
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Haier Smart Home Co., Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

Stock Code: 6690

- (1) 2020 FINANCIAL STATEMENTS;
- (2) 2020 ANNUAL REPORT AND ANNUAL REPORT SUMMARY;
- (3) 2020 REPORT ON THE WORK OF THE BOARD OF DIRECTORS;
- (4) 2020 REPORT ON THE WORK OF THE BOARD OF SUPERVISORS;
- (5) 2020 AUDIT REPORT ON INTERNAL CONTROL;
- (6) 2020 PROFIT DISTRIBUTION PLAN;
- (7) ANTICIPATED PROVISION OF GUARANTEES FOR ITS SUBSIDIARIES IN 2021;
- (8) CONDUCT OF FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS;
- (9) ADJUSTMENT OF ALLOWANCES OF DIRECTORS;
- (10) CLOSING CERTAIN FUND-RAISING INVESTMENT PROJECTS FROM CONVERTIBLE CORPORATE BONDS AND PERMANENTLY SUPPLEMENTING THE WORKING CAPITAL WITH THE SURPLUS FUNDS;
- (11) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF H SHARES;
- (12) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF D SHARES;
- (13) GENERAL MANDATE TO REPURCHASE H SHARES;
- (14) GENERAL MANDATE TO REPURCHASE D SHARES;
- (15) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
- (16) PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS;
- (17) PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF SUPERVISORS;
- (18) PROPOSED AMENDMENTS TO THE EXTERNAL GUARANTEE MANAGEMENT SYSTEM;
- (19) RE-APPOINTMENT OF PRC ACCOUNTING STANDARDS AUDITOR FOR 2021;
- (20) RE-APPOINTMENT OF INTERNATIONAL ACCOUNTING STANDARDS AUDITOR FOR 2021;
- (21) RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND ITS PROPOSED ANNUAL CAPS;
- (22) A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (2021-2025) (DRAFT) AND ITS SUMMARY;
- (23) H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (2021-2025) (DRAFT) AND ITS SUMMARY;
- (24) AUTHORIZATION BY THE GENERAL MEETING TO THE BOARD TO HANDLE MATTERS PERTAINING TO THE A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN AND THE H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN OF THE COMPANY;
- (25) RESTRICTED SHARE UNIT SCHEME (2021-2025) (DRAFT);
- (26) AUTHORIZATION BY THE GENERAL MEETING TO THE BOARD OR THE DELEGATEE TO HANDLE MATTERS PERTAINING TO THE RESTRICTED SHARE UNIT SCHEME;
- (27) PROPOSED ELECTION OF INDEPENDENT DIRECTOR;
- (28) PROPOSED ELECTION OF SUPERVISORS OF THE COMPANY;
- (29) FURTHER REVISED NOTICE OF THE 2020 AGM; AND
- (30) NOTICE OF THE SECOND H SHARES CLASS MEETING OF 2021

The Letter from the Board is set out on pages 9 to 74 of this circular.

The Company will convene the 2020 AGM and Class Meeting at 2:00 p.m. on 25 June 2021 (Friday) at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC. The further revised notice of the AGM and the notice of H Shares Class Meeting are set out on pages 236 to 242 of this circular.

Whether or not you intend to attend and/or vote at the AGM and H Shares Class Meeting in person, you are requested to complete the form(s) of proxy in accordance with the instructions printed thereon and return the form(s) of proxy to Tricor Investor Services Limited, the H shares Registrar of the Company (for the H Shareholders) as soon as possible and in any event not less than 24 hours before the scheduled time for the holding of the AGM and H Shares Class Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM and H Shares Class Meeting or any adjournment thereof should you so wish.

In case of any inconsistency, unless otherwise stated, the Chinese text of this circular shall prevail over the English text.

* For identification purpose only

4 June 2021

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DEFINITIONS

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

“Actual Selling Price”	the actual price at which the RSU are sold (net of brokerage, Stock Exchange trading fee, SFC transaction levy and any other applicable costs) on vesting of an Award pursuant to the RSU Scheme or in the case of a vesting when there is an event of change in control or privatisation of the Company pursuant to the RSU Scheme Rules, the consideration receivable under the related scheme or offer
“AGM”	the annual general meeting of 2020 of the Company to be held at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC at 2:00 p.m. on 25 June 2021 (Friday)
“Articles of Association” or “Articles”	the articles of association of the Company, which may be amended, supplemented or otherwise amended from time to time
“A Share(s)”	the A shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange (stock code: 600690)
“A Share ESOP”	A Share Core Employee Stock Ownership Plan (2021–2025) (A股核心員工持股計劃 (2021年–2025年)) of the Company
“A Share ESOP Management Committee”	Management Committee of the A Share ESOP
“A Share ESOP Participants”	Participants of the A Share ESOP
“A Shareholders”	holders of A Shares of the Company
“associate(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Award”	an award granted by the Board or the Delegatee to a Selected Participant, which may vest in the form of RSU or the Actual Selling Price of the RSU in cash, as the Board or the Delegatee may determine in accordance with the terms of the RSU Scheme Rules

DEFINITIONS

“Award Letter”	letter or notice (including but not limited to, by mail, e-mail or by notification via any electronic means) to each Selected Participant from the Company, in such form as the Board or the Delegatee may from time to time determine, specifying the Grant Date, the manner of acceptance of the Award, the value of the Award and/or the number of RSU underlying the Award, the vesting criteria and conditions, and the Vesting Date and such other details, terms and conditions as the Board may consider necessary and in compliance with the RSU Scheme
“Award Period”	the period commencing on the date on which the Shareholders approved the RSU Scheme, and ending on the Business Day immediately prior to the fifth (5th) anniversary of the date on which the Shareholders approved the RSU Scheme
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of our Company
“Business Day”	a day (other than a Saturday or Sunday) on which the Stock Exchange is open for the business of dealing in securities, provided that where, as a result of a typhoon signal number 8, black rainstorm warning or other similar event, the period during which the Stock Exchange is open for business on any day is reduced, such day shall not be considered as a Business Day
“CBIRC”	the China Banking and Insurance Regulatory Commission
“China”, “Mainland China” or “PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan, except where the context indicates or requires otherwise
“Class Meetings”	the second A Shares/D Shares/H Shares Class Meetings of 2021 of the Company to be held at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC immediately after the AGM of the Company on 25 June 2021 (Friday)

DEFINITIONS

“Company”	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC on 28 April 1989 with limited liability, whose A Shares are listed on the Shanghai Stock Exchange (stock code: 600690), whose D Shares are listed on the China Europe International Exchange AG D Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D), and whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 6690)
“Company Law”	the Company Law of the People’s Republic of China (《中華人民共和國公司法》)
“Confirmation Letter”	the letter of confirmation to be sent by the Company to the Trustee confirming that the vesting conditions of those Selected Participants have been fulfilled and consolidating the details of those Selected Participants including the (i) full name, (ii) number of H Shares vested, and (iii) vesting date with sufficient information to the satisfaction of the Trustee to facilitate Share transfer or cash payment (as the case may be)
“Connected Person(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Continuing Connected Transactions”	has the meaning as ascribed under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Delegatee”	the Management Committee, person(s), Board committee(s) or the board of directors of the Designated Subsidiary to which the Board has delegated its authority
“Designated Subsidiary”	any Subsidiary for the purpose of contributing funds to the Trust pursuant to the RSU Scheme Rules
“Director(s)”	director(s) of the Company
“D Share(s)”	the D shares in the ordinary share capital of the Company, with a par value of RMB1.00 each, which are listed and traded on the China Europe International Exchange AG D Share Market of the Frankfurt Stock Exchange (stock code: 690D)
“D Shareholders”	holders of D Shares of the Company

