights of which are exercised by HSH under a voting rights entrustment arrangement), (B) 11,632,146 HEG Shares (representing approximately 0.41% of the outstanding issued share capital of HEG) held by the directors of HSH and Haier Group and (C) 10,339,439 HEG Shares (representing approximately 0.37% of the outstanding issued share capital of HEG) held by the HKI/HIC Trustee, all of which will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.

Each of HSH and any of its wholly-owned subsidiaries that holds HEG Shares will provide an undertaking to the Court to be bound by the terms of the Scheme.

The remaining approximately 41.59% of the outstanding issued share capital of HEG are held by other HEG Shareholders (which include the HEG Trustee and certain Directors).

Please refer to the section headed “7. INFORMATION ON HSH — 7.5. Shareholding structure of HSH” for the simplified shareholding structures of HEG as at the Announcement Date and immediately upon the completion of the Privatisation Proposal.

HSH has appointed CICC and J.P. Morgan to act as its joint financial advisers in connection with the Privatisation Proposal and the Scheme.

HEG has appointed UBS as its financial adviser in connection with the Privatisation Proposal and the Scheme.

2. TERMS OF THE PRE-CONDITIONAL PRIVATISATION PROPOSAL

2.1. The Privatisation Proposal

HSH has requested the HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward the Privatisation Proposal. Upon the fulfilment of the Conditions and the Scheme becoming effective, all Scheme Shares will be cancelled and the Scheme Shareholders will be entitled to receive from HSH (in respect of the new HSH H Shares) and from HEG (in respect of the Cash Payment):

**For every Scheme Share cancelled 1.60 new HSH H Shares and
the Cash Payment of HK\$1.95**

The Listing will take place and the new HSH H Shares will be issued to the Scheme Shareholders only if the Scheme becomes effective.

The Cash Payment will be paid by HEG only if the Scheme becomes effective.

It is proposed that, under the Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and sold on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

In compliance with Rule 20.1(a) of the Takeovers Code, upon the Scheme becoming effective, the new HSH H Shares will be issued by HSH, and the Cash Payment will be paid by HEG, to the Scheme Shareholders as soon as possible but in any event within seven business days after the Scheme Effective Date.

Dividend Payment by HSH and HEG

At a general shareholders' meeting of HSH held on 3 June 2020, the HSH Shareholders have approved the HSH 2019 Final Dividend. On 16 July 2020, the HSH 2019 Final Dividend was paid to HSH Shareholders whose names appeared on the register of members of HSH on 15 July 2020. Holders of the new HSH H Shares to be issued in consideration for the cancellation of the Scheme Shares upon the Scheme becoming effective will not be entitled to the HSH 2019 Final Dividend or any other dividend or distribution which may be made by HSH by reference to a record date/time before the Scheme Record Time.

At the annual general meeting of HEG held on 23 June 2020, the HEG Shareholders have approved the HEG 2019 Final Dividend which will be payable to shareholders whose names appeared on the register of members of HEG on 3 July 2020. The HEG 2019 Final Dividend will be paid on or around 3 August 2020.

The payment of the HSH 2019 Final Dividend and/or HEG 2019 Final Dividend will not result in any adjustment to the Share Exchange Ratio or the amount of the Cash Payment.

In addition, the Cash Payment by HEG upon the Scheme becoming effective will not result in any adjustment to the Share Exchange Ratio.

Neither HSH nor HEG intend to declare and/or pay any dividend (other than the HSH 2019 Final Dividend and the HEG 2019 Final Dividend) before the Scheme Effective Date or the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be). For HSH's dividend policy after the Scheme becomes effective, please refer to the section headed "5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION — 5.3.4. Increase shareholders' return". Either HSH (as enlarged after the completion of the Privatisation Proposal) or each of HSH and HEG (as the case may be) intends to declare and pay the final dividend for the year ending 31 December 2020 after the Scheme Effective Date or (if earlier) the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be), subject to obtaining relevant shareholders' approval (if required).

Events following the Scheme becoming effective

On the basis of the number of Scheme Shares in issue as at the Announcement Date, if the Conditions are fulfilled and upon the Scheme becoming effective:

- (i) all of the Scheme Shares will be cancelled;
- (ii) 1.60 new HSH H Shares will be issued to the Scheme Shareholders for every Scheme Share cancelled;
- (iii) the Cash Payment of HK\$1.95 for every Scheme Share cancelled will be paid by HEG to the Scheme Shareholders;
- (iv) the issued share capital of HEG will be reduced by the cancellation of the Scheme Shares. Immediately after such reduction, HEG will issue to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled such that the issued share capital of HEG will be restored to its amount in issue immediately before the capital reduction. The reserve created in the books of accounts of HEG as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new HEG Shares so issued, credited as fully paid; and
- (v) the listing of the HEG Shares on the Stock Exchange will be withdrawn pursuant to Rule 6.15 of the Listing Rules.

Basis for determining the Share Exchange Ratio and the Cash Payment

The Share Exchange Ratio of 1.60 new HSH H Shares, together with the Cash Payment under the Scheme of HK\$1.95 (being an integral part of the Privatisation Proposal), for every Scheme Share cancelled were on arm's length terms determined on commercial basis after taking into account, among other things:

- (i) the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal, which is attractive for the Scheme Shareholders;
- (ii) the historical business and financial performance of HSH and HEG;
- (iii) the prevailing and historical market price levels of HEG and HSH and the historical and current trading multiples of certain of their respective comparable companies;
- (iv) the business potential of the Enlarged HSH Group after the Privatisation Proposal takes effect and the potential benefits of the Introduction and the Privatisation Proposal for the HSH Shareholders and HEG Shareholders;
- (v) the fact that HSH H Shares are being offered as consideration under the Scheme, and that following completion of the Introduction and the Privatisation Proposal, the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes unconditional and effective). Thus, Scheme Shareholders will be able to continue to participate in the performance of HEG indirectly; and
- (vi) the fact that the Cash Payment could provide a certain level of liquidity to the Scheme Shareholders, while the Enlarged HSH Group could retain sufficient resources to support its future operations and expansion after the completion of the Privatisation Proposal.

2.2. Valuation and Comparisons of value

Platinum, the Valuation Adviser, has estimated that the value of each HSH H Share as at 30 July 2020 is in the range of RMB16.45 to RMB16.90 (equivalent to approximately HK\$18.23 to HK\$18.72 respectively). On the basis of such valuation and that Scheme Shareholders will receive (i) 1.60 HSH H Shares and (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal will be in the range of approximately HK\$31.11 to HK\$31.90. Accordingly, with 2,816,995,978 HEG Shares in issue as at 31 July 2020, the entire issued share capital of HEG would be theoretically valued under the Privatisation Proposal in the range of approximately HK\$87,644 million to HK\$89,873 million.

The foregoing paragraph is subject to and should be read in conjunction with the bases, limitations and assumptions set out in the Valuation Report in Annex 1 of this Announcement. The estimate of value in the Valuation Report and the qualification and experience of the Valuation Adviser have been reported on by the Joint Financial Advisers. **In particular, Scheme Shareholders, investors and potential investors should note that the value of HSH H Shares estimated by the Valuation Adviser does not represent the trading price of HSH H Shares immediately following completion of the Introduction or at any time. The trading price of HSH H Shares may fluctuate subject to prevailing market conditions and may materially differ from the value estimated by the Valuation Adviser. Moreover, as the Independent Board Committee will make a recommendation only after taking into account of the advice from the Independent Financial Adviser to be included in the Scheme Document, it is not expressing any view as to the contents of the Valuation Report. Accordingly, Scheme Shareholders, investors and potential investors should not rely on the Valuation Adviser's estimated value of HSH H Shares as the basis for the trading price of the HSH H Shares upon completion of the Introduction.**

HSH and HEG have each made their first possible offer announcement pursuant to Rule 3.7 of the Takeovers Code on 16 December 2019. The closing price per HEG Share on 17 December 2019 (being the trading day immediately after the publication of such announcements) was HK\$23.90, representing an uplift of approximately 9.38% over the closing price of HK\$21.85 per HEG Share on 12 December 2019 (being the last trading day on which trading in HEG Shares took place immediately preceding the publication of such announcements).

On the basis of (i) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 30 July 2020 of HK\$18.47 per HSH H Share, together with (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment under the Privatisation Proposal is equivalent to approximately HK\$31.51 for each Scheme Share and represents:

- (a) a premium of approximately 44.20% over the closing price of HK\$21.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 42.65% over the average closing price of approximately HK\$22.09 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (c) a premium of approximately 46.62% over the average closing price of approximately HK\$21.49 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 51.38% over the average closing price of approximately HK\$20.81 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 52.28% over the average closing price of approximately HK\$20.69 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

- (f) a premium of approximately 17.35% over the closing price of HK\$26.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the publication of this Announcement;
- (g) a premium of approximately 28.34% over the average closing price of approximately HK\$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the last trading day prior to the publication of this Announcement;
- (h) a premium of approximately 36.79% over the average closing price of approximately HK\$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the last trading day prior to the publication of this Announcement;
- (i) a premium of approximately 42.98% over the average closing price of approximately HK\$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the last trading day prior to the publication of this Announcement; and
- (j) a premium of approximately 41.86% over the average closing price of approximately HK\$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the last trading day prior to the publication of this Announcement.

According to the unaudited pro forma financial information of the HSH Group consisting of the unaudited pro forma statement of adjusted consolidated net tangible assets of the HSH Group as at 31 December 2019, the unaudited pro forma consolidated statements of financial position as at 31 December 2019 and the unaudited pro forma consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2019, and the related notes thereto as set out in Annex 2 of this Announcement, and which has been prepared in accordance with Rule 4.29 of the Listing Rules on the bases and assumptions set out therein, the pro forma basic earnings per HSH H Share attributable to ordinary equity holders of the Enlarged HSH Group from continuing operations for the year ended 31 December 2019 is RMB1.01. On the basis of such pro forma basic earnings per HSH H Share and the Share Exchange Ratio, the pro forma earnings of the HSH H Shares which will be received upon the Scheme becoming effective for cancellation of each HEG Share is approximately RMB1.62 (being RMB1.01 multiplied by the Share Exchange Ratio). This represents an increase of 9.9% as compared to the basic earnings per HEG Share attributable to ordinary equity holders of HEG from continuing operations for the year ended 31 December 2019 in the amount of RMB1.47 as set out in the audited consolidated annual financial statements of HEG for the year ended 31 December 2019. In addition, the Cash Payment to be paid by HEG upon the Scheme becoming effective will further increase the return on the Scheme Shares for the Scheme Shareholders on a one-off basis.

The unaudited pro forma financial information in Annex 2 (the compilation of which has been reported on by the auditors of HSH) is prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the resulting HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in this Announcement.

2.3. Highest and Lowest Prices

During the six-month period preceding the Offer Period Commencement Date and up to the Announcement Date, the highest closing price of HEG Shares as quoted on the Stock Exchange was HK\$26.85 on 29 July 2020, and the lowest closing price of HEG Shares as quoted on the Stock Exchange was HK\$17.74 on 7 August 2019.

2.4. Value of the Privatisation Proposal

As at the Announcement Date, there are 2,816,995,978 HEG Shares in issue. HSH and HS (HK), its wholly-owned subsidiary, hold an aggregate of 1,286,820,592 HEG Shares.

On the basis of the theoretical total value of the HSH H Shares and the Cash Payment of HK\$31.51 per Scheme Share (being the aggregate of (i) the theoretical value of the HSH H Shares determined on the basis of the mid-point of the valuation range estimated by the Valuation Adviser, and (ii) the Cash Payment under the Scheme as set out in section 2.2 above, for reference only):

- (a) assuming (i) there will be no change in the number of HEG Shares in issue prior to the Scheme Record Time; (ii) none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time; and (iii) the Scheme becomes effective, and taking into account the Cash Payment, the Privatisation Proposal values all of the Scheme Shares at approximately HK\$48,213 million, and the entire issued share capital of HEG at approximately HK\$88,759 million.

On the basis of such number of Scheme Shares and the Share Exchange Ratio, upon the fulfilment of the Conditions and the Scheme becoming effective, (i) an aggregate of 2,448,280,617 HSH H Shares (representing approximately 37.21% of the entire issued share capital of HSH as at the Announcement Date or approximately 27.12% of the entire issued share capital of HSH as enlarged by the issuance of such HSH H Shares) will be issued by HSH and (ii) a Cash Payment in the total amount of HK\$2,984 million will be paid by HEG to the Scheme Shareholders; or

- (b) assuming the exchange right with respect to all of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time and the Exchange Property (as defined in the Bond Terms and Conditions) has been adjusted as a result of the HEG 2019 Final Dividend Adjustment (for illustration purposes only, as elaborated in the section headed “4. HSH EXCHANGEABLE BONDS — 4.1. General Information”), there will be an aggregate of 1,785,844,532 Scheme Shares in issue. Assuming further that (i) there will be no other change in the number of HEG Shares in issue prior to the Scheme Record Time; and (ii) the Scheme becomes effective, and taking into account the Cash Payment, the Privatisation Proposal values all of the Scheme Shares at approximately HK\$56,269 million, and the entire issued share capital of HEG at approximately HK\$88,759 million.

On the basis of such increased number of Scheme Shares and the Share Exchange Ratio, upon the fulfilment of the Conditions and the Scheme becoming effective, (i) an aggregate of 2,857,351,251 HSH H Shares (representing approximately 43.43% of the entire issued share capital of HSH as at the Announcement Date or approximately 30.28% of the entire issued share capital of HSH as enlarged by the issuance of such HSH H Shares) will be issued by HSH and (ii) a Cash Payment in the total amount of HK\$3,482 million will be paid by HEG to the Scheme Shareholders.

Based on the above, it is expected that, upon the Scheme becoming effective and the issuance of the new HSH H Shares pursuant thereto, no less than 15% of the total issued share capital of HSH will be HSH H Shares held by public shareholders. On this basis, upon the fulfilment of the Conditions and upon Listing, HSH will be able to satisfy the minimum public float requirements under Rule 8.08(1)(b) of the Listing Rules.

All of the HSH H Shares to be issued to settle the Privatisation Proposal are and will be free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid by reference to a record time at or after the date and time of their issue.

Upon completion of the Privatisation Proposal and the Scheme becoming effective, Scheme Shareholders will not be entitled to the dividends and/or other distributions declared, paid or made by HEG by reference to a record time on or after the Scheme Effective Date.

2.5. Confirmation of financial resources

The majority of the cash and cash equivalents of the HEG Group is kept onshore in mainland China as the business operations of the HEG Group are mostly carried out in mainland China. After taking into account various costs, it is considered more appropriate to settle the Cash Payment primarily by external debt financing. As such, upon completion of the Privatisation Proposal and the Scheme becoming effective, it is expected that settlement of the Cash Payment under the Scheme by HEG will be funded by external debt financing primarily and also internal resources.

CICC, as a financial adviser to HSH in connection with the Privatisation Proposal and the Scheme, is satisfied that sufficient financial resources are available to HEG to satisfy the maximum amount of the Cash Payment required to effect the Privatisation Proposal as set forth in part (b) of the section headed “2.4. Value of the Privatisation Proposal”.

2.6. Pre-Conditions to the making of the Privatisation Proposal

The making of the Privatisation Proposal is conditional upon:

- (a) the CSRC having approved the proposed issuance of HSH H Shares pursuant to the Introduction;
- (b) the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, the HSH H Shares on the Stock Exchange to be issued as consideration for the cancellation of the Scheme Shares under the Scheme, pursuant to the Introduction;
- (c) at least two-thirds of the voting rights of the Independent HSH Shareholders present at the HSH General Meeting having approved and voted in favour of the requisite resolution; and
- (d) at least two-thirds of the voting rights of the HSH A Shareholders and HSH D Shareholders respectively present at the HSH A Shares Class Meeting and HSH D Shares Class Meeting having approved and voted in favour of the requisite resolutions at the HSH A Shares Class Meeting and HSH D Shares Class Meeting respectively.

None of the Pre-Conditions can be waived by HSH. Further announcement(s) will be made as soon as practicable after the Pre-Conditions have been satisfied. In respect of the Pre-Conditions (c) and (d), if the requisite resolutions have been approved by the Independent HSH Shareholders, HSH A Shareholders and HSH D Shareholders at the HSH General Meeting, HSH A Shares Class Meeting and HSH D Shares Class Meeting respectively, such resolutions shall remain valid for a period of 12 months from the date of passing the relevant resolutions. If any of the Pre-Conditions is not satisfied on or before the Pre-Conditions Long Stop Date, the Privatisation Proposal will not be made and, in such case, an announcement will be made as soon as practicable.

2.7. Conditions of the Privatisation Proposal and the Scheme

The implementation of the Privatisation Proposal (including the effectiveness of the Scheme) is subject to the satisfaction or waiver (as applicable) of the following conditions:

Shareholders' approval

- (a) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

- (b) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders;
- (c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH of such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act;

Other Bermuda law requirements

- (d) the sanction of the Scheme (with or without modifications) by the Court, and the delivery to the Registrar of Companies in Bermuda of a copy of the Court Order for registration;
- (e) the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital of HEG referred to in paragraph (c) above;

Third party consents and other governmental or regulatory approvals

- (f) all applicable filings, notices, certificates and approvals in relation to the Privatisation Proposal (and its implementation) with or from any governmental or regulatory bodies required under any laws or regulations in the PRC, such as the NDRC and the competent commerce authority(ies), having been made or obtained and remaining in full force and effect;
- (g) all necessary third party consents in relation to the Privatisation Proposal which may be required under any existing contractual obligations to which any member of the HEG Group or HSH is a party (where any failure to obtain a consent would have a material adverse effect on the implementation of the Privatisation Proposal or the business of the HEG Group or HSH Group, in each case taken as a whole) having been obtained or waived by the relevant party(ies);

- (h) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Privatisation Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Privatisation Proposal (other than such order(s) or decision(s) that would not have a material adverse effect on the legal ability of HSH to proceed with the Privatisation Proposal);

Other conditions

- (i) no event having occurred which would make the Privatisation Proposal or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Privatisation Proposal or impose any additional material conditions or obligations with respect to the Privatisation Proposal or any part thereof or on the cancellation of the Scheme Shares (other than such event(s) that would not have a material adverse effect on the legal ability of HSH to proceed with the Privatisation Proposal);
- (j) since the Announcement Date, there having been no material adverse change to the business, financial or trading position of the HSH Group or the HEG Group, each taken as a whole. For the purpose of this Condition (j), material adverse change does not include any material adverse change (i) which do not have a material and significantly disproportionate impact on the business, financial or trading position of the HSH Group or HEG Group, each taken as a whole; and (ii) arising or resulting directly from COVID-19 or any change in the industry practices or policies in the material markets in which HSH Group or HEG Group operates and which practices or policies are of general application to the industry in which HSH Group or HEG Group is engaged; and
- (k) save in connection with the implementation of the Privatisation Proposal, the listing of the HEG Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of the HEG Shares on the Stock Exchange is or is likely to be withdrawn.

HSH reserves the right (but is not obliged) to waive any of Conditions (g) and (j) either in whole or in part, and either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e), (f), (h), (i) and (k) cannot be waived in any event. All of the Conditions will have to be satisfied or waived, as applicable, on or before the Scheme Long Stop Date, failing which the Privatisation Proposal and the Scheme will lapse. HEG has no right to waive any of the Conditions.

In respect of Condition (g), as at the Announcement Date, HSH and HEG do not reasonably foresee any necessary third party consents in relation to the Privatisation Proposal which are material and which may be required under any existing contractual obligations to which any member of the HEG Group or HSH is a party, save for the third party consents already set out above as a Condition. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, HSH may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to HSH in the context of the Privatisation Proposal.

WARNING: Shareholders and potential investors of HSH and HEG should be aware that the making of the Privatisation Proposal is subject to the satisfaction of the Pre-Conditions. Even if the Privatisation Proposal is made, the implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

2.8. Further Terms of the Privatisation

The HSH H Shares to be issued pursuant to the Scheme and the Listing by Introduction will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. As a consequence, the HSH H Shares will not be registered under the US Securities Act.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the HSH H Shares.

2.9. Listing Rules Implications for HEG

As HCH (HK) is a substantial shareholder of HEG and also a fellow subsidiary of HSH, and is thus a connected person (as defined under the Listing Rules) of HEG, and the Cash Payment will be made to the Scheme Shareholders including HCH (HK) upon the Scheme becoming effective, the Cash Payment to HCH (HK) would constitute a connected transaction for HEG under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than profits ratio) in respect of the Cash Payment to be made to HCH (HK) is expected to be more than 0.1% and less than 5%, the Cash Payment to HCH (HK) will be subject to the reporting and announcement requirements and exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhou Yunjie, Mr. Xie Ju Zhi, Mr. Li Hua Gang and Mr. Liang Haishan, each having a position at and related interest in HCH (HK) and its associates (as defined in the Listing Rules), are considered to be interested in the Cash Payment, which will be paid to Scheme Shareholders (which include HCH (HK)) subject to and upon the Scheme becoming effective, each of the aforementioned Directors has therefore abstained from voting on the board resolution of HEG for approving the making of the Cash Payment to Scheme Shareholders subject to and upon the Scheme becoming effective.

Further details relating to the connected transaction will be included in the Scheme Document to be sent to the HEG Shareholders.

3. HEG RESTRICTED SHARE AWARD SCHEME

The HEG Restricted Share Award Scheme was adopted by HEG on 15 April 2014 (and renewed by an addendum on 15 April 2019) to optimise the remuneration structure of HEG's management and employees through using a combination of cash and HEG Shares, to recognise the respective contributions of, and to incentivise, the eligible participants and to promote the retention of existing personnel and attract capable talents.

As at the Announcement Date, there are up to 12,133,232 outstanding HEG Share Awards under the HEG Restricted Share Award Scheme which remain unvested, and the HEG Trustee holds a total of 8,856,244 HEG Shares as trustee under the HEG Restricted Share Award Scheme to cover the outstanding HEG Share Awards. HEG expects that the HEG Shares currently held by the HEG Trustee will be sufficient for the vesting of the outstanding HEG Share Awards in view of the current results of the ongoing performance assessments conducted by HEG in respect of the grantees. Therefore, HEG will not issue further HEG Shares to the HEG Trustee for such purpose.

Out of the 12,133,232 outstanding HEG Share Awards:

- (a) up to 5,227,772 HEG Share Awards are due to vest in the near future; and
- (b) but for the Acceleration (as referred to below), up to 6,905,460 HEG Share Awards ("**2020 Unvested Awards**") would have been due to vest in or about July 2021, subject to the satisfaction of the pre-determined performance target(s) set for each grantee for the financial year ended 31 December 2019.

As the HEG Restricted Share Award Scheme is designed to govern the operation of an employees' share award scheme solely concerning the HEG Shares, the terms of the scheme rules and the trust deed for the HEG Restricted Share Award Scheme do not provide for any arrangement with respect to the HSH H Shares to be issued by HSH as consideration for cancellation of the Scheme Shares which will be held by the HEG Trustee upon the Scheme becoming effective. As such, to ensure that fair treatment is afforded to the grantees of the HEG Share Awards, pursuant to the rules of the HEG Restricted Share Award Scheme, the HEG Board resolved to accelerate the 2020 Unvested Awards so that the HEG Shares will vest with the grantees prior to the Scheme Record Time (the "**Acceleration**"). In this connection, the relevant grantee has to undertake to HEG as a condition of the Acceleration that:

- (i) he/she will remain in the HEG Group and continue to perform his/her pre-existing employment duties until at least July 2021; and
- (ii) should he/she leave the HEG Group at any time earlier than July 2021, he/she shall pay back to HEG an equivalent amount of the vested HEG Shares in money terms proportionately.

Pursuant to the rules of the HEG Restricted Share Award Scheme, any HEG Shares awarded to the selected participants but which have not yet been vested will have no voting rights in respect of any such HEG Shares.

The HEG Shares held by the HEG Trustee under the HEG Restricted Share Award Scheme, and the HEG Shares to be held by the grantee upon vesting of the HEG Share Awards, will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such holders as at the Scheme Record Time.

The rules of the HEG Restricted Share Award Scheme prohibit the HEG Trustee from exercising the voting rights attached to the HEG Shares held by it under the HEG Restricted Share Award Scheme, and the HEG Trustee will abstain from voting at the Court Meeting and the SGM.

4. HSH EXCHANGEABLE BONDS

4.1. General Information

On 21 November 2017, Harvest, which is wholly-owned by HS (HK) and which, in turn, is wholly-owned by HSH, issued the HSH Exchangeable Bonds which are listed on the Stock Exchange (stock code: 5024). The HSH Exchangeable Bonds are unconditionally and irrevocably guaranteed by HSH and HS (HK). Under the current terms and conditions of the HSH Exchangeable Bonds (the “**Bond Terms and Conditions**”), during the period from 1 January 2019 and up to 10 days prior to 21 November 2022 (the “**Maturity Date**”) (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place) or 10 days prior to the date fixed for redemption of the HSH Exchangeable Bonds, if such bonds have been called for redemption before the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place), the holders of the HSH Exchangeable Bonds (the “**Bondholders**”) are entitled to exchange the HSH Exchangeable Bonds into HEG Shares.

As at the Announcement Date, the entire principal amount of HK\$8,000,000,000 of the HSH Exchangeable Bonds are outstanding and are exchangeable into approximately 251 million HEG Shares currently held by HS (HK) (representing approximately 8.90% of the current total issued share capital of HEG). As at the Announcement Date, upon the exercise of exchange right in accordance with the Bond Terms and Conditions, the Bondholders will be entitled to receive 31,356.5773 HEG Shares for each HK\$1,000,000 principal amount of Bonds. Based on the foregoing, as at the Announcement Date, the current implied exchange price at which the HSH Exchangeable Bonds could be exchanged into HEG Shares is approximately HK\$31.89.

The HEG Shareholders have approved the HEG 2019 Final Dividend which will be payable to shareholders whose names appear on the register of members of HEG on 3 July 2020. The HEG 2019 Final Dividend will be paid on or around 3 August 2020 and after such payment, additional HEG Shares will need to be included to form part of the Exchange Property pursuant to the Bond Terms and Conditions. Although the Bonds Terms and Conditions permit Harvest, HSH or HS (HK) to apply the amount of HEG 2019 Final Dividend received in respect of the Exchange Property (the “**Cash Distribution Amount**”) to purchase additional HEG Shares in the market after the date on which such Cash Distribution Amount is received (the “**Distribution Payment Date**”) to form part of the Exchange Property, it is currently intended that such rights would not be exercised. Instead, it is intended that the adjustment mechanism set out in Condition 6(f) of the Bond Terms and Conditions would take effect, whereby additional HEG Shares calculated based on the following prescribed formula will be deemed to be added to the Exchange Property (the “**HEG 2019 Final Dividend Adjustment**”):

Additional HEG Shares = (Cash Distribution Amount / Theoretical Purchase Price on the 11th trading day following the Distribution Payment Date),

where:

“**Theoretical Purchase Price**” on any day will be equal to the average of the closing prices of the HEG Shares on each of the 10 trading days preceding, and excluding such date.

For illustration purposes only, assuming the Exchange Property is adjusted due to the HEG 2019 Final Dividend based on the average of the closing prices of the HEG Shares on each of the 10 trading days preceding but excluding the Announcement Date in accordance with the formula set out in Condition 6(f) of the Bond Terms and Conditions, this will result in there being 4,816,527 additional HEG Shares included to form part of the Exchange Property and as a result, the implied exchange price at which the HSH Exchangeable Bonds could be exchanged into HEG Shares would be approximately HK\$31.29.

The HEG 2019 Final Dividend Adjustment will only be determined on the 11th trading day following the Distribution Payment Date. For further information, please refer to the separate announcement to be published by Harvest in relation to the HSH Exchangeable Bonds (under Stock Code: 5024) on the website of the Stock Exchange (www.hkex.com.hk) with respect to adjustment of the Exchange Property due to the HEG 2019 Final Dividend.

The HEG Shares held by HS (HK) or the then holder of the Exchange Property do not form part of the Scheme Shares. As such, save as discussed in relation to the EB-to-CB Proposal (as defined below), Bondholders are not entitled to receive HSH H Shares unless they exchange their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time so as to be entitled to receive such HSH H Shares as Scheme Shareholders themselves. Similarly, the Cash Payment is not available to the Bondholders unless they exchange their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time so as to be entitled to receive such Cash Payment as Scheme Shareholders themselves.

- (a) If the Bondholders exercise their exchange right and become HEG Shareholders on or prior to the record date for determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the entitlements of HEG Shareholders to attend and vote at the SGM, those HEG Shares held by such Bondholders will form part of the Scheme Shares and accordingly may be voted on at the Court Meeting and the SGM.
- (b) If the Bondholders exercise their exchange right and become HEG Shareholders at or prior to the Scheme Record Time (but only after the record date specified in sub-paragraph (a) above), those HEG Shares held by such Bondholders will form part of the Scheme Shares (but such Bondholders will have no entitlement to vote at the Court Meeting or the SGM). Subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such Bondholders who have exercised their exchange right and become HEG Shareholders as at the Scheme Record Time.
- (c) If the Bondholders have not fully exercised their exchange rights by the Scheme Record Time, any remaining HEG Shares comprising the Exchange Property held by HS (HK) or the then holder of the Exchange Property will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective but will be included as part of the HEG Shares to be withdrawn from listing.

None of Harvest, HSH, HS (HK) nor the then holder of the Exchange Property intends to adjust the Exchange Property based on the Cash Payment as it is only available to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time if the Scheme becomes effective. However, the economic effect equivalent to the Cash Payment will be reflected in the conversion price of the HSH Convertible Bonds (as defined below) as set out in the EB-to-CB Proposal as described below.

4.2. Impact of the Privatisation Proposal and the Delisting on the HSH Exchangeable Bonds and the Rights and Interests of the Bondholders

As at the Announcement Date, HSH is not aware of any reason why the continued debt listing status of the HSH Exchangeable Bonds will be affected by reason of the Privatisation Proposal and the Delisting.

Under the current Bond Terms and Conditions, the Bondholders have the following options available to them:

- (a) selling the HSH Exchangeable Bonds in the secondary market;
- (b) exchanging the HSH Exchangeable Bonds into the HEG Shares and becoming HEG Shareholders either (i) on or prior to the record date for determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the entitlements of Shareholders to attend and vote at the SGM or (ii) at or prior to the Scheme Record Time, to participate in the Scheme as discussed above;

- (c) exercising their early redemption right and requesting Harvest to redeem their HSH Exchangeable Bonds on 21 November 2020 at the Early Redemption Amount (as prescribed in the Bond Terms and Conditions).
- (d) exercising their early redemption right upon Delisting and requesting Harvest to redeem their HSH Exchangeable Bonds at the Early Redemption Amount; or
- (e) holding their HSH Exchangeable Bonds until the Maturity Date and to be repaid at 105.11% of the principal amount of such HSH Exchangeable Bonds.

HSH estimates that the Early Redemption Amount for the HSH Exchangeable Bonds under paragraph (c) above will not exceed HK\$8,243 million. Assuming that Delisting is completed on or before the Scheme Long Stop Date, HSH estimates that the Early Redemption Amount under paragraph (d) above will not exceed HK\$8,303 million.

In the event the Privatisation Proposal takes effect, the EB-to-CB Proposal is not approved or otherwise does not become effective and the Bondholders do not exercise any of the options outlined in paragraphs (a) to (d) above, the consequence will be that, following the Delisting, the HSH Exchangeable Bonds will, on the exercise of the exchange right by the Bondholders, exchange into unlisted shares of HEG which will not have an open market for trading and will therefore become illiquid.

4.3. EB-to-CB Proposal

To provide an alternative to the Bondholders outside of those that are available under the current Bond Terms and Conditions or as outlined above, HSH proposes to amend the current Bond Terms and Conditions, subject to the satisfaction of the relevant conditions precedent described below, such that the HSH Exchangeable Bonds will not be exchangeable into the HEG Shares but will instead be convertible into new HSH H Shares. The HSH Exchangeable Bonds with such amended terms and conditions are hereafter referred to as the “**HSH Convertible Bonds**”.

This is proposed to be achieved by amending the Bond Terms and Conditions to substitute the right to exchange the HSH Exchangeable Bonds for the existing Exchange Property with the right to convert the HSH Convertible Bonds into new HSH H Shares, issuable by HSH at the time of conversion such that, after the Scheme and the Listing both become effective, the Bondholders will be able to convert the then outstanding HSH Convertible Bonds into new HSH H Shares (as opposed to exchanging the HSH Exchangeable Bonds into unlisted HEG Shares). The key terms of the HSH Convertible Bonds include the following:

- (a) (i) the proposed initial conversion price of the HSH Convertible Bonds before the Initial Adjustment Date will reflect the combined effect of (A) the relevant exchange price of the HSH Exchangeable Bonds (after taking into account any dividend or other distribution paid or made in respect of the Exchange Property, including but not limited to the HEG 2019 Final Dividend, and the prescribed adjustment to the Exchange Property in accordance with the current Bond Terms and Conditions, which does not include any Cash Payment) and (B) the Share Exchange Ratio. (ii) The conversion price of the HSH Convertible Bonds on or after the Initial Adjustment Date will also reflect the additional economic effect for

an amount equivalent to the Cash Payment based on (x) the average of the closing prices of the HSH H Shares on each of the 10 trading days following but excluding the date on which the Cash Payment is made by HEG and (y) the number of HEG Shares comprised in the Exchange Property immediately before the EB-to-CB Proposal takes effect;

- (b) Harvest will remain as the issuer of the HSH Convertible Bonds, while the HSH Convertible Bonds will be solely guaranteed by HSH;
- (c) the current mechanism for exchange, definition and adjustment of Exchange Property and general offer will be replaced with those conventional for a convertible bond, and the conversion period during which the Bondholders may exercise right of conversion will be a period from the effective date of the EB-to-CB Proposal up to the date which falls 10 days prior to the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place) or 10 days prior to the date fixed for redemption of the HSH Convertible Bonds, if such bonds have been called for redemption before the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place);
- (d) Bondholders' right to request Harvest to redeem the HSH Exchangeable Bonds upon Delisting will be replaced with their right to request Harvest to redeem the HSH Convertible Bonds upon delisting of HSH H Shares; and
- (e) all other existing material commercial terms of the HSH Exchangeable Bonds will otherwise remain substantially unchanged (e.g. the Maturity Date, interest rate, annual gross yield in the amount of a gross yield of 1.00 per cent. per annum, other redemption terms).

The proposal under which the HSH Exchangeable Bonds will become HSH Convertible Bonds as aforementioned is together referred to as the “**EB-to-CB Proposal**”.

The implementation of the EB-to-CB Proposal is subject to obtaining or completing various third-party, corporate and regulatory approvals or filings, including: (i) the requisite Bondholders' approval in accordance with the Bond Terms and Conditions and the trust deed for the HSH Exchangeable Bonds, (ii) the requisite approval by HSH Shareholders, HSH A Shareholders and HSH D Shareholders at the HSH General Meeting, HSH A Shares Class Meeting and HSH D Shares Class Meeting, respectively, (iii) the applicable filings and/or approvals with or from the CSRC and (if any) other relevant PRC governmental or regulatory authorities which are required to be completed or obtained prior to the EB-to-CB Proposal taking effect, (iv) the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, the HSH H Shares (including HSH H Shares to be issued pursuant to the conversion of the HSH Convertible Bonds) on the Stock Exchange; and (v) satisfying the conditions imposed by the Stock Exchange on the EB-to-CB Proposal. The implementation of the EB-to-CB Proposal is also subject to the satisfaction of the Pre-Conditions and Conditions and the Scheme becoming effective.

The implementation of the EB-to-CB Proposal is conditional upon the Scheme becoming effective and the commencement of the Listing. On the other hand, the implementation of the EB-to-CB Proposal is not a condition to the Scheme becoming effective. If all conditions for the implementation of the EB-to-CB Proposal are satisfied, the EB-to-CB Proposal will take effect immediately upon Listing and the commencement of trading of HSH H Shares on the Stock Exchange.

For the avoidance of doubt, prior to the EB-to-CB Proposal taking effect, the Bondholders remain entitled to exercise their right to exchange the HSH Exchangeable Bonds into HEG Shares in accordance with the Bond Terms and Conditions, and those HEG Shares may participate in the Scheme as Scheme Shares if the Bondholders exercise their exchange right and become HEG Shareholders either (i) on or prior to the record date for determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the entitlements of Shareholders to attend and vote at the SGM or (ii) at or prior to the Scheme Record Time.

For further information, please refer to the separate announcements published by Harvest in relation to the HSH Exchangeable Bonds (under Stock Code: 5024) on the website of the Stock Exchange (www.hkex.com.hk) on the same day as the Announcement Date and from time to time in the manner as provided under the Bond Terms and Conditions and in accordance with the Listing Rules.

4.4. Impact on Shareholdings in HSH and HEG

For the impact of the exercise of the HSH Exchangeable Bonds on the respective shareholdings in HSH and HEG, please refer to:

- (a) the shareholding table under the section headed “6. INFORMATION ON HEG — 6.2. Shareholding Structure of HEG” for the shareholding structure of HEG (i) as at the Announcement Date, and (ii) immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) on the bases and assumptions on which the shareholding table is prepared and presented; and
- (b) the shareholding structure charts under the section headed “7. INFORMATION ON HSH — 7.5. Shareholding structure of HSH” for the shareholding structure of HSH (i) as at the Announcement Date and (ii) immediately upon the completion of the Privatisation Proposal (and the Scheme becoming effective) on the bases and assumptions on which those charts are prepared and presented.

5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION

5.1. Background and Reasons of the Privatisation Proposal and Introduction

HSH plans to further integrate with HEG to build an Internet-of-Things (IoT)-based smart home ecosystem and enhance its globalisation initiatives, in order to unlock greater growth potential in the future.

5.1.1. HEG and HSH to fully integrate comprehensive product solutions and end-to-end operations to develop a seamless Internet-of-Things (IoT)-based smart home ecosystem

To meet the increasing demands of consumers for integrated, holistic and intelligent scenario-based home appliance solutions, HSH has been pioneering the building of an Internet-of-Things (IoT)-based smart home ecosystem by providing customised and one-stop smart home solutions, while developing the “Experiential Cloud” (體驗雲) digital system which empowers designers, experience stores and ecosystem partners. All of such initiatives require seamless integration of end-to-end operations in research and development (R&D), manufacturing, distribution and other services. Therefore, HSH pursues to establish an integrated management system through consolidating the different product categories and the end-to-end operations of the two separately listed platforms of HSH and HEG, in order to enhance its market value and capture greater growth opportunities.

5.1.2. To solidify global leadership by fully integrating HEG and HSH

HEG mainly focuses on domestic market with limited revenue contribution from overseas business. HSH on the other hand, has established a full-fledged global portfolio both through organic growth and a series of successful overseas acquisitions, including GE Appliances, Fisher & Paykel, Candy and Sanyo. Leveraging the established global platform, the Enlarged HSH Group could strengthen its industry leading position and enhance its global presence in the washing machine, water heater and water purifier businesses through accelerated integration and consolidation of combined resources on a greater scale.

5.1.3. To optimise the governance and organizational structure for long-term sustainability

From a long-term perspective, HSH intends that the Enlarged HSH Group will further optimise its organisational and management structure and eliminate inefficiencies by aligning the interests of both HSH and HEG. As at the Announcement Date, HSH and the HSH Concert Parties directly and indirectly hold and/or control the exercise of voting rights over 58.41% of the outstanding issued share capital of HEG. However, the current group structure prevents HSH and HEG from achieving the optimal level of efficiency due to the duplication in resources and efforts caused by the separate management of product lines, brands and channels. In addition, business competition hinders HEG’s ability to develop in the overseas markets in which HSH has an established presence. Financially, separate listings of HSH and HEG also limit the possibilities for both companies to efficiently allocate capital, including their ability to distribute cash dividend to shareholders.

5.2. Benefits to the Scheme Shareholders

The HSH Board believes that the Enlarged HSH Group will be an attractive investment opportunity for Scheme Shareholders. Following completion of the Privatisation Proposal, not only will the Scheme Shareholders be able to continue to participate in the performance of HEG as part of the Enlarged HSH Group which has a number of competitive edges and is well positioned to enjoy the growth potential of the global appliance markets, the Scheme Shareholders will also be able to share the potential synergy that could be realised following further integration between HSH and HEG.

Additionally, the Cash Payment by HEG creates immediately realisable cash value on top of the long-term capital appreciation potential and enables the Scheme Shareholders to achieve a certain level of return of capital from their investment. As the offering of the HSH H Shares plus the Cash Payment does not require external capital raising of substantial size, the proposed transaction would be less subject to exposure to fluctuations in the capital markets. Therefore, in HSH's view, the offer structure taken as a whole is in the interests of the Scheme Shareholders.

The long-term potential benefits to Scheme Shareholders include the following:

5.2.1. Stronger growth supported by full-suite smart home products and service solutions on a global platform

Firstly, HEG's operations primarily focus on washing machines, water heaters and water purifiers. It also provides channel services for various products including those of HSH's. Once this proposed transaction is completed, HEG will be able to enjoy an expanded product portfolio which will include refrigerators, freezers, air conditioners, kitchen appliances and small appliances that are currently being operated by HSH, and thus benefit from full-suite smart home product and service solutions.

Secondly, HSH has built a line-up of a world-class brands portfolio and has established strong global presence. Once this proposed transaction is completed, HEG could accelerate the overseas expansion of its existing washing machine, water heater and water purifier businesses by leveraging HSH's global platform.

Thirdly, led by its visionary management, HSH has long been committed to the implementation of its Internet-of-Things (IoT)-based smart home strategy. HSH will continue its efforts to forge the "Experiential Cloud" (體驗雲) platform, expand capacities in interconnection, further enhance its competitiveness in data processing as a full-suite smart home solution provider and integrate resources for developing the smart home solutions business. Once this proposed transaction is completed, HEG will be able to fully integrate into the "Experiential Cloud" (體驗雲) platform to further promote connectivity among appliances and enhance user experience.

After the Scheme becomes effective, Scheme Shareholders, who would have become shareholders of the Enlarged HSH Group, will have the opportunity to continue to invest in PRC's leading home appliance player, which will not only be better positioned to capture growth momentum with comprehensive product offerings, but more importantly, able to strengthen its leadership in smart home solutions business with unified operating and data management.

5.2.2.Improve operational efficiency with greater economies of scale and enhance outlook

Operational efficiency can be further improved by reducing the overlap in research and development (R&D), manufacturing and distribution of both HEG and HSH. Operation risks would be lessened under the larger balance sheet. Once this proposed transaction is completed, the Enlarged HSH Group will have the opportunity to maximise efficiency from seamless collaboration between HSH and HEG.

The Enlarged HSH Group can benefit from integrated operations, robust financial performance and greater economies of scale. On one hand, HEG's washing machine, water heater, and water purifier segments can further realise significant synergies and benefit from fusing with HSH's research and development (R&D), procurement, manufacturing and distribution channels. On the other hand, more streamlined business and operational practices are expected to reduce costs and enhance efficiency.

5.2.3.Strongly enhanced investment thesis in global capital market

Firstly, the delineation in the business segments of HSH and HEG has led to HSH and HEG entering into numerous related party transactions. During the Track Record Period, HEG procured more than 70% of its raw materials, components and finished goods from HSH. Once this proposed transaction is completed, the number of related party transactions in areas such as research and development (R&D) and distribution could be largely reduced or eliminated. This will help reduce management efforts and compliance costs, as well as boost market confidence in the Enlarged HSH Group.

Secondly, during the Track Record Period, HSH's revenue growth rate exceeded that of HEG's by 10.5, 8.2 and 12.1 percentage points respectively. In addition, HSH maintained an averaged-30% dividend pay-out ratio during the Track Record Period. Besides, HSH's average historical profit margin is 0.2 percentage points higher and average return on equity is 3.4 percentage points higher compared with the relevant figures of HEG in 2017-2019.

Thirdly, once the Listing by Introduction is completed, the Enlarged HSH Group will attract more investors, which include but not limited to the existing shareholders of HEG and HSH.

It is expected that, when the Scheme becomes effective and the Listing completes, the Enlarged HSH Group will gain substantial benefits from larger market capitalisation, improved financial performance, alleviated concerns over related party transactions and a more diversified investor base, and the HSH Shareholders can benefit accordingly.

5.3. Strategic Plans of the HSH Group

HSH aims that the Enlarged HSH Group, dedicated to becoming a leading global Internet-of-Things (IoT)-based smart home solutions provider, will achieve structural optimisation and operational integration with this proposed transaction. This proposed transaction will enable it to further explore synergies from aggregation of global resources and reinforce its competitiveness, thus maximising shareholders' returns.

5.3.1. Accelerate growth through the implementation of the Smart Home Ecosystem strategy

After this proposed transaction is completed, the Enlarged HSH Group will be able to grow its comprehensive smart home solution business by operating the entire product portfolio on a consolidated research and development (R&D), manufacturing, distribution and service system while leveraging the “Experiential Cloud” (體驗雲) platform. On a global scale, the Enlarged HSH Group will have the opportunity to realise growth by optimising resource aggregation and enhancing overseas offerings of washing machines, water heaters and water purifiers.

5.3.2. Reduce competition and related party transactions between the HSH Group and the HEG Group and enhance operational efficiency

With lessened competition and transactions between the HSH Group and the HEG Group no longer being related party transactions following the Privatisation Proposal becoming effective, the Enlarged HSH Group will be better positioned to streamline decision-making processes and expedite lead time. This will enable the Enlarged HSH Group to consolidate its leading position in the one-stop smart home solutions business on the consumer front, while accelerating digital transformation on the back-end operating platform.

5.3.3. Improve cash management and optimise capital allocation

This proposed transaction allows the consolidation of all home appliances assets of HEG into the Enlarged HSH Group. This is expected to improve the cash management and facilitate comprehensive capital management for the Enlarged HSH Group.

5.3.4. Increase shareholders' return

After the Scheme becomes effective, with improved capital management and operational efficiency, HSH plans to increase its dividend pay-out ratio to 40% in 3 years on the basis of net profit attributable to ordinary shareholders in order to demonstrate its commitment to continue to enhance returns for all shareholders.

In this connection, the HSH Board has considered and approved the proposal of the shareholder return plan of HSH (2021–2023). The shareholder return plan of HSH (2021–2023) is set with a view to achieving sustainable development and stable shareholder return for HSH. The key considerations of HSH in determining the shareholder return plan include internal factors such as HSH's profitability, cash flow and capital expenditure outlook, and external factors such as bank credit availability and general financing environment.

The material terms of the shareholder return plan of HSH (2021–2023) being proposed include:

- (a) HSH should maintain a continuous and stable dividend pay-out policy; and
- (b) HSH’s cash dividend plan for the next three years (2021–2023) is as follows: in compliance with HSH’s articles of association, which states the general prerequisites for dividend pay-out, the profits to be distributed each year by way of cash shall be not less than 33%, 36%, and 40% of the net profits attributable to HSH Shareholders for 2021, 2022 and 2023 respectively.

HSH has proposed its shareholder return plan (2021–2023) to HSH Shareholders for their consideration and approval. Subject to the relevant HSH Shareholders’ approval being obtained at the HSH General Meeting, dividend distributions of HSH for the financial years of 2021 to 2023 shall be implemented in accordance with the shareholder return plan (2021–2023). The actual amount of dividends payable (if any) each year will be recommended by the directors of HSH and depend on the financial performance and cash requirements of HSH.

5.3.5. Establish a global capital market presence and facilitate strategic implementation

Multiple listing platforms of HSH not only give the Enlarged HSH Group access to global capital markets, but also facilitate the implementation of its worldwide employee incentive schemes. In addition, the Enlarged HSH Group can be recognised as a unified group with an enlarged and more diversified investor base after this proposed transaction is completed.

5.4. Future Development and Integration Initiatives of HSH Group

The HSH Group proposes to take the following initiatives after completion of this proposed transaction during the course of operational and business integration, in order to accelerate the global implementation of its Internet-of-Things (IoT)-based smart home strategies.

5.4.1. Expand smart home solutions business and nurture a vibrant ecosystem

Through systematic product integration and development, the HSH Group will aim to provide users with comprehensive and interactive one-stop solutions that will become an integral part of their smart and connected lives at home.

Leveraging cutting edge technologies in Internet-of-Things (IoT), big data, cloud computing, artificial intelligence and 5G, more dedicated efforts will be put into improving the “Experiential Cloud” (體驗雲) platform’s capacity in providing software and services for home appliances. This will significantly enhance users’ experience with increased convenience and interaction.

The HSH Group believes that its well-established presence in premium markets, leading position in comprehensive solution business and competitive advantages in smart technologies are fundamental to the consummation of an ecosystem with sustainable growth driven by enabling its partners and creating value for users.

5.4.2.Promote global research and development (R&D) collaboration and reinforce competitiveness

The HSH Group will remain committed to accelerate the integration of its worldwide research and development (R&D) facilities and product innovations, in order to consolidate competitive advantages through constant development of innovative products. The HSH Group will also aim at increasing efficiency by promoting cross-segment and cross-border collaboration.

The HSH Group strives to stay ahead in the competitive market, manifested by a firm commitment towards total integration of research and development (R&D), manufacturing and distribution with its innovative smart home solutions packages.

5.4.3.Establish a highly efficient distribution network in the PRC domestic market

The HSH Group will continue its effort in integrating nationwide warehousing and logistics network, while establishing a digital distributor service platform with greater transparency and efficiency. It will also extend the distribution coverage in new channels, such as home improvement markets, and significantly raise its online profile with the interactive “Smart Home App” and enhanced back-end supporting platforms.

5.4.4.Accelerate growth with well-established brand image in overseas market

On a global scale, the HSH Group will strive to optimise resource aggregation, further develop its smart home solution business and enhance outlook through effective cross-border collaboration in research and development (R&D), manufacturing and distribution. It plans to strengthen its presence in premium markets with leading brands and innovative products and further achieve long-term sustainability with localised operations. Additionally, it plans to improve overall efficiency with consolidated global IT systems and assessment system based on the principles of “RenDanHeYi” (人單合一)¹.

5.4.5.Total adaptation of smart manufacturing and efficiency optimisation

The HSH Group will focus on improving all aspects of manufacturing, including location and capacity planning, procurement modularisation and logistics coordination. This will allow the HSH Group to optimise its cost structure, product quality and delivery coverage, which is essential to the development of best-selling products, and contributes to systematic operational efficiency.

¹ “RenDanHeYi” (人單合一) refers to the business philosophy and model adopted by the HSH Group, whereby “Ren” refers to employees with entrepreneurship and innovation, and “Dan” refers to value creation for users. This term translates to mean individual and goal combination and implies the business model whereby each employee realises his/her own value in his/her own capacity by way of generating value for users, and thereby creating value for the company and its shareholders.

5.4.6. Digitalise Haier in the Internet-of-Things (IoT) Era

The HSH Group will fully embrace the digital age with dedication to build a smart and network-based management system with front-end operational capabilities in research and development (R&D), manufacturing, supply chain and services management, a smart middle office that facilitates seamless end-to-end communications and consolidated infrastructure with smart fundamentals in enterprise resource planning (ERP) system, product lifecycle management (PLM) platform, finance and human resources management.

With continuous efforts to build a digital framework integrating artificial intelligence, big data, cloud computing, Internet-of-Things (IoT), 5G and other cutting-edge technologies, the HSH Group will strive to develop a cloud-based industry platform that covers end-to-end research and development (R&D), manufacturing, supply chain management and logistics network, a cloud-based retail platform that covers distributors, physical stores, e-commerce platforms and warehouses, and an integrated user platform of “Haier Smart Home APP” and “Haier Smart Lifestyle Centres”. The HSH Group aspires to become the life-time partner of millions of users with its smart home solution packages in every stop of their journey of building a better home.

6. INFORMATION ON HEG

6.1. General Information

HEG, a subsidiary of HSH and the Haier Group, is listed on the Main Board of the Stock Exchange. The HEG Group is principally engaged in the research, development, manufacture and wholesale of washing machines and water heaters under Haier Group brands (“Haier”, “Casarte” and “Leader”); the distribution of electronics products of Haier Group in the PRC. It has also invested in logistics services business which provides services under the name of “Gooday” in the PRC for large-format items, including but not limited to home appliances, furniture and fitness equipment.

6.2. Shareholding Structure of HEG

As at the Announcement Date, there are 2,816,995,978 HEG Shares in issue. HEG does not have any outstanding options, warrants, convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

As at the Announcement Date, HSH (together with its wholly-owned subsidiary) directly and indirectly holds 1,286,820,592 HEG Shares, representing approximately 45.68% of the outstanding issued share capital of HEG. The remaining 1,530,175,386 HEG Shares constitute the Scheme Shares.

On the assumption that (i) the Acceleration occurs as set out in the section headed “3 HEG Restricted Share Award Scheme” above, (ii) there is no change in the number of HEG Shares in issue and no other change in the holding of HEG Shares, and (iii) in respect of the HSH Exchangeable Bonds, the Exchange Property (as defined in the Bond Terms and Conditions) has been adjusted as a result of the HEG 2019 Final Dividend Adjustment, which will result in there being 4,816,527 additional HEG Shares included to form part of the Exchange Property (for illustration purposes only, as elaborated in the section headed “4. HSH EXCHANGEABLE BONDS — 4.1. General Information”), the table below sets out the shareholding structure of HEG as at the Announcement Date and immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective):

Shareholders	As at		Immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) <i>(assuming all HSH Exchangeable Bonds are exercised prior to the Scheme Record Time)</i>		Immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) <i>(assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time)</i>	
	the Announcement Date					
	Number of HEG Shares	Approximate % of share capital of HEG	Number of HEG Shares	Approximate % of share capital of HEG	Number of HEG Shares	Approximate % of share capital of HEG
HSH	392,677,482	13.94	2,178,522,014	77.33	1,922,852,868	68.26
HS (HK) ^(Note 1)	894,143,110	31.74	638,473,964	22.67	894,143,110	31.74
HSH and HS (HK) ^(Note 2)	1,286,820,592	45.68	2,816,995,978	100	2,816,995,978	100
HCH (HK)	336,600,000	11.95	—	—	—	—
Mr. Zhou Yunjie ^(Notes 3 & 4)	9,984,240	0.35	—	—	—	—
Mr. Li Hua Gang ^(Notes 4 & 5)	230,000	0.01	—	—	—	—
Mr. Liang Haishan ^(Notes 3, 4 & 5)	—	—	—	—	—	—
Mr. Zhang Ruimin ^(Note 3)	461,062	0.02	—	—	—	—
Ms. Tan Lixia ^(Note 3 & 5)	230,532	0.01	—	—	—	—
Mr. Liu Chi ^(Note 3)	361,445	0.01	—	—	—	—
Mr. Liu Gang ^(Note 3)	21,312	0.00	—	—	—	—
Mr. Zhan Bo ^(Note 3)	343,555	0.01	—	—	—	—
Mr. Wu Changqi ^(Note 5)	—	—	—	—	—	—
Mr. Dai Deming ^(Note 5)	—	—	—	—	—	—
Mr. Chien Da-Chun ^(Note 5)	—	—	—	—	—	—
Mr. Yan Andrew Y ^(Note 5)	—	—	—	—	—	—
Mr. Lin Sui Martin ^(Note 5)	—	—	—	—	—	—
Mr. Wong Hak Kun ^(Note 5)	—	—	—	—	—	—
HKI/HIC Trustee ^(Note 6)	10,339,439	0.37	—	—	—	—
HSH and						
HSH Concert Parties	1,645,392,177	58.41	—	—	—	—
Mr. Xie Ju Zhi ^(Note 4)	554,617	0.02	—	—	—	—
Mr. Yang Guang ^(Note 4)	—	—	—	—	—	—
Mr. Yu Hon To, David ^(Note 4)	521,000	0.02	—	—	—	—
Mrs. Eva Cheng						
Li Kam Fun ^(Note 4)	248,800	0.01	—	—	—	—
Mr. Gong Shao Lin ^(Note 4)	12,600	0.00	—	—	—	—
Dr. John						
Changzheng Ma ^(Note 4)	6,600	0.00	—	—	—	—
HEG Trustee	8,856,244	0.31				
Other Public						
HEG Shareholders	1,161,403,940	41.23				
Disinterested Scheme						
Shareholders	1,171,603,801	41.59	—	—	—	—
Scheme Shareholders	1,530,175,386	54.32				
Total number of						
HEG Shares	2,816,995,978	100	2,816,995,978	100	2,816,995,978	100
Total number of						
Scheme Shares	1,530,175,386	54.32	—	—	—	—

Notes:

1. HS (HK) is a wholly-owned subsidiary of HSH. HS (HK) proposes to transfer all of the HEG Shares held by it to Flourishing Reach Limited, another wholly-owned subsidiary of HSH and a limited liability company incorporated under the laws of the British Virgin Islands, after the Announcement Date but prior to the despatch of the Scheme Document. The proposed transfer is subject to obtaining the relevant consent from the holders of the HSH Exchangeable Bonds, and the relevant regulatory filings required under the relevant laws and regulations in the PRC.
2. The HEG Shares held by HSH and HS (HK) will not form part of the Scheme Shares.
3. Each a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
4. Each a director of HEG.
5. Each a director of HSH and is therefore presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
6. The HKI/HIC Restricted Share Award Schemes were adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited, each of which is a wholly-owned subsidiary of Haier Group, for the benefit of eligible participants (which include certain directors of Haier-Group, HSH and HEG). The HKI/HIC Trustee, in its capacity as trustee of the HKI/HIC Restricted Share Award Schemes, is presumed to be acting in concert with HSH in accordance with class (3) of the presumptions in the definition of “acting in concert” under the Takeovers Code.

No vesting has occurred so far since the Offer Period Commencement Date until the Announcement Date.

It is expected that, during the offer period, no further share awards will be granted under the HKI/HIC Restricted Share Award Schemes, and the HKI/HIC Trustee will not acquire further HEG Shares to satisfy the awards.

As at the Announcement Date, the HKI/HIC Trustee holds a total of 10,339,439 HEG Shares as trustee under the HKI/HIC Restricted Share Award Schemes, comprising:

- (i.) a total of 4,121,063 HEG Shares held for the purpose of covering awards already granted but being subject to satisfaction of relevant vesting conditions;
- (ii.) a total of 5,315,426 HEG Shares held for the purpose of covering awards already granted with relevant vesting conditions having been met, but the vesting procedures have not been completed and so the corresponding HEG Shares are still held by the HKI/HIC Trustee; and
- (iii.) a total of 902,950 HEG Shares held for covering awards to be made in the future under the HKI/HIC Restricted Share Award Schemes, as well as, held to cover the fees of the HKI/HIC Trustee.

Pursuant to the rules of the HKI/HIC Restricted Share Award Schemes, the selected participants shall have no voting rights in respect of HEG Shares held under the HKI/HIC Restricted Share Award Schemes.

The HEG Shares held by the HKI/HIC Trustee under the HKI/HIC Restricted Share Award Schemes will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by the HKI/HIC Trustee as at the Scheme Record Time, to the HKI/HIC Trustee.

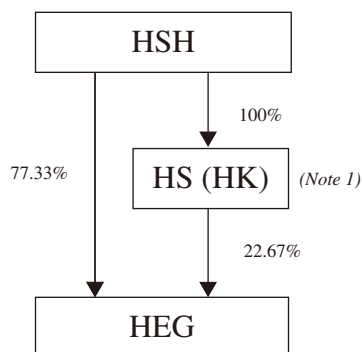
The rules of the HKI/HIC Restricted Share Award Schemes prohibit the HKI/HIC Trustee from exercising the voting rights attached to the HEG Shares held by it under the HKI/HIC Restricted Share Award Schemes. The HKI/HIC Trustee will be required to abstain from voting on such HEG Shares at the Court Meeting and the SGM.

7. As confirmed by CICC and J.P. Morgan, as at the Announcement Date, members of CICC group and J.P. Morgan group, being HSH Concert Parties, do not legally or beneficially own, control or have direction over any HEG Shares. Nor were there any borrowing or lending of, or dealing in, HEG Shares (or options, rights over HEG Shares, warrants or derivatives in respect of them) by any members of CICC group and J.P. Morgan group during the period commencing from six months prior to the Offer Period Commencement Date up to the Announcement Date (except in respect of HEG Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HEG Shares held on behalf of non-discretionary investment clients of the CICC group and J.P. Morgan group). Notwithstanding that connected exempt principal traders within the CICC group and J.P. Morgan group are not HSH Concert Parties, HEG Shares held by any such connected exempt principal traders must not be voted in the context of the Privatisation Proposal in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the HEG Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant HEG Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no votes shall be cast for the relevant HEG Shares held by the relevant connected exempt principal trader. For this purpose, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Privatisation Proposal will be submitted to the Executive prior to the Court Meeting.
8. The percentages of the HEG Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.

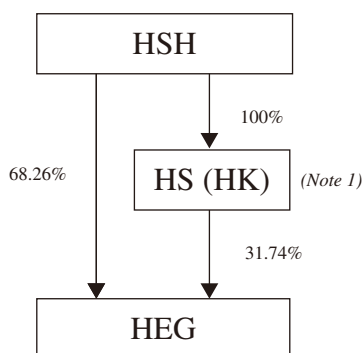
Immediately following the Scheme Effective Date and the withdrawal of listing of the HEG Shares on the Stock Exchange, HSH will directly and indirectly hold 100% of the issued share capital of HEG, on the assumptions that (i) there is no other change in shareholding in HEG before completion of the Privatisation Proposal and (ii) the EB-to-CB Proposal is implemented.

A simplified shareholding structure of HEG immediately upon the completion of the Privatisation Proposal are represented in the charts below respectively:

(A) Assuming all HSH Exchangeable Bonds are exercised prior to the Scheme Record Time



(B) Assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time



Note:

1. HS (HK) is a wholly-owned subsidiary of HSH. HS (HK) proposes to transfer all of the HEG Shares held by it to Flourishing Reach Limited, another wholly-owned subsidiary of HSH and a limited liability company incorporated under the laws of the British Virgin Islands, after the Announcement Date but prior to the despatch of the Scheme Document. The proposed transfer is subject to obtaining the relevant consent from the holders of the HSH Exchangeable Bonds, and the relevant regulatory filings required under the relevant laws and regulations in the PRC.

6.3. Financial Information of HEG

Set out below is a summary of certain financial information of the HEG Group extracted from the annual reports of HEG for the two years ended 31 December 2019 and 31 December 2018.

	Year ended 31 December 2019 (audited) (RMB'000)	Year ended 31 December 2018 (audited) (Restated) (RMB'000)
Revenue	75,879,970	76,335,602
Gross profit	16,531,373	15,932,083
Adjusted operating profit*	4,050,047	3,864,603
Profit for the year from continuing operations**	4,205,201	3,730,303
Profit for the year from a discontinued operation**	3,312,865	367,266
Profit for the year	7,518,066	4,097,569
	As at 31 December 2019 (audited) (RMB'000)	As at 31 December 2018 (audited) (Restated) (RMB'000)
Total assets	50,057,892	47,876,748
Total liabilities	20,419,973	21,691,051
Net assets	29,637,919	26,185,697

* *Adjusted operating profit was defined as profit before tax, net of interest income and expenses, investment gains and losses, fair value gains and losses on other non-current financial assets, government grants and share of profits and losses of associates.*

** *On 26 July 2019, the asset swap transaction between HEG and Haier Electric International Co., Ltd., was completed. Bingji (Shanghai) Enterprise Management Co., Ltd. (“Bingji”) and its subsidiaries (collectively referred to as the “Bingji Group”) has since become associates to HEG. Bingji is investment holding company and its non-wholly owned subsidiaries Qingdao Gooday Logistics Co., Ltd. are principally engaged in the provision of logistics services.*

HEG’s profit for the year from continuing operations included the share of profits of Bingji Group in accordance with HEG’s shareholding since 26 July 2019, whereas the profits of Bingji Group before 26 July 2019 and in 2018 had been classified as profit from a discontinued operation, which is not included in the calculation of the profit from continuing operation.

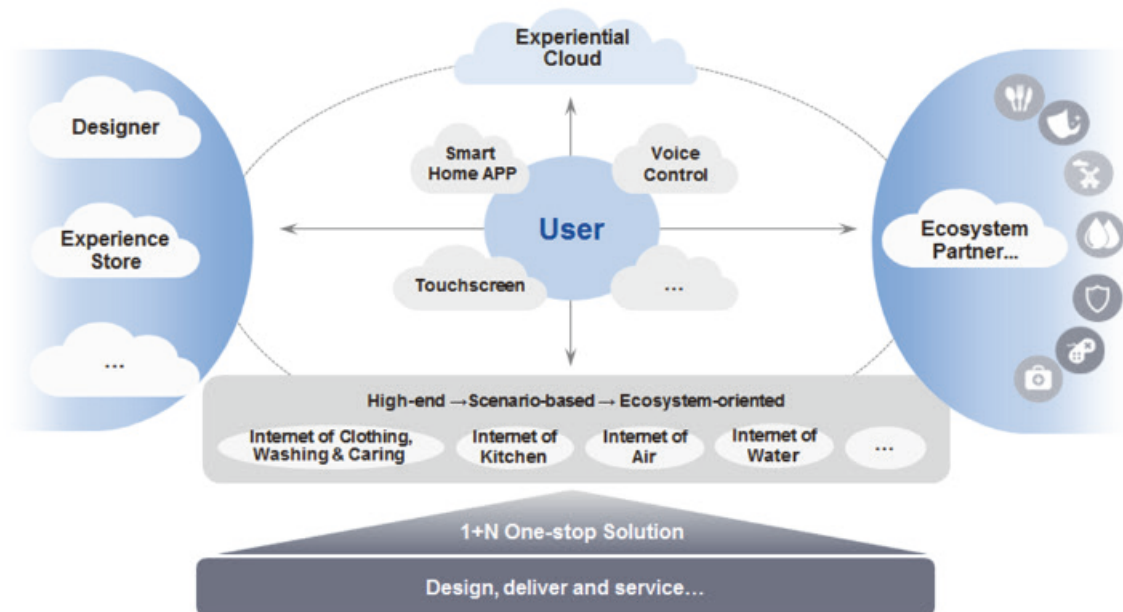
7. INFORMATION ON HSH

7.1. Overview of HSH

HSH is the world's leading provider of home appliances and smart home solutions and a pioneer in smart home ecosystem. HSH, committed to providing global users with complete sets of smart home solutions, mainly engages in research and development (R&D), manufacturing and distribution of products including refrigerators/freezers, washing machines, air-conditioners, water heaters, water purifiers, kitchen appliances, small home appliances, and U-home smart home products. As a user-centric company, HSH has built up a comprehensive product & brand portfolio, industry-leading smart manufacturing capacity, extraordinary research and development (R&D) capability, as well as an extensive distribution network worldwide. In 2019, HSH's operating income was RMB198.0 billion, 48% of which was overseas revenue. HSH is recognized as the largest major home appliance enterprise in terms of retail volume for 9 consecutive years. HSH has been listed on Shanghai Stock Exchange (SSE) since 1993 (stock code: 600690.SH) and on the D-shares market of China Europe International Exchange in Frankfurt since 2018 (stock code: 690D).

HSH has gained global recognition as the leader of home appliance industry. According to Euromonitor, HSH is the largest major home appliance enterprise in terms of retail volume for 9 consecutive years from 2011 to 2019. Haier brand also ranked first in terms of retail volume of refrigeration appliances and home laundry appliances for 11 consecutive years from 2009 to 2019. HSH has a leading global portfolio of home appliance brands including Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, Aqua and Candy. It has operations in more than 160 countries and regions worldwide, including PRC, Americas, Europe, South & Southeast Asia, Australasia, Japan, Middle East and Africa.

HSH is a leading provider of smart home solutions and a pioneer in developing smart home ecosystem. Initially delivering high-quality appliance products and then innovating scenario-based Internet-of-Things (IoT) products, HSH integrates designers, experience stores, and ecosystem partners to participate in the creation of consumption scenarios. Based on the “Experiential Cloud” (體驗雲) digital system, “Haier Smart Home APP” on user front and full value chain infrastructure supporting system, HSH provides customised and one-stop smart home solutions in internet of clothing, washing & caring, internet of kitchen, internet of air, and internet of water, while empowering designers, experience stores and ecosystem partners to join up in building a user-centred ecosystem.



HSH's business consists of "Smart Home Business in the PRC", "Smart Home Business Overseas" and "Other Business". The following table sets forth a segment revenue breakdown for the periods indicated:

Segment	2019		
	Segment Revenue <i>RMB billions</i>	Segment Cost <i>RMB billions</i>	Operating Margin %
Smart Home Business in the PRC			
Internet of Food Solutions			
Refrigerators/Freezers	32.75	30.64	6.4%
Kitchen Appliances	2.44	2.42	0.7%
Internet of Clothing Solutions			
Washing Machines	24.44	22.33	8.7%
Air Solutions			
Air-conditioners	23.49	23.48	0.1%
Household Water Solutions			
Water Home Appliances	9.60	8.48	11.6%
Smart Home Business Overseas	92.91	89.76	3.4%
Other Business	83.67	83.62	0.1%
Inter-segment Eliminations	-71.29	-71.33	
Total	<u>198.01</u>	<u>189.39</u>	<u>4.4%</u>
2018			
Segment	Segment Revenue <i>RMB billions</i>	Segment Cost <i>RMB billions</i>	Operating Margin %
Smart Home Business in the PRC			
Internet of Food Solutions			
Refrigerators/Freezers	31.61	29.52	6.6%
Kitchen Appliances	2.46	2.45	0.8%
Internet of Clothing Solutions			
Washing Machines	22.51	20.54	8.8%
Air Solutions			
Air-conditioners	26.64	25.50	4.3%
Household Water Solutions			
Water Home Appliances	8.86	7.83	11.6%
Smart Home Business Overseas	75.42	72.35	4.1%
Other Business	77.93	77.55	0.5%
Inter-segment Eliminations	-67.84	-67.79	
Total	<u>177.59</u>	<u>167.94</u>	<u>5.4%</u>

Though already a global industry leader, HSH continues to expand its market share with effective implementation of development strategies. According to Euromonitor, in 2019, it ranked first among major home appliance enterprises globally in terms of retail volume with a market share of 14.7%. It ranked first in the world in refrigeration appliances, home laundry appliances and water heaters with 21.7%, 20.3% and 18.8% retail volume market share respectively; it ranked second in large kitchen appliances with a market share of 8.0% and third in air-conditioners with a market share of 11.3%. HSH also delivered solid financial results steadily. From 2017 to 2019, HSH's operating income increased from RMB154.2 billion to RMB198.0 billion, representing a compound annual growth rate of 13.3%, while its net profit increased from RMB9.1 billion to RMB12.3 billion, with a compound annual growth rate of 16.1%.

(a) *Smart Home Business in the PRC*

HSH engages in the business of providing comprehensive range of home appliance products, solutions and value-added services to users in the PRC, including (1) internet of food solutions, which consists of refrigerators, freezers and kitchen appliances; (2) internet of clothing solutions, which consists of washing machines; (3) air solutions, which consists of air-conditioners; and (4) household water solutions, which consists of water home appliances. In 2019, Euromonitor ranked HSH as the largest major home appliance enterprise in mainland China by retail volume with a market share of 23.2%.

(b) *Smart Home Business Overseas*

In addition, HSH also provides a comprehensive portfolio of home appliances products, solutions and value-added services in other parts of the world. In 2017, 2018 and 2019, revenue from overseas operations accounted for 46%, 43% and 48% of total revenue respectively. In 2019, Euromonitor ranked HSH as the largest major home appliance enterprise in Asia in terms of retail volume with a market share of 18.6%, the second in North America with a market share of 22.0%, the fifth in Europe with a market share of 7.2%, the second in Australasia with a market share of 13.4%, the third in Middle East and Africa with a market share of 8.4% and the seventh in Latin America with a market share of 3.0%.

7.2. Overview of Haier Group

Established in 1980, Haier Group, controlling shareholder of HSH, is a world-leading service provider of better life solutions. Focusing on user experience, Haier Group has developed a leading ecosystem in the Internet-of-Things (IoT) era, and it was the sole Internet-of-Things (IoT) ecosystem brand among BrandZ's Top 100 Most Valuable Global Brands in 2019. Haier Group controls four listed companies: HSH, HEG, Qingdao Haier Biomedical Co., Ltd, and Inkon Life Technology Co., Ltd. Haier Group has diversified business operations in white goods, investment & incubation platform, financial services, real estate and cultural platform. It owns seven home appliance brands, several service brands including RRS, Yingkang Life and COSMOplat, as well as cultural and creative brand Haier Brothers.

7.3. Strengths of HSH

HSH has always kept abreast of users' needs for a better life, and led the industry's development from electronic home appliances to connected home appliances to scenario-based solutions and ultimately ecosystem. HSH believes that it is well-positioned globally to sustain leadership in the future with its competitive strengths in strategic global expansion; on the other hand, global collaboration facilitated by consolidated platform and proven practice, digital revolution and distribution network reorganization continuously enhances its operational efficiency; in addition, *RenDanHeYi* (人單合一) philosophy forms the foundation of its management model, all of which are critical in strengthening HSH's competitive edge in the PRC market, overseas market, global collaboration, efficiency enhancement and management model.

(a) *Competitive advantages in the PRC market*

- (i) **Leading market share and solid performance:** HSH has maintained solid performance with leading market share in the PRC's major home appliance market. In 2017, 2018 and 2019, revenue of smart home business in the PRC was RMB82,564 million, RMB92,085 million and RMB92,714 million, respectively; the average segment operating margin for smart home business in the PRC was 6.4%.
- (ii) **Dominance in high-end market in the PRC, driven by Casarte brand:** HSH strategically targets consumption upgrade, featured by its development of proprietary brand Casarte, which, according to CMM, takes an absolute leading position in PRC's high-end home appliance market in 1H2020. In 2019, revenue from Casarte brand reached RMB7.6 billion, representing a compound annual growth rate of 36% from 2017 to 2019. From 2017 to 2019, Casarte's contribution in total revenue increased by 1.2 percentage points. As a well-recognised premium brand, Casarte's offline average selling price in each major product categories is more than 2 times of that of industry average in 2019. The promising growth of Casarte is also driven by its diversifying product mix. From 2017 to 2019, the revenue percentage of Casarte air-conditioners, water heaters and kitchen appliances increased by 8%.
- (iii) **Continuous upgrade of smart home solutions:** Leveraging on competitive advantage in innovative and diversified products, HSH designs, implements and provides solutions of full-suite smart home products. With integrated packages of appliances and interior design, HSH's business expands from individual appliance, to scenario applications, ultimately creating greater value with comprehensive one-stop smart home solutions. Connected by "Experiential Cloud" (體驗雲), HSH provides smart home solutions including internet of clothing, washing & caring, internet of kitchen, internet of air, and internet of water. HSH has developed smart home cloud brain — specialised Internet-of-Things (IoT) system that facilitates connectivity and interaction between users, appliances and services, thus leading the industry's transition towards a more intelligent and proactive services provider.

- (iv) **Revitalising air-conditioner business:** HSH believes revitalising its air-conditioner business is fundamental to its long-term sustainability. In order to increase market share, HSH focuses on accelerating penetration in lower tier markets in villages, consolidating presence online with differentiated products and full collaboration with property developers; on the other hand, it plans to improve business outlook with measures including streamlining stock-keeping units (SKUs), promoting bestsellers, encouraging suppliers' participation in product development; it also plans to improve end to end operational efficiency with designated production lines and logistics route while raising profile with product mix upgrade across multiple brands and enhanced research and development (R&D).

(b) *Competitive advantages in overseas market*

- (i) **Market share expansion and growth in profitability:** HSH's market share has been consistently increasing in major markets from 2017 to 2019, during which period, its 14.8% compound annual growth rate of revenue from smart home business overseas was driven by both organic growth and acquisitions. Global platform and cross region collaboration also contributed to the segment's profit of RMB2.9 billion, RMB3.1 billion and RMB3.2 billion in 2017, 2018 and 2019.
- (ii) **Well-recognised brand portfolio serving diversified users:** Through both organic growth and acquisitions, HSH has established a portfolio of seven brands with comprehensive coverage in global appliances market. Euromonitor ranked Haier as first among major home appliance brands in the world by retail volume in 2019, with GE Appliances ranked first among major home appliance brands in North America, and Fisher & Paykel ranked first among major home appliance brands in Australasia. CMM also recognized Casarte as first in high-end refrigeration appliances, home laundry appliances and air-conditioners segments in the PRC in 1H2020.
- (iii) **Strong track record of M&A, with proven capability in integration:** HSH acquired Sanyo's white goods business in 2015, GE Appliances in 2016, Fisher & Paykel in 2018, and Candy in 2019. HSH implements *RenDanHeYi* (人單合一) model to inject vitality into the acquired companies, whose developments are well supported by HSH's global platform. GE Appliances thrived with successful integration initiatives, as its market share in major home appliances in North America increased from 15.7% in 2017 to 16.5% in 2018 and 17.4% in 2019, and it ranked first among major home appliance brands in North America by retail volume in 2019.

(c) *Competitive advantages in global collaboration*

- (i) **Resource and experience sharing on a consolidated platform:** HSH is one of the few major home appliance companies with leading market share in the PRC, the US and Europe. As a global enterprise, HSH is well positioned to take advantage of its global platform in research and development (R&D), procurement, marketing, branding and supply chain management. In addition, HSH can make global use of its proven practice in managing high-end brands and landing smart scenes.

- (ii) **Worldwide presence:** HSH has laid down solid foundations in multi-brand, cross-product and cross-region business operations, with competitiveness in localized research and development (R&D), manufacturing and distribution. As of June 30 2020, HSH had 10 research and development (R&D) centres, 28 industrial parks, 109 manufacturing facilities and 108 offices worldwide.

(d) *Competitive advantages in efficiency enhancement*

- (i) **User-oriented global distribution network:** HSH's domestic distribution network comprises of national home appliance chain stores, regional chain stores, franchise stores, and e-commerce platforms, with extensive coverage down to town level. As of June 30, 2020, there are more than 7,000 county-level franchise stores and more than 14,000 township stores in HSH's domestic distribution network, which is constantly optimised in terms of marketing, logistics, services and information system on one hand, while accelerating online/offline integration by promoting Smart Home APP. Outside the PRC, HSH has established its proprietary distribution network of 66 offices covering more than 160 countries and regions. HSH focuses on direct interaction on user front while emphasising online presence and developing digital marketing measures.
- (ii) **Embark upon the digital transformation:** HSH strives to build a digitalised enterprise of technologies. Through "Smart Home APP", HSH is able to realise end to end, multi-dimensional, full cycle connectivity in research and development (R&D), procurement, manufacturing, marketing, logistics and products. In terms of research and development (R&D), HSH has established Haier Open Partnership Ecosystem (HOPE), a coordinated global platform of innovation, connecting research and development (R&D) centres and industry experts online to promote interdisciplinary and disruptive innovations. In terms of manufacturing, HSH has pioneered the user-centred "mass customisation" model with its leading digital smart manufacturing capability. As of June 30, 2020, HSH has built 22 global-leading smart factories and 77% of products were shipped directly to distributors without going into warehouses in 1H2020.

(e) *Competitive advantages in management model*

- (i) **Unlock employees' potential with *RenDanHeYi* (人單合一) model in the creation of outstanding user experience:** Inspired by innovative and pioneering management philosophy, HSH is always ready to reinvent itself. Wide adoption of the value-centred *RenDanHeYi* (人單合一) model encourages every one of its employees to create value for users thus realising value as an individual, enhancing value for the enterprise and ultimately contributing to shareholders' value. In addition, HSH's success also depends on experienced management team and well-designed equity incentive schemes.

After the Scheme becoming effective, HEG will continue to be a subsidiary of HSH, and employees of HEG will continue to work at HEG in accordance with their existing employment agreement with HEG.

7.4. Strategies of HSH

In developing Internet-of-Things (IoT)-based smart home ecosystem brand strategy, HSH is committed to solidifying its leadership in smart home solutions business with the following initiatives:

- (a) promote product innovation to provide full-suite smart home solutions, and strengthen technology capabilities;
- (b) accelerate transformation by promoting smart manufacturing, network integration and operation digitalisation;
- (c) drive global operation synergy and optimise efficiency;
- (d) build ecosystem brand portfolio and embrace consumption upgrade with product premiumisation;
- (e) enhance user experience via the “Experiential Cloud” (體驗雲) digital platform;
- (f) demonstrate commitment in creating the best user experience; and
- (g) reinforce “RenDanHeYi” (人單合一) mechanism.

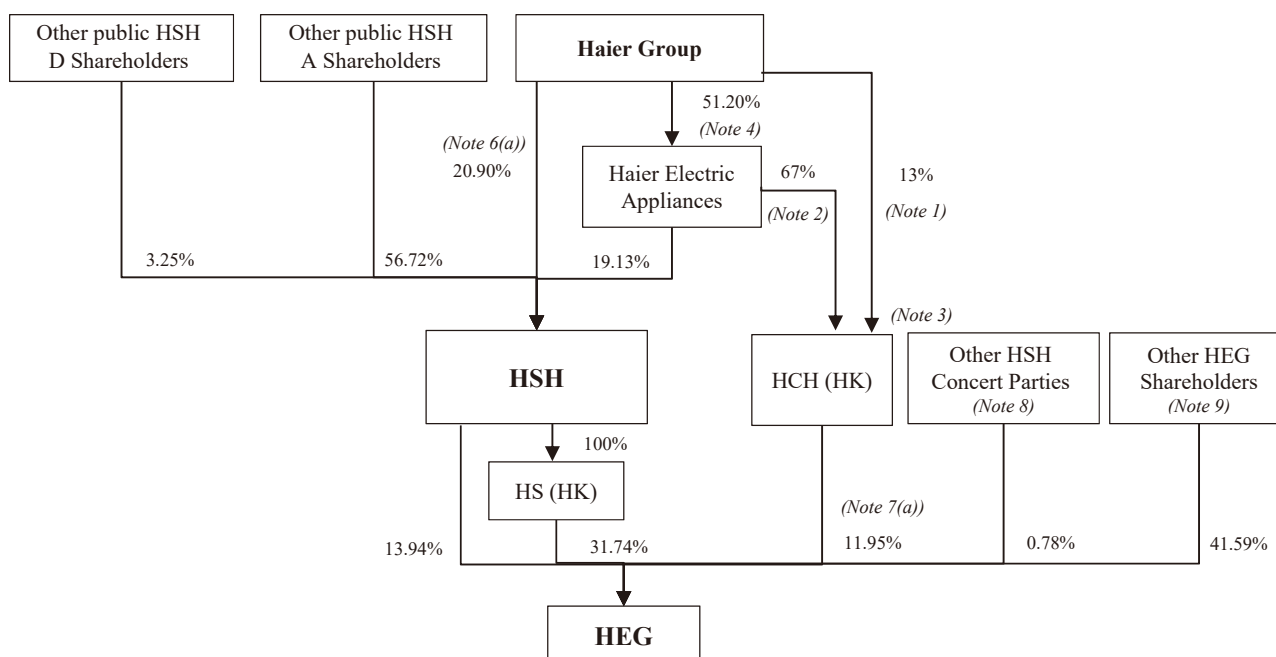
7.5. Shareholding structure of HSH

As at the Announcement Date, there are a total of 6,579,566,627 HSH Shares in issue.