DEFINITIONS

“Eligible Person”	any individual, being an Employee, Director (excluding Independent Non-executive Director), supervisor, senior management, key operating team member of any member of the Group who the Board or its Delegatee considers, in their sole discretion, to have significantly contributed or will significantly contribute to the development of the Group; however, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the RSU Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or the Delegatee, in compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the RSU Scheme and such individual shall therefore be excluded from the term Eligible Person
“Employee”	any employee or contractual staff of any members of the Group provided that the Selected Participant shall not cease to be an Employee in the case of (a) any leave of absence approved by the Company; or (b) transfer amongst the Company and any members of the Group or any successor, and provided further that an Employee shall, for the avoidance of doubt, cease to be an Employee with effect from (and including) the date of termination of his employment/appointment
“General Mandate”	the general mandate in relation to H Shares and/or D Shares granted or to be granted by the Shareholders at general meetings from time to time
“Grant Date”	the date on which the grant of an Award is made to a Selected Participant, being the date of an Award Letter
“Group”	the Company and its subsidiaries from time to time, and the expression <i>member(s) of the Group</i> shall be construed accordingly
“Guiding Opinions”	the Guiding Opinions on the Pilot Program of Employee Stock Ownership Plans Implemented by Listed Companies (《關於上市公司實施員工持股計劃試點的指導意見》)
“Haier Group”	Haier Group Corporation, a company incorporated under the laws of the PRC and our Controlling Shareholder, which includes its subsidiaries where the context requires
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“H Share ESOP”	H Share Core Employee Stock Ownership Plan (2021–2025) (H股核心員工持股計劃 (2021年–2025年)) of the Company
“H Share ESOP Management Committee”	Management Committee of the H Share ESOP
“H Share ESOP Participants”	participants of the H Share ESOP
“H Shareholders”	holders of H Shares of the Company
“H Shares”	the H shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange (stock code: 6690)
“H Shares Class Meeting”	the second H Shares Class Meeting of 2021 of the Company to be held at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC immediately after the AGM of 2020, the second A Shares Class Meeting of 2021 and the second D Shares Class Meeting of 2021 of the Company on 25 June 2021 (Friday)
“Independent Board Committee”	The independent committee under the Board comprising all Independent Non-executive Directors, namely Mr. DAI Deming, Mr. CHIEN Da-Chun, Mr. WONG Hak Kun and Mr. LI Shipeng. The Committee has been established to advise the Independent Shareholders on the New Financial Services Framework Agreement and its proposed annual caps
“Independent Financial Advisor” or “Somerley”	Somerley Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders
“Independent Non-executive Director(s)”	the independent Director(s) referred to the Articles of Association and the independent non-executive Director(s) under the Listing Rules
“Independent Shareholders”	the Shareholders of the Company other than Haier Group and its associates
“Latest Practicable Date”	1 June 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its printing

DEFINITIONS

“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Committee”	the management committee of the RSU Scheme to which the Board has delegated its authority to supervise and administer the RSU Scheme
“Meeting of the A Share ESOP Participants”	meeting of the A Share of the ESOP Participants (A股員工持股計劃持有人會議)
“Meeting of the H Share ESOP Participants”	meeting of the H Share of the ESOP Participants (H股員工持股計劃持有人會議)
“New Financial Services Framework Agreement”	the Financial Services Framework Agreement entered into by the Company with Haier Group and Haier Finance Company on 29 April 2021
“PBOC”	the People’s Bank of China
“Remuneration and Assessment Committee”	the remuneration and assessment committee of the Board (董事會薪酬與考核委員會)
“RMB”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s), each unit represent one underlying H Shares granted to a Selected Participant in an Award
“RSU Scheme”	the restricted share unit scheme adopted by the Company in accordance with the RSU Scheme Rules
“RSU Scheme Limit”	the maximum number of H Shares that could be granted under the RSU Scheme. The Company shall not make further grant which will result in the aggregate number of H Shares granted to exceed one per cent (1%) of the total number of issued H Shares as at the relevant Grant Date
“RSU Scheme Rules”	the rules relating to the RSU Scheme as amended from time to time
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Securities Law”	the Securities Law of the People’s Republic of China (《中華人民共和國證券法》)
“Selected Participant”	any Eligible Person approved for participation in the RSU Scheme, in accordance with the RSU Scheme Rules, and who has been granted any Award or any person who is entitled to any Award in accordance with the RSU Scheme Rules
“Senior Management Member(s)”	the chief executives, deputy chief executives, secretaries of the Board of Directors, financial executives and other members as prescribed by the Articles of Association
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	the ordinary shares of the Company, including A Share(s), D Share(s) and H Share(s) of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning as ascribed under the Hong Kong Listing Rules
“Supervisor(s)”	supervisors(s) of the Company
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs (as amended from time to time)
“Target A Shares”	Shares in the Company legally acquired, subscribed and held under the A Share Core ESOP
“Target H Shares”	Shares in the Company legally acquired, subscribed and held under the H Share Core ESOP
“Trust”	the trust constituted by the Trust Deed to service the RSU Scheme
“Trust Deed”	the trust deed to be entered into between the Company and/or its Designated Subsidiary and the Trustee (as may be restated, supplemented and amended from time to time)
“Trustee”	the trustee to be appointed by the Company for the purpose of the Trust
“USD” or “US\$”	United States dollars, the lawful currency of the United States

DEFINITIONS

“Vesting Date” the date or dates, as determined and amended (if necessary), on which the Award (or part thereof) is to vest in the relevant Selected Participant pursuant to the RSU Scheme Rules, unless a different vesting date is deemed to occur in accordance with the RSU Scheme Rules

“Vesting Notice” the vesting notice sent by the Board or the Delegatee to the relevant Selected Participant within a reasonable time period as agreed between the Trustee and the Company or the Delegatee from time to time prior to any Vesting Date

“%” per cent

Certain amounts and percentage figures in this circular have been subject to rounding adjustments. Accordingly, figures shown as currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

LETTER FROM THE BOARD



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)

Stock Code: 6690

Executive Directors:
LIANG Haishan (*Chairman*)
LI Huagang
XIE Juzhi

Registered office and Headquarters:
Haier Information Industry Park
Laoshan District
Qingdao, Shandong Province
PRC

Non-executive Directors:
WU Changqi
LIN Sui
YU Hon To, David
Eva LI Kam Fun

*Principal place of business
in Hong Kong:*
Unit 3513, 35/F, The Centre
99 Queen's Road Central
Hong Kong

Independent Non-executive Directors:
DAI Deming
CHIEN Da-Chun
WONG Hak Kun
LI Shipeng

To the Shareholders,

Dear Sir or Madam,

- (1) 2020 FINANCIAL STATEMENTS; (2) 2020 ANNUAL REPORT AND ANNUAL REPORT SUMMARY; (3) 2020 REPORT ON THE WORK OF THE BOARD OF DIRECTORS;
(4) 2020 REPORT ON THE WORK OF THE BOARD OF SUPERVISORS;
(5) 2020 AUDIT REPORT ON INTERNAL CONTROL; (6) 2020 PROFIT DISTRIBUTION PLAN;
(7) ANTICIPATED PROVISION OF GUARANTEES FOR ITS SUBSIDIARIES IN 2021;
(8) CONDUCT OF FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS;
(9) ADJUSTMENT OF ALLOWANCES OF DIRECTORS;
(10) CLOSING CERTAIN FUND-RAISING INVESTMENT PROJECTS FROM CONVERTIBLE CORPORATE BONDS AND PERMANENTLY SUPPLEMENTING THE WORKING CAPITAL WITH THE SURPLUS FUNDS;
(11) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF H SHARES;
(12) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF D SHARES;
(13) GENERAL MANDATE TO REPURCHASE H SHARES;
(14) GENERAL MANDATE TO REPURCHASE D SHARES;
(15) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
(16) PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS; (17) PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF SUPERVISORS; (18) PROPOSED AMENDMENTS TO THE EXTERNAL GUARANTEE MANAGEMENT SYSTEM;
(19) RE-APPOINTMENT OF PRC ACCOUNTING STANDARDS AUDITOR FOR 2021;
(20) RE-APPOINTMENT OF INTERNATIONAL ACCOUNTING STANDARDS AUDITOR FOR 2021;
(21) RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND ITS PROPOSED ANNUAL CAPS;
(22) A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (2021-2025) (DRAFT) AND ITS SUMMARY;
(23) H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (2021-2025) (DRAFT) AND ITS SUMMARY;
(24) AUTHORIZATION BY THE GENERAL MEETING TO THE BOARD TO HANDLE MATTERS PERTAINING TO THE A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN AND THE H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN OF THE COMPANY;
(25) RESTRICTED SHARE UNIT SCHEME (2021-2025) (DRAFT);
(26) AUTHORIZATION BY THE GENERAL MEETING TO THE BOARD OR THE DELEGATEE TO HANDLE MATTERS PERTAINING TO THE RESTRICTED SHARE UNIT SCHEME;
(27) PROPOSED ELECTION OF INDEPENDENT DIRECTOR;
(28) PROPOSED ELECTION OF SUPERVISORS OF THE COMPANY;
(29) FURTHER REVISED NOTICE OF THE 2020 AGM; AND
(30) NOTICE OF THE SECOND H SHARES CLASS MEETING OF 2021

* For identification purpose only

LETTER FROM THE BOARD

I. INTRODUCTION

The Company will convene the AGM at 2:00 p.m. on 25 June 2021 (Friday), at which the following resolutions (special resolutions are marked with*) will be proposed for the Shareholders to consider and approve, if thought fit:

RESOLUTIONS

1. To Consider and Approve 2020 Financial Statements
2. To Consider and Approve 2020 Annual Report and Annual Report Summary
3. To Consider and Approve 2020 Report on the Work of the Board of Directors
4. To Consider and Approve 2020 Report on the Work of the Board of Supervisors
5. To Consider and Approve 2020 Audit Report on Internal Control
6. To Consider and Approve 2020 Profit Distribution Plan
- *7. To Consider and Approve Resolution on the Anticipated Provision of Guarantees for its Subsidiaries in 2021
8. To Consider and Approve Resolution on the Conduct of Foreign Exchange Fund Derivatives Business
9. To Consider and Approve Resolution on the Adjustment of Allowances of Directors
10. To Consider and Approve Resolution on Closing Certain Fund-raising Investment Projects from Convertible Corporate Bonds and Permanently Supplementing the Working Capital with the Surplus Funds
- *11. To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of H Shares of the Company
- *12. To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of D Shares of the Company
- *13. To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of H Shares of the Company in Issue
- *14. To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of D Shares of the Company in Issue

LETTER FROM THE BOARD

- *15. To Consider and Approve Resolution on Amendments to the Articles of Association
- 16. To Consider and Approve Resolution on Amendments to the Rules of Procedure for the Board of Directors
- 17. To Consider and Approve Resolution on Amendments to the Rules of Procedure for the Board of Supervisors
- 18. To Consider and Approve Resolution on Amendments to the External Guarantee Management System
- 19. To Consider and Approve Resolution on Re-appointment of PRC Accounting Standards Auditor
- 20. To Consider and Approve Resolution on Re-appointment of International Accounting Standards Auditor
- 21. To Consider and Approve Resolution on Renewal of the Financial Services Framework Agreement and its Expected Related-Party Transaction Limit with Haier Group and Haier Finance
- *22. To Consider and Approve the A Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary
- *23. To Consider and Approve the H Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary
- *24. To Consider and Approve Resolution on Authorization by the General Meeting to the Board of Directors to Handle Matters Pertaining to the Core Employee Stock Ownership Plan of the Company
- *25. To Consider and Approve the H Share Restricted Share Unit Scheme (2021–2025) (Draft)
- *26. To Consider and Approve Resolution on Authorization by the General Meeting to the Board of Directors or the Delegatee to Handle Matters Pertaining to the Restricted Share Unit Scheme
- 27. To Consider and Approve Resolution on Election of Independent Director
 - 27.1 Wu Qi
- 28. To Consider and Approve Resolution on Election of Supervisors of the Company
 - 28.1 Liu Dalin
 - 28.2 Ma Yingjie

LETTER FROM THE BOARD

In addition, the A Shares Class Meeting, D Shares Class Meeting and H Shares Class Meeting are to be held immediately after the AGM on 25 June 2021 (Friday). At each of the Class Meetings, two special resolutions will be proposed for the Shareholders to consider and approve, if thought fit:

SPECIAL RESOLUTIONS

1. To Consider and Approve the Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to decide to Repurchase not more than 10% of the Total Number of H Shares of the Company in Issue
2. To Consider and Approve the Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to decide to Repurchase not more than 10% of the Total Number of D Shares of the Company in Issue

The purpose of this circular is to provide you with the information regarding the resolutions to be considered and approved at the AGM and the H Shares Class Meeting for approval. The notice of the AGM and notice of the H Shares Class Meeting are set out on pages 236 to 242 of this circular.

II. RESOLUTIONS TO BE CONSIDERED AND APPROVED AT THE AGM

1. 2020 Financial Statements

Please refer to the financial report section in the 2020 Annual Report (A Shares) and 2020 Annual Report (H Shares) respectively published by the Company.

This resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

2. 2020 Annual Report and Annual Report Summary

Please refer to the 2020 Annual Report published by the Company.

This resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

3. 2020 Report on the Work of the Board of Directors

For the main content of the 2020 Report on the Work of the Board of Directors, please refer to the relevant part of the 2020 annual report published by the Company.

This resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

4. 2020 Report on the Work of the Board of Supervisors

An ordinary resolution will be proposed at the AGM to consider and approve the 2020 Report on the Work of the Board of Supervisors.

LETTER FROM THE BOARD

The 2020 Report on the Work of the Board of Supervisors of Haier Smart Home Co., Ltd. is as follows:

1. *The Work of the Board of Supervisors*

During the Reporting Period, the Board of Supervisors convened 7 meetings and attended general meetings and Board meetings to listen to the Company's production and operation, investment activities and financial operations, participated in the decision-making process of major issues of the Company, and reviewed the Company's regular reports and relevant information during the year in accordance with the requirements of regulators strictly.

2. *Independent Opinion of the Board of Supervisors on the Company's Operation in accordance with Laws*

(I) Independent Opinion of the Board of Supervisors on the Company's Operation in accordance with Laws

In accordance with relevant national laws and regulations, the Board of Supervisors of the Company supervises procedures for convening general meetings and Board meetings of the Company, the resolutions thereof, the execution of resolutions of the general meetings by the Board of Directors, the performance of senior management of the Company and the management system of the Company, and procedures for approving decisions on connected transactions. By attending all Board meetings and general meetings, the Board of Supervisors performed its duties on supervision, and is of the view that the Company's decision-making procedures are legal, a relatively sound corporate governance structure is in place, and relevant internal control systems have been formed. Directors and senior management of the Company did not violate the laws, regulations, the Articles of Association of the Company or harm the interests of the Company.

(II) Independent Opinion of the Board of Supervisors on the Company's Financial Condition

During the Reporting Period, to guarantee the Company's standardized operation and the legitimate rights and interests of Shareholders, the Board of Supervisors of the Company carefully reviewed the Audit Opinion on the 2019 Financial Report issued by Hexin Certified Public Accountants LLP, and believed that it reflected the true picture of the Company's financial condition, operating results and cash flow, which are objective and fair.

(III) Independent Opinion of the Board of Supervisors on the Company's Related-Party Transactions

During the Reporting Period, the related-party transactions between the Company and related Shareholders were executed in accordance with market pricing principles without prejudicing the interests of the Company and

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Shareholders. The Board of Directors of the Company fulfilled the obligation of good faith when voting on relevant related-party transactions. The related-party transactions are conducted in a fair and reasonable manner, and the procedures thereof comply with the relevant provisions of the Company Law, the Rules Governing the Listing of Shares on the Shanghai Stock Exchange and the Articles of Association.

(IV) Independent Opinion of the Board of Supervisors on the Company's Self-evaluation Report on Internal Control

During the Reporting Period, the Board of Supervisors of the Company carefully reviewed the 2019 Self-evaluation Report on the Effectiveness of Internal Control of Haier Smart Home Co., Ltd. in accordance with relevant national laws and regulations, and believed that it truly, objectively and fairly reflected the implementation and effectiveness of the Company's internal control.

(V) Independent Opinion of the Board of Supervisors on the Company's Major Asset Acquisition

During the Reporting Period, the Board of Supervisors of the Company reviewed matters involved in the Company's major asset acquisition, such as plan design, valuation and pricing, and the method of payment for consideration in accordance with the requirements of laws and regulations. The Board of Supervisors considered that after completion, it enhanced the Company's ability to continue as a going concern and facilitated the Company to maintain a sound and effective corporate governance structure. The Company and Haier Electronics have achieved good results in all aspects of integration including customers, business and resources.

This resolution has been reviewed and approved by the Board of Supervisors on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

5. 2020 Audit Report on Internal Control

An ordinary resolution is to be proposed at the AGM to consider and approve the 2020 Audit Report on Internal Control.

According to the relevant guidelines of Notice on Disclosure of 2020 Annual Reports of Companies Listed on Main Board and Business Guide for Regular Reporting of Listed Companies on Shanghai Stock Exchange and the relevant requirements such as the Audit Guidelines on Corporate Internal Control jointly formulated by the Ministry of Finance and other departments, the Company entrusted Hexin Certified Public Accountants LLP to audit the internal control of the Company. The audit opinion of the auditor on the internal control of the financial report is: Haier

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Smart Home has maintained effective internal control of financial report in all material aspects as of 31 December 2020 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

The 2020 Audit Report on Internal Control is set out in Appendix I to this circular.