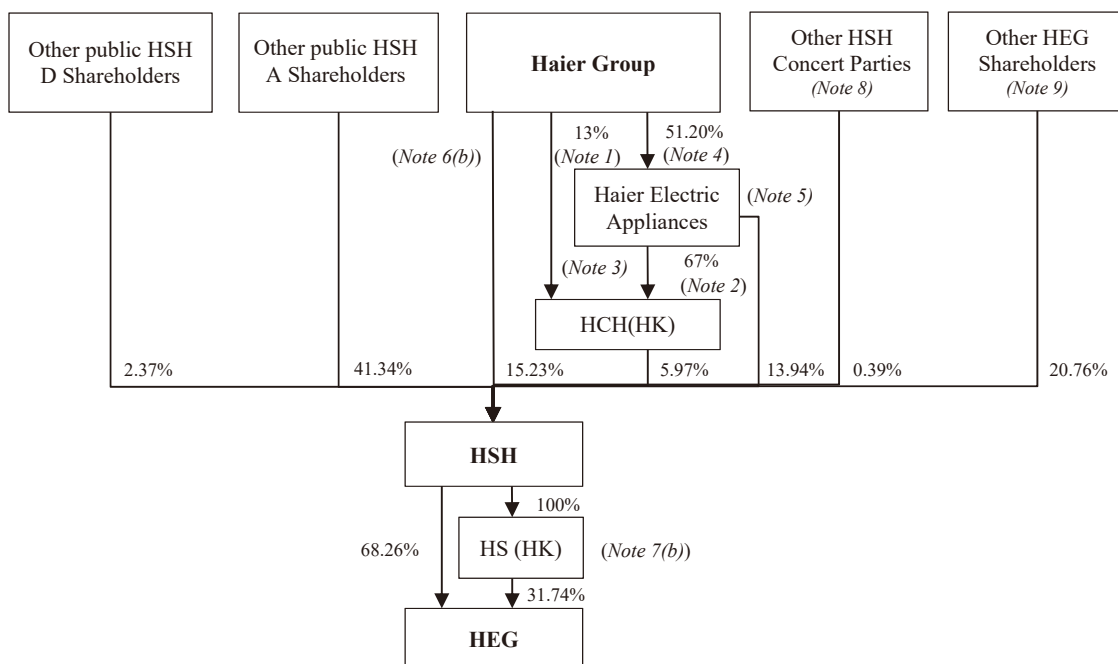
A simplified shareholding structure of HSH as at the Announcement Date and immediately upon the completion of the Privatisation Proposal are represented in the charts below respectively.

The simplified shareholding structure of HSH is as follows:

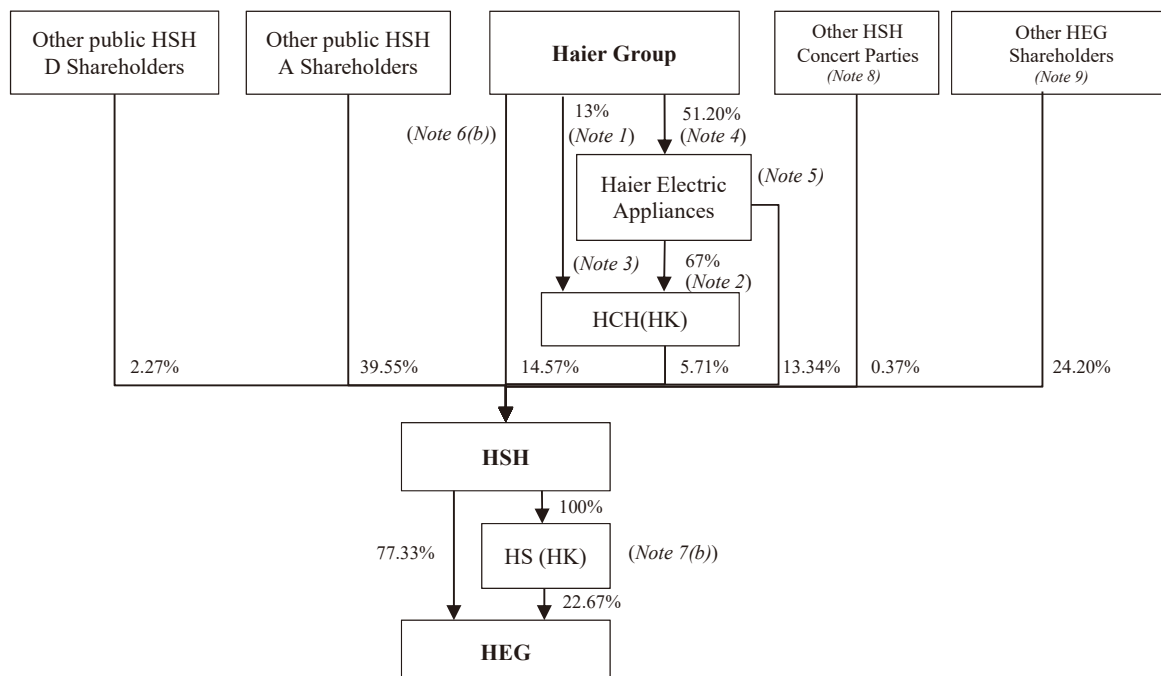
(A) As at the Announcement Date



(B) Immediately upon the completion of the Privatisation Proposal (assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time):



(C) Immediately upon the completion of the Privatisation Proposal (assuming (i) the Exchange Property (as defined in the Bond Terms and Conditions) has been adjusted as a result of the HEG 2019 Final Dividend Adjustment (for illustration purposes only), and (ii) assuming all of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time):



Notes:

1. The shares held by Haier Group in HCH (HK) represent an aggregate of 13% economic interests, and 100% voting rights, in HCH (HK).
2. The shares held by Haier Electric Appliances in HCH (HK) represent an aggregate of 67% economic interests in HCH (HK). All of those shares are non-voting shares.
3. Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in HCH (HK). Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.
4. Haier Group holds 51.20% of the issued shares in Haier Electric Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier Electric Appliances through an irrevocable voting rights entrustment arrangement.
5. Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in Haier Electric Appliances. Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.
- 6(a). As at the Announcement Date, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group directly holds approximately 16.30% shareholding in HSH (in respect of HSH A Shares) and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it) controls a further 4.60% shareholding in HSH (out of which 3.73% is in respect of HSH A Shares, and 0.87% is in respect of HSH D Shares indirectly held through its indirect wholly-owned subsidiary, Haier International Co., Limited).
- 6(b). Immediately upon the completion of the Privatisation Proposal, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group will hold and/or control HSH A Shares, HSH D Shares and HSH H Shares directly and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it).
- 7(a). HSH has been appointed through a voting rights entrustment arrangement to exercise the voting rights attached to the HEG Shares held by HCH (HK).
- 7(b). HS (HK) is a wholly-owned subsidiary of HSH. HS (HK) proposes to transfer all of the HEG Shares held by it to Flourishing Reach Limited, another wholly-owned subsidiary of HSH and a limited liability company incorporated under the laws of the British Virgin Islands, after the Announcement Date but prior to the despatch of the Scheme Document. The proposed transfer is subject to obtaining the relevant consent from the holders of the HSH Exchangeable Bonds, and the relevant regulatory filings required under the relevant laws and regulations in the PRC.
8. Other HSH Concert Parties exclude HCH (HK).
9. Other HEG Shareholders include the HEG Trustee and certain Directors.
10. Not all intermediate holding entities are shown in the simplified shareholding structure for simplicity purposes.

7.6. Financial Information of HSH

Set out below is a summary of the financial information of the HSH Group, based on the audited financial statements of HSH Group for the two years ended 31 December, 2019 and 31 December, 2018 which were prepared under International Financial Reporting Standards:

	Year ended 31 December 2019 (audited) (RMB'M)	Year ended 31 December 2018 (audited) (RMB'M)
Revenue	198,006	177,594
Profit/(loss) for the year after taxation	12,335	9,900
	As at 31 December 2019 (audited) (RMB'M)	As at 31 December 2018 (audited) (RMB'M)
Total assets	187,454	168,092
Total liabilities	122,464	112,284
Net assets	64,990	55,808

7.7. Listing of HSH H Shares

In connection with the Privatisation Proposal, HSH is seeking a listing of the HSH H Shares by way of introduction on the Main Board of the Stock Exchange. The purpose of the Listing is to add liquidity to the HSH H Shares and provide HSH with greater access to international capital through its listing platforms, thereby increasing the attractiveness of the HSH H Shares and the consideration for the Scheme Shares under the Privatisation Proposal. At the same time, the distribution of the HSH H Shares to a wide group of Scheme Shareholders pursuant to the Scheme when it becomes unconditional will enable HSH to satisfy the minimum public float requirements under Rule 8.08(1)(b) of the Listing Rules. Accordingly, it is a Pre-Condition to the making of the Privatisation Proposal that the Listing Committee of the Stock Exchange approves the listing of, and permission to deal in, the HSH H Shares on the Stock Exchange and it is a condition to the Introduction that the Scheme becomes effective.

No HSH H Shares will be issued in connection with the Privatisation Proposal other than (1) to Scheme Shareholders upon the Scheme becoming effective, (2) (in respect of any HSH H Shares which would otherwise be allotted to any Non-Qualifying Overseas Shareholders) to a person selected by the HSH Board or otherwise under arrangements to be made with the Executive's consent and in compliance with applicable requirements, as referred to in the section headed "17. OVERSEAS SHAREHOLDERS" and with details to be included in the Scheme Document; and

(3) in relation to arrangements for the fractional entitlements of Scheme Shareholders to HSH H Shares to be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and sold on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

7.8. Other Material Information of HSH

In compliance with the *Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment)* promulgated by the CSRC and other PRC rules and regulations relating to the material asset restructuring of HSH, on the same day as the Announcement Date, HSH published: (i) a valuation assessment report published by Zheshang Securities Co., Ltd. (浙商證券股份有限公司) on the material asset restructuring by HSH (the “**Zheshang Securities Opinion**”); (ii) a material asset acquisition report (the “**MAA Report**”) and (iii) other relevant information relating to the material asset acquisition by HSH pursuant to the abovementioned rules and regulations. In particular, the attention of HEG Shareholders is drawn to the list of documents relating to the material asset acquisition published by HSH as set out in Annex 4 to this Announcement.

The original Chinese versions and English translations of the full text of the Zheshang Securities Opinion, an extract of the relevant parts of the MAA Report and other relevant information relating to the material asset acquisition by HSH containing material information with Takeovers Code implications, as published in Chinese on the website of the Shanghai Stock Exchange (www.sse.com.cn), are set out in a separate announcement published by HSH on the website of the Stock Exchange (www.hkex.com.hk) on the same day as the Announcement Date.

For the avoidance of doubt, the *Pro Forma Review Report* as contained in the MAA Report (as extracted and set out in the aforementioned separate announcement published by HSH) is a report issued by Hexin Certified Public Accountants LLP based on PRC generally acceptable accounting principles in compliance with PRC regulations in respect of the material asset acquisition by HSH. As such, the financial figures in the *Pro Forma Review Report* as contained in the MAA Report are different from the unaudited pro forma financial information of the HSH Group as set out in Annex 2 of this Announcement, which are prepared based on international financial reporting standards and reported on in accordance with Rule 4.29 of the Listing Rules.

8. WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HEG will apply to the Stock Exchange in accordance with Rule 6.15 of the Listing Rules for the withdrawal of the listing of the HEG Shares on the Stock Exchange.

Upon the fulfilment of the Conditions and the Scheme becoming effective, the Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HEG Shares and the day on which the Scheme and the withdrawal of the listing of the HEG Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme will be included in the Scheme Document, which will also contain, among other things, further details of the Scheme (including the Cash Payment as an integral part of the Scheme).

9. IF THE SCHEME IS NOT APPROVED OR IF THE PRIVATISATION PROPOSAL LAPSES

The Scheme will lapse if any of the Conditions has not been satisfied or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, the listing of the HEG Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, neither HSH nor the HSH Concert Parties under the Privatisation Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months thereafter, announce an offer or possible offer for shares in HEG.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Privatisation Proposal, and the Scheme is not approved, all expenses incurred by HEG in connection with the Scheme will be borne by HSH in accordance with Rule 2.3 of the Takeovers Code.

10. SCHEME SHARES, COURT MEETING AND THE SGM

As at the Announcement Date:

- (a) HSH directly holds 392,677,482 HEG Shares, representing approximately 13.94% of the issued share capital of HEG; and
- (b) HS (HK), a wholly-owned subsidiary of HSH, holds 894,143,110 HEG Shares, representing approximately 31.74% of the issued share capital of HEG.

The HEG Shares held by HSH and any of its wholly-owned subsidiaries will not form part of the Scheme Shares. Such HEG Shares will not be voted on at the Court Meeting and will not be cancelled upon the Scheme becoming effective.

All of the HEG Shares held by the other HSH Concert Parties will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective. Under the Takeovers Code, the HSH Concert Parties will not be permitted to vote on the Scheme at the Court Meeting, and only Disinterested Scheme Shareholders will be permitted to vote on the Scheme at the Court Meeting.

All HEG Shareholders will be entitled to attend the SGM and vote on the special resolution to approve and give effect to, amongst other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the restoration of the issued share capital of HEG to its amount in issue prior to the cancellation of the Scheme Shares by issuing to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act. HSH and HS (HK) have indicated that if the Scheme is approved at the Court Meeting, all the HEG Shares held by them will be voted in favour of the resolutions to be proposed at the SGM.

Each of HSH and any of its wholly-owned subsidiaries that hold HEG Shares will undertake to the Court that, if the Conditions are satisfied and the Scheme becomes effective, it will be bound by the Scheme, so as to ensure that it will comply with and be subject to the terms and the conditions of the Scheme.

11. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising all non-executive directors and independent non-executive directors of HEG who are not interested in the Privatisation Proposal, namely, Mr. Yang Guang, Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma, has been established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders as to: (i) whether the terms of the Privatisation Proposal are, or are not, fair and reasonable; and (ii) whether to vote in favour of the resolutions for the approval of the Scheme at the Court Meeting and the resolutions necessary to implement the Privatisation Proposal at the SGM.

Mr. Liang Haishan, a non-executive director of HEG, is a HSH Concert Party and is therefore not considered as independent for the purpose of giving advice or recommendations to the Disinterested Scheme Shareholders. Accordingly, Mr. Liang Haishan has been precluded from the Independent Board Committee.

12. INDEPENDENT FINANCIAL ADVISER

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Privatisation Proposal and the Scheme. The appointment of Somerley Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

13. DESPATCH OF SCHEME DOCUMENT

HEG will send to HEG Shareholders a Scheme Document containing, among other things, further details about the Scheme (including the Cash Payment as an integral part of the Scheme), a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the recommendations of the Independent Board Committee, an independent valuation report prepared in accordance with paragraph 30 of Schedule I to the Takeovers Code, notices to convene the Court Meeting and the SGM and an advance draft or a copy of the Listing Document as soon as possible in accordance with the Takeovers Code, the requirements of the Court and other applicable regulations.

14. DISCLOSURE OF DEALINGS

The respective associates (including, among others, any person who owns or controls 5% or more of any class of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code)) of HSH and HEG are hereby reminded to disclose their dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of HSH and HEG under Rule 22 of the Takeovers Code during the offer period.

Save as disclosed below, neither HSH nor the HSH Concert Parties had any dealings for value in the HEG Shares during the period commencing six months prior to the Offer Period Commencement Date up to the Announcement Date.

Name	Date of transaction (D/M/Y)	Nature of transaction	On/off the Stock Exchange	No. of HEG Shares involved	Average transaction price per HEG Share (HK\$)
Mr. Yang Chuanxin ^(Note 1)	24/7/2019	Vesting of restricted share awards ^(Note 12)	Off	27,570	—
	5/9/2019	Sale	On	10,000	20.95
	5/9/2019	Sale	On	11,000	21
	5/9/2019	Sale	On	6,000	21.05
Mr. Zhou Yunjie ^(Note 2)	25/7/2019	Vesting of restricted share awards ^(Note 11)	Off	867,840	—
	14/7/2020	Vesting of restricted share awards ^(Note 11)	Off	706,400	—
Mr. Zhang Ruimin ^(Note 3)	16/8/2019	Vesting of restricted share awards ^(Note 12)	Off	461,062	—
Mr. Zhan Bo ^(Note 4)	24/7/2020	Vesting of restricted share awards ^(Note 11)	Off	79,900	—
Mr. Liu Gang ^(Note 5)	24/7/2020	Vesting of restricted share awards ^(Note 11)	Off	21,312	—
Ms. Tan Lixia ^(Note 6)	24/7/2019	Vesting of restricted share awards ^(Note 12)	Off	230,532	—
HS (HK) ^(Note 7)	13/6/2019	Purchase	On	1,300,000	20.07
	14/6/2019	Purchase	On	1,000,000	20.00
	26/6/2019	Purchase	On	67,000	21.05
	5/7/2019	Purchase	On	9,000	21.65
	8/7/2019	Purchase	On	463,000	21.51
	9/7/2019	Purchase	On	39,000	21.25
	12/7/2019	Purchase	On	1,194,000	20.81
	15/7/2019	Purchase	On	420,000	20.62
	16/7/2019	Purchase	On	100,000	20.70
	18/7/2019	Purchase	On	1,100,000	20.41
	22/7/2019	Purchase	On	2,445,000	19.75
	23/7/2019	Purchase	On	318,000	19.17
	24/7/2019	Purchase	On	200,000	19.20
	25/7/2019	Purchase	On	116,000	19.09
26/7/2019	Purchase	On	935,000	18.94	

Name	Date of transaction (D/M/Y)	Nature of transaction	On/off the Stock Exchange	No. of HEG Shares involved	Average transaction price per HEG Share (HK\$)
Bank of Communications Trustee Limited — T144 ^(Note 8)	27/6/2019	Sale	On	107,000	21.5234
	28/6/2019	Sale	On	400	21.5
	28/10/2019	Sale	On	35,000	22.0429
	4/11/2019	Sale	On	18,400	23.5717
Bank of Communications Trustee Limited — T168 ^(Note 9)	17/6/2019	Sale	On	29,000	19.9972
	3/7/2019	Vesting of restricted share awards ^(Note 13)	Off	4,704	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	18,678	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	22,348	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	14,820	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	31,122	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	27,570	—
	24/7/2019	Vesting of restricted share awards ^(Note 13)	Off	230,532	—
	15/8/2019	Vesting of restricted share awards ^(Note 13)	Off	461,062	—
HEG ^(Note 10)	4/9/2019	Purchase	On	42,000	20.52
	9/9/2019	Purchase	On	250,000	21.06
	10/9/2019	Purchase	On	300,000	20.23
	11/9/2019	Purchase	On	200,000	20.62
	12/9/2019	Purchase	On	80,000	20.68
	16/9/2019	Purchase	On	275,000	20.83
	17/9/2019	Purchase	On	120,000	20.75
	19/9/2019	Purchase	On	200,000	20.29
	20/9/2019	Purchase	On	270,000	20.00

Notes:

1. Mr. Yang Chuanxin was a former director of Haier Group, the controlling shareholder of HSH, and was presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
2. Mr. Zhou Yunjie is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code. Mr. Zhou Yunjie is also a Director and the chairman of HEG.
3. Mr. Zhang Ruimin is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
4. Mr. Zhan Bo is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
5. Mr. Liu Gang is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.
6. Ms. Tan Lixia is a director of HSH and is therefore presumed to be acting in concert with HSH under class (2) in the definition of “acting in concert” under the Takeovers Code.

7. HS (HK) is a wholly owned subsidiary of HSH and is presumed to be acting in concert with HSH under class (1) in the definition of “acting in concert” under the Takeovers Code.
8. Bank of Communications Trustee Limited — T144 is a professional trustee for the administration of the corresponding HKI/HIC Restricted Share Award Scheme and is presumed to be acting in concert with HSH under class (3) in the definition of “acting in concert” under the Takeovers Code.
9. Bank of Communications Trustee Limited — T168 is a professional trustee for the administration of the corresponding HKI/HIC Restricted Share Award Scheme and is presumed to be acting in concert with HSH under class (3) in the definition of “acting in concert” under the Takeovers Code.
10. HEG is a subsidiary of HSH, and is presumed to be acting in concert with HSH under class (1) in the definition of “acting in concert” under the Takeovers Code.
11. The HEG Shares were vested with the relevant individual pursuant to the scheme rules of the HEG Restricted Share Award Scheme.
12. The HEG Shares were vested with the relevant individual pursuant to the scheme rules of the respective HKI/HIC Restricted Share Award Schemes.
13. The transfer of HEG Shares from Bank of Communications Trustee Limited — T168 to the relevant individuals were as a result of vesting share awards pursuant to the scheme rules of the respective HKI/HIC Restricted Share Award Schemes.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of an offeror or the offeree company and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

15. OTHER ARRANGEMENTS

HSH confirms that, as at the Announcement Date:

- (a) save as disclosed in the section headed “6. INFORMATION ON HEG — 6.2. Shareholding Structure of HEG”, none of HSH or the HSH Concert Parties owns or has control or direction over any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of HEG;
- (b) neither HSH nor the HSH Concert Parties has entered into any outstanding derivative in respect of the securities in HEG;

- (c) there are no arrangements (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the HSH Shares or HEG Shares and which might be material to the Privatisation Proposal;
- (d) save for the conditions set out in the section headed “2. TERMS OF THE PRE-CONDITIONAL PRIVATISATION PROPOSAL — 2.6. Pre-Conditions to the making of the Privatisation Proposal” and “2. TERMS OF THE PRE-CONDITIONAL PRIVATISATION PROPOSAL — 2.7. Conditions of the Privatisation Proposal and the Scheme”, there is no agreement or arrangement to which HSH or any of the HSH Concert Parties is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Privatisation Proposal;
- (e) none of HSH or the HSH Concert Parties has received any irrevocable commitment to vote for or against the Scheme;
- (f) neither HSH nor the HSH Concert Parties has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in HEG;
- (g) there is no understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) between HSH or the HSH Concert Parties on one hand, and the Scheme Shareholders and persons acting in concert with them on the other hand; and
- (h) other than the 1.60 new HSH H Shares to be issued by HSH and the Cash Payment of HK\$1.95 to be paid by HEG under the Scheme for every Scheme Share cancelled, there is no other consideration, compensation or benefit in whatever form paid or to be paid by HSH or the HSH Concert Parties to the Scheme Shareholders or persons acting in concert with them in connection with the cancellation of the Scheme Shares under the Scheme.

HEG confirms that, as at the Announcement Date, there is no understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) between any HEG Shareholder on one hand, and HEG, its subsidiaries or associated companies on the other hand.

16. TAXATION AND INDEPENDENT ADVICE

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Privatisation Proposal. It is emphasised that none of HSH, HEG or any of their respective directors, officers or associates or any other person involved in the Privatisation Proposal accepts responsibility (other than in respect of themselves, if applicable) for any taxation effects on, or liabilities of, any other persons as a result of their acceptance or rejection of the Privatisation Proposal.

17. OVERSEAS SHAREHOLDERS

The making and implementation of the Privatisation Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located.

Such overseas Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Privatisation Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes in such jurisdiction.

The Scheme will provide that if the law of any relevant jurisdiction precludes an offer of the HSH H Shares, or precludes it except after compliance by HSH with conditions with which HSH is unable to comply or that HSH regards as unduly onerous, no HSH H Shares will be issued to the relevant overseas Scheme Shareholders (the “**Non-Qualifying Overseas Shareholders**”) or other alternative arrangement will be made in relation to the HSH H Shares to which those overseas Scheme Shareholders would otherwise be entitled. Such arrangements may include, subject to the Executive’s consent and compliance with applicable requirements, an arrangement for the HSH H Shares which would otherwise have been allotted to the relevant Non-Qualifying Overseas Shareholders under the Scheme to be allotted to a person selected by the HSH Board, who will sell such HSH H Shares on the market, with the net proceeds of such sale to be paid to the relevant Non-Qualifying Overseas Shareholders pro rata to their shareholdings in HEG. If, based on the enquiries made before the issue of the Scheme Document, overseas shareholders in any particular jurisdictions are regarded as Non-Qualifying Overseas Shareholders, relevant details will be included in the Scheme Document.

Any acceptance by the overseas Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to HSH and HEG and their respective advisers, that those laws and regulatory requirements have been complied with. If such overseas Scheme Shareholders are in doubt as to their positions, they should consult their professional advisers.

In the event that the despatch of the Scheme Document to overseas Scheme Shareholders is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the Directors regard as unduly onerous or burdensome (or otherwise not in the best interests of HEG or its Shareholders), the Scheme Document may not be despatched to such overseas Scheme Shareholders. For that purpose, HEG may apply for any waiver(s) as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. Any such waiver will only be granted if the Executive is satisfied that it would be unduly burdensome to despatch the Scheme Document to such overseas Scheme Shareholder(s). In granting the waiver, the Executive will be concerned to see that all material information in the Scheme Document is made available to such Scheme Shareholders.

18. INVESTOR PRESENTATION

Annex 3 sets out a copy of the investor presentation relating to the Proposed Privatisation, which forms part of this Announcement.

19. APPOINTMENT OF VALUATION ADVISER AND THE VALUATION REPORT

HSH has appointed Platinum, the Valuation Adviser, to advise on the value of the HSH H Shares. The Valuation Report containing the Valuation Adviser's estimate of the value of the HSH H Shares and the letter from the Joint Financial Advisers on the valuation are set out in Annex 1 of this Announcement.

The valuation report of Platinum has been reported on by the Joint Financial Advisers in accordance with the requirements under Rule 11.1(b) of the Takeovers Code and the report from the Joint Financial Advisers has been lodged with the Executive. A copy of the report from the Joint Financial Advisers is also set out in Annex 1 of this Announcement.

20. RESUMPTION OF TRADING IN HEG SHARES

At the request of HEG, trading in HEG Shares on the Stock Exchange was halted from 9:00 am on 30 July, 2020 pending the release of this Announcement. An application will be made by HEG to the Stock Exchange for the resumption of trading in HEG Shares on the Stock Exchange with effect from 9:00 am on 3 August 2020.

21. PRECAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts included in this Announcement, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as “seek”, “expect”, “envisage”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “strategy”, “forecast” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “may” and “might”. These statements reflect HSH's or HEG's (as the case may be) current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties.

Accordingly, actual results may differ materially from those described in such forward-looking statements as a result of a number of factors, including, without limitation:

- (a) the satisfaction of the Pre-Conditions to the making of the Privatisation Proposal;
- (b) the satisfaction of the Conditions to the Privatisation Proposal and the Scheme;
- (c) any changes in the regulatory regime and significant policies for the PRC electronic appliances industry, or any in the regulatory policies of the relevant government authorities of the PRC;

- (d) any changes in the effects of competition on the market demand and sale price of the products manufactured by HSH and HEG; and
- (e) any changes in political, economic, legal and social conditions in the PRC and other countries in which HSH and/or HEG operates.

Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. HEG Shareholders and investors should not place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to HSH or HEG or persons acting on behalf of either of them are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included herein are made only as of the Announcement Date. Subject to the requirements of the applicable laws, rules and regulations, including the Takeovers Code, neither HSH nor HEG undertake any obligation to update publicly or revise any forward-looking statements contained in this Announcement.

22. WARNINGS

Shareholders and potential investors of HSH and HEG should be aware that the making of the Privatisation Proposal is subject to the satisfaction of the Pre-Conditions. Even if the Privatisation Proposal is made, the implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

The Privatisation Proposal relates to the shares of Chinese or Bermuda companies and is proposed to be made by a scheme of arrangement provided for under the laws of Bermuda. The Privatisation Proposal is subject to the disclosure requirements and practices applicable in Hong Kong, PRC and Bermuda, which differ from the disclosure and other requirements of the U.S. securities laws and the securities laws of the member states of the European Economic Area (“**Relevant States**” and each a “**Relevant State**”). Financial information included in the relevant documentation will have been prepared in accordance with accounting standards applicable in PRC or Hong Kong that may not be comparable to accounting principles generally accepted in the United States and the Relevant States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities and Exchange Act of 1934, as amended, and the tender offer rules of the Relevant States. Accordingly, the Privatisation Proposal is subject to the disclosure requirements and practices applicable in Bermuda and Hong Kong to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules and the Relevant States’ tender offer rules.

The receipt of cash and/or HSH H Shares pursuant to the Privatisation Proposal by a Relevant State holder or a US holder or of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme may be a taxable transaction under tax laws applicable in a Relevant State, or for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of the Privatisation Proposal applicable to him.

It may be difficult for US holders of Scheme Shares or holders of Scheme Shares in the Relevant States to enforce their rights and claims arising out of the US federal securities laws and the Relevant States' securities laws, since HSH and HEG are located in a country other than the United States and the Relevant States, and some or all of their officers and directors may be residents of a country other than the United States and the Relevant States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Holders of Scheme Shares in the Relevant States may not be able to sue a non-Relevant State company or its officers or directors in a non-Relevant State court for violations of the Relevant States' securities laws. Further, it may be difficult to compel a non-US and non-Relevant State company and its affiliates to subject themselves to a US court's or a Relevant State's court's judgement.

22.1. Notice to US investors

This Announcement is not an offer of securities for sale nor a solicitation of an offer to buy securities in the United States. The HSH H Shares, which will be issued in connection with the Privatisation Proposal, if made, have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or under the securities law of any state, district or other jurisdiction of the United States, or any other jurisdiction, and no regulatory approval or clearance in respect of the HSH H Shares has been, or will be, applied for in any jurisdiction other than Hong Kong, PRC or Bermuda. The HSH H Shares may not be offered or sold in the United States absent registration under the U.S. Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. It is expected that the HSH H Shares will be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a) (10) thereof. HSH does not intend to make any public offering of securities in the United States.

Under applicable U.S. securities laws, HEG Shareholders (whether or not U.S. Persons (as defined in Regulation S under the U.S. Securities Act)) who are or will be “affiliates” of HSH or HEG prior to, or of HSH after, the Scheme Effective Date will be subject to certain transfer restrictions relating to the HSH H Shares received in connection with the Scheme.

22.2. Notice to European Economic Area investors

This Announcement is not an offer of securities for sale nor a solicitation of an offer to buy securities to the public in any Relevant State. No regulatory approval or clearance in respect of the HSH H Shares, which will be issued in connection with the Privatisation Proposal, has been, or will be, applied for in any jurisdiction other than Hong Kong, PRC or Bermuda. The HSH H Shares may not be offered or sold to the public in any Relevant State absent prior publication of a securities prospectus that has been approved by the competent authority in that Relevant State under Regulation (EU) 2017/1129 (the “**EU Prospectus Regulation**”) or, where appropriate, approved in another Relevant State and notified to the competent authority in that

Relevant State, all in accordance with the EU Prospectus Regulation, except that an offer to the public in that Relevant State of any Shares may be made at any time under the following exemptions under the EU Prospectus Regulation: (a) to any legal entity which is a qualified investor as defined under the EU Prospectus Regulation; (b) to fewer than 150 natural or legal persons (other than qualified investors as defined under the EU Prospectus Regulation); or (c) in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation. The expression an “offer to the public” in relation to the HSH H Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the Privatisation Proposal and any HSH H Shares to be offered so as to enable a holder of Scheme Shares in any Relevant State to decide to accept the Privatisation Proposal and to receive HSH H Shares. HSH does not intend to make an offer of securities to the public in a Relevant State.

23. DEFINITIONS

In this Announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“2020 Unvested Awards”	has the meaning ascribed to it in the section headed “3. HEG RESTRICTED SHARE AWARD SCHEME”
“Acceleration”	has the meaning ascribed to it in the section headed “3. HEG RESTRICTED SHARE AWARD SCHEME”
“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert parties” shall be construed accordingly
“affiliate”	in relation to an individual, that individual’s relatives (whether close or distant, including any spouse, child (including adopted child and step-child), parent or sibling of that individual), any person which is controlled by that individual and/or that individual’s relatives (whether close or distant and whether acting individually or together) (“ Controlled Entity ”) and any affiliate of a Controlled Entity; and in relation to any person other than an individual, any other person that (directly or indirectly) controls, is controlled by or is under common control with such person
“Announcement”	this announcement jointly issued by HSH and HEG
“Announcement Date”	31 July 2020, being the date of this Announcement
“associates”	has the meaning ascribed to it in the Takeovers Code
“Bond Terms and Conditions”	has the meaning ascribed to it in the section headed “4. HSH EXCHANGEABLE BONDS — 4.1. General Information”

“Cash Payment”	subject to the Scheme becoming effective and as part of the Scheme, the payment of HK\$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time
“CICC”	China International Capital Corporation Hong Kong Securities Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and the Scheme
“CMM”	China Market Monitor Co., LTD, a provider of market research focusing on the retail research of the consumer goods market in the PRC
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Conditions”	the conditions to the implementation of the Privatisation Proposal as described in the section headed “2. TERMS OF THE PRE-CONDITIONAL PRIVATISATION PROPOSAL — 2.7. Conditions of the Privatisation Proposal and the Scheme” of this Announcement
“Court”	the Supreme Court of Bermuda
“Court Meeting”	the meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof
“Court Order”	the order of the Court pursuant to Section 99(2) of the Companies Act sanctioning the Scheme
“CSRC”	China Securities Regulatory Commission
“Delisting”	the delisting of the HEG Shares from the Main Board of the Stock Exchange
“Director(s)”	the director(s) of HEG
“Disinterested Scheme Shareholder(s)”	the Scheme Shareholder(s) other than the HSH Concert Parties
“Disinterested Scheme Share(s)”	HEG Share(s) held by the Disinterested Scheme Shareholders

“EB-to-CB Proposal”	has the meaning ascribed to it in the section headed “4. HSH EXCHANGEABLE BONDS — 4.3. EB-to-CB Proposal”
“Enlarged HSH Group”	HSH Group together with the privatised HEG
“Euromonitor”	Euromonitor International, a provider of strategic market research
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
“Haier Electric Appliances”	Haier Electric Appliances International Co., Ltd., a company incorporated under the laws of the PRC and a non wholly-owned subsidiary of Haier Group
“Haier Group”	Haier Group Corporation, a company incorporated under the laws of the PRC and is the controlling shareholder of HSH
“Harvest”	Harvest International Company, a company incorporated in the Cayman Islands with limited liability and a wholly owned subsidiary of HS (HK)
“HCH (HK)”	HCH (HK) Investment Management Co., Limited a company incorporated in Hong Kong with limited liability and an indirect subsidiary of Haier Group. HCH (HK) is principally engaged in investment holding activities
“HEG”	Haier Electronics Group Co., Ltd., a company incorporated in Bermuda with limited liability, the HEG Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1169)
“HEG Board”	the board of directors of HEG
“HEG Group”	HEG and its subsidiaries
“HEG 2019 Final Dividend”	the final dividend for the year ended 31 December 2019 of HK\$49 cents per HEG Share in cash payable to shareholders whose names appeared on the register of members of HEG on 3 July 2020
“HEG 2019 Final Dividend Adjustment”	has the meaning ascribed to it in the section headed “4. HSH EXCHANGEABLE BONDS — 4.1. General Information”
“HEG Restricted Share Award Scheme”	the restricted share award scheme of HEG which has been approved by the HEG Board on 15 April 2014 and renewed by an addendum on 15 April 2019, for the benefits of the employees of HEG, in its present form or as amended from time to time in accordance with its rules

“HEG Share Awards”	a maximum of 105,000,000 HEG Shares which may from time to time be purchased or otherwise acquired and/or issued and allotted to the HEG Trustee pursuant to the HEG Restricted Share Award Scheme (as renewed by an addendum on 15 April 2019)
“HEG Shareholder(s)”	the registered holder(s) of the HEG Share(s)
“HEG Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of HEG
“HEG Trustee”	Bank of Communications Trustee Limited, a professional trustee who is an independent third party not associated or connected with HEG or its connected persons appointed by HEG for the administration of the HEG Restricted Share Award Scheme
“HKI/HIC Restricted Share Award Schemes”	the restricted share award schemes adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited (each being a wholly-owned subsidiary of Haier Group) for the benefit of their respective participants, in their present form or as amended from time to time in accordance with their rules, and HKI/HIC Restricted Share Award Scheme means any of the aforementioned scheme. Under the rules of those schemes, the selected participants will, after the vesting of awards made, either be entitled to HEG Shares or cash, except that awards granted to any selected participant who is a Director or a chief executive of HEG will only be cash-settled
“HKI/HIC Trustee”	Bank of Communications Trustee Limited (i.e. Bank of Communications Trustee Limited — T144 and Bank of Communications Trustee Limited — T168), a professional trustee who is an independent third party not associated or connected with Haier (HK) Investment Co., Limited or Haier International Co., Limited (as the case may be) or its respective connected persons appointed by Haier (HK) Investment Co., Limited and Haier International Co., Limited (as the case may be) for the administration of the corresponding HKI/HIC Restricted Share Award Scheme
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HS (HK)”	Haier Shareholdings (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HSH

“HSH”	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose A shares are listed on the Shanghai Stock Exchange (stock code: 600690) and whose D shares are listed on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange (stock code: 690D)
“HSH 2019 Final Dividend”	the final dividend for the year ended 31 December 2019 of RMB0.375 per HSH Share in cash payable to HSH Shareholders
“HSH A Shareholder(s)”	the holder(s) of HSH A Shares
“HSH A Shares”	the A shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange (stock code: 600690)
“HSH A Shares Class Meeting”	the class meeting of the HSH A Shareholders to be held to consider and, if thought fit, approve, among other things, the Privatisation Proposal and the transactions contemplated thereunder
“HSH Board”	the board of directors of HSH
“HSH Concert Parties”	parties acting in concert with HSH in relation to HEG, including Haier Group, HCH (HK), the HKI/HIC Trustee, the directors of each of HSH and Haier Group, CICC and J.P. Morgan (except for the relevant members of the CICC group and J.P. Morgan group which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code), each of which is presumed under the Takeovers Code to be acting in concert with HSH in relation to HEG
“HSH D Shareholder(s)”	the holder(s) of HSH D Share(s)
“HSH D Shares”	the D shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are listed and traded on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange (stock code: 690D)
“HSH D Shares Class Meeting”	the class meeting of the HSH D Shareholders to be held to consider and, if thought fit, approve, among other things, the Privatisation Proposal and the transactions contemplated thereunder
“HSH Exchangeable Bonds”	HK\$8,000,000,000 Zero Coupon Guaranteed Exchangeable Bonds due on 21 November 2022, which are listed on the Stock Exchange (stock code: 5024)

“HSH General Meeting”	the general meeting of HSH to be held to consider and, if thought fit, approve, amongst other things, the Privatisation Proposal and the transactions contemplated thereunder
“HSH Group”	HSH and its subsidiaries
“HSH H Shares”	overseas listed foreign shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are to be traded in HK\$ and which are to be listed on the Stock Exchange pursuant to the Introduction
“HSH Shareholder(s)”	holder(s) of HSH Shares
“HSH Shares”	ordinary shares of HSH, comprising both HSH A Shares and HSH D Shares
“Independent Board Committee”	the independent board committee of HEG established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders in respect of the Privatisation Proposal and the Scheme
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser in respect of the Privatisation Proposal and the Scheme appointed by HEG with the approval of the Independent Board Committee
“Independent HSH Shareholders”	the HSH Shareholders other than Haier Group, Haier Electric Appliances, their concert parties, being Qingdao Haier Venture & Investment Information Co., Ltd. and Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), Haier International Co., Limited and any related shareholder as defined under the SSE Listing Rules
“Initial Adjustment Date”	the 11 th trading date after the date on which the Cash Payment is paid by HEG
“Introduction”	the proposed Listing of HSH by way of introduction on the Main Board of the Stock Exchange
“J.P. Morgan”	J.P. Morgan Securities (Asia Pacific) Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and the Scheme

“Joint Financial Advisers”	CICC and J.P. Morgan, the financial advisers to HSH in connection with the Privatisation Proposal and the Scheme
“Last Trading Day”	12 December 2019, being the last day on which the HEG Shares were traded on the Stock Exchange prior to the publication of the announcement of HSH dated 16 December 2019 pursuant to Rule 3.7 of the Takeovers Code
“Listing”	the listing of, and permission to deal in, the HSH H Shares on the Main Board of the Stock Exchange
“Listing Document”	the listing document to be published by HSH in connection with the Introduction
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“NDRC”	the National Development and Reform Commission of the PRC (國家發展和改革委員會)
“Non-Qualifying Overseas Shareholders”	has the meaning ascribed to it in the paragraph headed “17. OVERSEAS SHAREHOLDERS”
“Offer Period Commencement Date”	16 December 2019, being the date on which HSH and HEG respectively first issued an announcement pursuant to Rule 3.7 of the Takeovers Code in relation to, among others, the proposed privatisation of HEG
“PRC”	the People’s Republic of China (for the purpose of this Announcement, excluding Hong Kong, the Macao Special Administrative Region and Taiwan)
“Pre-Conditions”	the pre-conditions to the making of the Privatisation Proposal as described in the section headed “2. TERMS OF THE PRE-CONDITIONAL PRIVATISATION PROPOSAL — 2.6. Pre-Conditions to the making of the Privatisation Proposal” of this Announcement
“Pre-Conditions Long Stop Date”	31 March 2021 or such later date as may be determined by HSH in its discretion and as permitted by the Executive
“Privatisation Proposal”	the proposal for the privatisation of HEG by HSH by way of the Scheme and the withdrawal of the listing of the HEG Shares from the Stock Exchange
“Reference Exchange Rate”	RMB1.0000: HK\$1.1077 Euro1.0000: HK\$9.0822

“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	a scheme of arrangement under Section 99 of the Companies Act involving, among other matters, the cancellation of all of the Scheme Shares and making of the Cash Payment upon the Scheme becoming effective
“Scheme Document”	the composite scheme document of HSH and HEG containing, among other things, further details of the Privatisation Proposal together with the additional information specified in the section headed “13. DESPATCH OF SCHEME DOCUMENT” of this Announcement
“Scheme Effective Date”	the date on which the Scheme becomes effective in accordance with the Companies Act
“Scheme Long Stop Date”	30 June 2021 or such later date as may be agreed by HSH and HEG, or to the extent applicable, as the Court may direct and, in all cases, as permitted by the Executive
“Scheme Record Time”	the record time (to be jointly announced by HSH and HEG) for determining entitlements under the Scheme
“Scheme Shareholder(s)”	the registered holder(s) of the Scheme Shares
“Scheme Share(s)”	all of the HEG Shares in issue and such further HEG Shares as may be issued prior to the Scheme Record Time, other than those held by HSH and those held by any of its wholly-owned subsidiaries (including but not limited to HS (HK)). For the avoidance of doubt, the Scheme Shares shall include HEG Shares held by the other HSH Concert Parties
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the HEG Shareholders to be convened to consider and if thought fit, approve, among other things, the necessary resolutions for the implementation of the Privatisation Proposal or any adjournment thereof
“Share Exchange Ratio”	the exchange ratio of 1.60 new HSH H Shares for every Scheme Share cancelled under the Scheme
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (Revised in April 2019)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	1 January 2017 to 30 June 2020
“UBS”	UBS AG (acting through its Hong Kong Branch), a registered institution under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to HEG in relation to the Privatisation Proposal. UBS AG is incorporated in Switzerland with limited liability
“US” or “United States”	the United States of America
“US Securities Act”	the US Securities Act of 1933 (as amended), including the related rules and regulations promulgated thereunder
“Valuation Adviser” or “Platinum”	Platinum Securities Company Limited, the adviser appointed by HSH to value the HSH H Shares and which is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.
“Valuation Report”	the valuation report issued by the Valuation Adviser on the value of the HSH H Shares as at 30 July 2020

In this Announcement, the Reference Exchange Rate of RMB: 1.0000: HK\$1.1077, and Euro1.0000: HK\$9.0822 are used for illustration purposes only. There is no assurance that any sum in RMB and/or Euro can be converted to HK dollars at the Reference Exchange Rate or at all.

By Order of the board of directors of
Haier Smart Home Co., Ltd.*
Liang Haishan
Chairman

By Order of the Board of
Haier Electronics Group Co., Ltd.
Zhou Yun Jie
Chairman

Hong Kong, 31 July 2020

As at the Announcement Date, the directors of HSH are Liang Haishan, Tan Lixia, Wu Changqi, Li Hua Gang, Yan Andrew Y, Lin Sui Martin, Chien Da-Chun, Dai Deming and Wong Hak Kun.

The directors of HSH jointly and severally accept full responsibility for the accuracy of the information contained in this Announcement (other than any information relating to HEG) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Announcement (other than those expressed by the directors of HEG) have been arrived at after due and careful consideration and there are no other facts not contained in this Announcement, the omission of which would make any statement in this Announcement misleading.

As at the Announcement Date, the executive directors of HEG are Mr. Zhou Yunjie (Chairman), Mr. Xie Ju Zhi and Mr. Li Hua Gang; the non-executive directors of the Company are Mr. Liang Haishan and Mr. Yang Guang; the independent non-executive directors of the Company are Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma.

The directors of HEG jointly and severally accept full responsibility for the accuracy of the information contained in this Announcement (other than any information relating to HSH) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Announcement (other than those expressed by the directors of HSH) have been arrived at after due and careful consideration and there are no other facts not contained in this Announcement, the omission of which would make any statement in this Announcement misleading.

** For identification purpose only*

ANNEX 1

VALUATION REPORT

I. LETTER FROM THE JOINT FINANCIAL ADVISERS ON THE VALUATION



29/F
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

The Board of Directors
Haier Smart Home Co., Ltd.
Haier Information Industry Park
Laoshan District, Qingdao
The People's Republic of China

J.P.Morgan

20–29/F
Chater House
8 Connaught Road Central
Central, Hong Kong

July 31, 2020

Dear Sirs,

**PRE-CONDITIONAL PROPOSAL FOR PRIVATISATION OF
HAIER ELECTRONICS GROUP CO., LTD.
BY HAIER SMART HOME CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT**

We refer to the announcement of even date jointly issued by Haier Smart Home Co., Ltd. and Haier Electronics Group Co., Ltd. in connection with the Privatisation Proposal and the Scheme (the “**Rule 3.5 Announcement**”). Capitalised terms used in this letter will, unless otherwise stated, have the same meaning as defined in the Rule 3.5 Announcement.

Pursuant to the requirements of the Takeovers Code, HSH has engaged Platinum Securities Company Limited (the “**Valuer**”) to provide an estimate of value of the HSH H Shares, contained in the letter dated July 30, 2020 addressed to you from the Valuer as set out in the Rule 3.5 Announcement (the “**Estimate of Value**”). The Valuer is licensed for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

Pursuant to the requirements of Rule 11.1(b) of the Takeovers Code, we, in our capacity as the joint financial advisers solely to HSH in connection with the Privatisation Proposal and the Scheme, are required to report on the Estimate of Value and the qualifications and experience of the Valuer.

OUR REVIEW

For the purpose of providing this letter, we have conducted the following due diligence:

- (a) conducted reasonable checks to assess the relevant qualifications and experience of the Valuer, including reviewing the supporting documents on the qualifications of the Valuer and discussing with the Valuer on its qualifications and experience;
- (b) reviewed the Estimate of Value, for which you and the Valuer are solely responsible; and
- (c) discussed, from the perspective of financial advisers, with the Valuer, the Estimate of Value and the bases and assumptions underlying the Estimate of Value.

Based on the information provided by the Valuer, you and your management team as of the date of this letter, without giving any other opinion or expressing any other view on the Estimate of Value, for which you and the Valuer and HSH are solely responsible, we are satisfied that the Estimate of Value has been made after due care and consideration. Based on the information provided by the Valuer, we are also satisfied that the Valuer is suitably qualified and experienced to prepare the Estimate of Value.

We have not independently verified the computations leading to the determination of the Estimate of Value. The valuation of non-publicly traded securities is inherently imprecise and subject to the underlying assumptions, which are in turn subject to uncertainties and affected by market conditions. In addition, our view is necessarily based on prevailing economic, market and other conditions which generally affect the value of companies and securities as in effect and the financial conditions of HSH available to us as of the date of this letter. It should be understood that subsequent developments may affect our view expressed herein and that we do not have any obligation to update, revise or reaffirm this view.

GENERAL

This letter has been provided to the directors of HSH only and solely for the purposes of Rule 11.1(b) of the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever. It is not addressed to and may not be relied upon by any third party for any purpose whatsoever and we expressly disclaim any duty or liability to any third party with respect to the contents of this letter.

We are not the independent appraiser of the Estimate of Value, which was determined by the Valuer. We are acting as the joint financial advisers solely to HSH in connection with the Privatisation Proposal and the Scheme. We will not be responsible to any person other than HSH for providing advice in connection with the Privatisation Proposal and the Scheme, nor will we owe any responsibility to any person other than HSH.

In providing this letter, we express no opinion or recommendation to any person as to how such person should act on any matters relating to the Privatisation Proposal and the Scheme or as to the fairness of the financial terms of the Privatisation Proposal and the Scheme. Scheme Shareholders are recommended to seek their own independent financial advice.

Yours faithfully,

For and on behalf of
China International Capital Corporation
Hong Kong Securities Limited

Pak Hiu Ching
Managing Director

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited

Sanjeev Malkani
Managing Director

II. LETTER FROM THE VALUATION ADVISER

The following is the text of the letter from Platinum Securities Company Limited to the Board of Directors of HSH prepared for the purpose of incorporation into this Announcement.



PLATINUM
Securities

The Board of Directors
HSH
Haier Information Industry Park
Laoshan District, Qingdao
The People's Republic of China

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road, Central
Hong Kong

30 July 2020

Dear Sirs,

**PROPOSED PRIVATISATION OF
HAIER ELECTRONIC GROUP CO. LTD
BY WAY OF A SCHEME OF ARRANGEMENT INVOLVING
A SECURITIES EXCHANGE OFFER FOR THE COMPANY
ESTIMATED VALUE OF
HAIER SMART HOME CO. LTD H SHARES**

INTRODUCTION

We refer to our engagement as the adviser to the board of directors of HSH in respect of providing an estimated value of HSH H Shares ("**Estimated Value**"). The new HSH H Shares, which rank *pari passu* with the existing shares in HSH, are to be issued to the shareholders of HEG in relation to the proposed privatisation of HEG.

As at the date of this letter, HSH and HSH Concert Parties, together hold and/or control in aggregate approximately 58.41% of the voting rights in HEG in the following manner:

- HSH's direct shareholding in HEG of approximately 13.94%;
- HSH's indirect shareholding in HEG of approximately 31.74% via HSH's wholly-owned subsidiary, Haier Shareholdings (Hong Kong) Limited, a private limited liability company incorporated in Hong Kong;
- Haier Group's indirect interest in HEG of approximately 11.95%. HSH has been appointed through a voting entrustment agreement since July 2015 to exercise the voting rights attached to the aforementioned 11.95% shareholding in HEG; and
- Directors of HSH/Haier Group's shareholding in HEG of approximately 0.41% and HKI/HIC Trustee's shareholding in HEG of approximately 0.37%.

HSH proposes to privatise HEG by way of a scheme of arrangement under section 99 of the Companies Act whereby shareholders of HEG other than HSH are offered HSH H Shares in exchange for the cancellation of HEG Shares held by them. Currently the existing shares of HSH are listed on the Shanghai Stock Exchange (the "**Listed A Share**") and the Frankfurt Stock Exchange (the "**Listed D Share**") and it is proposed that HSH will list the HSH H Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of introduction under Rule 7.14(3) of the Listing Rules. As stated in the Announcement, after the successful listing by way of introduction, HSH will also be able to diversify its investors base through its H Share platform and H Share holders of HSH are expected to include both existing HEG investors and new HSH investors, thus bringing about potential increase in liquidity.

We have been appointed to provide the Estimated Value of the HSH H Shares pursuant to paragraph 30 of Schedule I of the Takeovers Code. It is a condition of the Scheme becoming effective that the Listing Committee of the Stock Exchange approves the Listing of and gives permission to deal in HSH H Shares to be offered to the HEG shareholders under the Scheme.

Immediately following the Listing and the Scheme becoming effective, HEG will become a wholly-owned subsidiary of HSH and the HEG Shareholders, other than HSH, will become shareholders of the newly listed H Shares of HSH.

PURPOSE

The Estimated Value has been provided to the board of directors of HSH and the Financial Advisers solely for the purpose of paragraph 30 of Schedule I of the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever. This letter is not addressed to and may not be relied upon by any third party for any purposes whatsoever and we expressly disclaim any duty or liability to any third party with respect to the contents of this letter.

The Estimated Value assumes a willing buyer and seller, neither being under any compulsion to buy or sell, dealing on an arm's length basis, each having knowledge of all relevant facts. The Estimated Value is also prepared on the basis of a value as to investors acquiring a minority interest as a portfolio investment. It does not include any premium for control.

The Estimated Value does not constitute an opinion as to the price at which HSH H Shares may trade at any point in the future, or represent the value that a holder of HSH H Shares may realise on any future sale, where such a value may be higher or lower than the Estimated Value contained in this letter. We assume no obligation to update or revise the Estimated Value based upon circumstances or events occurring after the date of this letter.

In formulating the Estimated Value, we have reviewed, among other things, the following materials (the "**Materials**"):

- (i) the Announcement;
- (ii) the audited annual reports of HSH for the year ended 31 December 2019 (the "**2019 HSH Annual Report**") and 31 December 2018 (the "**2018 HSH Annual Report**");
- (iii) the unaudited quarterly report of HSH for the three months ended 31 March 2020 (the "**2020 HSH Q1 Report**");
- (iv) the audited annual reports of HEG for the year ended 31 December 2019 (the "**2019 HEG Annual Report**") and 31 December 2018 (the "**2018 HEG Annual Report**");
- (v) the operational update of HEG for the three months ended 31 March 2020 (the "**2020 HEG Q1 Operational Update**"); and
- (vi) other publicly available information related to HSH and HEG.

In determining the Estimated Value, we have not taken into account any financial projections for HSH for fiscal year 2020 and beyond.

We have assumed that all information, facts, opinions and representations contained in the Materials, which we have relied on, are true, complete and accurate and not misleading in all material respects. We have not conducted any independent verification of the Materials.

We would like to draw your attention that the shares of HSH and HEG are publicly traded securities and will be subject to the fluctuations of the capital market. Those certain market uncertainties and contingencies are difficult to predict and are beyond our control. Consequently, the Estimated Value expressed in this letter is not necessarily indicative of the price at which the HSH H Shares might actually trade in any public market as at the date of this letter or at any future date, or the amount which might be realised upon a sale of HSH H Shares to a third party. The Estimated Value may differ substantially from estimates available from other sources such as research reports published by brokers. In addition, our view would be expected to fluctuate with changes in prevailing market conditions, the financial conditions and prospects of HSH and other factors which generally influence the valuation of securities. As a result, there can be no assurance that the actual price of HSH H Shares will be higher or lower than that implied by the Estimated Value.

METHODOLOGY

For the purpose of this valuation report, we have determined that the market approach is the most appropriate valuation methodology on the basis that: (i) we consider there is adequate and sufficient financial information (both audited and unaudited) publicly available in relation to both HSH and HEG as they have been in compliance of the relevant regulatory disclosure requirements under the Shanghai Stock Exchange, the Frankfurt Stock Exchange and the Stock Exchange respectively; and (ii) we consider there are sufficient number of companies comparable to HSH within the home appliance industry that are listed globally with financial information that are publicly available.

We have analysed the historical trading price movements of the shares of HSH and HEG, the respective businesses, financial performances and prospects of HSH and HEG and applied market approach analysing: (i) HSH's global comparable companies including HEG; (ii) sum of the parts valuation by taking the market value of HSH's equity interest in HEG and the remaining part valued through global comparable valuation; and (iii) HEG as a direct comparable to HSH due to HEG's similarity to HSH in terms of business and financial profile.

We have determined the Estimated Value using these methodologies and taken into account the information, factors, assumptions and limitations set out above.

An exchange rate of RMB1=HK\$1.1077¹ as at 29 July 2020, being the latest practicable date prior to the date of this Valuation Report for the purpose of ascertaining certain information contained in this report ("**Latest Practicable Date**"), was applied in our calculations.

We have not taken account of the effects of any taxation exemptions, allowances or relief available for purposes of income, capital gains, inheritance or any other applicable tax, duty or levy, as well as any potential transaction costs that a holder of HSH H Shares may incur, including any dealing costs that may be associated with the trading of such HSH H Shares.

We have set out below the principal factors that have been taken into account in determining the Estimated Value.

1 Information on HSH

HSH is the world's leading provider of home appliances and smart home solutions and a pioneer in smart home ecosystem. HSH, committed to providing global users with complete sets of smart home solutions, mainly engages in research and development (R&D), manufacturing and distribution of products including refrigerators/freezers, washing machines, air-conditioners, water heaters, water purifiers, kitchen appliances, small home appliances, and U-home smart home products. As a user-centric company, HSH has built up a comprehensive product & brand portfolio, industry-leading smart manufacturing capacity, extraordinary R&D capability, as well as an extensive distribution network worldwide. In 2019, HSH's operating income was RMB198.0 billion, 47% of which was overseas revenue generated nearly 100% from self-managed brands. HSH is recognized as the largest major home appliance enterprise in terms of retail volume for 9 consecutive years. HSH has been listed on Shanghai Stock Exchange (SSE) since 1993 (stock code: 600690.SH) and on the D-shares market of China Europe International Exchange in Frankfurt since 2018 (stock code: 690D).

¹ Exchange rate quoted from the CNY Central Parity Rate offered by the State Administration of Foreign Exchange of PRC.

HSH has gained global recognition as the leader of home appliance industry. According to Euromonitor², HSH is the largest major home appliance enterprise in terms of retail volume for 9 consecutive years from 2011 to 2019. Haier brand also ranked first in terms of retail volume of refrigeration appliances and home laundry appliances for 11 consecutive years from 2009 to 2019. HSH has a leading global portfolio of home appliance brands including Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, Aqua and Candy. It has operations in more than 160 countries and regions worldwide, including China, Americas, Europe, South & Southeast Asia, Australasia, Japan, Middle East and Africa.

1.1 Financial highlights of HSH

	31 December		Variation %
	For the year ended		
	2019 Audited (RMB m)	2018 Audited (RMB m)	
Revenue	198,006	177,594	11.5%
Gross profit	58,613	52,179	12.3%
Earnings before interest, tax, depreciation and amortisation (“ EBITDA ”) (Note 1)	11,976	12,095	(1.0%)
Earnings before interest and tax (“ EBIT ”) (Note 2)	7,605	9,076	(16.2%)
Net profit from continuing operation attributable to shareholders of HSH (Note 3)	6,715	7,391	(9.1%)
Net profit for the year	12,335	9,900	24.6%
Net profit attributable to shareholders of HSH	8,206	7,484	9.6%
Net profit attributable to minority interests	4,129	2,416	70.9%

² Euromonitor is an international strategy research company for consumer markets and it provides market research and surveys on a wide range of industries and companies.

	31 December	
	for the year ended	
	2019	2018
	Audited	Audited
	(RMB m)	(RMB m)
Cash and cash equivalent (Note 4)	39,143	40,967
Total debt (Note 5)	36,265	34,141
Total asset	187,454	168,092
Net asset value attributable to shareholders of HSH	47,887	39,742
Net asset value attributable to minority interests	17,103	16,066

Notes:

1. *Earnings before interest, tax, depreciation & amortisation (“EBITDA”) refers to EBIT plus the total amounts of depreciation and amortisation.*
2. *Earnings before interest, tax (“EBIT”) refers to the total revenue, minus the cost of revenue, selling expenses, administrative expenses, tax and surcharges and R&D expenses.*
3. *Net profit from the continuing operation attributable to shareholders of the company is the net profit attributable to shareholders of the company minus the net profit from discontinued operations attributable to shareholders of the company.*
4. *Cash and cash equivalent refers to the monetary fund excluding restricted portion and plus the short-term wealth management product.*
5. *Total debt refers to the summation of short-term borrowings, long-term borrowings, non-current liability due within one-year, lease liability and bond payable. Starting from 1st January 2019, the implementation of Accounting Standard for Enterprises Number 21 has become effective for HSH, and therefore operating leases have been recognised as lease liabilities on the balance sheet and therefore also included in the total debt calculation.*

Segment information for the year ended 31 December 2019

Segment	2019	
	Segment Revenue <i>RMB billions</i>	Segment Result <i>RMB billions</i>
Smart Home Business in the PRC		
Internet of Food Solutions		
Refrigerators/Freezers	32.75	2.11
Kitchen Appliances	2.44	0.02
Internet of Clothing Solutions		
Washing Machines	24.44	2.12
Air Solutions		
Air-conditioners	23.49	0.01
Household Water Solutions		
Water Home Appliances	9.60	1.12
Smart Home Business Overseas	92.91	3.16
Other Business	83.67	0.05
Inter-segment Eliminations	-71.29	-0.04
Total	<u>198.01</u>	<u>8.62</u>

Segment	2018	
	Segment Revenue <i>RMB billions</i>	Segment Result <i>RMB billions</i>
Smart Home Business in the PRC		
Internet of Food Solutions		
Refrigerators/Freezers	31.61	2.09
Kitchen Appliances	2.46	0.02
Internet of Clothing Solutions		
Washing Machines	22.51	1.97
Air Solutions		
Air-conditioners	26.64	1.14
Household Water Solutions		
Water Home Appliances	8.86	1.03
Smart Home Business Overseas	75.42	3.08
Other Business	77.93	0.38
Inter-segment Eliminations	-67.84	-0.05
Total	<u>177.59</u>	<u>9.65</u>

Source: 2019 HSH Annual Report and 2018 HSH Annual Report

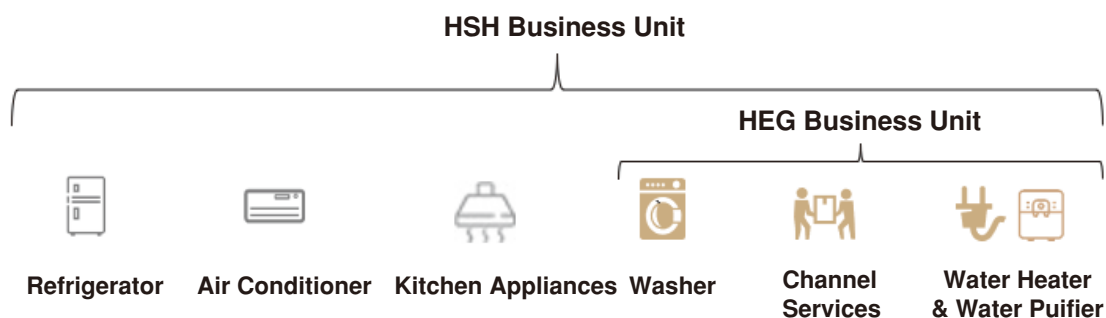
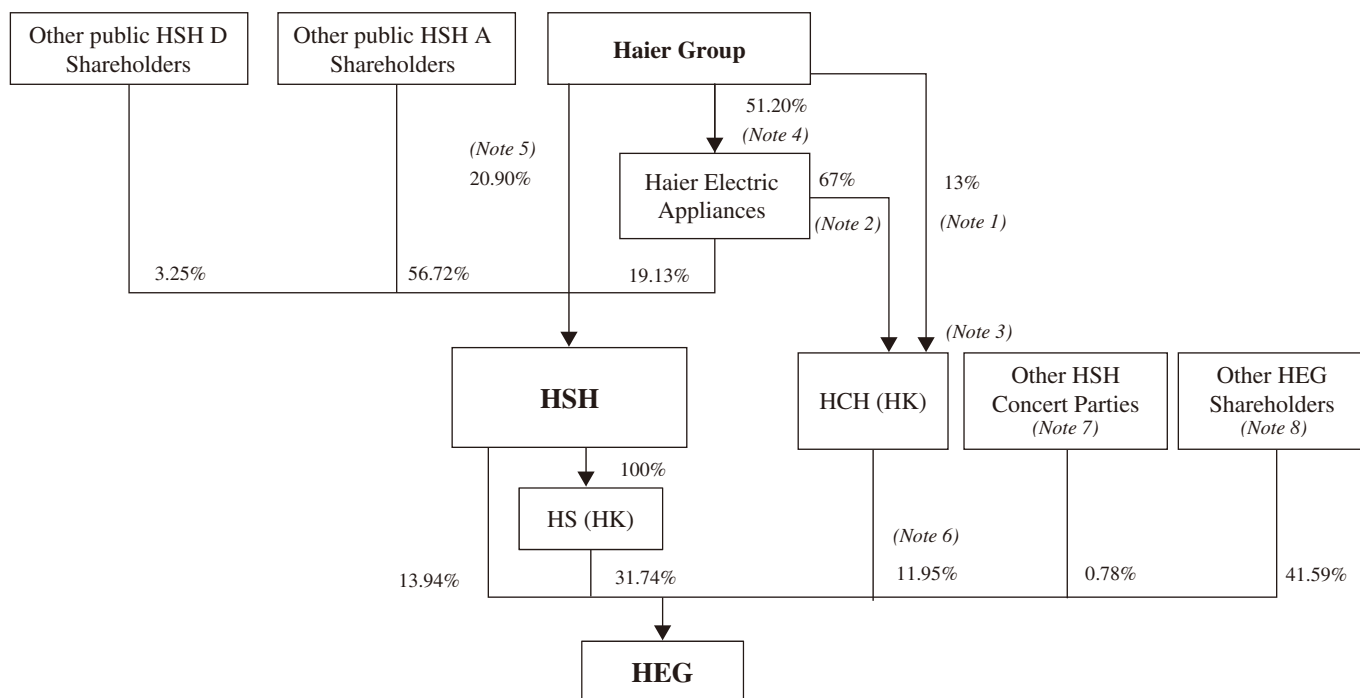
For the year ended 31 December 2019, HSH had revenue of approximately RMB198,006 million, representing an increase of 11.5% from RMB177,594 million for the year ended 31 December 2018. Net profits attributable to shareholders of HSH recorded approximately RMB8,206 million for the year ended 31 December 2019, increased by 9.6% from RMB7,484 million for the year ended 31 December 2018, which was primarily driven by the disposal gain from the asset swap transaction by HEG relating to Bingji (Shanghai) Enterprise Management Co., Ltd., an investment holding company with its non-wholly owned subsidiary Qingdao Gooday Logistics principally engaged in the provision of logistics services. Excluding such, the net profit from continuing operation attributable to shareholders of HSH was RMB6,715 million and RMB7,391 million, for the year ended 31 December 2019 and 31 December 2018 respectively.

As at 31 December 2019, HSH had net cash of approximately RMB39,143 million, decreased by 4.5% as compared with approximately RMB40,967 million as at 31 December 2018. The net asset value attributable to owners of HSH was approximately RMB47,887 million as at 31 December 2019, increased by 20.5% comparing with approximately RMB39,742 million as at 31 December 2018.

We noted that according to the 2020 HSH Q1 Report, HSH's revenue dropped approximately 11.1% and the net profit attributable to owners of HSH decreased by approximately 50.2% compared to the corresponding period in 2019. The revenue and the profit decline were mainly due to a significant decrease in retail sales of the PRC domestic appliance market as a direct result of the COVID-19 outbreak. HSH has already updated its business strategies and is implementing such strategies and related measures to combat the COVID-19 effect.

1.2 Shareholding structure and major business units

The diagram below shows the existing shareholding structure of HSH and major business units under HSH and HEG.



Notes:

- The shares held by Haier Group in HCH (HK) represent an aggregate of 13% economic interests, and 100% voting rights, in HCH (HK).
- The shares held by Haier Electric Appliances in HCH (HK) represent an aggregate of 67% economic interests in HCH (HK). All of those shares are non-voting shares.
- Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in HCH (HK). Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.
- Haier Group holds 51.20% of the issued shares in Haier Electric Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier Electric Appliances through an irrevocable voting rights entrustment arrangement.

5. *As at the Announcement Date, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group directly holds approximately 16.30% shareholding in HSH (in respect of HSH A Shares) and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it) controls a further 4.60% shareholding in HSH (out of which 3.73% is in respect of HSH A Shares, and 0.87% is in respect of HSH D Shares indirectly held through its indirect wholly-owned subsidiary, Haier International Co., Limited).*
6. *HSH has been appointed through a voting rights entrustment arrangement to exercise the voting rights attached to the HEG Shares held by HCH (HK).*
7. *Other HSH Concert Parties exclude HCH (HK).*
8. *Other HEG Shareholders include the HEG Trustee and certain Directors.*

2. Information on HEG

HEG and its subsidiaries are principally engaged in the research, development, manufacturing and wholesale of washing machines, water heaters and water purifiers under Haier Group brands (“**Haier**”, “**Casarte**” and “**Leader**”); the distribution of electronics products of Haier Group in the PRC and logistics services under the name of “Gooday” (deconsolidated since 3Q 2019) in the PRC for large-format items, including but not limited to home appliances, furniture and fitness equipment.

2.1 Financial highlights of HEG

	31 December		
	For the year ended		
	2019	2018	
	Audited	Audited	Variation
	(RMB m)	(RMB m)	%
Revenue	75,880	76,336	(0.6%)
Gross profit	16,531	15,932	3.8%
Earnings before interest, tax, depreciation and amortisation (“ EBITDA ”) (Note 1)	3,729	3,972	(6.1%)
Earnings before interest and tax (“ EBIT ”) (Note 2)	3,359	3,744	(10.3%)
Net profit from continuing operations attributable to shareholders of HEG (Note 3)	4,100	3,638	12.7%
Net profit for the year	7,518	4,098	83.5%
Net profit attributable to shareholders of HEG	7,351	3,844	91.2%
Net profit attributable to minority interests	167	253	(34.0%)

	31 December	
	For the year ended	
	2019	2018
	Audited	Audited
	(RMB m)	(RMB m)
Cash and cash equivalent (Note 4)	18,087	19,405
Total debt (Note 5)	134	92
Total asset	50,058	47,877
Net asset value attributable to shareholders of HEG	29,220	24,010
Net asset value attributable to minority interests	418	2,175

Notes:

- 1. Earnings before interest, tax, depreciation & amortisation (“EBITDA”) refers to EBIT plus the total amounts of depreciation and amortisation.*
- 2. Earnings before interest, tax (“EBIT”) refers to the total revenue, minus the cost of revenue, selling expenses, administrative expenses and R&D expenses.*
- 3. Net profit from the continuing operation attributable to shareholders of the company is the net profit from continuing operation minus the net profit from discontinued operation attributable to shareholders of the company.*
- 4. Cash and cash equivalent refers to the monetary fund excluding restricted portion and plus the short-term wealth management product.*
- 5. Total debt refers to the summation of short-term borrowings, long-term borrowings and lease liability. The Company adopted IFRS16 for accounting of lease obligation since the start of 2019, thus operating leases have been recognised as lease liabilities on the balance sheet and therefore also included in the total debt calculation.*

Source: 2019 HEG Annual Report and 2018 HEG Annual Report

For the year ended 31 December 2019, HEG had revenue of approximately RMB75,880 million, representing a slight decrease of 0.6% as compared with the previous financial year. Net profit attributable to shareholders of HEG recorded approximately RMB7,351 million for the year ended 31 December 2019, increased by 91.2% from RMB3,844 million for the year ended 31 December 2018, which was primarily driven by the disposal gain from the asset swap transaction by HEG relating to Bingji (Shanghai) Enterprise Management Co., Ltd., an investment holding company with its non-wholly owned subsidiary Qingdao Gooday Logistics principally engaged in the provision of logistics services. Excluding such, the net profit from continuing operation attributable to shareholders of HEG was RMB4,100 million and RMB3,638 million, for the year ended 31 December 2019 and 31 December 2018 respectively.

As at 31 December 2019, HEG showed a net cash position of approximately RMB18,087 million, decreased by 6.8% as compared with approximately RMB19,405 million as at 31 December 2018. The net asset value attributable to owners of HEG was approximately RMB29,220 million as at 31 December 2019, increased by 21.7% comparing with approximately RMB24,010 million as at 31 December 2018, mainly due to the growth of reserves caused by the disposal gain as mentioned above.

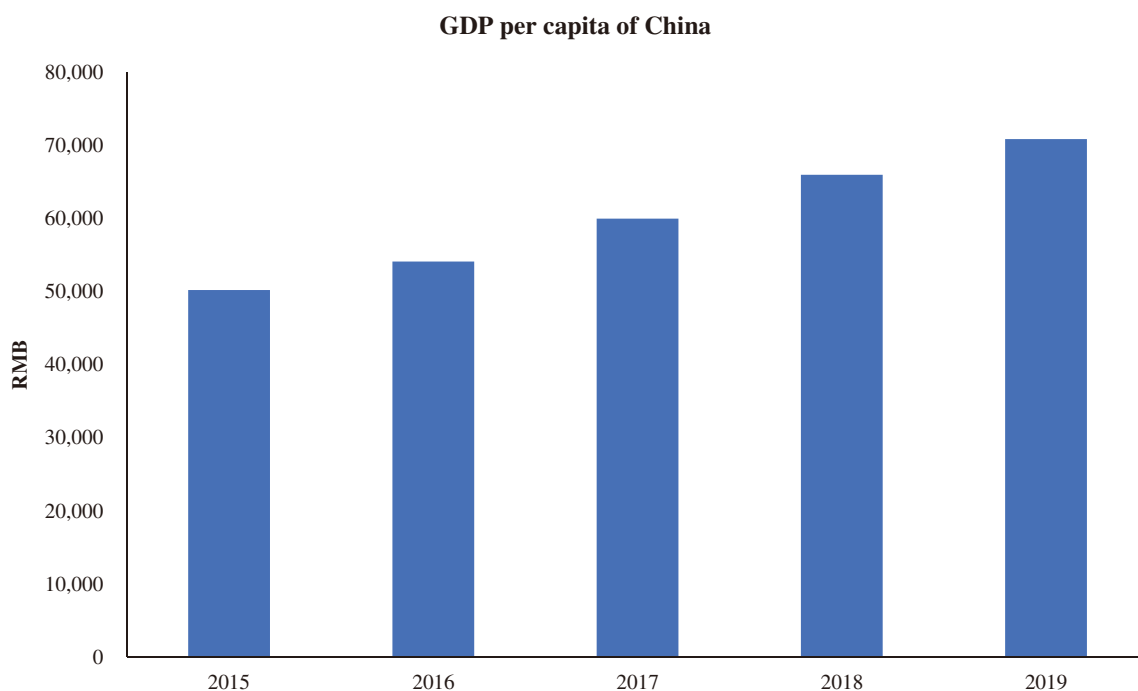
We noted that according to the 2020 HEG Q1 Operational Update, for the first quarter, HEG's consolidated revenue dropped for 22.4% and the profit attributable to owners of HEG decreased by 47.0% compared to the corresponding period in 2019. The revenue and the profit decline were largely due to the impact of the COVID-19 pandemic on the home appliance consumer market, especially the offline market. During the same period, HEG has actively taken substantial measure to reduce costs and improve efficiency.

3. Dividend distribution impact on HSH

For the year ended 31 December 2019, HSH have announced a final dividend distribution of RMB3.75 per 10 shares. We note that the above final dividend distribution represents an implied dividend yield of 2.1% over the last 30 Trading Days average closing share price of HSH. However, we consider that the final dividend distribution is a regular yearly dividend and is made in the ordinary course of business and we note that no special dividend has been announced by HSH, and therefore we consider that it will not impact on the valuation of the HSH.

4. Overview of home appliances market

The per capita income of the PRC has been gradually increasing from 2015 to 2019. During 2019, the GDP per capita of China has reached approximately RMB70,892, representing an increase of 7.4% as compared with 2018.



Source: National Bureau of Statistics

Chinese real estate market has remained stable for the past one year. According to National Bureau of Statistics, despite concerns over the overall economic outlook in China caused by the trade disputes between PRC and US, 2019 property turnover has recorded an increase of 6.5% compared to 2018.



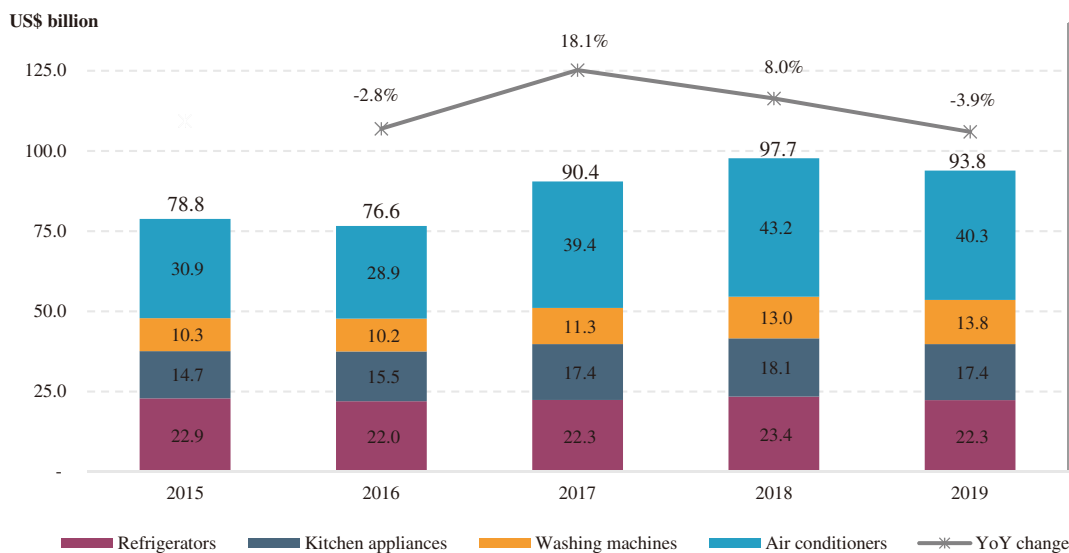
Source: National Bureau of Statistics

Residential sale is an important driving factor for the home appliance consumer market. Given the China's real estate property market has turned to a stable outlook and the stabilized level on the residential gross floor area sold in China as shown in the chart above, we think the overall home appliance industry would look more to replacement demand.

According to Euromonitor³, the total retail sales volume of China's whole-category home appliances market was US\$93.8 billion in 2019, decreased by 3.9% from the same period of 2018, among which the retail sales of white goods such as refrigerators, kitchen appliances and air conditioners decreased by 4.7%, 3.9% and 6.7% from the same period of last year, respectively, meanwhile the retail sales of washing machines increased by 6.2%. Driven by the demand for replacement and technology iteration, products continued to upgrade in a direction of healthy, energy saving, large capacity and intelligence. Sales of complete product sets were accelerated by the integration of home furnishing & appliances. Benefiting from sustained product innovation, products with low penetration, such as tumble dryers, dishwashers and wall-mounted boiler, grew rapidly. Product experience was improved by the application of IoT, voice control and other technologies, and competition expanded from a single hardware to full range products combining hardware and software, interconnected platform and integrated ecosystem. The increasing industry-level trend towards a smart home ecosystem with comprehensive, full-suite and all-in-one product offerings creates challenges for companies in terms of their technological capabilities as well as the comprehensiveness of their product offerings.

³ Euromonitor is an international strategy research company for consumer markets and it provides market research and surveys on a wide range of industries and companies.

Total retail sales volume of China's whole-category home appliances market

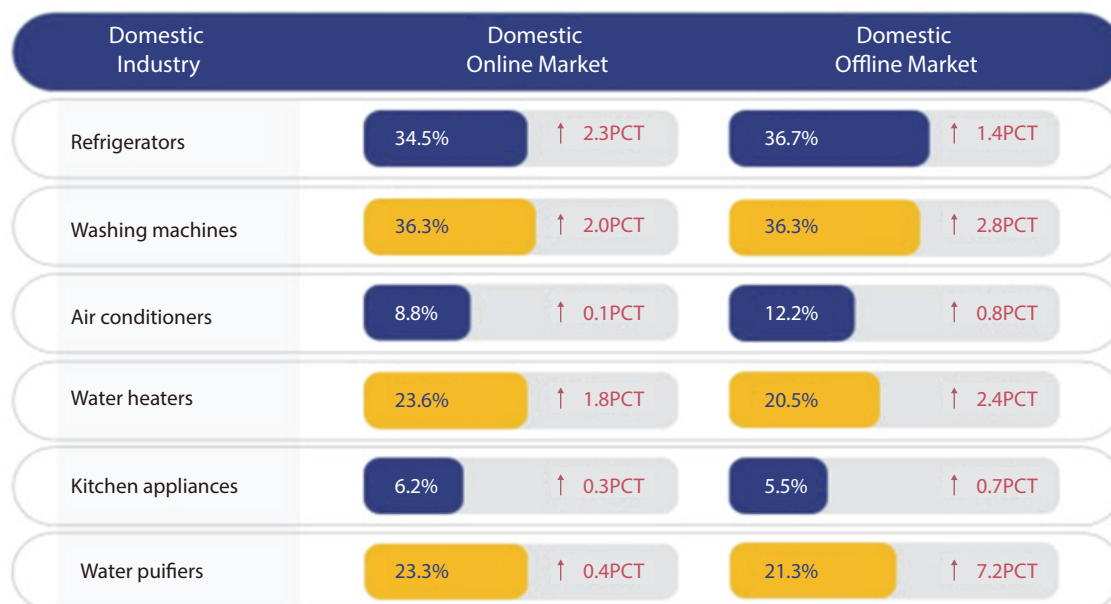


According to 2019 HSH Annual Report, in terms of channel reformation, the major e-commerce platforms worked to penetrate the low-end market by the construction of marketing and product, thus impacting the existing ecosystem and competition. The emergence of short video and live broadcast and other new tools give rise to user-centred content as a new marketing trend, further improving the conversion rate. Lastly, the offline channels promoted high-end transformation, and optimized the efficiency by focusing on scene experience, increasing the proportion of middle and high-end products and refining the operation. As sales channels become increasingly diversified, it is imperative for home appliances companies to manage the sales channels on a unified platform and to accelerate the integration of online and offline channels in order to improve operating efficiency and their core competitiveness.

According to the Investor Presentation relating to the Proposed Privatisation as disclosed in Annex 3 of the Announcement, the performance of overseas market varied due to different levels of economic development and appliances penetration. With high penetration rate, the main driver in developed areas is the upgrading demand. The Chinese enterprises realize their expansion in developed areas' home appliance market by increasing their market share. The rising penetration rate in developing countries drives the rapid market growth, from which the newly entered Chinese companies benefit when increasing their market share. The majority of European countries show clear intellectualization trend, with their home appliance proportion rising from less than 2.0% in 2015 to 4.0% in 2019. With traditional home appliances in saturation, interconnected products will become a new future growth driver. With the main U.S. market demand of upgrade and replacement, the replacement and development of smart and interconnected related products will continue to promote the overall growth of the home appliance market. As incomes further improve, the low penetration rate of home appliances in developing countries like India indicates the continuous market growth in future.

Despite the slow overall market growth and increasingly challenging environment, HSH has continuously gained market share of online and offline sales across major product categories in domestic market. HSH has increased investment in smart products development and introduced full set of smart home solutions to the customers. This creates new demands to upgrade their home appliances products. Through the world-renowned brand reputation, continuous efforts in research and development and innovation, HSH has obtained global leading position in smart home solutions and achieved leadership in high-end market. According to China Market Monitor⁴ (“CMM”), the market share of retail sales of HSH in respect of the PRC offline market on refrigerators, washing machines, air conditioners, water heaters and kitchen appliances increased by 1.4%, 2.8%, 0.8%, 2.4% and 0.7%, respectively for the year ended 31 December 2019 comparing with the same period of last year. Regarding to refrigerators and washing machines, HSH remained as the industry champion and continued to expand its leading advantages, with the market share being approximately 3.1 and 2.1 times as high as that of the second place. For PRC online market, the market shares of retail sales of HSH on refrigerators, washing machines, air conditioners, water heaters and kitchen appliances have increased by 2.3%, 2.0%, 0.1%, 1.8% and 0.3%, respectively for the year ended 31 December 2019 as compared with same period of last year.