6. 2020 Profit Distribution Plan

An ordinary resolution is to be proposed at the AGM to consider and approve the 2020 Profit Distribution Plan, the details are as follows:

Upon the audit by Hexin Certified Public Accountants LLP, the net profit attributable to the owners of the parent company for 2020 as shown in the consolidated financial statements of the Company amounted to RMB8,876,593,208.19. In 2020, the parent company realized net profit of RMB3,900,071,341.39, and the accumulated undistributed profit of the parent company for year ended 2020 was RMB4,349,961,964.23.

In order to take into account both the interests of Shareholders and the long-term development of the Company, according to the relevant requirements of Shareholder Return Plan for the Next Three Years (2018–2020) of the Company, the Articles of Association and relevant laws and regulations, we currently recommend the Company's 2020 Profit Distribution Plan as follows:

Based on the total share capital after deducting the repurchased Shares on the special account for repurchase registered on equity record date for the future implementation of the distribution plan, the Company distributes cash dividends of RMB3.66 per 10 Shares (tax inclusive) to all Shareholders. The undistributed profits retained by the Company will be primarily used for project construction, foreign investment, R&D investment and daily operations related to the primary business of the Company, so as to maintain sustainable and stable development for the Company, and maximize the returns for investors.

During the period commencing from the date of disclosure of the Profit Distribution Plan to the record date for the implementation of the equity distribution, if the total share capital of the Company changes due to Share repurchase and cancellation of Share repurchase granted by equity incentive, and cancellation of Share repurchase resulted from major asset restructuring, the Company intends to maintain the unchanged allocation ratio per Share and adjust the total allocation amount accordingly.

7. Anticipated Provision of Guarantees for its Subsidiaries in 2021

A special resolution is to be proposed at the AGM to consider and approve the resolution on the anticipated provision of guarantees for its subsidiaries in 2021.

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The resolution on the anticipated provision of guarantees for its subsidiaries in 2021 is set out in Appendix II to this circular.

8. Conduct of Foreign Exchange Fund Derivatives Business

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on the conduct of foreign exchange fund derivatives business.

The resolution on the conduct of foreign exchange fund derivatives business is set out in Appendix III to this circular.

9. Adjustment of Allowances of Directors

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on the adjustment of allowances of Directors, the details are as follows:

According to the resolution of the general meeting of the Company, the current highest allowance of Directors of the Company is RMB200,000 (before tax) in total per year, including fixed allowances of RMB150,000 per year, performance allowance of up to RMB50,000 per year, and the exact amount of performance allowance will be determined based on the comprehensive consideration of the contribution of Directors to decision making process of the Board, the effectiveness of the resolutions and recommendations to the Board, the participation of the meetings of the Board of Directors, attendance rate of all Board meetings and other factors. The travelling expenses for attending the meetings of the Board of Directors and general meetings and other expenses necessary for performing their duties pursuant to the Articles of Association shall be reimbursed by the Company according to the actual expenses.

The listing of H Shares of the Company has been completed on 23 December 2020. In order to cater for the development of the Company, based on the work complexity and workload of Directors and general benchmarking industry standards, the Company proposes to adjust the Director's allowance to a maximum total of RMB260,000 before tax per year, including fixed allowance of RMB210,000 per year and performance allowance of up to RMB50,000 per year. The factors for considering the actual allowance payment and reimbursement of travelling expenses according to the actual expenses of Directors and other contents remain unchanged.

10. Closing Certain Fund-raising Investment Projects from Convertible Corporate Bonds and Permanently Supplementing the Working Capital with the Surplus Funds

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on closing certain fund-raising investment projects from convertible corporate bonds and permanently supplementing the working capital with the surplus funds.

The resolution on closing certain fund-raising investment projects from convertible corporate bonds and permanently supplementing the working capital with the surplus funds is set out in Appendix IV to this circular.

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11. General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of H Shares of the Company

A special resolution is to be proposed at the AGM to consider and approve a General Mandate on additional issuance of H Shares of the Company.

In order to meet the need of the Company's business development, in accordance with relevant requirements of the Company Law, the Listing Rules and the Articles of Association and on the prerequisite of complying with the listing rules of the stock exchanges in the place where the Shares of the Company are listed, the Board of Directors intends to propose at the general meeting to generally and unconditionally authorize the Board of Directors to re-delegate the Chairman and its authorized persons to determine to allot, issue and deal with the H Shares of up to 10% of the number of the H Shares in issue of the Company, or securities, share options, warrants which may be converted into such Shares or the similar rights which could subscribe for the H Shares of the Company (hereinafter referred to as the "**Similar Rights**", and the above-mentioned authorization is hereinafter referred to as the "**General Mandate**"). The specific authorization is as follows:

- I. To generally and unconditionally authorize the Board of Directors to re-delegate the Chairman and its authorized persons to determine to allot, issue and deal with the H Shares or Similar Rights, and to determine the terms and conditions for allotment, issuance and disposal of new Shares or issue Similar Rights, including but not limited to:
 1. Class and number of new Shares to be issued;
 2. Pricing mechanism and/or issue price of the new Shares (including price range);
 3. The starting and closing dates of such issue, etc.
- II. The number of the H Shares (excluding the Shares issued by way of the conversion of public reserve into share capital) to be allotted, issued and dealt with (whether pursuant to a share option or otherwise) determined by the Board of Directors or the Chairman and its authorized persons in accordance with the General Mandate referred to in the first paragraph above shall not exceed 10% of the number of the H Shares in issue of the Company at the time when this resolution is considered and passed at the general meeting of the Company.
- III. To authorize the Board of Directors or the Chairman and its authorized persons to obtain approvals from all relevant government departments and/or regulatory authorities (if applicable) in accordance with the applicable laws to exercise the General Mandate.

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- IV. To authorize the Board of Directors or the Chairman and its authorized persons to approve, execute, modify and do or procure to execute and do, all such documents, deeds and things as it may consider related to the allotment, issuance and disposal of any new Shares under the abovementioned General Mandate, handle the necessary procedures and take other necessary actions.
- V. Where the Board of Directors or the Chairman and its authorized persons have, during the effective period of the General Mandate, determined to allot, issue and deal with the H Shares or Similar Rights, and the Company also has, during the effective period of the General Mandate, obtained the relevant approval, permission from, or registration (if applicable) with the regulatory authorities, and the Board of Directors of the Company or the Chairman and its authorized persons may, during the effective period of such approval, permission or registration, complete the relevant allotment, issuance and disposal and other works.
- VI. To authorize the Board of Directors or the Chairman and its authorized persons, after the completion of allocation and issuance of the new Shares, to increase the registered capital of the Company and make appropriate and necessary amendments to the Articles of Association of the Company in accordance with the way, type and number of the allotment and issuance of new Shares of the Company and the actual shareholding structure of the Company upon completion of the allotment and issuance of new Shares.
- VII. The effective period of the General Mandate shall be from the date of passing of this resolution by the general meeting to the following date, whichever is earlier:
 - 1. The date of the conclusion of the 2021 annual general meeting of the Company;
 - 2. At the time of passing a resolution at any general meeting to revoke or vary the mandate under this resolution.

12. General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of D Shares of the Company

A special resolution is to be proposed at the AGM to consider and approve a General Mandate on additional issuance of D Shares of the Company.

In order to meet the need of the Company's business development, in accordance with the *Company Law*, the Listing Rules, the *Listing Rules of Securities on The Stock Exchange of Frankfurt*, the *Market Abuse Regulation* of EU, the relevant EU regulations on the issuance and trading of securities and the *Articles of Association*, on the prerequisite of complying with the listing rules of the stock exchanges in the place where the Shares of the Company are listed, the Board of Directors intends to propose at the general meeting to generally and unconditionally authorize the Board of Directors to re-delegate the Chairman and its authorized persons to determine to allot,

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issue and deal with D Shares of up to 10% of the number of the D Shares in issue of the Company, or securities, share options, warrants which may be converted into such Shares, or the similar rights which could subscribe for the D Shares of the Company (hereinafter referred to as the “**Similar Rights**”, and the above-mentioned authorization is hereinafter referred to as the “**General Mandate**”). The specific authorization is as follows:

- I. To generally and unconditionally authorize the Board of Directors to re-delegate the Chairman and its authorized persons to determine to allot, issue and deal with the D Shares or Similar Rights, and to determine the terms and conditions for allotment, issuance and disposal of new Shares or issue Similar Rights, including but not limited to:
 1. Class and number of new Shares to be issued;
 2. Pricing mechanism and/or issue price of the new Shares to be issued (including price range);
 3. The starting and closing dates of such issue, etc.
- II. The number of the D Shares (excluding the Shares issued by way of the conversion of public reserve into share capital) to be allotted, issued and dealt with (whether pursuant to a share option or otherwise) determined by the Board of Directors or the Chairman and its authorized persons in accordance with the General Mandate referred to in the first paragraph above shall not exceed 10% of the number of the D Shares in issue of the Company at the time when this resolution is considered and passed at the general meeting of the Company.
- III. To authorize the Board of Directors or the Chairman and its authorized persons to obtain approvals from all relevant government departments and/or regulatory authorities (if applicable) in accordance with the applicable laws to exercise the General Mandate.
- IV. To authorize the Board of Directors or the Chairman and its authorized persons to approve, execute, modify and do or procure to execute and do, all such documents, deeds and things as it may consider related to with the allotment, issuance and disposal of any new Shares under the abovementioned General Mandate, handle the necessary procedures and take other necessary actions.
- V. Where the Board of Directors or the Chairman and its authorized persons have, during the effective period of the General Mandate, determined to allot, issue and deal with the D Shares or Similar Rights, and the Company also has, during the effective period of the General Mandate, obtained the relevant approval, permission from, or registration (if applicable) with the regulatory authorities, and the Board of Directors of the Company or the

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Chairman and its authorized persons may, during the effective period of such approval, permission or registration, complete the relevant allotment, issuance and disposal and other works.