HSH’s market share of domestic retail sales (2019) — Online & Offline



Source: According to 2019 HSH Annual Report, CMM

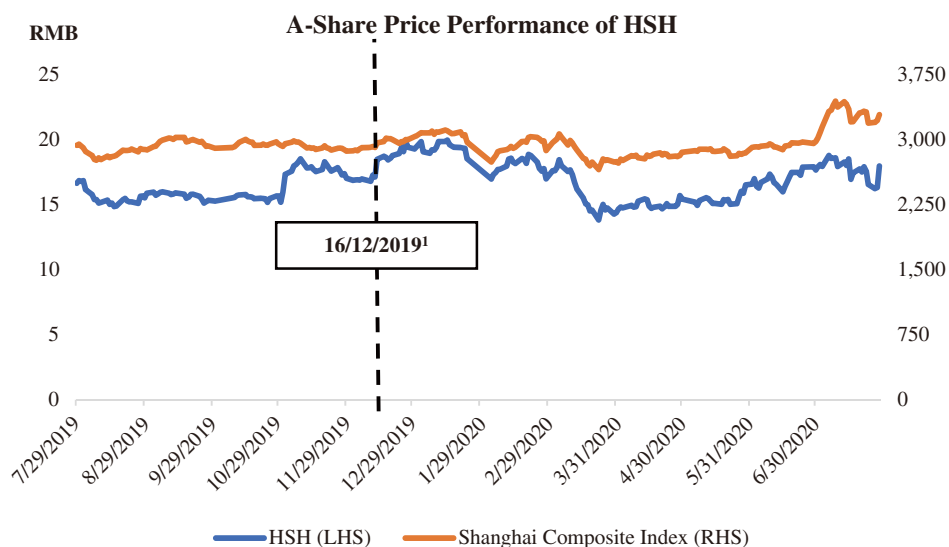
Overseas sales of HSH grew rapidly due to the consolidation of previously acquired Candy brand which drove overseas revenue higher while HSH gained a greater brand spectrum and an instant expansion of overseas market. According to 2019 HSH Annual Report, overseas revenue for the year was RMB94.1 billion, representing a year-on-year increase of 22%, and the overseas revenue contributed to 47% of the HSH’s total revenue, which was 5% greater than 2018. Meanwhile, with the support of a complete business chain and consolidating global operation capacity, HSH has managed to accelerate product update and optimized management and marketing system in the overseas market. Revenue from all regional markets soared,

⁴ China Market Monitor is a business consultancy company that provides market research analysis on industry sectors and markets.

with revenue up by 9.7%, 267%, 6%, 16%, 10%, 5.8% and 15% for North America, Europe, South Asia, Southeast Asia, Japan, Australia & New Zealand and the Middle & East Africa, respectively for the year ended 31 December 2019 comparing with last year.

5. Share price performance of HSH

Below chart shows the closing price of HSH's A Share for the past one year from 29 July 2019 to the Latest Practicable Date:



	RMB	HKD (converted at RMB1=HK\$1.1077 as at 29 July 2020)
Latest Practicable Date	18.00	19.94
5 days average	16.96	18.79
10 days average	17.25	19.11
30 days average	17.68	19.58
60 days average	16.79	18.60
90 days average	16.14	17.88
180 days average	17.15	19.00
180 days low	13.85	15.34
180 days high	20.00	22.15
Closing price of 12 December 2019 ¹	17.17	19.02
Closing price of 13 December 2019 ¹	18.51	20.50
Closing price of 16 December 2019 ¹	18.76	20.78

Note:

1. Privatisation news leaked after the close of A share market on 12 December 2019. The first trading day after news leakage was 13 December 2019. On 16 December 2019, HSH published the announcement pursuant to Rule 3.7 of the Takeovers code in relation to the possible privatisation of HEG post market close.

Source: Bloomberg

The total HSH Listed D shares represent only 3.25% of HSH’s total shareholding, which is considered insignificant and with low trading liquidity. As such, analysis of HSH Listed D Share is considered to be less relevant in the valuation of HSH H Shares.

6. The valuation

We have adopted market approach by conducting a peer comparison of comparable companies (the “Comparable Companies”). The Comparable Companies are selected on the basis that (i) listed on a stock exchange globally; and (ii) engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America; and (iii) the market capitalisation is above RMB5 billion. We have identified ten Home Appliance Business Comparables (as set out in table below), which represent an exhaustive list based on the aforementioned selection criteria and publicly available information.

Company	Ticker	Average market capitalisation of the past 30 trading days prior to and including the Latest Practicable Date (RMB m)	Average closing price of the past 30 trading days prior to and including the Latest Practicable Date (RMB)	P/E ratio (Note 1) (x)	EV/ EBITDA ratio (Note 2) (x)
Midea Group Co	000333 CH	443,503	63.19	18.3	14.9
Daikin	6367 JP	353,627	1206.45	31.1	15.2
Gree Electric Appliances	000651 CH	350,390	58.25	14.2	7.6
HEG	1169 HK	62,434	22.16	15.2	10.5
Whirlpool Corporation	WHR NYSE	60,016	965.46	10.1	6.8
A.O. Smith Corporation	AOS NYSE	55,122	342.07	21.3	14.1
AB Electrolux	ELUX ST	36,830	131.91	25.4	7.2
Hangzhou Robam	2508 CH	32,785	34.55	20.6	15.6
Hisense Home Appliances	921 HK	14,257	7.98	7.9	6.8
	000921 CH		11.72		
Arcelik A S	ARCLK TI	13,262	19.63	14.4	6.3
			Average	17.9	10.5
			Median	16.8	9.0

Notes:

1. P/E ratio is the ratio of average closing prices of the companies of the past 30 trading days prior to and including the date of this report divided by the earnings per share for the twelve-month trailing period ended 31 December 2019, based on data from their annual reports and Bloomberg. Earnings per share are calculated based on the net profit from continuing operations attributable to shareholders of the company divided by the fully diluted shares outstanding;

2. *Enterprise value-to-EBITDA (“EV/EBITDA”) are calculated by using the enterprise value, derived from the average closing prices of the companies of the past 30 trading days prior to and including the date of this report, fully diluted shares outstanding and equity value to enterprise value bridge divided by EBITDA for the twelve-month trailing period ended 31 December 2019, from their annual report and Bloomberg; and*
3. *The calculation of net profit from continuing operations attributable to shareholders of the company and EBITDA are consistent with HSH’s and HEG’s calculation methods.*

6.1 Global comparable valuation

In arriving at a valuation of HSH H Shares, we have applied the respective P/E ratios and EV/EBITDA ratios of the Comparable Companies as benchmarks. We note that for the financial year ended 31 December 2019, HSH made a net profit and EBITDA of approximately RMB6,715 million and approximately RMB11,976 million respectively.

The P/E ratio of the Comparable Companies range from approximately 7.9 times to approximately 31.1 times, with an average of approximately 17.9 and a median of approximately 16.8 times. Based on the valuation of the average and median P/E ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB112,635 million to RMB119,968 million, or from RMB17.12 per share to RMB18.23 per share (equivalent to HK\$18.96 per share and HK\$20.20 per share respectively), with the median of such range being RMB17.68 per share (equivalent to HK\$19.58 per share).

The EV/EBITDA ratio of the Comparable Companies range from approximately 6.3 times to approximately 15.6 times, with an average of approximately 10.5 times and a median of approximately 9.0 times. Based on the valuation of the average and median EV/EBITDA ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB96,648 million to RMB114,210 million, or from RMB14.69 per share to RMB17.36 per share (equivalent to HK\$16.27 per share and HK\$19.23 per share respectively), with the median of such range being RMB16.02 per share (equivalent to HK\$17.75 per share).

Enterprise value of HSH is calculated as: the average market value of HSH over the last 30 Trading Days of RMB116,320 million + average market value of HSH’s minority interest related to HEG over the last 30 Trading Days of RMB33,914 million + book value of total minority interest of RMB17,102 million – book value of minority interest for HEG of RMB16,109 million – the investment in associate of RMB20,461 million + debt of RMB36,265 million – cash of RMB39,143 million.

6.2 Sum of the Parts (“SOTP”) valuation

Given the significant contribution from HEG within HSH’s overall business and financial profile, we consider it proper to adopt the SOTP approach and detach the Estimated Value into two parts: HSH’s share of HEG value and HSH’s non-HEG value.

With respect to HSH’s share of HEG value, we have multiplied HSH’s current shareholding within HEG, which is approximately 45.68%, and the average market capitalization of HEG over the last 30 Trading Days, which is approximately RMB62,434 million, and arrived at a valuation of RMB28,520 million.

With respect to HSH's non-HEG value, we have used the net profit from continuing operation attributable to shareholders of HSH from its stand-alone business (i.e. excluding the portion contributed by HEG) and applied a P/E ratio derived from a specific set of comparable companies suitable for such portion.

The net profit from continuing operation attributable to shareholders of HSH from its non-HEG business for the year ended 31 December 2019 is calculated as follows: Net profit from continuing operation attributable to shareholders of HSH of RMB6,715 million – (Net profit from continuing operation attributable to shareholders of HEG of RMB4,100 * HSH's equity interest in HEG of 45.68%) = RMB4,842 million.

A.O. Smith mainly operates in water heater and water purifier business, which has a similar business nature with HEG. Thus, it has a relatively low relevancy to non-HEG portion. Hence, in determining the specific set of comparable companies suitable for such non-HEG portion, we have removed HEG and A.O. Smith from our previous set of Global Comparable Companies given their relatively low relevancy to non-HEG portion.

Company	Ticker	Average market capitalisation of the past 30 trading days prior to and including the Latest Practicable Date (RMB m)	Average closing price of the past 30 trading days prior to and including the Latest Practicable Date (RMB)	P/E ratio (Note 1) (x)
Midea Group Co	000333 CH	443,503	63.19	18.3
Daikin	6367 JP	353,627	1206.45	31.1
Gree Electric Appliances	000651 CH	350,390	58.25	14.2
Whirlpool Corporation	WHR NYSE	60,016	965.46	10.1
AB Electrolux	ELUX ST	36,830	131.91	25.4
Hangzhou Robam	2508 CH	32,785	34.55	20.6
Hisense Home Appliances	921 HK	14,257	7.98	7.9
Arcelik A S	000921 CH		11.72	
	ARCLK TI	13,262	19.63	14.4
			Average	17.8
			Median	16.4

Notes:

1. P/E ratio is the ratio of average closing prices of the companies of the past 30 trading days prior to and including the date of this report divided by the earnings per share for the twelve-month trailing period ended 31 December 2019, from their annual report and Bloomberg. Earnings per share are calculated based on the net profit from continuing operations attributable to shareholders of the company divided by the fully diluted shares outstanding;

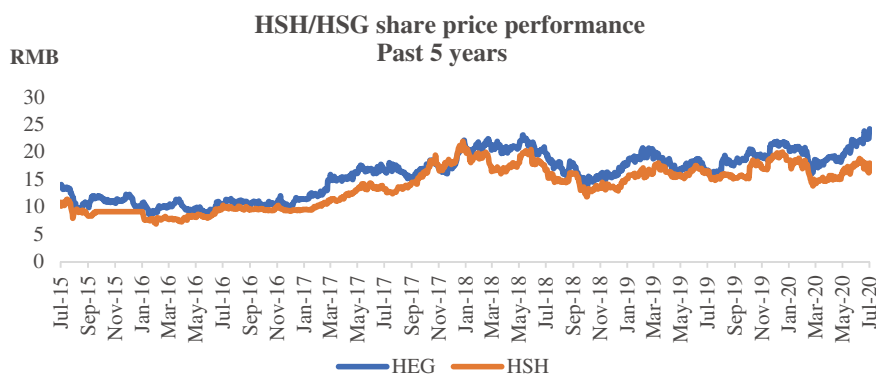
2. *The calculation of net profit from continuing operations attributable to shareholders of the company and EBITDA are consistent with HSH's and HEG's calculation methods.*

The P/E ratio of the Comparable Companies range from approximately 7.9 times to approximately 31.1 times, with an average of approximately 17.8 times and a median of approximately 16.4 times. Based on the average P/E and median P/E, HSH's non-HEG value ranges from approximately RMB79,332 million to approximately RMB86,033 million.

Therefore, summing up the above two parts, the aggregated Estimated Value of HSH ranges from approximately RMB107,852 million to approximately RMB114,553 million, or from RMB16.39 per share to RMB17.41 per share (equivalent to HK\$18.16 per share and HK\$19.29 per share respectively), with an average of RMB16.90 per share (equivalent to HK\$18.72 per share).

6.3 Direct comparable valuation

Comparing to other Comparable Companies from the above global comparable companies set, HEG offers a unique perspective when assessing the valuation of HSH's H Share to be issued considering the facts that (i) as a major subsidiary of HSH, HEG historically contributed c.40% of HSH's total revenue and its financial statements are consolidated by HSH; (ii) HEG and HSH's business enjoy a significant degree of overlapping in terms of product portfolio, client coverage and distribution channels; (iii) share prices of HSH's A Share and HEG have exhibited relatively high level of correlation historically; and (iv) HEG is one of the very few home appliances companies currently listed on the Hong Kong Stock Exchange, where the H Share of HSH will be listed.



Source: the Shanghai Stock Exchange and the Stock Exchange

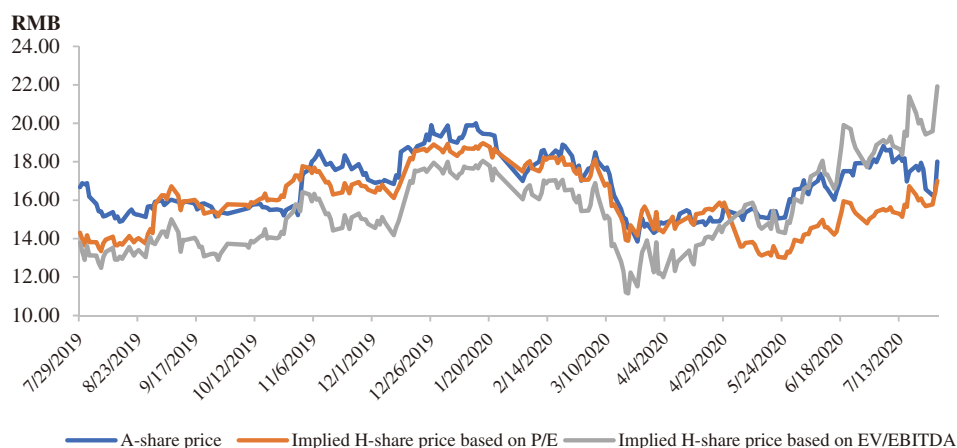
Based on the above, we consider it proper to use HEG's P/E and EV/EBITDA ratio as one of the benchmarks for the valuation of HSH's H Share to be issued.

Based on HEG's P/E ratio, the Estimated Value is approximately RMB102,265 million, or RMB15.54 per share (equivalent to HK\$17.22 per share). Based on HEG's EV/EBITDA ratio, the Estimated Value is approximately RMB114,264 million, or RMB17.37 per share (equivalent to HK\$19.24 per share).

6.3.1 Relationship between A Share and H Share of HSH

Given the parent-subsidary relationship between HSH and HEG and the significant overlapping of their business operations & industry focus, we consider there to be certain correlations between HEG's share price and that of HSH's H Shares to be issued. Leveraging on such correlation, we analyse the relationship between the A Shares and the newly issued H Shares of HSH through reviewing the P/E ratios and EV/EBITDA ratios of both HEG and HSH, which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively, for the 1 year prior to the Latest Practicable Date. We consider such method as more effective in evaluating the A-H discount of HSH, rather than simply using the Hang Seng Stock Connect China AH Premium Index ("A-H Index") due to industry diversities, less comparability with HSH, differences in market capitalisations and trading liquidity of the A-H Index components with no obvious rule to follow.

Below chart shows the actual price of HSH's A Share, the implied share price of HSH's H Share based on HEG's historical P/E ratio, and the implied share price of HSH's H Share based on HEG's historical EV/EBITDA ratio, across the 1-year-period prior to the Latest Practicable Date.



Source: the Shanghai Stock Exchange and the Stock Exchange

Based on the chart above, we note that the implied historical average discounts between (i) the price of HSH's A Share; and (ii) the prices of HSH's H Share to be issued implied by the P/E ratio and EV/EBITDA ratio of HEG over the 1-year-period prior to the Latest Practicable Date, are approximately 4.7% and 7.6%, respectively. We consider such range as appropriate to assess the A/H discount between HSH's existing A Shares and H Shares to be issued.

CONCLUSION

We note that the range of the Estimated Value based on the above valuation methodologies are as follows: (i) valuation derived from Comparable Companies: RMB105,429 million or RMB16.02 per share to RMB116,302 million or RMB17.68 per share (equivalent to HK\$17.75 per share and HK\$19.58 per share respectively); (ii) SOTP valuation: RMB107,852 million or RMB16.39 per share to RMB114,553 million or RMB17.41 per share (equivalent to HK\$18.16 per share and HK\$19.29 per share respectively); and (iii) Direct Comparable valuation: RMB102,265 million or RMB15.54 per share to RMB114,264 million or RMB17.37 per share (equivalent to HK\$17.22 per share and HK\$19.24 per share respectively). The figures are summarized in the table below.

	Valuation range		RMB Per Share	HK\$ Per Share
	Lower end (RMB m)	Upper end (RMB m)		
Global comparable valuation	105,429	116,302	16.02–17.68	17.75–19.58
SOTP valuation	107,852	114,553	16.39–17.41	18.16–19.29
Direct comparable valuation	102,265	114,264	15.54–17.37	17.22–19.24

When arriving at the conclusion, it is our intention to select a range that can reflect the three valuation ranges derived from the three methods; in addition, we have also taken into consideration factors including (i) HSH being the leader of the global smart home appliance market; (ii) HEG's greater relevancy as a comparable company to HSH; and (iii) the implied HSH's H Share discount derived under section 6.3.1 of our report. Given the distribution of the three ranges generated based on the market data as of the report date, we selected a range with the floor being the lowest of the three medians of the three ranges, and the cap being the highest of the three medians of the three ranges; we are of the view that such range is representative of the results generated from the three methods. Therefore, we are of the view that HSH's Estimated Value as of the date of this report ranges from RMB108,264 million to RMB111,202 million, or RMB16.45 per share to RMB16.90 per share (equivalent to HK\$18.23 per share to HK\$18.72 per share respectively)⁵. Based on such valuation range and based on HSH's 30 trading-day average A Share price of RMB17.68 as of 30 July 2020, the implied discount of HSH's H Share to A Share is between 4.4% to 6.9%, which is at a reasonable level based on our analysis under section 6.3.1 of the report.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Liu Chee Ming
Managing Director

Mr. Liu Chee Ming is a licensed person registered with the Securities and Futures Commission and as responsible officers of Platinum Securities Company Limited to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Liu Chee Ming has over thirty years of experience in corporate finance industry.

⁵ The valuation range per share of HSH is RMB16.45465 to RMB16.90118, equivalent to HK\$18.22665 to HK\$18.72126 (figures rounded to 5 decimal places). All percentage changes and key figures were calculated using the underlying data in millions of RMB.

ANNEX 2

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE HSH GROUP

The information set out below does not form part of the Audited Financial Statements received from the HSH's auditors, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I to the announcement of HSH on the same date as this announcement and is included in this announcement for information purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information of HSH" in this announcement and the Audited Financial Statements set out in Appendix I to the announcement of HSH on the same date as this announcement.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE HSH GROUP ATTRIBUTABLE TO OWNERS OF HSH

The unaudited pro forma adjusted consolidated net tangible asset of the HSH Group attributable to owners of HSH is prepared by the directors of the HSH in accordance with Rule 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the the Privatisation Proposal and Introduction on the consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 if the Privatisation Proposal and Introduction had taken place on 31 December 2019.

The unaudited pro forma adjusted consolidated net tangible asset of the HSH Group attributable to owners of HSH is prepared for illustrative purpose only, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 or at any future dates following the Privatisation Proposal and the Introduction.

The unaudited pro forma adjusted consolidated net tangible asset of the HSH Group attributable to owners of HSH is prepared based on the audited consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 as shown in the Audited Financial Statements as set out in Appendix I to the announcement of HSH on the same date as this announcement (the “**Audited Financial Statements Announcement**”) and adjusted as described below.

Audited consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 RMB' million (note 1)	Effect of the Privatisation and Introduction RMB' million (note 2)	Effect of the Scheme Shares payable RMB' million (note 3)	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of HSH RMB' million
14,895	15,395	(2,653)	27,637

Notes:

- (1) The audited consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 is extracted from the Audited Financial Statements set out in Appendix I to the Audited Financial Statements Announcement, and is based on the audited consolidated net assets of the HSH Group as at 31 December 2019 of RMB64,990 million adjusted for intangible assets including goodwill and other intangible assets as at 31 December 2019 of RMB32,992 million and non-controlling interests of RMB17,103 million.
- (2) The adjustment represents the decrease in non-controlling interest in HEG upon the completion of the Privatisation Proposal and Introduction, and a corresponding increase in equity attributable to the owner of the HSH.
- (3) The adjustment represents upon the completion of the Privatisation Proposal and the Scheme becoming unconditional and effective, the payment of approximately HK\$2,961 million (equivalent to approximately RMB2,653 million based on the exchange rate of HK\$1.00 to RMB0.8958) is calculated based on the total number of Scheme Share of 1,518,667,186 at HK\$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at the 31 December 2019.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the HSH Group attributable to owners of HSH as at 31 December 2019 to reflect any trading results or other transactions of the HSH Group entered into subsequent to 31 December 2019.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED HSH GROUP

The following is an illustrative and unaudited pro forma consolidated statements of financial position and pro forma consolidated statements of profit or loss and other comprehensive income of the Enlarged HSH Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Privatisation Proposal and the Introduction as if it had taken place on 31 December 2019 for the pro forma consolidated statements of financial position and as if it had taken place on 1 January 2019 for the pro forma consolidated statements of profit or loss and comprehensive income. It has been prepared on the basis of the notes set out below and in accordance with the accounting policies adopted by the HSH Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial results of the Enlarged HSH Group had the Privatisation Proposal and the Introduction been completed as at 1 January 2019 or 31 December 2019 or any future date.

(a) **Unaudited pro forma consolidated statements of financial position of the Enlarged HSH Group**

	The HSH Group as at 31 December 2019	Pro Forma adjustment			The Enlarged HSH Group as at 31 December 2019
	<i>RMB' Million Note 1</i>	<i>RMB' Million Note 2</i>	<i>RMB' Million Note 3</i>	<i>RMB' Million</i>	
Non-current assets					
Property, plant and equipment	23,919			23,919	
Investment properties	29			29	
Right-of-use assets	3,802			3,802	
Goodwill	23,352			23,352	
Other intangible assets	9,640			9,640	
Investment in associates	20,461			20,461	
Equity investments designated at fair value through other comprehensive income	1,396			1,396	
Financial assets at fair value through profit or loss	295			295	
Financial assets at amortised cost	332			332	
Derivative financial instruments	77			77	
Long-term prepayments	1,423			1,423	
Deferred tax assets	1,579			1,579	
Other non-current assets	581			581	
	<hr/>			<hr/>	
Total non-current assets	86,886			86,886	

	The HSH Group as at 31 December 2019	Pro Forma adjustment		The Enlarged HSH Group as at 31 December 2019
	<i>RMB' Million Note 1</i>	<i>RMB' Million Note 2</i>	<i>RMB' Million Note 3</i>	<i>RMB' Million</i>
Current assets				
Inventories	28,229			28,229
Trade and bills receivables	24,967			24,967
Contract assets	423			423
Prepayments, deposits and other assets	6,441			6,441
Financial assets at fair value through profit or loss	308			308
Financial assets at amortised cost	3,981			3,981
Derivative financial instruments	19			19
Pledged deposits	1,211			1,211
Other deposit with limited use	5			5
Cash and cash equivalents	34,963			34,963
	<hr/> 100,547			<hr/> 100,547
Assets and disposal group held for sale	21			21
Total current assets	<hr/> 100,568			<hr/> 100,568

	The HSH Group as at 31 December 2019	Pro Forma adjustment		The Enlarged HSH Group as at 31 December 2019
	<i>RMB' Million</i>	<i>RMB' Million</i>	<i>RMB' Million</i>	<i>RMB' Million</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	
Current liabilities				
Trade and bills payables	53,059			53,059
Other payables and accruals	19,726		2,653	22,379
Contract liabilities	5,583			5,583
Interest-bearing borrowings	13,315			13,315
Lease liabilities	595			595
Tax payable	1,278			1,278
Provisions	1,992			1,992
Derivative financial instruments	99			99
Financial liabilities at fair value through profit or loss	43			43
	<hr/>			<hr/>
Total current liabilities	95,690			98,343
	<hr/>			<hr/>
Net current assets	4,878			2,225
	<hr/>			<hr/>
Total assets less current liabilities	91,764			89,111
	<hr/>			<hr/>

	The HSH Group as at 31 December 2019	Pro Forma adjustment		The Enlarged HSH Group as at 31 December 2019
	<i>RMB' Million</i>	<i>RMB' Million</i>	<i>RMB' Million</i>	<i>RMB' Million</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	
Non-current liabilities				
Interest-bearing borrowings	13,370			13,370
Lease liabilities	1,980			1,980
Convertible and exchangeable bonds	7,005			7,005
Deferred income	628			628
Deferred tax liabilities	1,154			1,154
Provisions for pensions and similar obligations	1,122			1,122
Provisions	1,399			1,399
Put option liabilities	55			55
Other non-current liabilities	61			61
	<hr/>			<hr/>
Total non-current liabilities	26,774			26,774
	<hr/>			<hr/>
Net assets	64,990			62,337
	<hr/> <hr/>			<hr/> <hr/>
EQUITY				
Equity attributable to owners of HSH				
Issued equity	6,580	2,430		9,010
Reserves	41,307	12,965	(2,653)	51,619
	<hr/>			<hr/>
	47,887			60,629
Non-controlling interests	17,103	(15,395)		1,708
	<hr/>			<hr/>
Total equity	64,990			62,337
	<hr/> <hr/>			<hr/> <hr/>

(b) Unaudited pro forma consolidated statements of profit or loss and other comprehensive income of the Enlarged HSH Group

	The HSH Group for the year ended 31 December 2019 <i>RMB' Million Note 1</i>	Pro Forma adjustment <i>RMB' Million Note 2</i>	The Enlarged HSH Group for the year ended 31 December 2019 <i>RMB' Million</i>
Revenue	198,006		198,006
Cost of services	(139,393)		(139,393)
Gross profit	58,613		58,613
Other gains or losses	3,324		3,324
Selling and distribution expenses	(33,843)		(33,843)
Administrative expenses	(17,165)		(17,165)
Finance costs	(1,732)		(1,732)
Share of profits and losses of associates	1,409		1,409
Profit before tax from continuing operations	10,606		10,606
Income tax expenses	(1,584)		(1,585)
Profit for the year from continuing operation	9,022		9,022
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	3,313		3,313
PROFIT FOR THE YEAR	<u>12,335</u>		<u>12,335</u>

	The HSH Group for the year ended 31 December 2019 RMB'Million Note 1	The Enlarged HSH Group for the year ended 31 December 2019 RMB'Million Note 2
Other comprehensive (loss)/income		
Other comprehensive(loss)/income that may be reclassified subsequently to profit or loss:		
Other comprehensive income that can be transferred into profit or loss under equity method	103	103
Reserve for cash flow hedging	(21)	(21)
Exchange differences on translating foreign operations	500	500
	<hr/>	<hr/>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	582	582
	<hr/>	<hr/>
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Changes arising from re-measurement of defined benefit plans	(10)	(10)
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(3)	(3)
	<hr/>	<hr/>
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(13)	(13)
	<hr/>	<hr/>
Other comprehensive income for the year, net of tax	569	569
	<hr/>	<hr/>
Total comprehensive income for the year	<u>12,904</u>	<u>12,904</u>

	The HSH Group for the year ended 31 December 2019	Pro Forma adjustment	The Enlarged HSH Group for the year ended 31 December 2019
	<i>RMB' Million Note 1</i>	<i>RMB' Million Note 2</i>	<i>RMB' Million</i>
Profit attributable to:			
Owners of HSH	8,206	3,912	12,118
Non-controlling interests	4,129	(3,912)	217
	<u>12,335</u>		<u>12,335</u>
Total comprehensive income attributable to:			
Owners HSH	8,751	3,953	12,704
Non-controlling interests	4,153	(3,953)	200
	<u>12,904</u>		<u>12,904</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF HSH			
From continuing and discontinued operations			<i>(note 4)</i>
— Basic (RMB per share)	<u>1.29</u>		<u>1.38</u>
From continuing operations			
— Basic (RMB per share)	<u>1.05</u>		<u>1.01</u>

(c) Notes to unaudited pro forma financial information of the Enlarged HSH Group

1. These amounts are extracted from the audited consolidated statement of financial position of the HSH Group as at 31 December 2019 and the audited consolidated statements of profit or loss and comprehensive income of the HSH Group for the year ended from 1 January 2019 to 31 December 2019 complied in accordance with International Financial Reporting Standards.
2. The adjustment represents the issuance of the HSH H shares to Scheme Shareholders pursuant to the Scheme as at 31 December 2019, and a corresponding decrease in non-controlling interests' share of net assets as at 31 December 2019 and profit for the year attributable to the HEG.
3. The adjustment represents upon the completion of the Privatisation Proposal and the Scheme becoming unconditional and effective, the payment of approximately HK\$2,961 million (equivalent to approximately RMB2,653 million based on the exchange rate of HK\$1.00 to RMB0.8958) is calculated based on the total number of Scheme Share of 1,518,667,186 at HK\$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at the 31 December 2019.
4. The basic earnings per share attributable to ordinary equity holders of Enlarged HSH Group from continuing and discontinued operations is based on the total number of HSH Group issued equity shares and the Scheme Shares on HSH Group's financial position as at 31 December 2019 and the profit attributable to owners of HSH of the HSH Group's financial performance for the year ended 31 December 2019.
5. No adjustment has been made to reflect any trading results or other transactions of the HSH Group which were entered into subsequent to 31 December 2019.

C. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this announcement, in connection with the unaudited pro forma financial information.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 July 2020

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF HAIER SMART HOME CO., LTD.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Haier Smart Home Co., Ltd. (the “**HSH**”) and its subsidiaries (collectively referred to as the “**HSH Group**”) by the directors of the HSH for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the HSH Group as at 31 December 2019, the unaudited pro forma financial information of the Enlarged HSH Group for the year ended 31 December 2019, and the related notes as set out in pages 96 to 105 of Appendix II to the Announcement. The applicable criteria on the basis of which the directors of the HSH have compiled the unaudited pro forma financial information are described on pages 96 to 105 in Appendix II to the Announcement.

The unaudited pro forma financial information has been compiled by the directors of HSH to illustrate the impact of the listing by way of introduction (the “**Introduction**”) by privatisation of Haier Electronics Group Co., Ltd. (the “**Privatisation Proposal**”) on HSH Group's financial position as at 31 December 2019 and the HSH Group's financial performance for the year ended 31 December 2019 as if the Privatisation Proposal and the Introduction had taken place at 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the HSH Group's audited consolidated financial position and financial performance has been extracted by the directors of HSH from HSH Group's financial statements for the year ended 31 December 2019, on which an audit report set out in Appendix I to Audited Financial Statements Announcement has been issued.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of HSH are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of HSH have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Announcement is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the HSH Group as if the event or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2019 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of HSH in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the HSH Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the HSH Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895
Hong Kong

ANNEX 3

INVESTOR PRESENTATION RELATING TO THE PROPOSED PRIVATISATION



洗护·存·搭·购

温·湿·净·气·静

净水·软水·饮水

吃·买·存·做·洗

全屋信息·影音·游戏·教

HSH's Proposal for the Privatisation of HEG involving H-share Issuance and Listing by Introduction ——Investor Presentation

Haier

July 2020

Disclaimer

Reference is made to the joint announcement published by Haier Smart Home Co. Ltd.* (“HSH”) and Haier Electronics Group Co., Ltd. (“HEG”) dated 2020 pursuant to Rule 3.5 of the Takeovers Code in relation to the pre-conditional proposal for the privatisation of HEG by HSH by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (as amended) (the “**Joint Announcement**”). This presentation (the “**Presentation**”) contains a brief summary of the Privatisation Proposal as outlined in further detail in the Joint Announcement. Shareholders and other investors of HSH and HEG are advised to read the Joint Announcement in its entirety for further information relating to the Privatisation Proposal. The Joint Announcement is available on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, and the websites of HSH and HEG. Unless otherwise provided specifically, the terms used herein shall have the same meanings as those defined in the Joint Announcement.

This Presentation is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of HSH or HEG, nor is it an invitation or offer to or a solicitation of any offer to acquire, purchase or subscribe for securities of HSH or HEG in any jurisdiction in which such invitation, offer, solicitation or sale would be unlawful absent the filing of a registration statement or the availability of an applicable exemption from registration or other waiver. This Presentation is not for release, publication or distribution in or into any other jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

WARNINGS: Shareholders and potential investors of HSH and HEG should be aware that the making of the Privatisation Proposal is subject to the satisfaction of the Pre-Conditions. Even if the Privatisation Proposal is made, the implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

The Privatisation Proposal relates to the shares of Chinese or Bermuda companies and is proposed to be made by a scheme of arrangement provided for under the laws of Bermuda. The Privatisation Proposal is subject to the disclosure requirements and practices applicable in Hong Kong, PRC and Bermuda, which differ from the disclosure and other requirements of the U.S. securities laws and the securities laws of the member states of the European Economic Area (“**Relevant States**” and each a “**Relevant State**”). Financial information included in the relevant documentation will have been prepared in accordance with accounting standards applicable in PRC or Hong Kong that may not be comparable to accounting principles generally accepted in the United States and the Relevant States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities and Exchange Act of 1934, as amended, and the tender offer rules of the Relevant States. Accordingly, the Privatisation Proposal is subject to the disclosure requirements and practices applicable in Bermuda and Hong Kong to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules and the Relevant States' tender offer rules.

The receipt of cash and/or HSH H Shares pursuant to the Privatisation Proposal by a Relevant State holder or a US holder or of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme may be a taxable transaction under tax laws applicable in a Relevant State, or for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of the Privatisation Proposal applicable to him.

Disclaimer(Cont'd)

It may be difficult for US holders of Scheme Shares or holders of Scheme Shares in the Relevant States to enforce their rights and claims arising out of the US federal securities laws and the Relevant States' securities laws, since HSH and HEG are located in a country other than the United States and the Relevant States, and some or all of their officers and directors may be residents of a country other than the United States and the Relevant States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Holders of Scheme Shares in the Relevant States may not be able to sue a non-Relevant State company or its officers or directors in a non-Relevant State court for violations of the Relevant States' securities laws. Further, it may be difficult to compel a non-US and non-Relevant State company and its affiliates to subject themselves to a US court's or a Relevant State's court's judgement.

Notice to US investors: *This Presentation is not an offer of securities for sale nor a solicitation of an offer to buy securities in the United States. The HSH H Shares, which will be issued in connection with the Privatisation Proposal, if made, have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") or under the securities law of any state, district or other jurisdiction of the United States, or any other jurisdiction, and no regulatory approval or clearance in respect of the HSH H Shares has been, or will be, applied for in any jurisdiction other than Hong Kong, PRC or Bermuda. The HSH H Shares may not be offered or sold in the United States absent registration under the U.S. Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. It is expected that the HSH H Shares will be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof. HSH does not intend to make any public offering of securities in the United States.*

Under applicable U.S. securities laws, HEG Shareholders (whether or not U.S. Persons (as defined in Regulation S under the U.S. Securities Act)) who are or will be "affiliates" of HSH or HEG prior to, or of HSH after, the Scheme Effective Date will be subject to certain transfer restrictions relating to the HSH H Shares received in connection with the Scheme.

Notice to European Economic Area: *This Presentation is not an offer of securities for sale nor a solicitation of an offer to buy securities to the public in any Relevant State. No regulatory approval or clearance in respect of the HSH H Shares, which will be issued in connection with the Privatisation Proposal, has been, or will be, applied for in any jurisdiction other than Hong Kong, PRC or Bermuda. The HSH H Shares may not be offered or sold to the public in any Relevant State absent prior publication of a securities prospectus that has been approved by the competent authority in that Relevant State under Regulation (EU) 2017/1129 (the "**EU Prospectus Regulation**") or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the EU Prospectus Regulation, except that an offer to the public in that Relevant State of any Shares may be made at any time under the following exemptions under the EU Prospectus Regulation: (a) to any legal entity which is a qualified investor as defined under the EU Prospectus Regulation; (b) to fewer than 150 natural or legal persons (other than qualified investors as defined under the EU Prospectus Regulation); or (c) in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation. The expression an "offer to the public" in relation to the HSH H Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the Privatisation Proposal and any HSH H Shares to be offered so as to enable a holder of Scheme Shares in any Relevant State to decide to accept the Privatisation Proposal and to receive HSH H Shares. HSH does not intend to make an offer of securities to the public in a Relevant State.*

Disclaimer (Cont'd)

All statements, other than statements of historical facts included in this Presentation, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as “seek”, “expect”, “envisage”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “strategy”, “forecast” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “may” and “might”. These statements reflect HSH’s or HEG’s (as the case may be) current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties.

Accordingly, actual results may differ materially from those described in such forward-looking statements as a result of a number of factors, including, without limitation, (a) the satisfaction of the Pre-Conditions to the making of the Privatisation Proposal; (b) the satisfaction of the Conditions to the Privatisation Proposal and the Scheme; (c) any changes in the regulatory regime and significant policies for the PRC electronic appliances industry, or any in the regulatory policies of the relevant government authorities of the PRC; (d) any changes in the effects of competition on the market demand and sale price of the products manufactured by HSH and HEG; and (e) any changes in political, economic, legal and social conditions in the PRC and other countries in which HSH and/or HEG operates. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. HEG Shareholders and investors should not place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to HSH or HEG or persons acting on behalf of either of them are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included herein are made only as of the date of the particular statement. Subject to the requirements of the applicable laws, rules and regulations, including the Takeovers Code, neither HSH nor HEG undertake any obligation to update publicly or revise any forward-looking statements contained in this Presentation.

The pro forma financial information contained in this Presentation are taken from the unaudited pro forma financial information of the HSH Group consisting of the unaudited pro forma statement of adjusted consolidated net tangible assets of the HSH Group as at 31 December 2019, the unaudited pro forma consolidated statements of financial position as at 31 December 2019 and the unaudited pro forma consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2019, and the related notes thereto as set out in Annex 2 of the Joint Announcement, and which has been prepared in accordance with Rule 4.29 of the Listing Rules on the bases and assumptions set out therein. The unaudited pro forma financial information in Annex 2 of the Joint Announcement (the compilation of which has been reported on by the auditors of HSH) is prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the resulting HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in the Joint Announcement.

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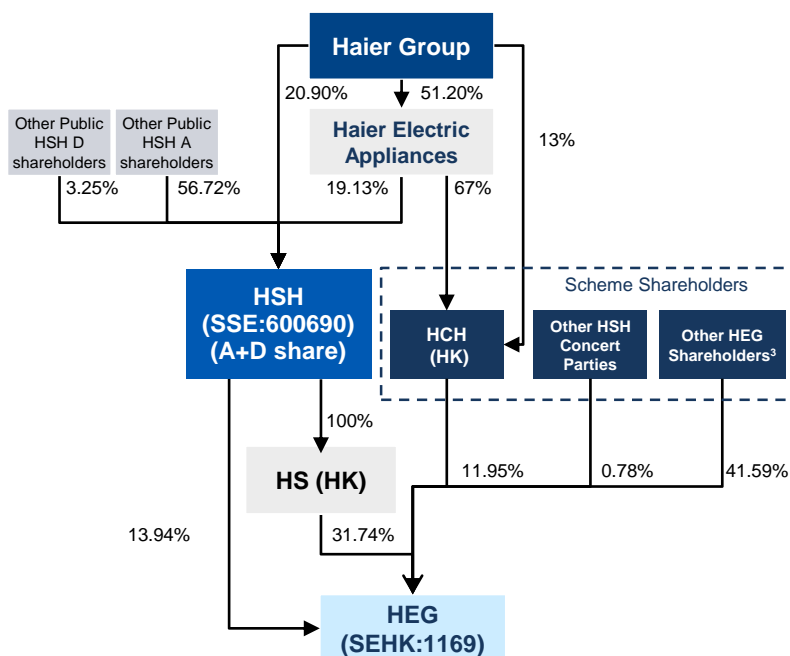
Haier

Chapter I: Transaction Summary

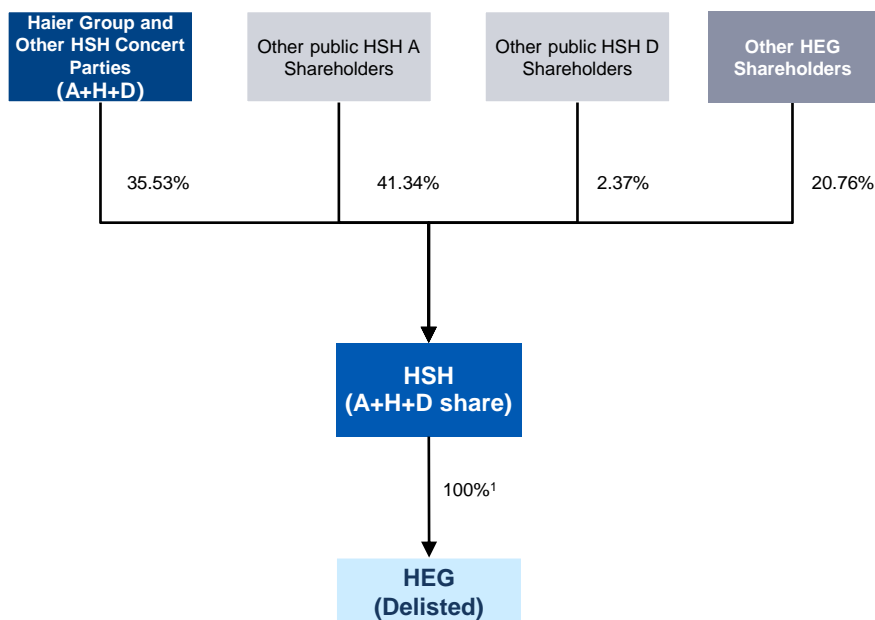
Transaction Summary

- Haier Smart Home Co., Ltd. (“HSH”) is proposing to put forward a proposal for the privatisation of Haier Electronics Group Co., Ltd. (“HEG”) by way of a scheme of arrangement. Scheme Shareholders are HEG Shareholders other than HSH and any of its wholly-owned subsidiaries. Scheme Shareholders include HCH (HK), an indirect subsidiary of Haier Group, and Other HSH Concert Parties
- Upon the Scheme becoming effective, HEG will become a wholly-owned subsidiary of HSH¹ and its shares will be delisted from the Hong Kong Stock Exchange; HSH H Shares will then be listed on the Main Board of the Hong Kong Stock Exchange by way of a listing by introduction; the Scheme Shareholders will become HSH H Shareholders

Before:



After²:



Note 1: If the EB to CB Proposal is not approved or otherwise does not become effective, and EB holders exercise their exchange right after the completion of the Privatisation Proposal, EB holders will become HEG's shareholders and HEG may not be wholly owned by HSH after the privatisation

Note 2: Assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time

Note 3: Other HEG Shareholders include the HEG Trustee and certain directors of HEG

Key Terms of the Transaction

Offeror

- HSH, ticker: SSE: 600690 and 690D.DF

Offeree

- HEG, ticker: SEHK: 1169

Transaction Structure

- By way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (as amended)

Scheme Shareholders will receive

- New HSH H Shares: 1.60 new HSH H Shares for every Scheme Share cancelled under the Scheme
- Cash Payment to be made by HEG only if the Scheme becomes effective: HK\$1.95 for every Scheme Share cancelled under the Scheme

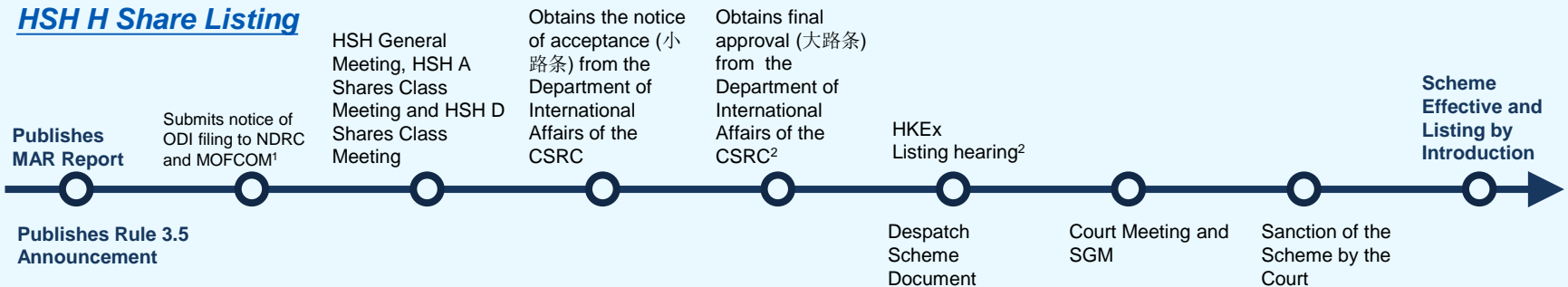
Valuation and Implied Premium

- The theoretical total value for each Scheme Share cancelled = 1.60 Share Exchange Ratio * the mid-point of the valuation range estimated by the Valuation Adviser of HK\$18.47 per HSH H Share + Cash Payment of HK\$1.95 for every Scheme Share cancelled, which represents premium as follows:

	Last trading day	30-day	60-day
Prior to 3.5 Announcement	17.35%	28.34%	36.79%
Prior to 3.7 Announcement	44.20%	42.65%	46.62%

Milestones and Approval Process

HSH H Share Listing



HEG Privatisation

• HSH Shareholders' Approval:

- **HSH General Meeting:** at least 2/3 of the voting rights of the Independent HSH Shareholders present at the HSH General Meeting vote in favour of the transaction
- **HSH A Shares Class Meeting and HSH D Shares Class Meeting:** at least 2/3 of the voting rights of the HSH A Shareholders and HSH D Shareholders respectively present at the HSH A Shares Class Meeting and HSH D Shares Class Meeting vote in favour of the transaction

• HEG Shareholders' Approval:

- **Court Meeting:** (1) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than 3/4 in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. (2) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders
- **Special General Meeting:** not less than 3/4 of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH of such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act

Note 1 Overseas Development Institute (ODI), National Development and Reform Commission (NDRC), Ministry of commerce of the People's Republic of China (MOFCOM)

Note 2: The timing of obtaining the CSRC approval and passing the HKEx listing hearing shall be subject to the communication with regulators and the specific review procedures. CSRC refers to China Securities Regulatory Commission

Haier

Chapter II Overview of Haier Smart Home Co. Ltd. (“HSH”)

Haier

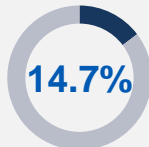
Section I HSH Overview

Staying True to Entrepreneurship in a Changing World

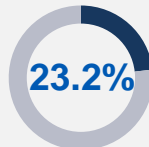
Global Home Appliance Leader

No. 1 Globally and in China

Fortune 500
2019



2019 global major home appliances market share by retail volume¹



2019 China major home appliances market share by retail volume¹

IoT Pioneer



Connected home appliances

Individual Appliance

Scenarios & Ecosystem

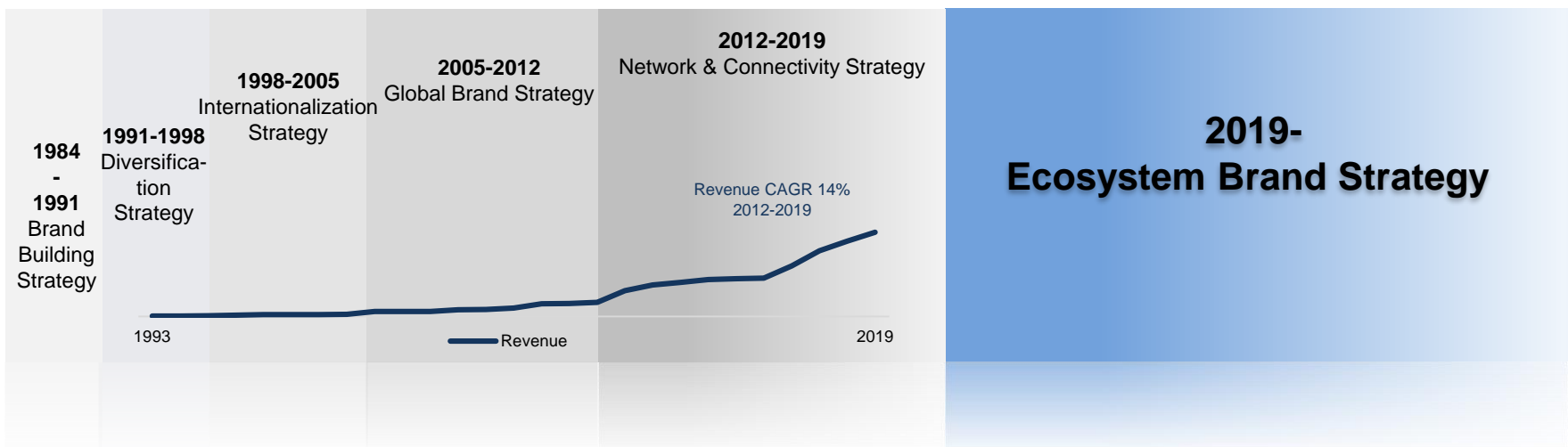
Smart Home Solutions Based on Diversified Consumption Scenarios

Top 100 Most Valuable Global Brands

BrandZ
2019, 2020

The One-and-only IoT Ecosystem Brand in the List

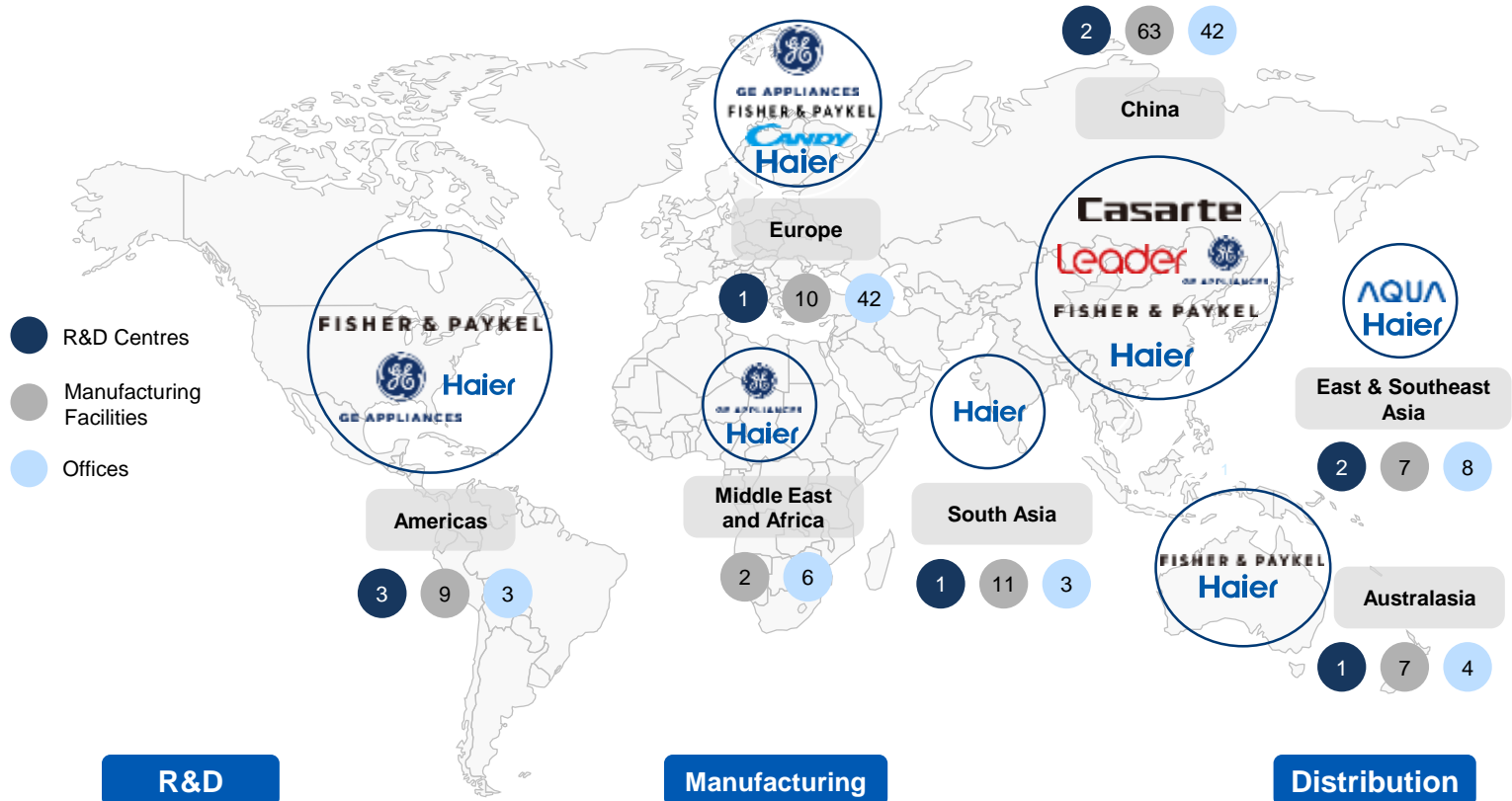
Long-term Sustainability Originated from Timely Strategic Adjustment²



Source: All financial figures in the full investor presentation material are based on IFRS standards, and China refers to People's Republic of China (excluding Hong Kong, Macao and Taiwan) unless otherwise specified

Note 1: Euromonitor 2020. Note 2: Revenue and profit attributable to the owners of the listed company in 1993 to 2014 are unadjusted figures under the PRC GAAP standards and those in 2015 to 2019 are under the IFRS standards. As the profit attributable to shareholders of the listed company in 1993 to 2006 are not disclosed, the data are shown as profit. The data are extracted from the Company's annual reports. As the Company had multiple M&As, investors are advised to take such factor into consideration in YoY comparison

Global Brand Portfolio and Operating Platform



R&D

Seamless integration with **Haier Open Partnership Ecosystem (“HOPE”)** online¹

10+N

R&D Centres

53,000+

No. of Patents Applied

Manufacturing

Pioneering the user-centric “**mass customization**” model and **strengthening localized manufacturing and intra-continental operations**

109

Manufacturing Facilities

22

Smart Factories

Distribution

Strong retail presence & accelerated online-offline integration

108

Offices

140,000+

Sales Outlets

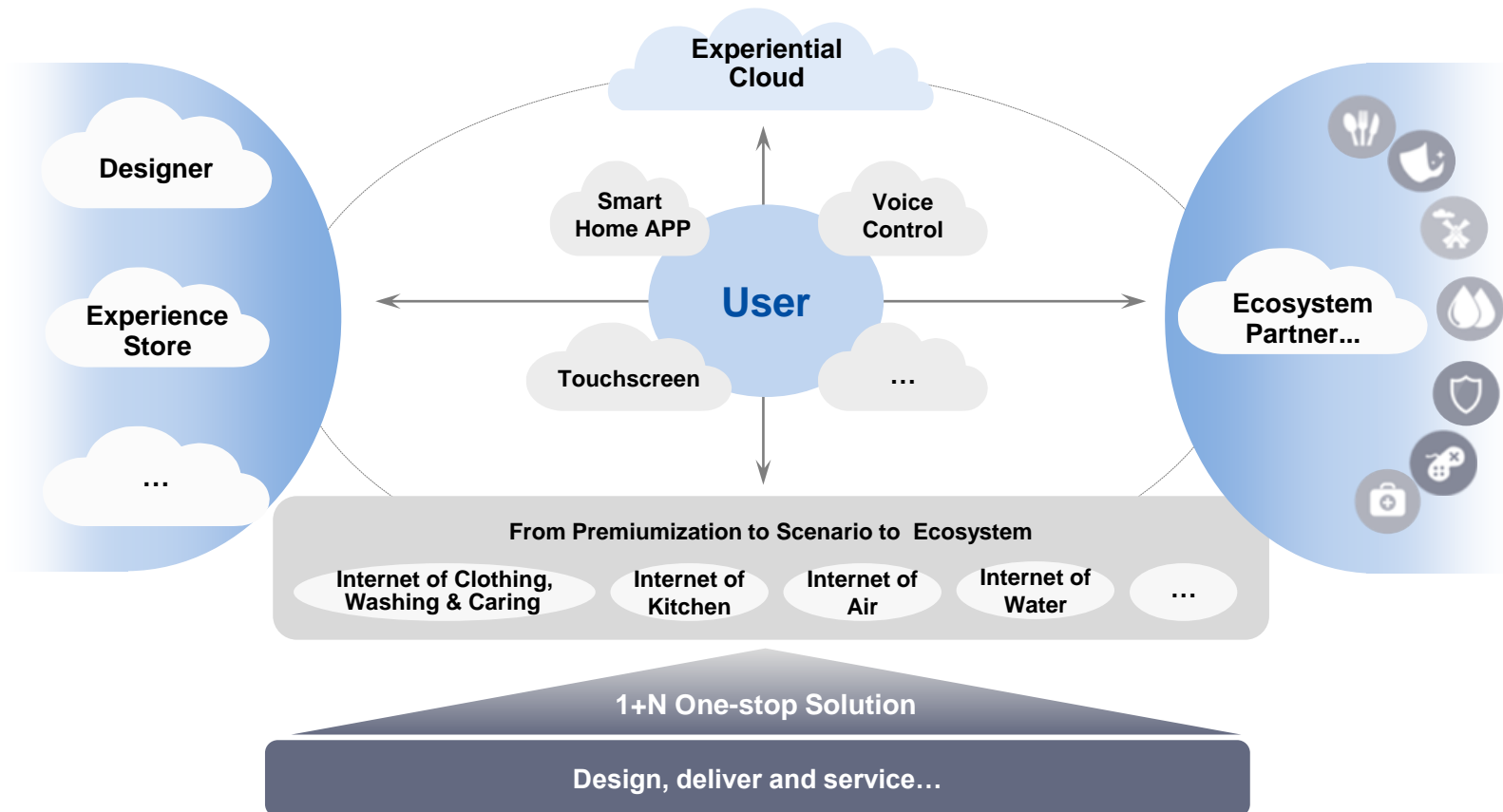
Source: HSH’s information. As of June 30, 2020

Note 1: HOPE (Haier Open Partnership Ecosystem), established in October 2009, is a global network of innovation resources, an ecosystem community of innovators, and a one-stop service platform supporting Haier’s global product innovation. It breaks through the barriers between users and resources and embraces users, enterprises and resources into one interactive ecosystem. The effective collaboration and zero-distance interactions among them leads to interdisciplinary and disruptive innovations

Prospect of IoT Ecosystem on the Foundation of Customer Experience Driven by Cloud system

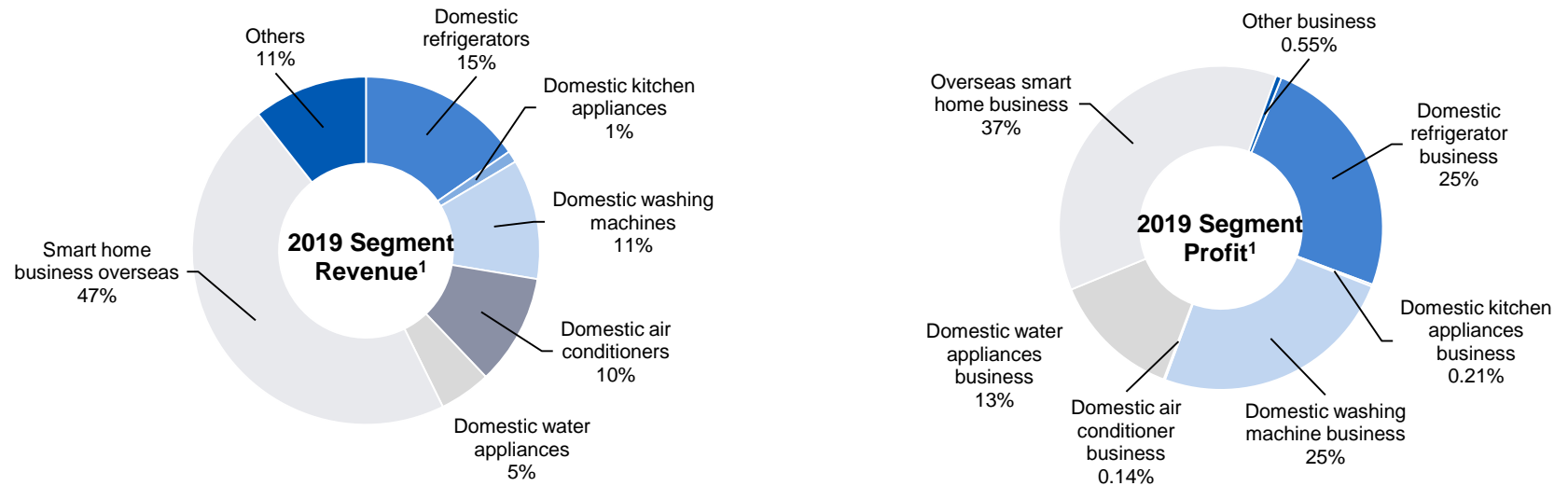
Connecting Billions of Families and Building One Ecosystem Together

- Initially delivering high-quality home appliances and then innovating scenario-based IoT products, HSH integrates designers, experience stores, and ecosystem partners to participate in the creation of consumption scenarios. Based on Experiential Cloud digital system, Smart Home APP on user front and full value chain infrastructure supporting system, HSH provides one-stop customized smart home solutions in Internet of Clothing, Washing & Caring, Internet of Kitchen, Internet of Air, and Internet of Water, while empowering designers, experience stores and ecosystem partners to join up in building a user-centred ecosystem

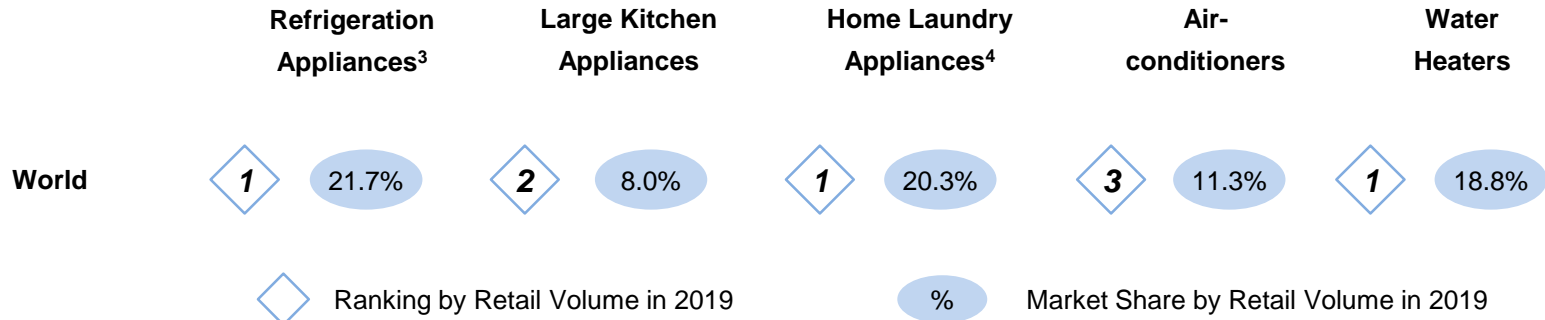


Business Segments with Leading Positions

Revenue and Profit Breakdown¹



Leading Positions²

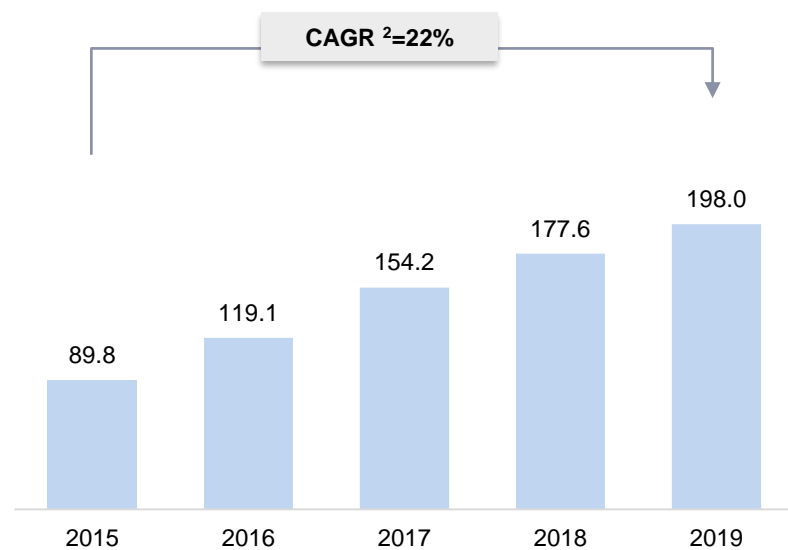


Note 1: Calculated based on audited financial figures for FY2019. Segment revenue has been consolidated and offset, but segment profit has not been consolidated and offset
 Note 2: Euromonitor 2020
 Note 3: Including built-in and non-built-in refrigerators, fridge freezers, freezers and wine coolers.
 Note 4: Including built-in and non-built-in fully automatic dryers, semi/fully automatic washing machines and washer dryers

Strong Revenue and Profit Growth

Revenue¹

(RMB bn)

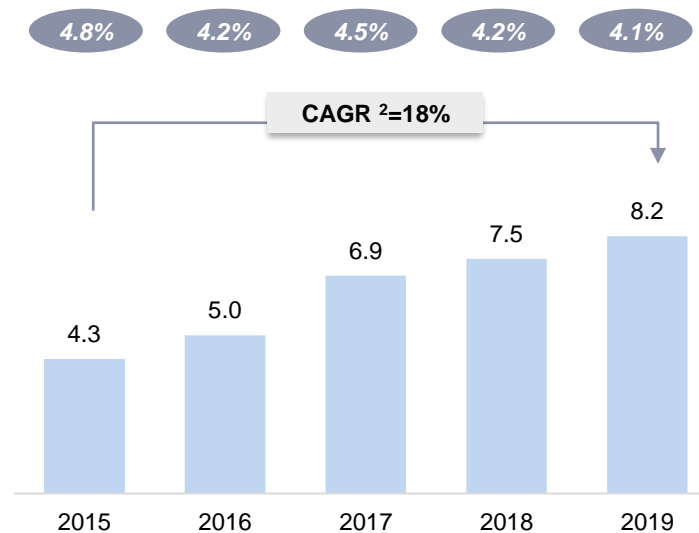


- YoY revenue growth of 15.2% and 11.5% in 2018 and 2019

Profit Attributable to Owners of HSH¹

(RMB bn)

Margin



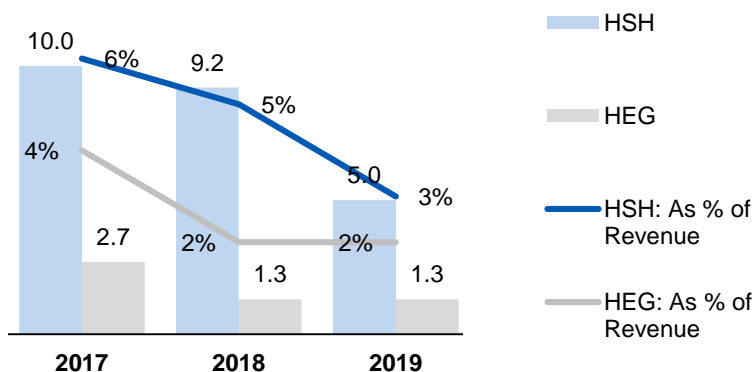
- Profit attributable to owners of HSH continues to grow, with YoY growth of 7.8% and 9.6% in 2018 and 2019

Note 1: Based on audited financial statements of HSH in 2015-2019 which were prepared according to IFRS and audited by HLB Hodgson Impey Cheng Limited ("HLB"), HSH's reporting accountants
Note 2: CAGR refers to the compound annual growth rate of revenue and profit attributable to owners HSH in 2015-2019, respectively

Solid Cash Flow and Return on Equity

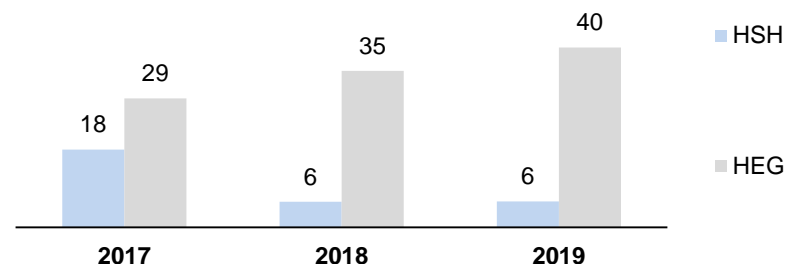
Free Cash Flow¹

(RMB bn)



Cash Conversion Cycle²

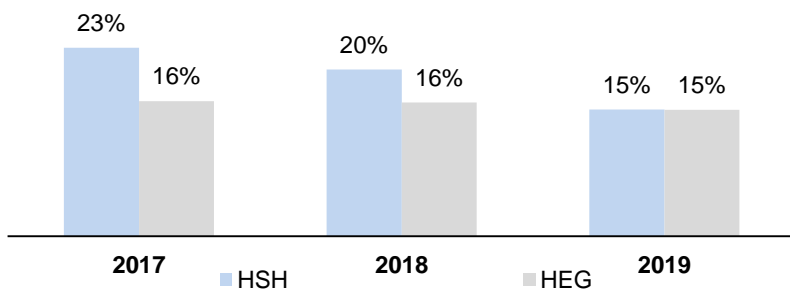
(Days)



- Continuous inventory management optimization during 2017-2019

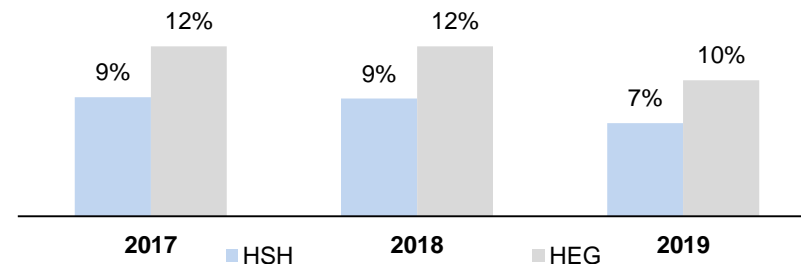
ROE³

(%)



ROIC⁴

(%)



- HSH's ROE is slightly higher than that of HEG and its ROIC is slightly lower than that of HEG due to a higher leverage ratio

Note 1: Calculated based on audited financial figures of HSH and HEG for FY2017-2019. Free cash flow = EBIT * (1-effective tax rate) - change in net working capital - Capex + D&A. EBIT=total revenue-COGS-SG&A-other operating expense. Note 2: Calculated based on audited financial figures of HSH and HEG for FY2017-2019. Cash conversion cycle= days sales outstanding + days inventory outstanding - days payable outstanding. Note 3: Calculated based on audited financial figures of HSH and HEG for FY2016-2019. ROE=profit for the year from continuing operations attributable to the owners of the company/average equity attributable to owners of the company. Note 4: Calculated based on audited financial figures of HSH and HEG for FY2016-2019. ROIC=EBIT*(1-effective tax rate)/average invested capital, invested capital=total equity + ST borrowings + Cur. of LT debt + LT borrowings + Bonds payable + Lease obligation

Strategic Investment for the Future



Note 1: HSH's information. Figures derived from management accounts. Acquired FPA with RMB1.9bn in 2018 and acquired Candy with RMB3.8bn in 2019

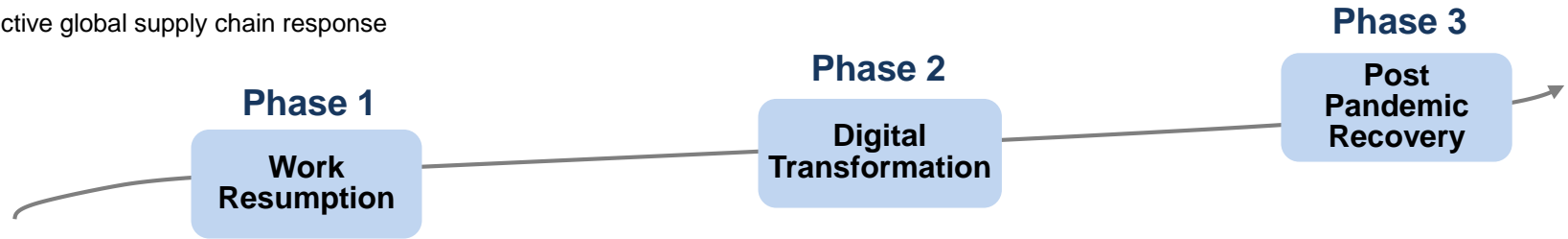
Note 2: Calculated based on audited financial figures of HSH for FY2017-2019

Note 3: CMM 2020. Data in 1H2020

Note 4: HSH's information. As of June 30, 2020

Mitigating COVID-19 Impact through Digital Transformation

- ☑️ Prioritize workplace health and safety
- ☑️ Successful domestic pandemic containment practices introduced overseas
- ☑️ Effective global supply chain response



Pandemic Development

- Major demand and supply disturbances
- Significant macroeconomic pressure

Actions

- Domestic Markets**
 - Adopt containment measures and provide protective materials in resuming work
- Overseas Markets**
 - Drawing on mitigation experience and material support from China, take precautionary measures ahead of others

- Domestic Markets**
 - **Supply chain:** Customer-to-Manufacturer model to promote best sellers
 - **Channel:** Further support e-commerce and commercial channels
 - **Marketing:** increase presence on streaming platforms including Haier Smart Home APP
- Overseas Markets**
 - **Supply chain:** Strengthen infrastructure
 - **Marketing:** Accelerate digital transformation, and promote health related home appliances

- Capture growth opportunities with stronger fundamentals in post pandemic era
- Accelerate digital transformation to improve multi-dimensional operation efficiency

Results

- Domestic Markets**
 - All factories resumed production by the end of 1Q20 with protective measures in place
- Overseas Markets**
 - Orders fulfilled from manufacturing facilities that meet containment requirements

- Domestic Markets**
 - Online and offline refrigerators, washing machines, air-conditioners, water heaters and kitchen appliances continued to occupy the leading position in terms of retail volume in 1H2020¹
- Overseas Markets**
 - Pioneer in utilizing short-video and live streaming

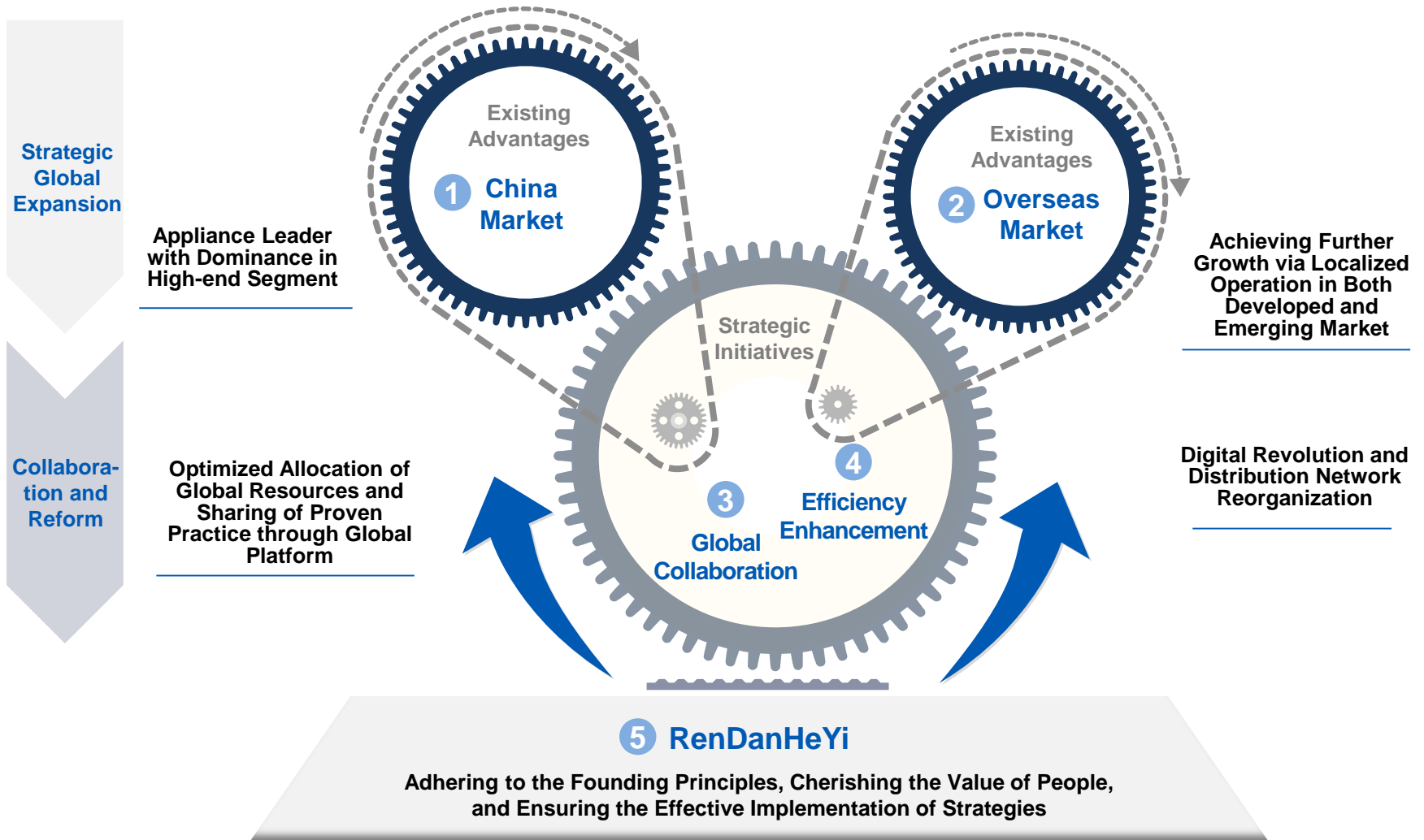
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Note 1: CMM 2020

Haier

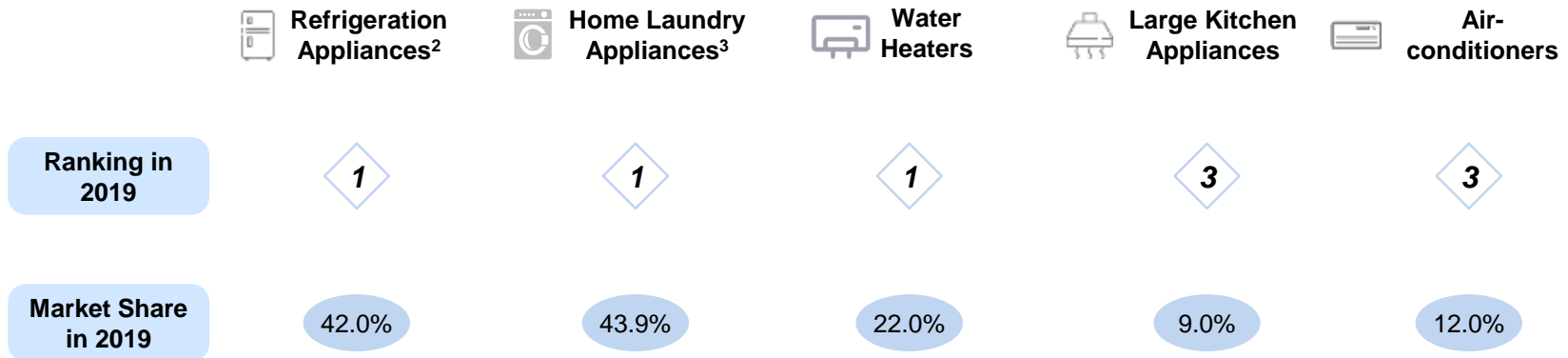
Section II Investment Highlights

Well-positioned Globally to Sustain Leadership in the Future

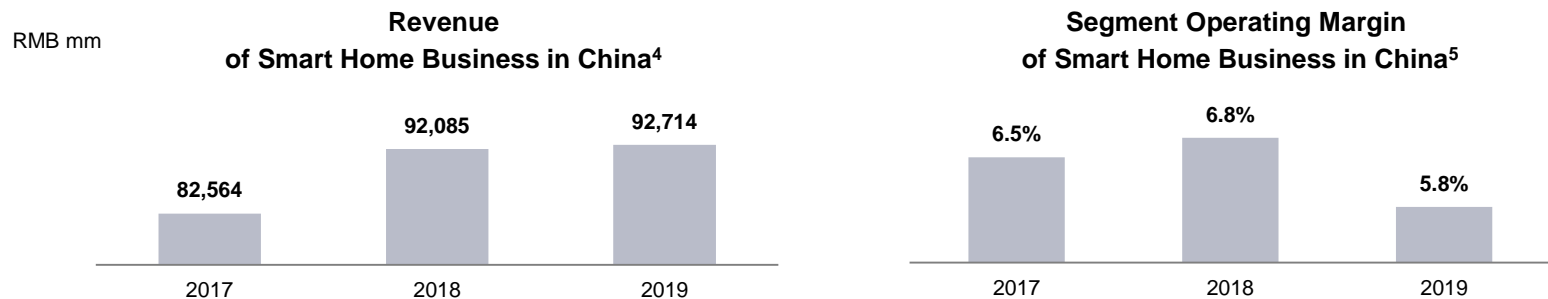


1.1 Leading Market Share and Solid Performance

Leading Market Share¹



Solid Performance



Note 1: Euromonitor 2020. By retail volume

Note 2: Including built-in and non-built-in refrigerators, fridge freezers, freezers and wine coolers.