VI. To authorize the Board of Directors or the Chairman and its authorized persons to, after the completion of allocation and issuance of the new Shares, increase the registered capital of the Company and make appropriate and necessary amendments to the Articles of Association of the Company in accordance with the way, type and number of the allotment and issuance of new Shares of the Company and the actual shareholding structure of the Company upon completion of the allotment and issuance of new Shares.

VII. The effective period of the General Mandate shall be from the date of passing of this resolution by the general meeting to the following date, whichever is earlier:

1. The date of the conclusion of the 2021 annual general meeting of the Company;
2. At the time of passing a resolution at any general meeting to revoke or vary the mandate under this resolution.

13. General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of H Shares of the Company in Issue

A special resolution is to be proposed at the AGM to consider and approve the General Mandate to repurchase not more than 10% of the total number of H Shares of the Company in issue. Appendix V to this circular contains the explanatory letter required by the Listing Rules and provides the information necessary for repurchase mandate.

14. General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of D Shares of the Company in Issue

A special resolution is to be proposed at the AGM to consider and approve the General Mandate to repurchase not more than 10% of the total number of D Shares of the Company in issue. Appendix VI to this circular contains the explanatory letter required by the Listing Rules and provides the information necessary for repurchase mandate.

15. Proposed Amendments to the Articles of Association

A special resolution is to be proposed at the AGM to consider and approve amendments to the Articles of Association of the Company, the details are as follows:

Reference is made to the announcement of the Company dated 31 March 2021 in relation to the proposed amendment of the Articles of Association of the Company.

The Company intends to make the following amendments to the Articles of Association of Haier Smart Home Co., Ltd. currently in force to further improve the system of the Company.

The comparison table for the proposed amendments to the Articles of Association of the Company is set out in Appendix VII to this circular.

The aforesaid resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as a special resolution.

16. Proposed Amendments to the Rules of Procedure for the Board of Directors

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on amendments to the Rules of Procedure for the Board of Directors.

The comparison table for the proposed amendments to the Rules of Procedure for the Board of Directors is set out in Appendix VIII to this circular.

The aforesaid resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

17. Proposed Amendments to the Rules of Procedure for the Board of Supervisors

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on amendments to the Rules of Procedure for the Board of Supervisors.

The comparison table for the proposed amendments to the Rules of Procedure for the Board of Supervisors is set out in Appendix IX to this circular.

The aforesaid resolution has been reviewed and approved by the Board of Supervisors on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

18. Proposed Amendments to the External Guarantee Management System

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on amendments to the External Guarantee Management System.

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The comparison table for the proposed amendments to the External Guarantee Management System is set out in Appendix X to this circular.

The aforesaid resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

19. Proposed Re-appointment of PRC Accounting Standards Auditor for 2021

An ordinary resolution is to be proposed at the AGM to consider and approve the appointment of PRC accounting standards auditor and its remuneration for 2021, the details are as follows:

In order to ensure the smooth progress of the Company's audit work on finance and internal control under the Chinese accounting standards in 2021 and the continuity of the audit work, and considering that Hexin Certified Public Accountants LLP has the professional qualifications required for audit work under the Chinese accounting standards and the service team has many years of experience and ability in providing audit services for listed companies and can adhere to the principle of independent audit during the practice process and can satisfy the Company's work requirements on annual financial and internal control audit, the Company intends to renew the engagement of Hexin as the Company's audit agency on financial statement and internal control under the Chinese accounting standards in 2021. The audit service fee is RMB10 million (including the audit fee of RMB7.15 million for financial report and audit fee of RMB2.85 million for internal control report), which is consistent with last year.

The aforesaid resolution has been reviewed and approved by the Board on 29 April 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

20. Proposed Re-appointment of International Accounting Standards Auditor for 2021

An ordinary resolution is to be proposed at the AGM to consider and approve the appointment of international accounting standards auditor and its remuneration for 2021, the details are as follows:

The H Shares of the Company were listed and traded on the Main Board of the Stock Exchange on 23 December 2020. In order to facilitate international investors to have a clearer understanding of the Company's situation, the Company intends to renew the engagement of HLB Hodgson Impey Cheng Limited as the international accounting standards auditor of the Company for 2021. HLB Hodgson Impey Cheng Limited possesses the practicing qualifications of the Hong Kong accountant as well as the experience and capability for the provision of auditing services to companies listed on the Main Board of the Stock Exchange, and can satisfy the requirements of audit report under the international accounting standards in 2021. The audit service fee was

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RMB3.89 million (including the audit fee of RMB3.74 million for financial report and audit fee of RMB150,000 for the review of Continuing Connected Transactions), which was slightly adjusted from last year.

21. Renewal of Continuing Connected Transactions and Their Proposed Annual Caps

An ordinary resolution is to be proposed at the AGM to consider and approve the renewal of the Financial Services Framework Agreement and its expected related-party transaction limit with Haier Group and Haier Finance.

I. Continuing Connected Transactions — Renewal of The Financial Services Framework Agreement

1. Background

Reference is made to the listing document of the Company dated 16 November 2020 in relation to, among other things, the Financial Services Framework Agreement entered into between the Company and Haier Group as well as the annual caps for the period from the date of listing to the date of the 2020 AGM which were set in respect of the Financial Services Framework Agreement.

Given that the Financial Services Framework Agreement and its proposed annual caps will expire on the date of the 2020 AGM and the Company will continue to conduct such transactions subsequent to the 2020 AGM, therefore the Company, Haier Group and Haier Finance Company entered into the New Financial Services Framework Agreement on 29 April 2021 for a term of three years commencing from 25 June 2021 to 31 December 2023, pursuant to which Haier Group and its associates, mainly Haier Finance Company, agreed to provide financial services to the Group from time to time on a non-exclusive basis.

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2. *New Financial Services Framework Agreement*

Date: 29 April 2021

Parties: the Group (as service recipient);

Haier Group (as service provider and guarantor); and

Haier Finance Company (as service provider)

Principal terms:

Pursuant to the New Financial Services Framework Agreement, the services intended to be provided by Haier Group and its associates to the Group include:

- Deposit services;
- Loan services and entrusted loan services;
- Haier Group and its associates shall, according to their own funding capabilities, give priority to satisfying the loan needs of the Group, and the loan services it provides to the Group include loans and other credit services; and
- In the event that the Group applies for a loan from Haier Group and its associates, the Group and Haier Group and its associates shall sign a loan contract, specifying the loan amount, loan usage, loan period and other matters.
- Other financial services including:
 - (1) spot sale and purchase of foreign exchange services and other financial derivatives business, international settlement, trade financing and letter of guarantee services, etc.;
 - (2) financial and financing consulting, various consulting and agency services on foreign exchange policy, and comprehensive plan designing for foreign exchange capital appreciation;
 - (3) cross-border foreign exchange funds and cross-border RMB funds business;
 - (4) approved insurance agency services;
 - (5) credit verification and provision of guarantee services;

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- (6) bill issuance, acceptance and discount;
- (7) providing collection and automatic liquidation management of physical and electronic tickets;
- (8) the internal transfer and settlement service of the Group and the corresponding settlement and settlement plan designing;
- (9) financial leasing services;
- (10) underwriting the corporate bonds of the Group;
- (11) services related to receipt and payment of funds;
- (12) consumer credit, buyer credit and financial leasing services for the Group's products; and
- (13) other services as approved by the CBIRC (collectively **“Other Financial Services”**).

The New Financial Services Framework Agreement is valid with effect from 25 June 2021 upon the AGM approval and will expire on 31 December 2023. The Group has an option, in its entire discretion, to renew the New Financial Services Framework Agreement upon its expiry (subject to adjustment of fees where necessary) for another term of three years, subject to the Company's compliance with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules (if applicable). Haier Group and its associates do not have reciprocal rights under the New Financial Services Framework Agreement. Each party and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Financial Services Framework Agreement. In respect of the deposits placed by the Group with Haier Group and its associates and in the event that Haier Finance Company misuses or uses such deposits by default, or in any other circumstances which causes Haier Finance Company to be unable to repay the Group's deposits (including accrued interests), the Group is entitled to appropriate such deposits to set off against the outstanding loans (including accrued interests) extended by Haier Finance Company to the Group. However, in the event that the Group fails to repay its loans extended by Haier Finance Company on time, Haier Finance Company will not be entitled to set off the outstanding loans owed by the Group to Haier Finance Company against the deposits (including accrued interests) placed by the Group with Haier Finance Company, except as otherwise provided by the laws and regulations of the PRC.

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In terms of the deposits placed by the Group with other associates of Haier Group except Haier Finance Company and in the event that the associates of Haier Group misuses or uses such deposits by default, or in any other circumstances which causes it to be unable to repay the Group's deposits (including accrued interests), the Group is entitled to use such deposits to set off against the outstanding loans (including accrued interests) extended by the associates of Haier Group to the Group. However, in the event that the Group fails to repay its loans extended by the associates of Haier Group to the Group on time, the associates of Haier Group will not get the right of set-off, and will not be entitled to set off the outstanding loans owed by the Group to it against the deposits (including accrued interests) placed by the Group with it, except as otherwise provided by the laws and regulations of the PRC.

If the Group purchases deposit services from other associates of Haier Group other than Haier Finance Company in the future, Haier Group will procure such associates to fulfill the obligations under the terms above, as if they signed the New Financial Services Framework Agreement.

Undertakings by Haier Group

As part of the New Financial Services Framework Agreement, Haier Group has unconditionally and irrevocably guaranteed and undertaken to the Company that, during the term of the New Financial Services Framework Agreement, Haier Group will:

- (i) provide the joint and several liability guarantee to the Group in respect of the deposits (including accrued interests) placed by the Group with Haier Group and its associates;
- (ii) jointly bear all the financial losses incurred by the Group due to the failure in performing the obligations or breach of any obligations or terms under the New Financial Services Framework Agreement by Haier Group and its associates or Haier Group and its associates' breaches or potential breaches of PRC laws and regulations, or by it having or potentially having any major operational problems or difficulties with liquidity, including but not limited to, the Group's deposits, interests and the relevant expenses incurred, within ten Business Days since such failure or problems occur; and
- (iii) use its best endeavours and take all reasonable steps to ensure fulfilment of obligations by Haier Group and its associates under the New Financial Services Framework Agreement.

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Reasons for and benefits of the transaction:

Under the New Financial Services Framework Agreement, the Group intends to primarily purchase deposit services from Haier Finance Company in the future. The reasons for and the benefits to the Group in using the financial services of Haier Group and its associates (mainly Haier Finance Company), include but are not limited to:

From the perspective of capital security,

- (i) Haier Finance Company is a non-banking financial institute among the first batch of companies being approved to carry out all kinds of domestic and foreign currencies businesses, and the first enterprise group finance company to carry out the pilot program of centralized management of foreign exchange funds for current account items. It is the first finance group in China to pass the ISO27001 certification of the International Information Security Management System and the third-level certification of national standard protection. Among more than 200 finance groups in the industry, Haier Finance Company ranks top in various indicators;
- (ii) as an enterprise group finance company specialising in home appliance industry, Haier Finance Company is regulated by the PBOC and the CBIRC and it provides financial services in accordance with and in compliance of the rules and operational requirements of these regulatory authorities including capital risk guidelines and requisite capital adequacy ratios. The regulation of finance companies (such as Haier Finance Company) by the CBIRC is more stringent than the regulation of commercial banks in the PRC in certain aspects, such as the requirement for finance companies to have a higher capital adequacy ratio;
- (iii) historically, all terms of the financial services agreement signed between Haier Group and its associates and the Group have been fulfilled, and Haier Group provided guarantee for the deposits in Haier Group and its associates placed by the Group; and
- (iv) the Group currently holds 42% of the equity interests in the Haier Finance Company, and appoints the Directors to participate in the governance decision-making of the Haier Finance Company, inspect and control the operation risk of the Haier Finance Company, so as to improve the fund security.

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From the perspective of efficiency of capital use,

- (i) the Group's deposit partly placed in Haier Group and its associates can save financial costs and improve capital efficiency. The interest rate of deposits provided by Haier Group and its associates is not less than that of commercial banks obtained by the Group, for deposits of similar nature and term. Generally speaking, the interest rate of domestic RMB demand and seven-day notice deposits is about 10% higher than the benchmark interest rate of certain deposits announced by the PBOC on the quotation date. Overseas deposits in RMB and foreign currencies are implemented in accordance with market principles, and the interest rate of similar deposits is more favourable than the highest interest rate of commercial banks available to the Group;
- (ii) Haier Finance Company has been continuously approved for various foreign exchange business since 2004, possesses the qualifications of performing the fund pool business home and abroad, and can provide the Group with customized comprehensive management services for the fund pool so as to realize the cross-legal representative, cross-regional and cross-border capital allocation and management among the Group's 100 subsidiaries, which will save financial costs and improve the efficiency of capital use. Taking 2020 as an example, the comprehensive management services for fund pools provided by Haier Finance Company realized the transfer of funds among different subsidiaries of the Group exceeding over RMB10 billion, saving more than RMB100 million in cost;
- (iii) Haier Finance Company is an important partner of the upstream suppliers and downstream customers of the Group, a number of which have opened accounts with Haier Finance Company. For the sake of convenience, the Group's comprehensive supply chain financial services customized by Haier Finance Company, such as purchaser credit granted to downstream customers, and discount and factoring services offered to upstream suppliers, encourage the Group's ecosystem partners to use the settlement platform of Haier Group and its associates to process most of the transactions with the Group, so as to improve operational efficiency;
- (iv) by leveraging the unique cross-bank aggregation function of the finance company, Haier Finance Company can shorten the Group's capital transfer and turnover time in several bank channels, and improve the efficiency of capital operations. Meanwhile, Haier Finance Company has continuously upgraded its digitization system and established a professional team to provide more considerate services with higher quality;

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- (v) Haier Finance Company provides the Group with full-process and centralized bill pool management services including bill identification, inquiry, custody, collection, billing, and acceptance. The scale of bill issuance is much higher than that of independent third party commercial banks. Centralized bill pool management can effectively avoid the mismatch of bill maturity, bill size and bill amount. It maximizes the vitalization of deposited assets and reduces financial costs while meeting the liquidity demand of bill holders. Meanwhile, Haier Finance Company exempts account opening fees, account management fees, online banking opening fees, inquiry letter fees, deposit certificates, internal settlements and other fees, which can effectively save financial costs of the Group;
- (vi) Haier Group and its associates has an in-depth understanding of the Group's development strategy, development goals and business model, which can accurately predict and quickly meet the Group's needs for financial service; and
- (vii) the Group directly holds 42% equity interest in Haier Finance Company. Higher deposit caps will increase interest income and are expected to increase the Group's investment gains in Haier Finance Company.

The Group is independent from its Shareholders (including Haier Group) in financial aspects, while the above fund pools management services to be provided by Haier Finance Company represent the internal fund management of the Group only. Based on our previous experience in business dealings with Haier Group and its associates, we believe that Haier Group and its associates are capable of effectively satisfying our demands for financial services and can provide customized financial service solutions for the Group according to the Group's strategic plan, which is in the interests of the Group and the Shareholders as a whole.

Pricing policy:

In terms of Deposit Services, pursuant to the New Financial Services Framework Agreement, in respect of domestic RMB deposits, Haier Group and its associates provide deposit services to the Group by referencing to the benchmark deposit interest rate announced by the PBOC on its official website for the same period from time to time, at an interest rate no less favourable than the highest interest rate for the same type of deposits as quoted by Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China and all the listed national joint stock banks in the PRC (the “**Comparable Banks**”), overseas deposits in

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RMB and foreign currencies are implemented in accordance with market principles, and the interest rate of similar deposits is more favourable than the highest interest rate of commercial banks available to the Group.