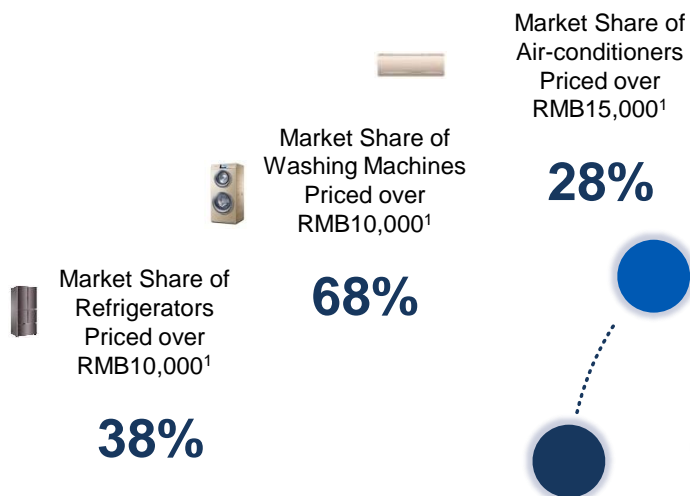
Note 3: Including built-in and non-built-in fully automatic dryers, semi/fully automatic washing machines and washer dryers

Note 4: Audited financial figures of HSH for FY2017-2019

Note 5: Calculated based on audited financial figures of HSH for FY2017-2019

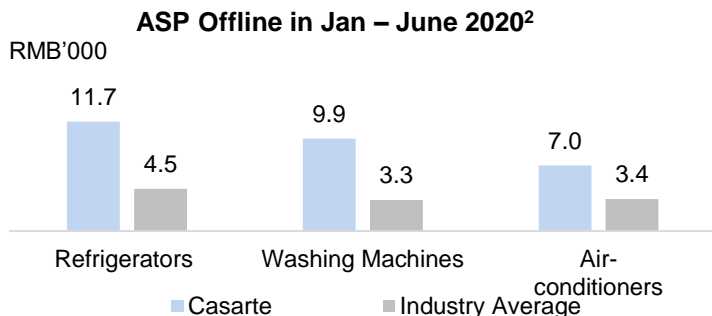
1.2 Casarte — Leader in High-end Market

Leader in High-end Market



Well-recognized Premium Brand

✓ ASP in major categories offline > 2x industry average



Rapid Growth

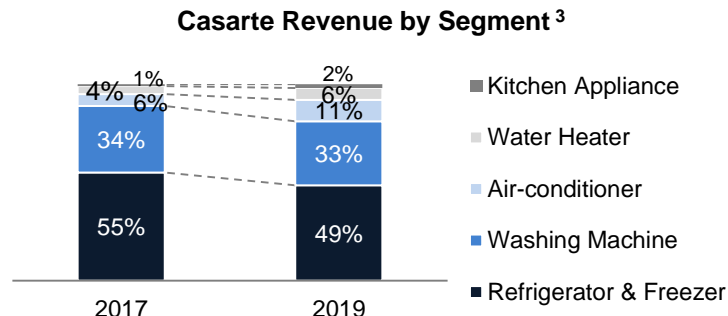
Casarte's Revenue (RMB bn)³ 2019 **7.6**

Growth of Casarte's Revenue as % of HSH Revenue³ 2017-2019 **1.2pct**

Casarte's Revenue CAGR³ 2017-2019 **36%**

From products to smart Home Solutions

✓ Growth driven by diversified products with increasing contribution from air-conditioner, water heater and kitchen appliance



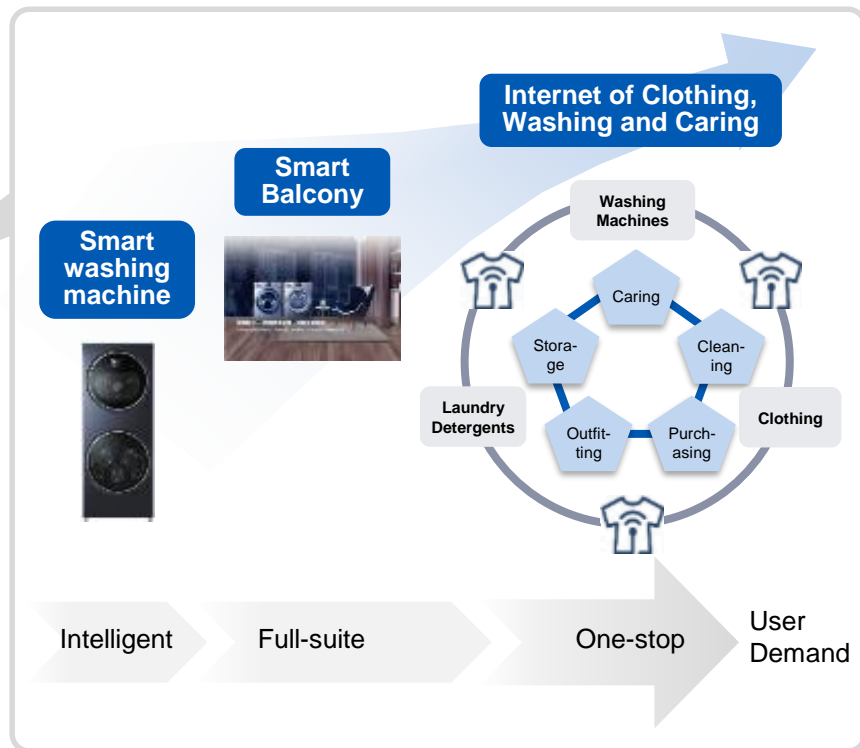
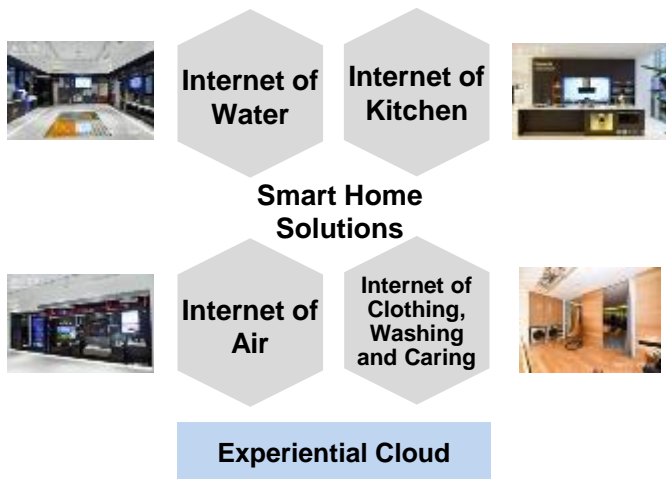
Note 1: CMM 2020. In terms of offline retail volume in Jan – June 2020. ASP represents for average selling price

Note 2: CMM 2020

Note 3: HSH's information. Figures derived from management accounts

1.3 Continuous Upgrade of Smart Home Solutions

- ✓ Leveraging on our competitive advantage in innovative and diversified products, HSH designs, implements and provides solutions of full-suite smart home products
- ✓ With integrated packages of appliances and interior design, HSH's business expands from individual appliance, to scenario applications, ultimately creating greater value with comprehensive one-stop smart home solutions



27%

Bundled Appliances as a % of Total Revenue 2019¹

>RMB8.0bn

Whole-house Solutions Revenue 2019²

4.29mm

Monthly Active Users of Smart Home APP³

68%

Increase in Activation of Smart Appliances 2019⁴

Note 1: HSH's information. Figures derived from management accounts. Revenue of bundled appliances refers to retail revenue from purchase of two products at a time
 Note 2: HSH's information. Figures derived from management accounts. Refers to retail revenue of scenario-based products purchased in smart home stores
 Note 3: HSH's information. For the month ended June 30, 2020
 Note 4: HSH's information

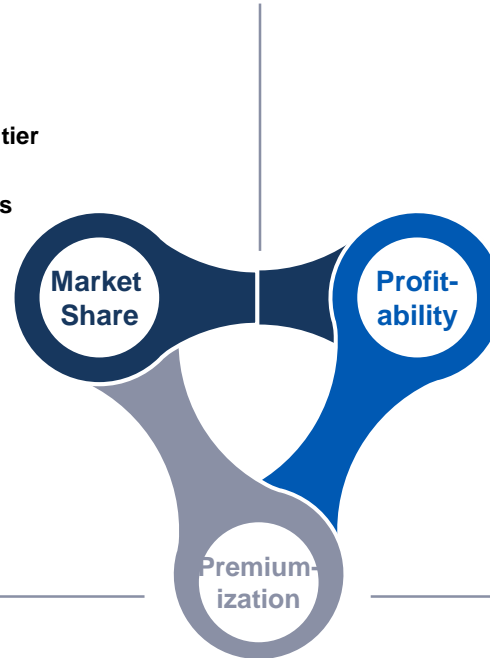
1.4 Revitalizing Air-conditioner Business

Strengthen Presence

- 1) Increase distribution competitiveness through further penetration in villages
- 2) Break through e-commerce channels and lower tier markets with product differentiation
- 3) Strengthen corporation with property developers

Enhance Efficiency

- 1) Streamline SKUs and identify best sellers
- 2) Reduce cost by aggregated procurement and encouraging suppliers' participation in product development
- 3) Enhance end to end efficiency with direct shipment and designated production lines



Increase in market share

Offline in China Jan – June 2020 ¹	Online in China Jan – June 2020 ¹
+3.3 pct	+3.9 pct

Successfully reduced SKUs

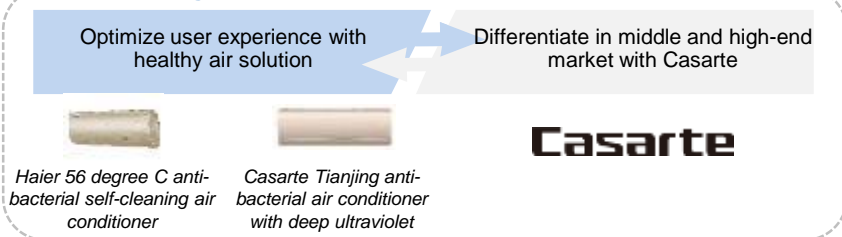
Reduction in SKU
in 2019²

15%

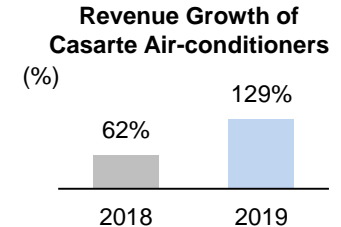
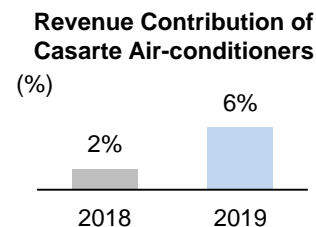
Adjust Market Positioning

- 1) Break through in high-end market via structural adjustment ; 2) Capture market share with multi-brand portfolio;
- 3) Increase R&D investment and enhance recognition with iterative experience upgrade (from technology leadership to experience leadership)

Increasing investment in multi-brand collaboration and R&D



Expanding Premium Market Leadership³



Note 1: CMM 2020. Latest available data. Growth of market share in terms of retail volume of HSH's domestic air conditioners in Jan – June 2020, compared with Jan – June 2019

Note 2: HSH's information. Compared with 2018. As of Dec 31, 2019

Note 3: HSH's information. Figures derived from management accounts

Market Share Expansion and Growth in Profitability Overseas

Market Share¹



Revenue and Profit¹

Organic growth and M&A

- Overseas contributes **48%** of total revenue in 2019

Steady profit growth



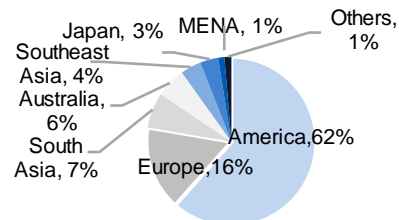
CAGR of Overseas Revenue 2017-2019³

14.8%

CAGR of Retail Revenue of Global Major Home Appliance Industry 2017-2019⁴

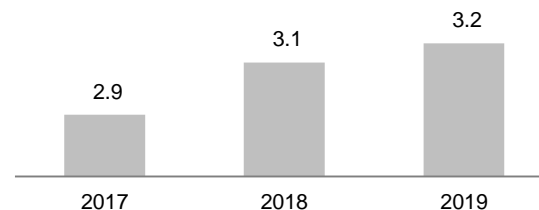
3.4%

Overseas Revenue Breakdown 2019²





Segment Profit of Overseas Smart Home Business 2017-2019³

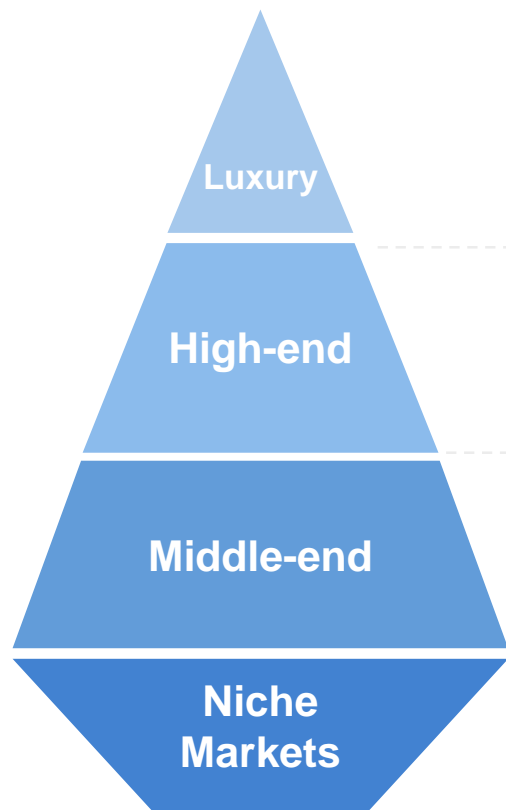
(RMB bn)




Note 1: Euromonitor 2020. In terms of retail volume. Note 2: HSH's information. Figures derived from management accounts. Overseas revenue breakdown shows as % of total overseas revenue. Segment revenue has been consolidated and offset. Note 3: Calculated based on audited financial figures of HSH for FY2017-2019 under IFRS standards. Segment profit from segment report in the audited financial statements of HSH prepared under IFRS. Note4: Euromonitor 2020. In terms of retail revenue

2.2 Well-recognized Brand Portfolio Serving Diversified Users


-  Overseas strategy of proprietary brands
-  Global brand portfolio with comprehensive coverage




Self-grown Brands

Casarte 

- Absolute leading position in China's high-end home appliance market¹
- Ranked first in China's high-end refrigeration appliances/home laundry appliances/air-conditioners industry by retail volume¹



Haier 

- Ranked first in global major home appliance industry by retail volume²
- Comprehensive portfolios of products at different price points
- Main brand entering overseas markets



Leader 

- Comprehensive portfolios of products targeted on young users
- Smart functions, stylish and minimalist design


Integrated Brands

MONOGRAM CAFE 
GE PROFILE

GE APPLIANCES



- Ranked first in North America's major home appliance by retail volume²
- Comprehensive portfolios of products at different price points

 (Outdoor kitchen appliances) 
FISHER & PAYKEL


- Ranked first in Australia & New Zealand's major household appliance industry by retail volume²
- A leading brand with the world's top luxury kitchen appliances

CANDY 

- A home appliance brand with deep roots in Europe
- A leading IoT home appliance brand in Europe

AQUA  

- A well-known home appliance brand acquired from Sanyo
- High brand recognition in existing markets


Hotpoint 

- A minimalist home appliance brand
- Offers cost-effective products

Note 1: CMM 2020. Data in 1H2020
 Note 2: Euromonitor 2020. Data in 2019

2.3 Successful M&A and Integration

A Series of Success

 Acquired Sanyo's white goods business in 2015, GEA in 2016, FPA in 2018, and Candy in 2019

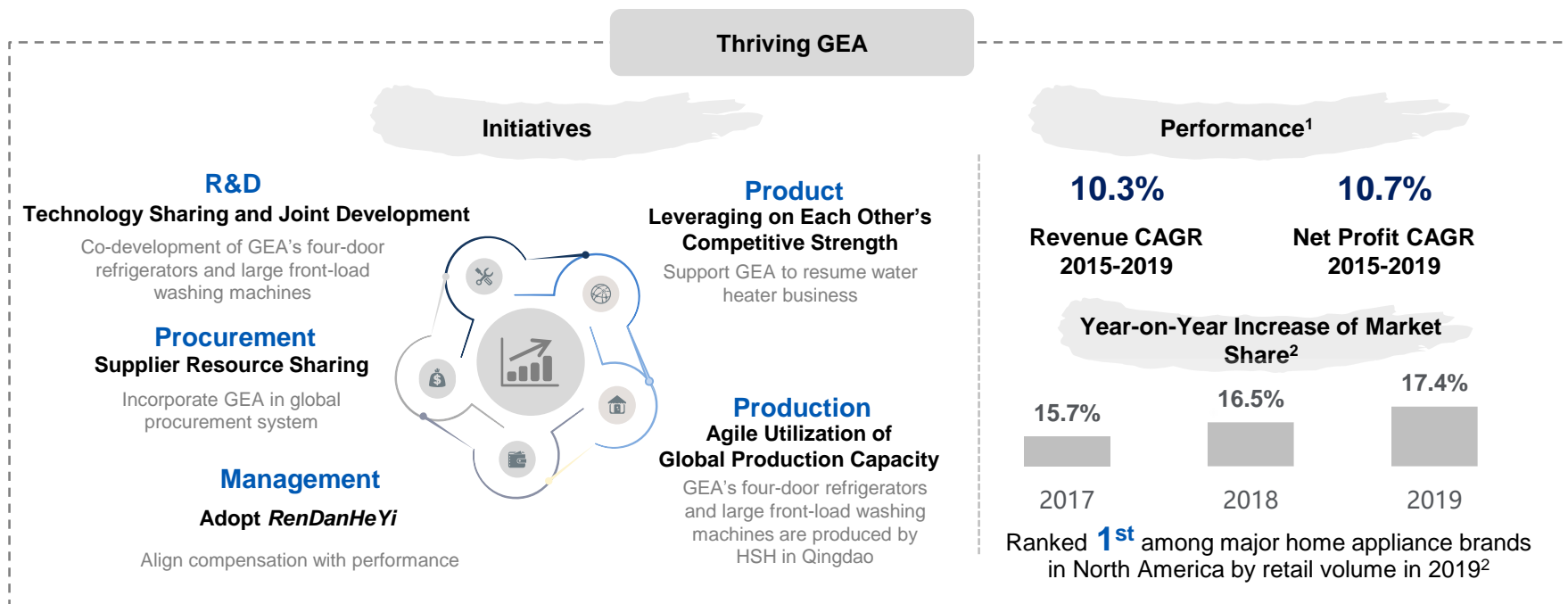
Promote Integration

1

RenDanHeYi model injects vitality

2

Global platform supports growth



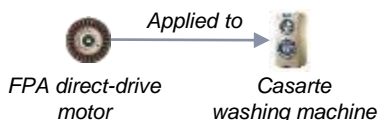
Note 1: Calculated based on audited financial figures of HSH for FY2015 and FY2019. Revenue and net profit of HSH in 2015 are under the PRC GAAP standards and those in 2019 are under the IFRS standards

Note 2: Euromonitor 2020. In terms of retail volume

Resource and Experience Sharing on a Unified Platform

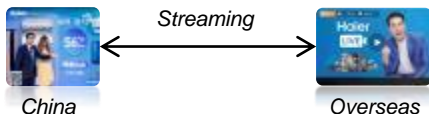
R&D

- Co-develop high-end products
- R&D collaboration in components and technology
- Share of Patents



Marketing

- Distribution network sharing with enhanced bargaining power
- Worldwide marketing campaign



Procurement

- Alternate between regional and global suppliers
- Global procurement platform
- Adopt large-scale and digital procurement



✓ Global Resource

One of the few major home appliance companies with leadership in China, US and Europe

✓ Unified Platform

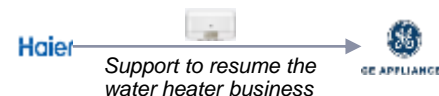
Global platform for R&D, procurement, supply chain, quality & service, strategy & branding

✓ Proven Practice

Strengthen high-end products leadership and accelerate smart scenario implementation

Product Development

- Leveraging on each other's competitive strength
- Regional product collaboration



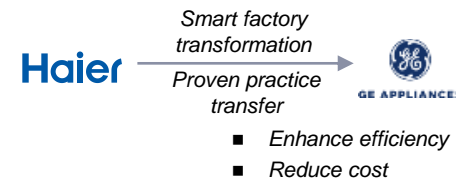
Branding

- Multi-class brand portfolio
- Differentiated multi-brand strategy globally
- Premiumization strategy

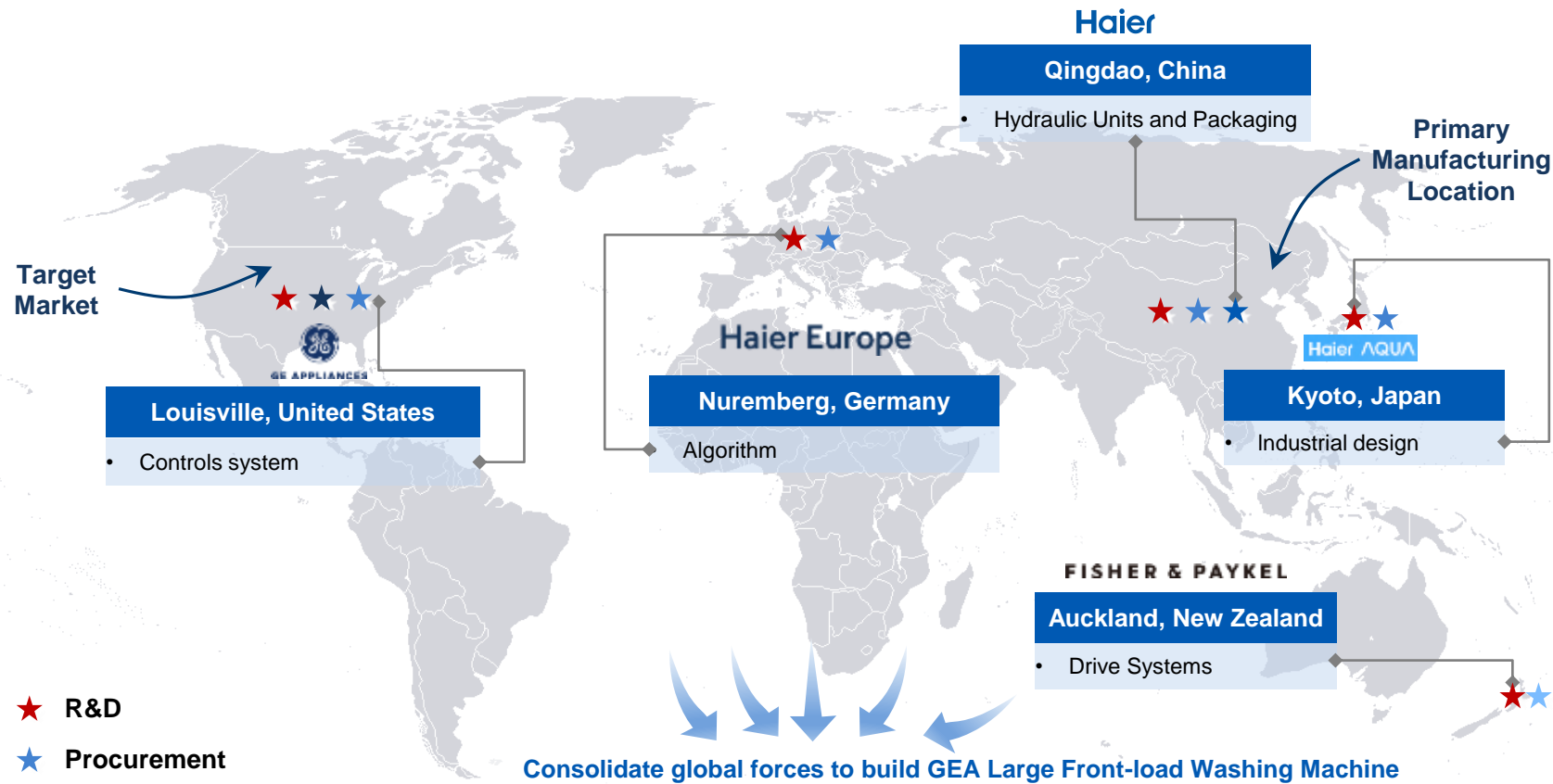


Supply Chain Management

- Flexible deployment of global production capacity
- Visualization and digitalisation of supply chain
- Share smart manufacturing technologies and know-how



GEA's Case — Capture Market Share with Successful Launch of New Front-loader



- The sterilization and disinfection function is well received by market during epidemic
- ✓ Kitchen and Bath Industry Show: Best of KBIS – Bath Gold
- ✓ Good Housekeeping: Best Overall Washing Machine of the 8 Best-performing Washing Machine in 2020 in US
- ✓ Family Handyman: One of the Best Smart Washers for 2020

4.1 User-oriented Global Distribution Network

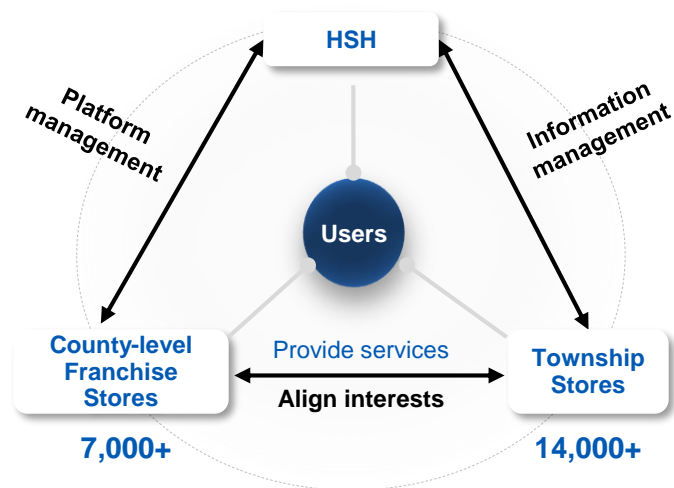
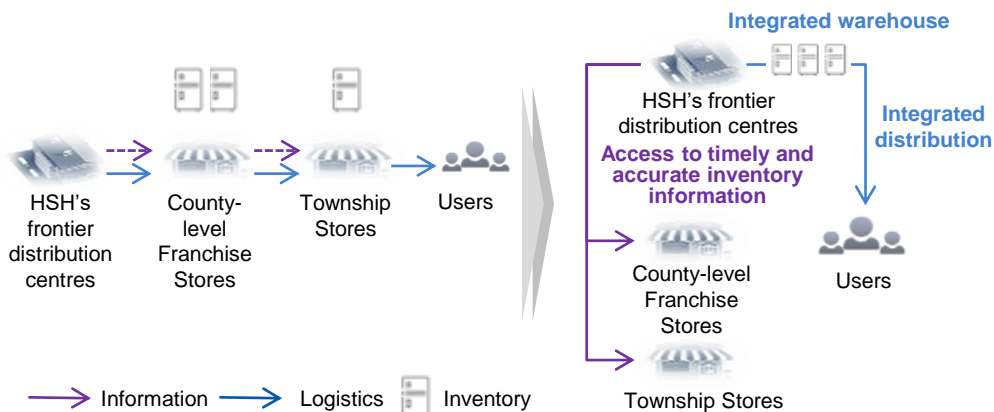
Direct interaction with Users

China market: ongoing efficiency reform

☑ Constantly promoting channel integration and efficiency enhancement

☑ Digital distribution network with extensive town level coverage

“Integrated warehouse and distribution” Transformation



Overseas market: extensive distribution network

☑ Distribution network

160+
Countries and Regions

66
Offices

☑ Efficient retailer cooperation



In-house sales team connecting users directly



Scenario-based experiential sales format

☑ Expanding presence online



Inspired Live global marketing campaign



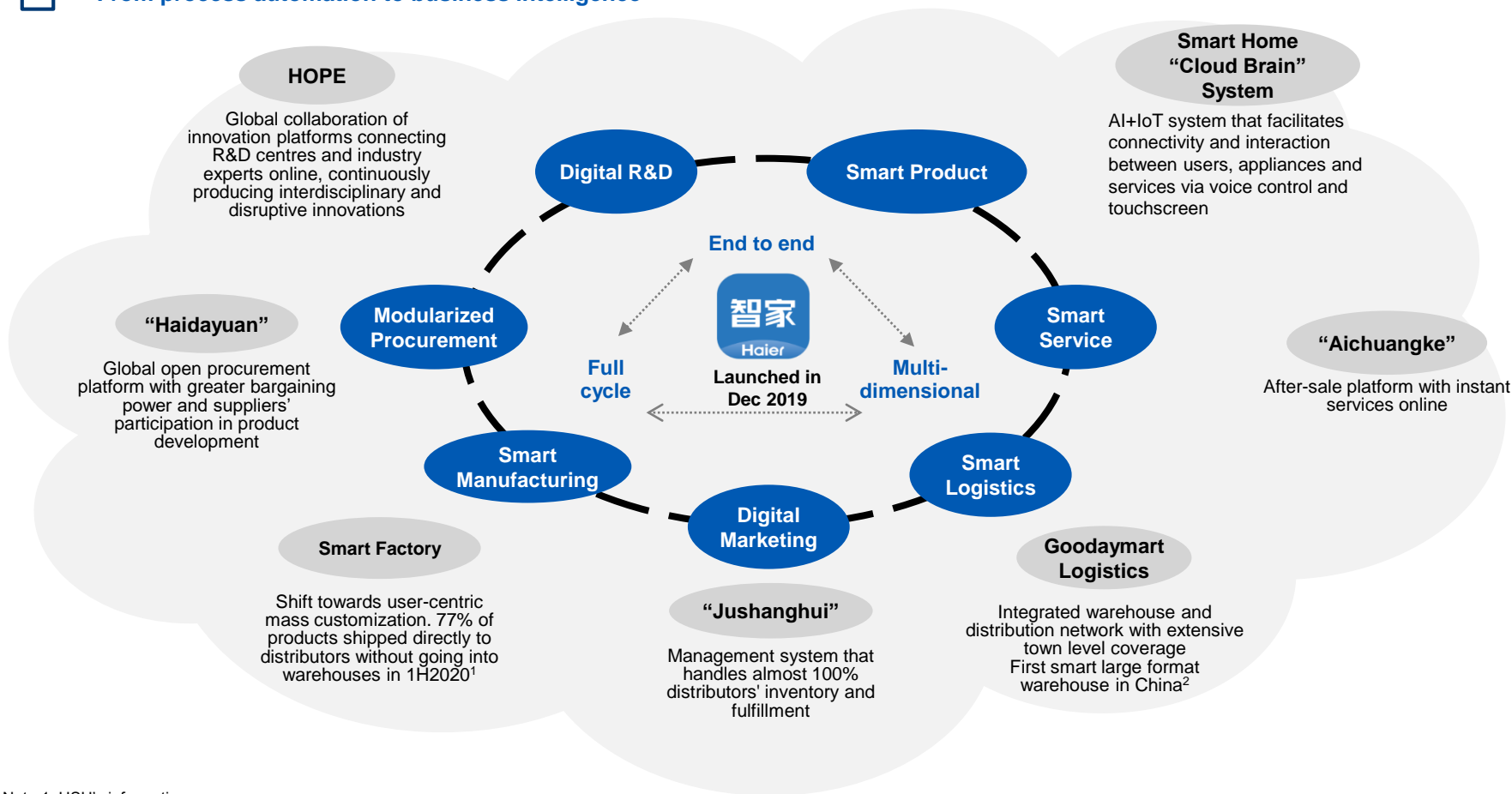
Streaming overseas

4.2 Embark upon the Digital Transformation

Building A Digitalised Enterprise of technologies

✓ From operation control to full value chain vitalization

✓ From process automation to business intelligence



Note 1: HSH's information
Note 2: Euromonitor 2020

Unlock Our People's Potential with *RenDanHeYi* Model in the Creation of Outstanding User Experience

RenDanHeYi Model

- ✓ Our people can realize individual value when creating value for users, which also adds to the enterprise value and shareholders' value
- ✓ Three Key Elements: ecosystem-based micro-enterprise (EBME) contracts, the self-driven system and the sharing of value

Haier's success is the result of a root-and-branch overhaul of its once-traditional management model..... Haier's shorthand for these practices is *rendanheyi*, a mash-up of Chinese characters that connotes a tight coupling of the value created for customers with the value received by employees.

—***The End of Bureaucracy.***
Harvard Business Review, 2018

The ideology seeks to make big companies operate like a collection of startups, emphasizing flexibility and risk-taking and no middle managers. Zhang (Ruimin) thought the approach would help revitalize a stagnant GEA, where sales growth was 1 percent in 2014.....The company says it's working so far. GEA's revenue in U.S. dollars grew 11 percent in the first half of last year with the help of new products.

—**Bloomberg Businessweek,**
February, 8th 2019

- ✓ The *RenDanHeYi* model has been replicated in overseas regions

Experienced and Talented Management Team



~ **30** years of experience in the industry



20+ years working for Haier

Aligned Equity Incentive Schemes



HSH launched **four** equity incentive plans and **four** core employees' equity ownership plan from 2009 to 2019



Broad coverage includes the majority of key personnel



Well defined mechanism that aligns compensation with performance

Haier

Chapter III: Benefits for Shareholders of Haier Electronics Group Co., Ltd. (“HEG”)

Haier

Section I: Financial Benefits

Financial Benefits to Scheme Shareholders

-- Summary

Financial Return for Scheme Shareholders

New HSH H shares

- 1.60 new HSH H Shares for every Scheme Share cancelled



Cash Payment

- Cash Payment of HK\$1.95 for every Scheme Share cancelled

Earnings per Share (EPS) accretion for Scheme Shareholders

- Excluding the Cash Payment, the pro forma EPS accretion of the proposed privatisation for Scheme Shareholders shall be 9.9%²

Total value of the transaction

- The theoretical total value which can be received for every Scheme Share is HK\$31.51 based on 1) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at July 30 2020 of HK\$18.47 per HSH H Share, and 2) the Cash Payment of HK\$1.95 for every Scheme Share cancelled; Corresponding total return on the Scheme Shares is demonstrated below:

Total return on the Scheme Shares¹

Prior to 3.5 Announcement	Last trading day	30-day	60-day
Average closing price (HK\$)	26.85	24.55	23.03
Return on Scheme Shares	17.35%	28.34%	36.79%

- Theoretical Total Value for each Scheme Share of HK\$31.51³ = Share Exchange Ratio of 1.60 × HSH H Share Valuation of HK\$ 18.47 + Cash Payment of HK\$1.95
- The implied valuation of HEG is RMB88,759mm, representing an implied 2019 PE of 19.55x and 2019 EV/EBITDA of 15.25x

Note 1: Prior to 3.5 Announcement. HEG's share price increased by 9.38% during the first trading day after the Rule 3.7 Announcement

Note 2: EPS calculation is based on profit from continuing operations attributable to shareholders of HSH

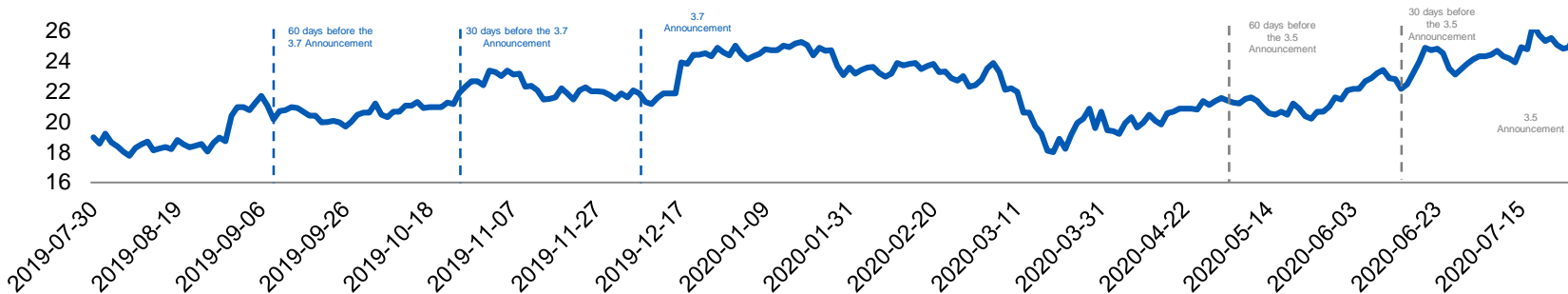
Note 3: Share Exchange Ratio represents 1.60 number of HSH H Shares for every Scheme Share cancelled; HSH H Share Valuation is the mid-point of the valuation range estimated by the Valuation Adviser as at July 30 2020; cash payment of 1.95 will be made to each Scheme Share

Financial Benefits to Scheme Shareholders

-- Total Return

- The implied premium of the proposed transaction (sum of the HSH H Shares & Cash Payment) is in line with average premium offered in the share exchange privatisation precedents in Hong Kong Stock Exchange

HEG Shares Performance and Implied Total Premium of the Proposed Transaction



	Last trading day	30-day	60-day
Prior to 3.5 Announcement	17.35%	28.34%	36.79%
Prior to 3.7 Announcement	44.20%	42.65%	46.62%

Premium offered in Share Exchange Privatisation Precedents in Hong Kong Stock Exchange¹

Rule 3.5 Announcement Date	Target	Acquirer	Last trading day	30-day	60-day
2017/9/8	CNMC	CNBM	19.19%	31.18%	44.86%
2014/12/30	CNR	CSR	13.30%	23.85%	26.74%
2010/5/19	Denway	GAC	18.47%	27.09%	25.83%
2008/6/2	China Netcom	China Unicom	3.02%	17.25%	19.46%
	Mean		13.50%	24.84%	29.22%
	Median		15.89%	25.47%	26.28%

Source: Wind, as of July 29, 2020, Exchange rate: CNY0.90278 = HKD1

Note 1: This is an exhaustive list based on all completed share exchange privatisation market precedents in Hong Kong Stock Exchange which did not involve a distribution in specie or a cash consideration option and which were announced between Jan. 1, 2008 and July 29 2020

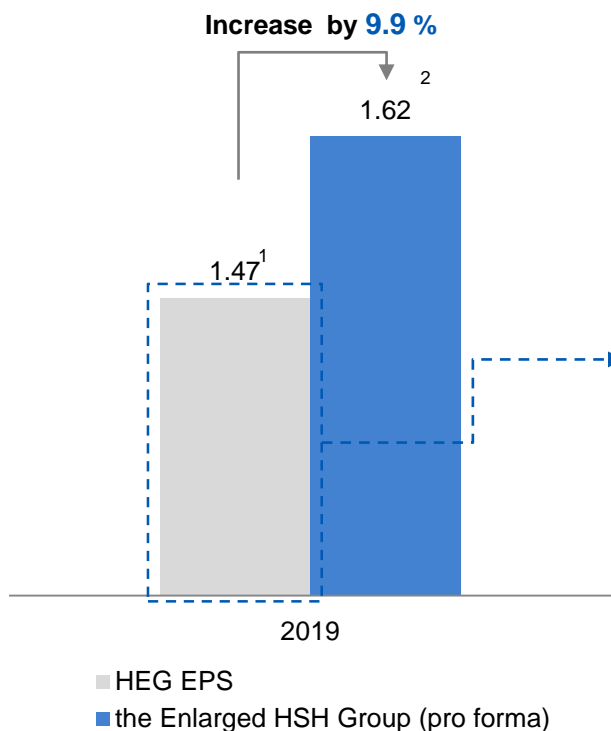
Financial Benefits to Scheme Shareholders

-- Considerable EPS Accretion

EPS for Scheme Shareholders

- Based on the RMB4.10bn and RMB6.72bn profit from continuing operations attributable to owners of HEG and HSH in 2019 and the Share Exchange Ratio, **the pro-forma EPS for Scheme Shareholders will increase by 9.9 %**

Pre- and post-transaction EPS for Scheme Shareholders (RMB per share)



Continuing Operating Profit Analysis of HSH³

(RMB mm)	2017	2018	2019
Revenue	154,165	177,594	198,006
yoy (%)	33.7%	15.2%	11.5%
Gross Profit	50,164	52,179	58,613
Gross Margin (%)	32.5%	29.4%	29.6%
SG&A	41,973	43,103	51,008
As % of Rev (%)	27.2%	24.3%	25.8%
EBIT ⁴	8,191	9,076	7,605
EBIT Margin (%)	5.3%	5.1%	3.8%
D&A from continuing operations	2,972	3,019	4,371
EBITDA	11,163	12,095	11,976
EBITDA Margin (%)	7.2%	6.8%	6.0%
Profit for the year from continuing operations	8,791	9,533	9,022
Attributable to owners of the Company	6,844	7,391	6,715

Gross margin increased by 0.2 pct driven by strong sales growth of premium brand & deconsolidation of logistics business

EBIT margin declined by 1.3 pct due to:

- Increase in marketing expenses;
- Higher D&A caused by further investment in smart factories, smart home and overseas acquisitions

Note 1: Calculated based on audited financial figures of HEG for FY2019. From continuing operation. Note 2: Calculated based on the unaudited pro forma financial information of HSH Group for FY2019 set out in Annex 2 of the Rule 3.5 Announcement (which has been prepared in accordance with Rule 4.29 of the Listing Rules on the bases and assumptions set out therein), based on the 1.60 exchange ratio. From continuing operation. Note 3: Calculated based on audited financial figures of HSH for FY2017-2019. Note 4: EBIT=total revenue-COGS-SG&A-other operating expense

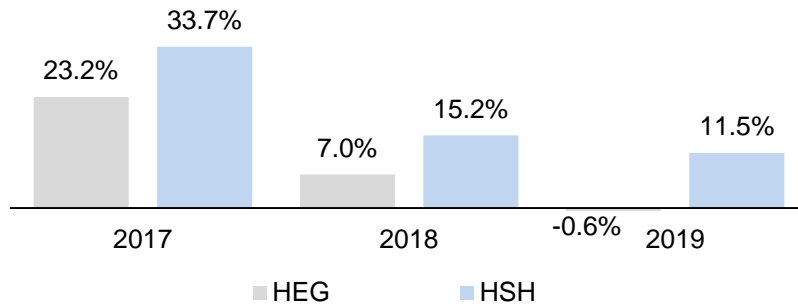
Financial Benefits to Scheme Shareholders

-- HSH Shares with Greater Return

- The Enlarged HSH Group is committed to increase its pay-out ratio in the future

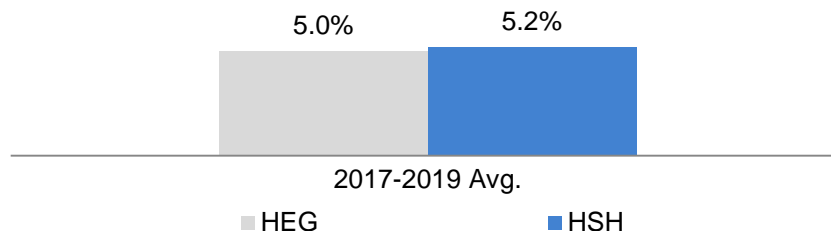
Stronger Growth

Revenue²



Net Profit Margin

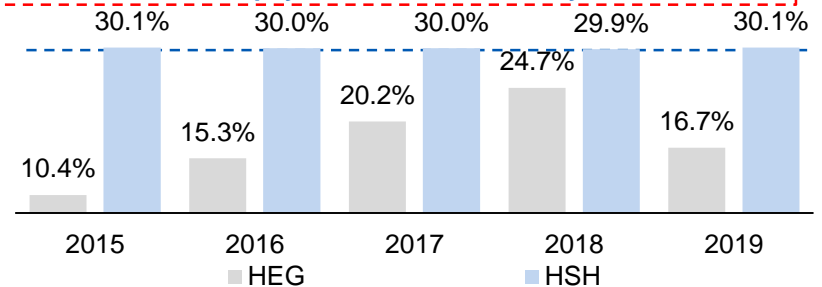
Historical profit margin²



Cash Dividend

Historical dividend pay-out ratio¹

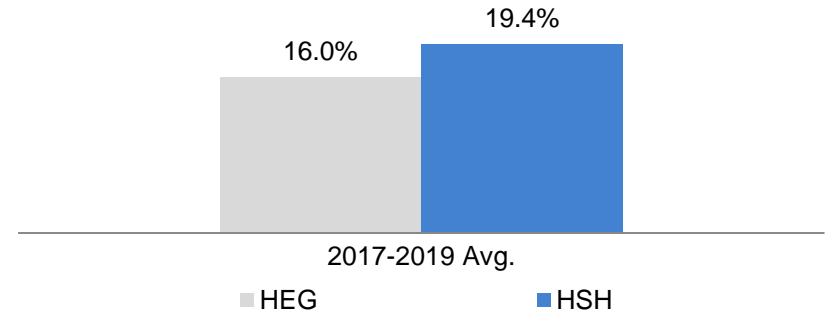
After the Scheme becomes effective, HSH plans to increase its dividend pay-out ratio to 40% in 3 years¹



- HSH's average dividend ratio during the past 5 years was 30%, with all past dividends paid in cash

ROE

Historical ROE²



Note 1: Calculated based on audited financial figures of HSH and HEG for FY2015-2019 by total cash dividends and net profit attributable to ordinary shareholders

Note 2: Calculated based on audited financial figures of HSH and HEG for FY2017-2019; HEG's revenue is consolidated into HSH's accounts, and the proposed transaction will not change HSH's revenue; the financial statement is restated after the deconsolidation of the logistics business, and the profit from discontinued operations attributable to the owners of the company is deducted; the restated data after the deconsolidation of the logistics business is adopted for HEG; ROE=profit for the year from continuing operations attributable to the owners of the company/average equity attributable to owners of the company.