Before placing domestic RMB deposits with Haier Group and its associates, the Group will compare the interest rate provided by Haier Group and its associates with those published by the Comparable Banks and provided by the two or three major banks or financial institutions with which the Group has established business relationships in each quarter. Before placing overseas RMB and foreign currency deposits with Haier Group and its associates, the Group will compare the interest rate and/or exchange rate provided by Haier Group and its associates with those provided by the two or three major banks or financial institutions with which the Group has established business relationships in each quarter. In the event that the deposit benchmark interest rate is adjusted by the People's Bank of China, the Group will obtain adjusted interest rates from the Comparable Banks.

In terms of Loan Services, Haier Group and its associates will provide loans to the Group at a price no less favourable than the market prices determined at an arm's length basis with reference to the borrowing rate for the same type of loans charged by other two to three major financial institutions/commercial banks. After the fund lending arrangement is reached between the subsidiaries of the Group, Haier Group and its associates can act as financial service intermediaries to provide entrusted loan services and preferential treatment on a free-of-charge basis. All subsidiaries of the Group can use the online banking system of Haier Group and its associates for settlement services for free.

In terms of Other Financial Services, the fees charged by Haier Group and its associates will be determined based on corresponding market prices with reference to the charge standard published by the PBOC on its official website from time to time. If there is no such benchmark rates published by the PBOC for that kind of financial services, the fee will be determined with reference to, amongst other factors, the rates charged by other major financial institutions/commercial banks for the same types of services and their conditions. The terms and conditions should not be less favourable than those terms and conditions offered by independent financial institutions/commercial banks in the PRC to the Group. Before using Other Financial Services provided by Haier Group and its associates, the Group will compare the fees charged by Haier Group and its associates with those charged by two or three major commercial banks or financial institutions with which the Group has established business relationships. Haier Group and its associates will pool their resource advantages to obtain the lowest service fees and the best-quality services from external financial institutions, and agree that Haier Group and its associates will not charge any intermediate fees except those charged by external banks. In addition, Haier Finance Company agrees to waive all the handling fees charged to the

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Group by Haier Finance Company, including but not limited to, account management fees, online banking activation fees, inquiry fees, deposit certificate fees, credit certificate fees, and internal settlement fees.

Historical amount:

The maximum daily outstanding balance of deposits placed by the Group with Haier Group and its associates for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were approximately RMB16,602 million, RMB17,752 million, RMB24,987 million and RMB25,022 million, respectively. The corresponding interest income received by the Group from Haier Finance Company for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were approximately RMB77 million, RMB81 million, RMB86 million and RMB56 million, respectively.

The maximum daily outstanding balance of loans granted by Haier Group and its associates to the Group for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were approximately RMB4,516 million, RMB2,737 million, RMB3,628 million and RMB526 million, respectively. The corresponding interest expenses paid by the Group to Haier Group and its associates for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were RMB125 million, RMB73 million, RMB86 million and RMB2.62 million, respectively.

The maximum daily trading balance of foreign exchange derivative products by Haier Group and its associates for the Group for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were approximately RMB2,019 million, RMB1,850 million, RMB4,418 million and RMB2,645 million, respectively.

The service fee for Other Financial Services paid by the Group for each of the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021 were approximately RMB23 million, RMB22 million, RMB18 million and RMB6.59 million.

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3. *Proposed Annual Caps and Basis of Determination*

The maximum transactions amounts under the New Financial Services Framework Agreement shall not exceed the caps set out below:

	Proposed Annual Caps		
	For the period from 25 June 2021 to 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
<i>(in RMB million)</i>			
Deposit Services			
(a) Maximum daily outstanding balance of deposits placed by us	29,000	32,000	34,000
(b) Interest income	870	960	1,020
Loan Services			
(a) Maximum daily outstanding balance of loans granted to us	5,000	7,000	10,000
(b) Interest expense	200	280	400
Other Financial Services			
(a) Maximum daily trading balance of foreign exchange derivative products	5,500	5,500	5,500
(b) Service fee	80	80	80

When determining the above proposed annual caps, the Directors have taken into consideration the following factors:

In terms of Deposit Services:

- (i) the historical transaction amounts and the underlying interest income of deposits we received from Haier Group and its associates mentioned above, after taking into account the maximum daily outstanding balance of deposits of RMB24,987 million and the interest income of RMB86 million that incurred for the year ended 31 December 2020. The maximum amount generated for the year ended 31 December 2020 increased by 4.38% as compared with the maximum limit of deposits, which is a conservative estimation made after taking into account of the growth of the Group's sales revenue and operating profits of 8% and 26.79%, respectively, for the year 2020 only and also based on our business growth;

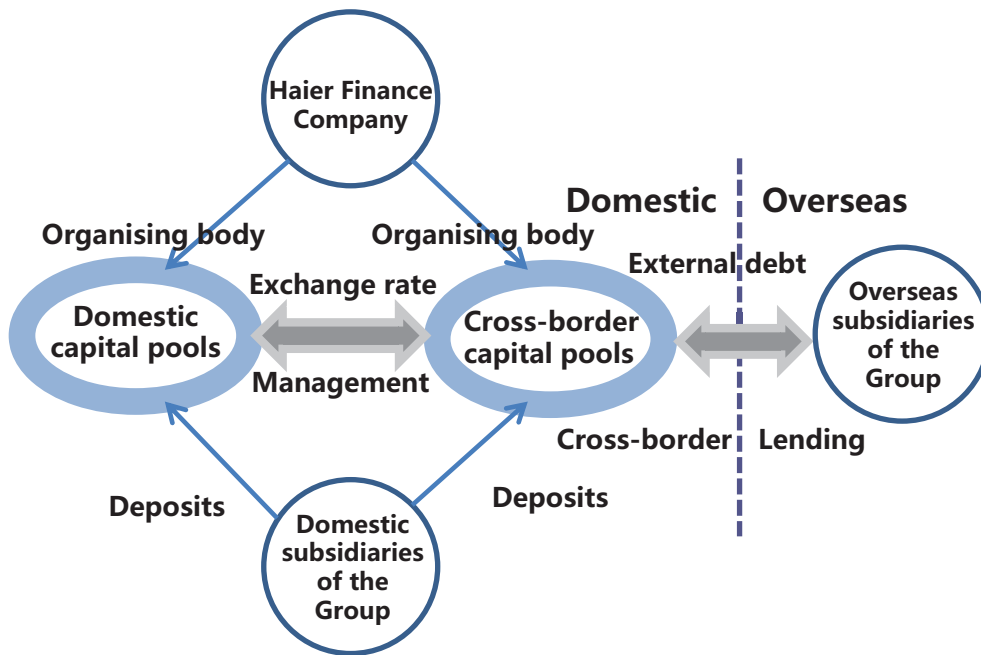
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- (ii) the estimated cash amounts as well as daily cash inflows of the Group available for deposit at Haier Group and its associates. As part of the finance management measures, the Company sets the maximum daily outstanding balance amount for the Group's deposits placed at Haier Group and its associates every year, which remains generally stable for recent years so as to allow sufficient financial allocation flexibility for the Group. During the period from the date on which the Company's H Shares are listed to 31 March 2020, the Group must allocate funds to other banks from time to time to ensure compliance, which not only limits the Group's interest returns with higher yields from Haier Group and its associates, but also reduces the Group's transaction efficiency and increases management costs and operational risks in the process of capital transfer, therefore, the current deposit cap has already been unable to meet the actual capital and operating needs of the Group;
- (iii) The Group adheres to the strategic brand direction of the smart home ecology under Internet of Things, while focusing on the construction of high-end brands, scenario brands, and ecological brands. It continues to expand its advantages in high-end complete sets and smart home scenario solutions, global collaboration, and smart home experience cloud platforms, and promotes digital transformation in the whole process. Meanwhile, the Group's business has maintained a sound development trend in response to the recovery of global epidemic, consumption upgrades and smart home development trends. In 2020, the Group's revenue and gross profit margin increased by 5.9% and 3.8% year-on-year respectively. In the second half of 2020, the revenue and gross profit margin increased by 13.2% and 14.2% respectively. In the first quarter of 2021, revenue increased by 27% year-on-year. The growth of the Group's business in 2020 and the first quarter in 2021 and the growth trend in the next three years will lead to an increase in the Group's demand for short-term deposits and fund settlements. In particular, the increase in procurement and sales business volume will increase the frequency and quantity of settlements of the Group through Haier Finance Company, and the daily deposit balances currently placed with Haier Finance Company cannot meet its actual business needs;

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- (iv) The Group is expanding rapidly in overseas market, the synergy between domestic and foreign business is increasingly strong, and cross-border demand is rising. According to the scale of overseas credit and actual business needs, the Group plans to set aside certain amount of capital to guarantee overseas liquidity in response to international emergencies such as overseas epidemics and tensions between China and the United States. Leveraging on Haier Finance Company's cross-border fund pool channel service, the Group can remit domestic capital to overseas quickly, which meets the capital needs of the Group's overseas subsidiaries and improve the Group's efficiency in the use of capital.