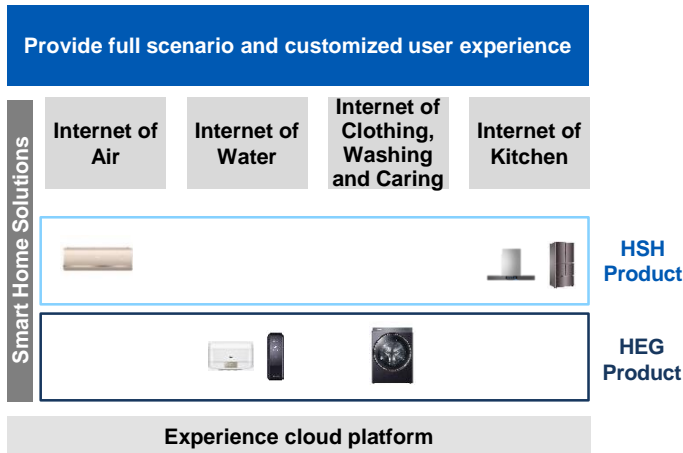
Haier

Section II Potential Synergies

1 Potential Synergies from the Transaction

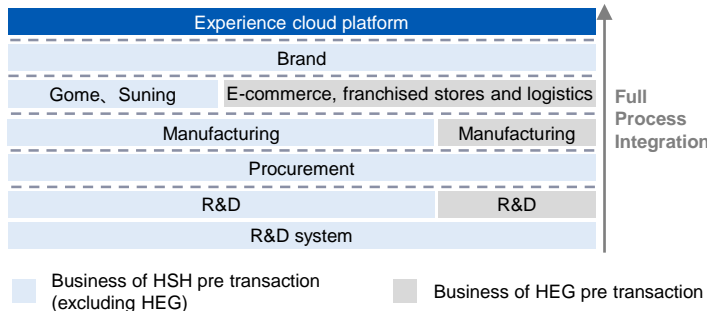
-- Enhance Operational Efficiency

1 Consolidate Product Portfolio



3 Improve Efficiency and Reduce Cost

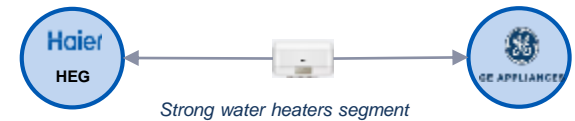
- Enhance operational efficiency and reduce cost through end to end digital operation



2 Accelerate Development of Washing Machines and Water Appliance Overseas

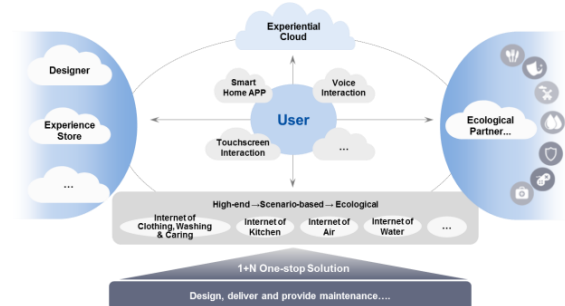
- Leverage on HSH's global platform in the development of washing machines and water appliance business
- Global production optimization

For examples: smoother collaboration between HEG and GEA in water heaters business after the transaction



4 Develop Experiential Cloud

- Upon the completion of the transaction, all product categories could utilize a unified experiential cloud, through which HSH Group could accelerate online and offline integration and provide users with customized services during the entire life cycle



Potential Synergies from the Transaction (Cont'd)

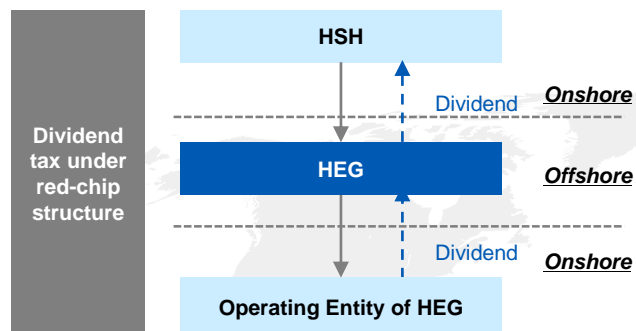
-- Increase Shareholder Return

1 Optimize Capital Allocation

Aggregate capital allocation

Optimize capital structure

- Reduce leverage ratio



2 Improve Shareholder Return

Increase the dividend pay-out ratio in 3 years to¹

40%

Dividend Pay-out Ratios of HSH and HEG in 2015-2019¹

Annual Dividend/Profit Attributable to the Owners of the Company (%)	2015	2016	2017	2018	2019	5-year Avg.
HSH	30.1	30.0	30.0	29.9	30.1	30.0
HEG	10.4	15.3	20.2	24.7	16.7	17.4

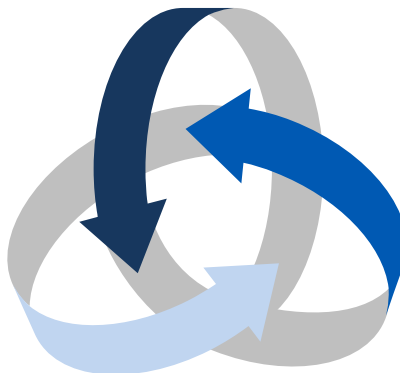
Note 1: Calculated based on audited financial figures of HSH and HEG for FY2015-2019 by total cash dividends and net profit attributable to ordinary shareholders

Potential Synergies from the Transaction (Cont'd)

-- Improve Corporate Governance

1 Design Incentive Programme for Global Employees

- ✓ The listing of H share accommodates our desire for a global and flexible approach in retaining the best of the talent.
- ✓ The Enlarged HSH Group attaches great importance in aligning management compensation with shareholders' return, and the programme will be designed to reflect immediate performance and longer term sustainability.



3 Raise ESG Standards

- ✓ Commit to sustainable business development
- ✓ Comply with the disclosure requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and standards of the Sustainable Accounting Standards Board (SASB), to constantly improve information disclosure standard

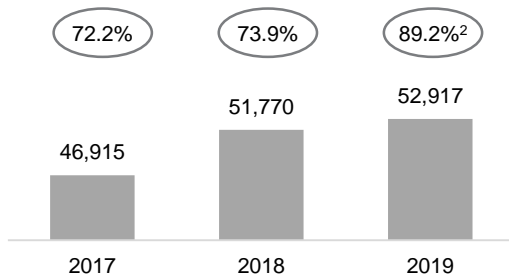
2 Reduce Connected Party Transactions

- ✓ Reap the benefits of simpler corporate structure

Connected Party Procurement by HEG from HSH and its associates ²

(RMB mn)

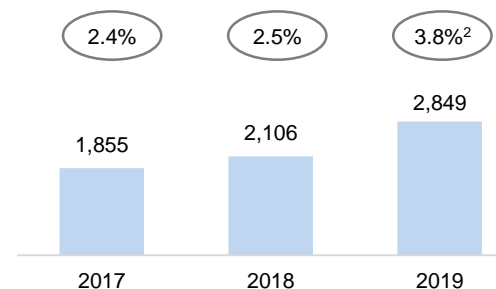
As % of COGS



Connected Party Sales by HEG to HSH and its associates ²

(RMB mn)

As % of Revenue



Note 1: Environment, Social Responsibility and Corporate Governance

Note 2: HEG's information. Figures derived from management accounts on an unrevised basis; Connected party procurement as % of COGS and connected party sales as % of revenue are higher in 2019 due to deconsolidation of logistic business; Connected party procurement includes purchase of finished goods, equipment and raw materials, and mould; Connected party sales includes export sales of products after expense and domestic sales of products

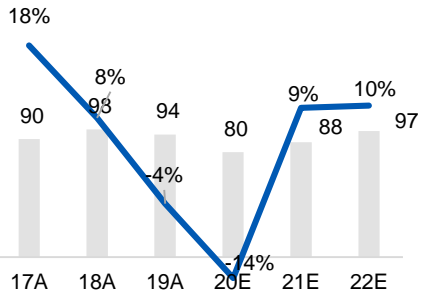
Haier

Appendix

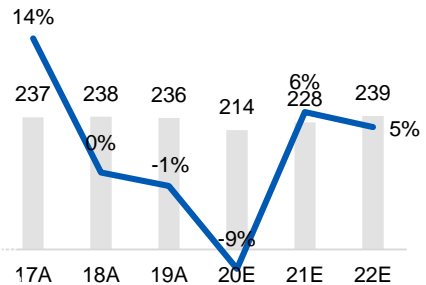
1.1 Overview of Chinese Major Home Appliance Industry

Overall Growth Slows Down

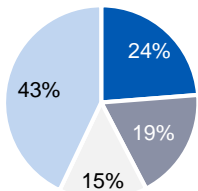
2017-2022 Retail Revenue and Growth Rate of Major Home Appliances in China¹



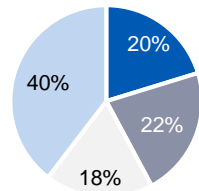
2017-2022 Retail Volume and Growth Rate of Major Home Appliances in China¹



2019 Retail Revenue Breakdown of Major Home Appliances in China, by Category¹



2019 Retail Volume Breakdown of Major Home Appliances in China, by Category¹



■ Refrigeration Appliances ■ Large Kitchen Appliances ■ Home Laundry Appliances ■ Air-conditioners

Impact of COVID-19

Although the COVID-19 pandemic has suppressed the demand for home appliances in the short term, its impact in the medium and long term will be limited and it will further stimulate the demand for healthy and smart home appliances

Fierce Competition Increasing Concentration

- Price competition will continue to increase the concentration of the industry with players gaining market share by leveraging on their brands, supply chains, distribution channel, R&D, etc.
- Leading players' market share in refrigeration appliances continue to increase while leaders in home laundry appliances, air-conditioners, and kitchen appliances remain stable

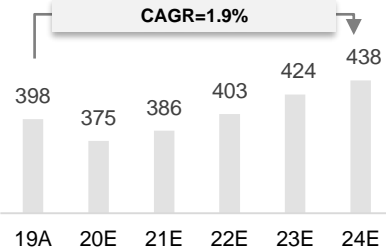
2017-2019 CR3 in Major Home Appliance Industry in China¹²



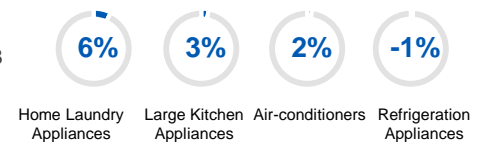
Company	Market Share			
	2017	2018	2019	
Haier	Refrigeration Appliances	39.9%	41.1%	42.0%
	Home Laundry Appliances	43.8%	43.9%	43.9%
Company A	Refrigeration Appliances	22.3%	22.9%	23.2%
	Air-conditioners	19.7%	20.0%	22.2%
Company B	Refrigeration Appliances	14.2%	14.3%	12.7%
	Large Kitchen Appliances	8.5%	9.0%	9.0%

Demand Driven by Consumption Upgrade

2019-2024 ASP of Major Home Appliances in China (US\$)¹



2019-2024 Forecasted ASP Growth by Category



- With the rising consumption level and the transforming consumption concepts, the focus of home appliance consumption has shifted from function to quality

Source: Euromonitor 2020

Note 1: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances

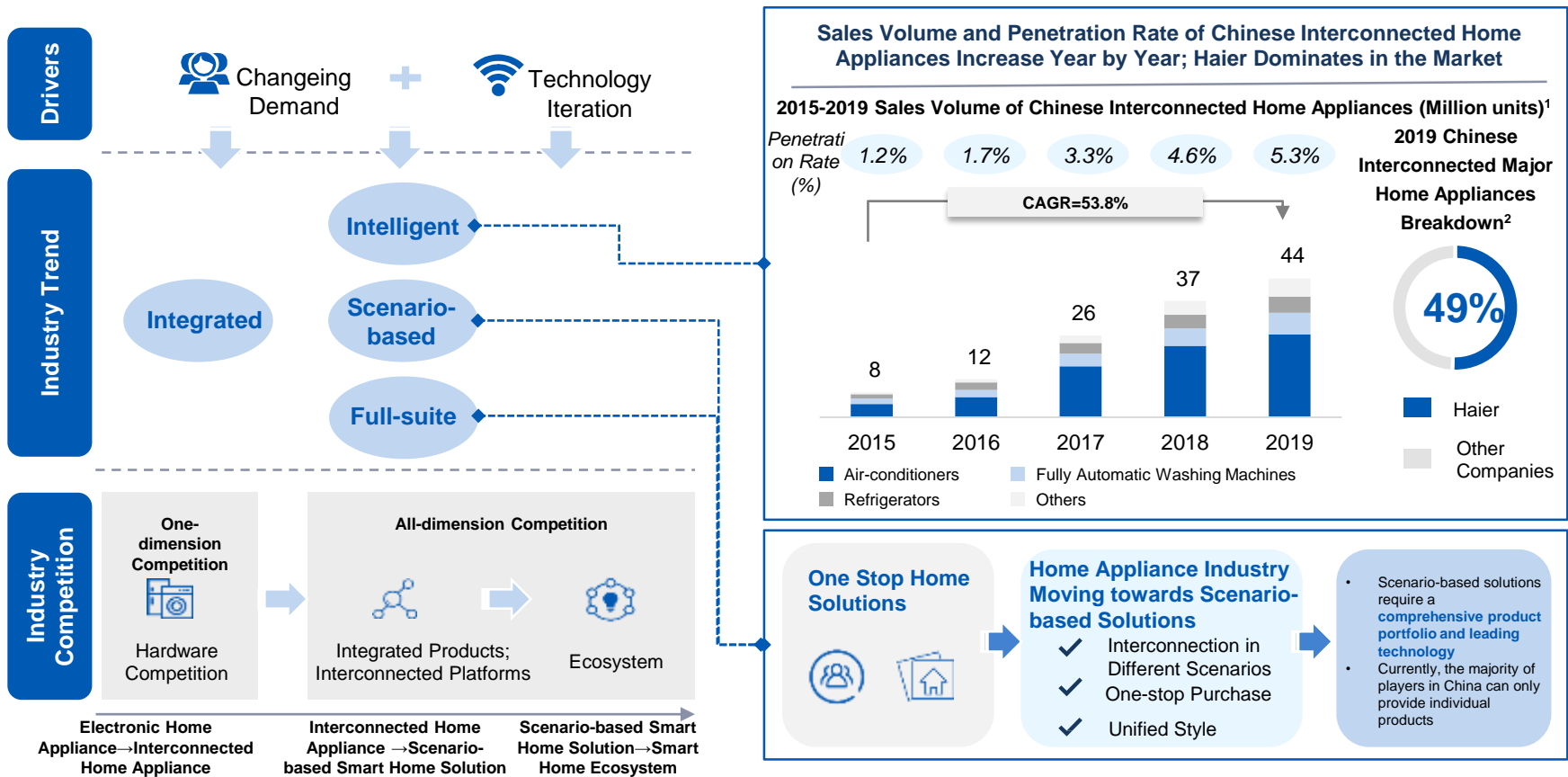
Note 2: Based on sales volume, CR3 stands for the market share of the top three companies (including Haier)

Overview of Chinese Major Home Appliance Industry (Cont'd)

1.1

-- The Home Appliance Industry Is Becoming Integrated, Intelligent, Scenario-based and Full-suite Solutions

Home Appliance Consumption towards Integrated, Intelligent, Scenario-based and Full-suite Appliance Solutions Driven by User Demand and Technological Development



✓ The trend towards **integrated, intelligent, scenario-based and full-suite** solutions has emerged in the home appliance industry, posing greater demand for **a comprehensive product portfolio and leading technology**

Source: Euromonitor 2020

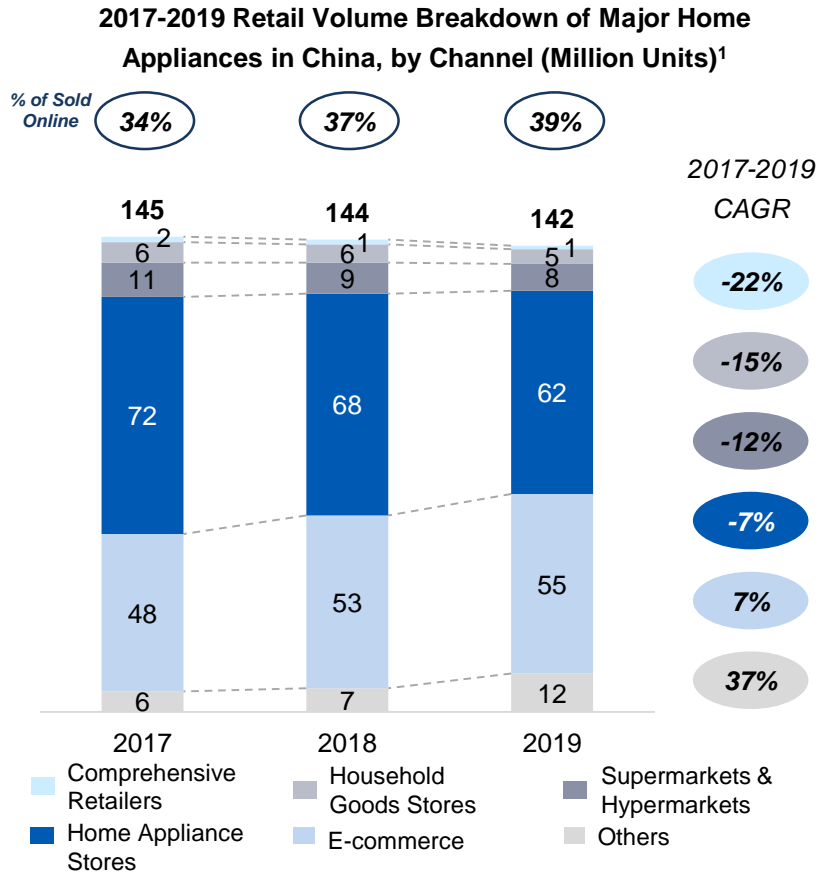
Note 1: Interconnected home appliances include interconnected major home appliances (refrigeration appliances, home laundry appliances, Air-conditioners and large kitchen appliances) and the interconnected small home appliances.

Note2: By sales volume

Overview of Chinese Major Home Appliance Industry (Cont'd)

-- Diversified Distribution Ecosystem and Online-Offline Integration

Increasingly Diversified Distribution Network with Online-Offline Integration



a Offline Stores as the Mainstream Channel

- Promoting the high-end transformation through scenario-based experience, increased proportion of mid-to-high-end products and refined operation, in order to improve efficiency

b Dominated by JD, Suning and Tmall with increasing lower tier penetration and online offline integration

- There are three dominant players, namely JD, Suning and Tmall, among online E-commerce platforms, which accelerate their development in offline markets of lower-tier cities to enhance online-offline integration
- The E-commerce platforms accelerates the emergence of short videos, streaming, etc., which drives the new marketing trend of content operation centred on users

c The Rapidly Growing Construction Business Channel as A New Growth Driver

- Driven by refined decoration, construction business grows rapidly

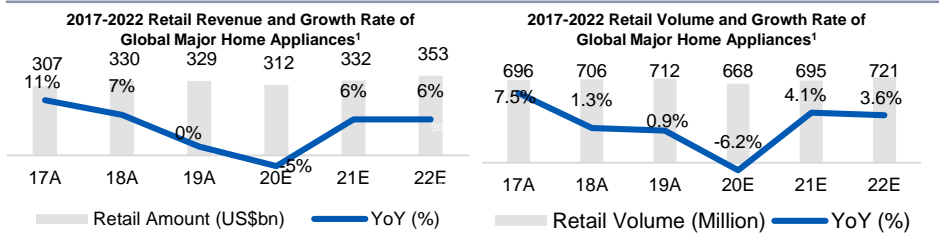
With the increasingly diversified distribution network, it is imperative to **adopt unified management of channels, promote online-offline integration and improve operational efficiency**

Source: Euromonitor 2020

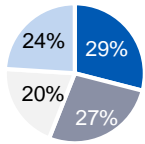
Note 1: Major home appliances include home laundry appliances, large kitchen appliances and refrigeration appliances and does not include air-conditioners. Other channels include fine decoration and TV shopping.

1.2 Overview of Global Major Home Appliance Industry

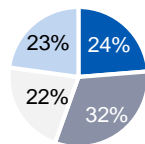
Retail Revenue and Retail Volume of Global Major Home Appliance Maintain Growth Rate of 3%-6% in 2021-2022



2019 Retail Revenue Breakdown of Global Major Home Appliances, by Category¹



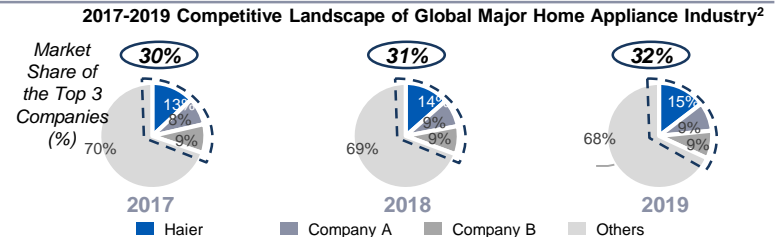
2019 Retail Volume Breakdown of Global Major Home Appliances, by Category¹



Impact of COVID-19

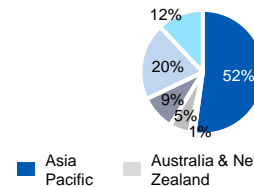
- The COVID-19 pandemic causes the short-term slowdown in consumption but does not affect its long-term fundamentals
- Consumers' demand for home appliances will continue to exist and rise steadily. In addition, the epidemic also stimulate the demand for health-related products such as ventilation and disinfection products
- The industry trend towards **interconnected and high-end home appliances** will continue to drive the steady market growth

Leading Players Maintained Solid Market Share; Haier Ranked No. 1 with 15% Market Share by Sales Volume

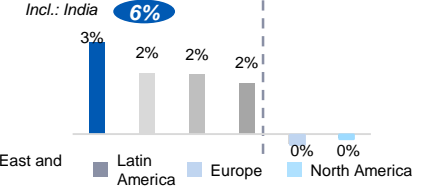


- With high penetration rate, the main driver in **developed areas** is the **upgrading demand**. The Chinese enterprises realize their expansion in developed areas' home appliance market by **increasing their market share**
- The rising penetration rate in developing countries drives the rapid market growth**, from which the newly entered Chinese companies benefit when increasing their market share

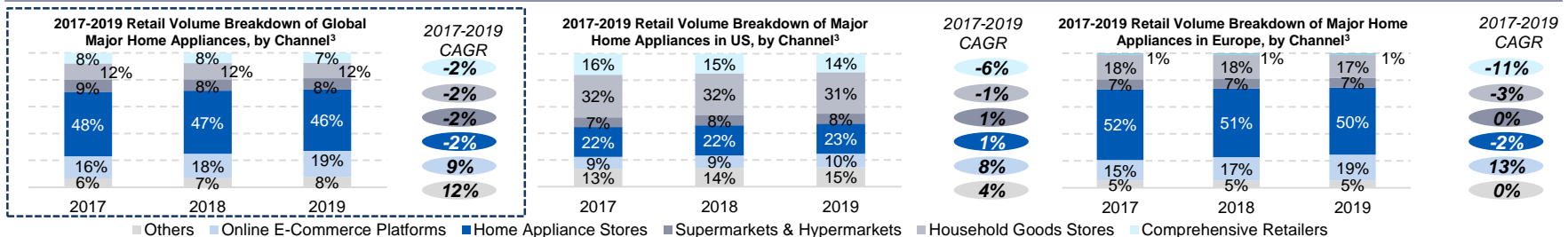
2019 Retail Volume Breakdown of Global Major Home Appliances, by Region¹



2019-2024 Forecasted Retail Volume Growth Rate of Global Major Home Appliances, by Region¹



Increasingly Diversified Distribution Ecosystem with Offline as the Main Channel and Online Developing Rapidly



Source: Euromonitor 2020

Note 1: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances

Note 2: Based on sales volume

Note 3: Major home appliances include home laundry appliances, large kitchen appliances and refrigeration appliances, and does not include air-conditioners

Overview of Global Major Home Appliance Industry (Cont'd)

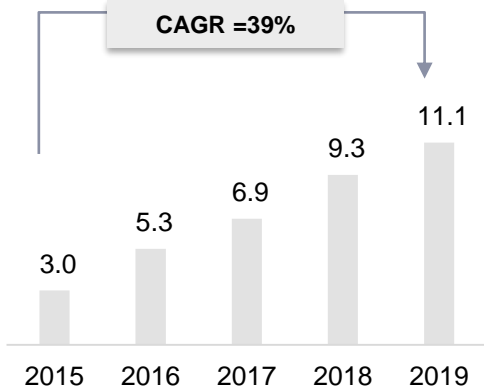
-- Broad Development Space in Overseas Market

Europe and US Markets Show Clear Intellectualization Trend and Appliance Upgrade Becomes Future Growth Driver

- a** In Europe, smart home appliance rose from less than 2.0% in 2015 to 4.0% in 2019. **With traditional home appliances in saturation, interconnected products will become a new future growth driver**
- b** With the main U.S. market demand driven by upgrade and replacement, development of **smart and interconnected products will continue to promote the overall growth of the home appliance market**

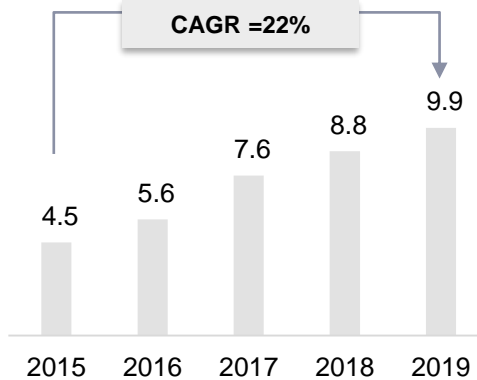
2015-2019 Retail Volume of Interconnected Home Appliances in Europe (Million)¹

Proportion of Haier Interconnected Major Home Appliances in 2019 **9.5%**



2015-2019 Retail Volume of Interconnected Home Appliances in US (Million)¹

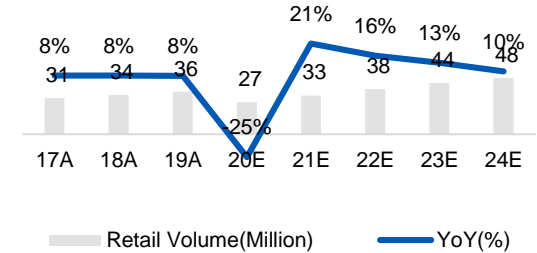
Proportion of Haier Interconnected Major Home Appliances in 2019 **8.5%**



Penetration Increase in Developing Countries

- a** Appliance market continue to grow in countries like India with rising income and low penetration

2017-2024 Retail Volume and Growth Rate of Major Home Appliances in India²



	India	China
Penetration of Refrigerators	32%	99%
Penetration of Washing Machines	6%	62%
Penetration of Air-conditioners ³	8%	87%

- With significant growth potential, overseas market has become the incremental market that Chinese companies target
- As interconnected home appliances increase abroad, **the globalized trend of IoT smart homes might open up new opportunities**

Source: Euromonitor, 2020

Note 1: Interconnected home appliances include interconnected major home appliances (refrigeration appliances, home laundry appliances, air-conditioners, large kitchen appliances) and interconnected small home appliances

Note 2: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances

Note 3: The penetration rates of refrigerators and washing machines are 2019 data, while the data of air-conditioners are 2017 data

1 Global Comps

2 SOTP

3 Direct Comps

Description

Selected comparable companies based on the following principle: (i) listed on a stock exchange globally; (ii) engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America; and (iii) market capitalisation greater than RMB5bn, and use their valuation as a valuation benchmark

Divide HSH's valuation into the sum of (i) HSH's share of HEG value and (ii) HSH's non-HEG value

Select HEG, which is a key subsidiary of HSH and highly comparable to HSH in terms of business and financial profile, as the direct comparable company and use its multiple to value HSH

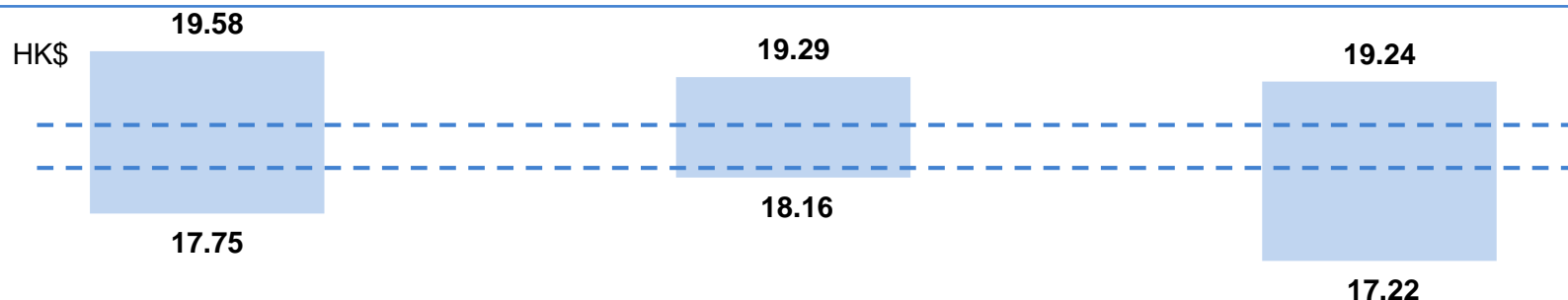
Valuation Methodology

(i) EV/EBITDA of the Global Comps * 2019 EBITDA of HSH; and (ii) P/E of the Global Comps * 2019 net profit from continuing operations attributable to shareholders of HSH

HEG's market cap * HSH's shareholding % in HEG + P/E of non-HEG's comps set * net profit from continuing operation attributable to shareholders of HSH from its non-HEG business

(i) EV/EBITDA of HEG * 2019 EBITDA of HSH; and (ii) P/E of HEG * 2019 net profit from continuing operations attributable to shareholders of HSH

Valuation Result



Considering three valuation methods, the valuation range of HSH stands at HK\$18.23-HK\$18.72, with the median being HK\$18.47. Based on HSH's A share stock price as of the date of the H-share valuation report, the implied A/H discount is 7.3%

2.2 Valuation Analysis of HSH H Shares

-- Comparable companies overview

Criteria of Comps

- Listed on a stock exchange globally
- Engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America
- Market capitalisation greater than RMB5bn
- **The list of comparable companies below represent an exhaustive list based on the aforementioned selection criteria and publicly available information.**

Company Name	Ticker	Total Market Cap	Average Closing Price	FY2019 P/E ¹	FY2019 EV/EBITDA
		(RMB mn)	(RMB)	(x)	(x)
HK-listed home appliance players					
HEG	1169 HK	62,434	22.16	15.2	10.5
Hisense Home Appliances	0921 HK 000921 CH	14,257	7.98 11.72	7.9	6.8
A-share listed home appliance players					
Midea Group	000333 CH	443,503	63.19	18.3	14.9
Gree Electric Appliances	000651 CH	350,390	58.25	14.2	7.6
Robam	002508 CH	32,785	34.55	20.6	15.6
Overseas-listed home appliance players					
Daikin	6367 JP	353,627	1206.45	31.1	15.2
Whirlpool	WHR NYSE	60,016	965.46	10.1	6.8
Electrolux	ELUX ST	36,830	131.91	25.4	7.2
A. O. Smith	AOS NYSE	55,122	342.07	21.3	14.1
Arcelik AS	ARCLK TI	13,262	19.63	14.4	6.3
Average				17.9	10.5
Median				16.8	9.0

Source: Valuation Report issued by Platinum, the Valuation Advisor, on July 30 2020. For the full valuation report and details of the valuation analysis, please refer to Annex 1 of the Joint Announcement
 Note 1: EPS calculation for HSH is based on audited IFRS standard profit from continuing operations attributable to parent, for other comparable companies is based on profit from continuing operations attributable to parent

Valuation Analysis of HSH H Shares (Cont'd)

-- Overview of the SOTP valuation methodology

HSH's SOTP Valuation

HEG

HEG's market capitalization



HSH's shareholding percentage

Non-HEG

Non-HEG's share of net profit from continuing operations attributable to ordinary equity holders of the company



Non-HEG Comps' FY2019 PE

Company Name	Ticker	Total Market Cap	Average Closing Price	FY2019 P/E
		(RMB mn)	(RMB)	(x)
HK-listed home appliance players				
Hisense Home Appliances	0921 HK	14,257	7.98	7.9
	000921 CH		11.72	
A-share listed home appliance players				
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Source: Valuation Report issued by Platinum, the Valuation Advisor, on July 30 2020. For the full valuation report and details of the valuation analysis, please refer to Annex 1 of the Joint Announcement

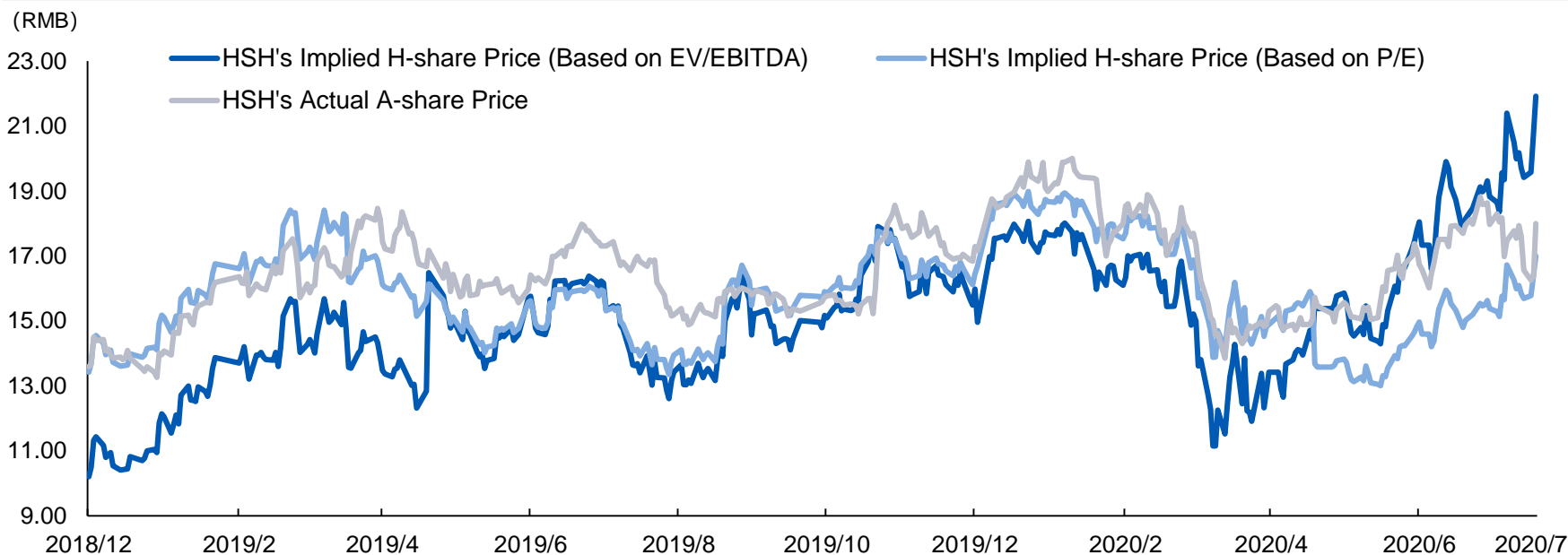
Valuation Analysis of HSH H Shares (Cont'd)

-- Implied A/H Discount

Based on the Valuation Report¹, the mid-point of the valuation range of new HSH H Share is HK\$18.47 . Based on the A-share stock price as of the date of the H-share valuation report, the implied A/H discount is 7.3%²

Implied A/H Discount of HSH

- **Given that HSH has a considerable percentage of foreign shareholders**, its A-share stock price is a strong benchmark for new HSH H Shares; HSH's historical implied A/H discount rate can be obtained from **calculating HSH's implied H-share price based on the historical valuation of HEG** and comparing it to HSH's A-share stock price during the same period
- **Based on P/E and EV/EBITDA multiples, HSH's average implied A/H discount rates in the 12 months prior to the 3.5 announcement are 4.7% and 7.6% , respectively**



The valuation of HSH's H-share of HK\$18.47 and the implied A/H discount of 7.3%² is not materially different from HSH's implied A/H discount for the 1-year period prior to issuance of the valuation report

Source: Capital IQ, as of July 29, 2020. Source: Valuation Report issued by Platinum, the Valuation Advisor, on July 30, 2020. For the full valuation report and details of the valuation analysis, please refer to Annex 1 of the Joint Announcement

Note 1: As of July 29, 2020

Note 2: Calculated based on A share trading price as of the issuance date of the Valuation Report and the mid-point of the valuation range

Valuation of Home Appliance Targets in Global Precedent Transactions

Criteria for Precedent Transactions

- Announced and completed transactions between January 1, 2010 and December 31, 2019, where the target companies are mainly engaged in white goods production and sales (excluding black appliances¹ companies) and transaction information is publicly disclosed

Announcement date	Description	Target	EV/EBITDA
2018/10/23	Midea Group's acquisition of 43.77% stake in Little Swan	Little Swan	13.02x
2018/9/28	Qingdao Haier's acquisition of 100% stake in Candy, an Italian home appliance manufacturer	Candy	8.24x
2018/5/29	Hisense Group acquisition of 62.46% stake in Gorenje, a Slovenian home appliance manufacturer	Gorenje	9.17x
2016/1/14	Qingdao Haier's acquisition of GEA's business, a US home appliance manufacturer	GEA	10.11x
2015/7/15	Acquisition of 100% stake in Aga Rangemaster, a UK home appliance manufacturer, by Middleby Corporation, a US home appliance manufacturer	AGA Rangemaster	7.80x
2014/7/10	Whirlpool's acquisition of 100% stake in Indesit, an Italian home appliance manufacturer	Indesit	8.45x
2012/9/11	Haier Group's acquisition of 80% stake in Fisher & Paykel, a home appliance manufacturer from New Zealand	Fisher & Paykel	12.56x
2012/11/14	BSH Home Appliances's acquisition of 100% stake in Zelmer, a Polish small home appliance manufacturer	Zelmer	9.04x
2011/8/22	Electrolux's acquisition of 100% stake in Compania Tecno Industria, a home appliance manufacturer from Chile	CTI	7.43x
	Median		9.04x
	Average		9.54x

Source: Valuation assessment report on the material asset acquisition of HSH issued by the independent financial advisor to HSH on July 30 2020. For the full valuation assessment report and details of the analysis, please refer to Appendix 1 of the separate announcement published by HSH on the website of the Stock Exchange (www.hkex.com.hk) on the same day as the date of the Joint Announcement setting out material information with Takeovers Code implications as published in Chinese on the website of the Shanghai Stock Exchange (www.sse.com.cn).

Note 1: White goods refer to products that replace people's housework, including washing machines, refrigerators, etc., or products that provide people with a higher quality of living experience, including air conditioners and electric heaters; black appliances refer to products that offer entertainment, such as DVD players, TV sets, audio equipment, game consoles, cameras, video cameras, video games, home cinemas, telephones, telephone answering machines, etc.

Thank You!

www.haier.com

Haier

ANNEX 4

Investors and shareholders of HEG should note that the following announcements and reports have been published by HSH on 31 July 2020 and such announcements and reports contain information about the Privatisation Proposal and HEG. A copy of each of these announcements and reports is available on the website of the Shanghai Stock Exchange (www.sse.com.cn) and/or the website of the Stock Exchange (www.hkex.com.hk):

- (i) the Zheshang Securities Opinion (浙商證券股份有限公司關於海爾智家股份有限公司重大資產購買之估值分析報告);
- (ii) the MAA Report (海爾智家股份有限公司重大資產購買暨關聯交易報告書 (草案));
- (iii) A summary of the MAA Report (海爾智家股份有限公司重大資產購買暨關聯交易報告書 (草案) 摘要);
- (iv) the independent financial adviser report from Zheshang Securities Co., Ltd. (浙商證券股份有限公司) for material asset acquisition and related party transaction by HSH (浙商證券股份有限公司關於海爾智家股份有限公司重大資產購買暨關聯交易之獨立財務顧問報告);
- (v) the specific audit advices by Zheshang Securities for material asset acquisition and industry policies and the transaction type of related party transaction by HSH (浙商證券股份有限公司關於海爾智家股份有限公司重大資產購買暨關聯交易產業政策和交易類型之專項核查意見);
- (vi) legal opinion issued by Beijing King & Wood Mallesons in relation to material asset acquisition by HSH (北京市金杜律師事務所關於海爾智家股份有限公司重大資產購買暨關聯交易的法律意見書);
- (vii) the audit report and financial report of HEG under Chinese Accounting Standards for the years ended 31 December 2018 and 2019 (海爾電器集團有限公司審計報告 (2018、2019年度));
- (viii) the pro forma financial information of HSH for the year ended 31 December 2019 (海爾智家股份有限公司備考審閱報告(2019年度));
- (ix) HSH's announcement regarding potential dilution and corresponding remedy measures in relation to asset restructuring (海爾智家股份有限公司關於資產重組攤薄即期回報的風險提示及填補措施公告);
- (x) the audit advices by Zheshang Securities in relation to potential dilution and corresponding remedy measures in relation to asset restructuring of HSH (浙商證券股份有限公司關於海爾智家股份有限公司本次重大資產重組攤薄即期回報及填補措施的核查意見);
- (xi) the shareholder return plan for HSH (2021–2023) (海爾智家股份有限公司未來三年 (2021年度–2023年度) 股東回報規劃);
- (xii) the verification opinion issued by Zheshang Securities Co., Ltd. (浙商證券股份有限公司) regarding the self-inspection reports on stock dealings (浙商證券股份有限公司關於海爾智家股份有限公司內幕信息知情人股票交易自查報告的核查意見); and
- (xiii) the announcement in relation to the resolutions of the tenth meeting of the tenth board of directors of HSH (海爾智家股份有限公司第十屆董事會第十次會議決議公告).