Cross-border capital operation and management flow chart



In terms of Loan Services:

- (i) the historical transaction amounts of loans and the underlying interest expense we paid to Haier Group and its associates, after taking into account the maximum daily outstanding balance of loans of RMB3,628 million that incurred and the interest expense of RMB86 million that incurred for the year ended 31 December 2020; and
- (ii) the estimated increase of loan demands of the Group. As part of the finance management measures, the Company sets maximum daily outstanding balance amount for the Group's loans obtained from Haier Group and its associates every year, which remains generally stable for recent years so as to satisfy the financing needs of the

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Group from time to time. In addition, the business development plans and the growth profile of the Group has also been taken into account, especially the needs of the Group for short term funds to support business activities such as expanding production lines and mergers and acquisitions. The Group has also taken into account the potential increase in loan demands for project needs in light of the expected recovery and bounce back of the Group's business growth from the impact caused by the COVID-19 pandemic in 2020, as the pace for the Group's project developments has picked up in next three years and the Group has begun to explore diversified expansion plans which require capital resources.

In terms of Other Financial Services:

- (i) the historical transaction amounts of Other Financial Services and the underlying services fees we paid to Haier Group and its associates, after taking into account the maximum daily trading balance of foreign exchange derivative products of RMB4,418 million that incurred for the year ended 31 December 2020.
- (ii) the anticipated increase in the Group's demand for global financial services. As part of the finance management measures, in accordance with the Management Policy on Foreign Exchange Risks and the Management System on Foreign Exchange Derivatives Transactions of Haier Smart Home Co., Ltd., to minimise the exposure of the Group towards foreign exchange risks and based on actual business needs, the Group sets the maximum daily trading balance of foreign exchange derivative products purchased from Haier Finance Company every year, which remains generally stable in recent years and satisfies the hedging needs of the Group from time to time for its overseas business segments. Considering the Group has been expanding its global business portfolio and growth profile through acquisitions of appropriate overseas targets, the Group's demand for global financial services, especially the foreign exchange derivative products, to satisfy its hedging needs increases accordingly. As the Group expects to continue strengthening its global business performance and presence, it may result in further exposure to foreign exchange risks which requires hedging. In addition, continued instability in the global markets, including geopolitical events and instability in the global political environment, such as the deteriorating Sino-US relationship and the Brexit, have contributed to the increasing phrasal economic uncertainty in recent years and may lead to fluctuations in the foreign exchange market, which in turn increases the Group's hedging needs.

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- (iii) For Other Financial Services, the fees are mainly acceptance service fees. Due to significant increase in the prices of commodities such as steel and non-ferrous metals in 2021 and to save raw material costs, the Company's raw material procurement needs have increased. With the improvement of epidemic situation in the PRC and accelerated development of the industry, the procurement scale of each segment of the Company is expected to increase significantly in 2021, which will result in an increase in service fees of acceptance notes. In addition, with the development of the Company's business, the settlement service fees of the correspondent bank will increase accordingly. The Company continues to innovate products, upgrade service experience and consumption scenarios in the era of the Internet of Things. It is expected that it will strengthen its industrial integration with Haier Finance Company and seek cooperation in more financial service fields in the next three years, and service fees will increase accordingly.

4. Internal Control Measures

Pursuant to the Hong Kong Listing Rules, we will comply at all times with the applicable provisions under Rules 14A.34, 14A.51 to 14A.59 of the Hong Kong Listing Rules in respect of the transactions contemplated under the New Financial Services Framework Agreement. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Company has adopted the following guidelines and principles in monitoring the financial services connected transactions between the Group and Haier Group and its associates. There is a proper and explicit separation of duties, and no common staff, senior management or director of the Group or Haier Group and its associates will be involved in the internal control and risk management procedures.

- the Company will report the transactions under the New Financial Services Framework Agreement with Haier Group and its associates to the Independent Non-executive Directors during each of the audit committee meetings (if necessary);
- the Deposit Services and Other Financial Services under the New Financial Services Framework Agreement will be reviewed by the auditors and the Independent Non-executive Directors of the Company every year and reported in the annual report of the Company to ensure that the Deposit Services and Other Financial Services transactions under the New Financial Services Framework Agreement were conducted in accordance with the terms of the New Financial Services Framework Agreement, on normal commercial terms (or terms more favourable than terms available

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from the independent parties), and in accordance with the pricing principles of the Company pursuant to the Hong Kong Listing Rules; and

- the Company will review the transactions with Haier Group and its associates to identify any transactions that may be at risk of exceeding the caps, and any measures to be taken in respect of such transactions. The Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the New Financial Services Framework Agreement. Examples of the aforementioned measures and policies include:
 - i) Haier Group and its associates shall as far as practicable and on a best effort basis provide such assistance as necessary to the Group so as to allow the Group to comply with its internal control procedures and the requirements under the Hong Kong Listing Rules, including but not limited to providing financial and other data and/or documents within a reasonable timeframe, giving written or verbal explanations to queries raised by the Group and issue explanatory notes for certain facts or circumstances.
 - ii) the Finance Department and Securities Department of the Company are responsible for comparing the quotations/rates/interest rates of financial services provided by Haier Group and its associates with those obtained from third parties from the perspectives of financial treatment and listing compliance, respectively, in accordance with the provisions of the implementation rules, and judging and approving related transactions, specifically:
 - (a) the Finance Department and Securities Department of the Company will, on a quarterly basis, obtain (i) deposit interest rates announced by the Comparable Banks; and/or (ii) the interest rates offered by two or three major commercial banks or financial institutions with which the Group has established business relationships, and compare those with the interest rate offered by Haier Group and its associates. If the interest rate is not the highest offered by the Comparable Banks for similar deposits with approximate maturity, the Group will negotiate with Haier Group and its associates to adjust the recommended interest rate in compliance with the above-mentioned pricing principles. If the interest rate is consistent with the pricing principle, the Securities

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Department will perform review procedures and finally approve the transaction after the review and approval of the Finance Department of the Company;

- (b) before obtaining a loan from Haier Group and its associates or using Other Financial Services provided by Haier Group and its associates, the Company will compare the interest rate offered or fee charged by Haier Group and its associates with those offered or fee charged by two or three major commercial banks or financial institutions with which the Group has established business relationships; if the interest rate or fee is not the more favourable one for the same types of loans/services offered by the two or three major commercial banks or financial institutions that the Group has established business relationships, the Group will negotiate with Haier Group and its associates to adjust the recommended interest rate/fee in compliance with the above-mentioned pricing principles. If the interest rate/fee is consistent with the pricing principle, the Securities Department will perform review procedures and finally approve the transaction after the approval of the Finance Department of the Company.
- iii) the Finance Department of the Company will monitor the daily deposit level to ensure that the daily deposit amount does not exceed the caps. Haier Group and its associates shall provide necessary cooperation.
- iv) the Internal Audit Department of the Company is responsible for supervising and ensuring the effective implementation of internal control procedures and conducts a comprehensive compliance review and inspection quarterly, and reports to the Audit Committee. The Internal Audit Department of the Company will conduct internal sampling inspections to ensure internal control measures of transactions remain intact and effective.
- v) the arrangement between the Company and Haier Group and its associates under the New Financial Services Framework Agreement is non-exclusive and the Group has its own discretion in choosing other financial services providers.

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- vi) the Company may terminate the New Financial Services Framework Agreement if Haier Group and its associates fails to satisfy certain financial performance criteria (including the applicable ratios requirements for PRC licensed finance companies as promulgated by the CBIRC) from time to time.

Pursuant to the New Financial Services Framework Agreement, Haier Finance Company undertakes to take the following measures to control the capital risks:

- i) Haier Finance Company will ensure the safe and stable operation of the fund management information system, which has passed the security test in respect of online commercial banking interface and has reached the national security standard for commercial banks. Haier Group and its associates will protect the safety of the funds of the Group and control the assets and liabilities risks;
- ii) Haier Finance Company shall at all times monitor its credit risks. If (a) Haier Finance Company breaches or may breach the laws, regulations, or the terms of the New Financial Services Framework Agreement, or (b) on the occurrence of any other circumstances that may cause serious concern to the security of the deposits placed by the Group with Haier Finance Company, such as the organisational changes, default on any payments due, occurrence of operational risks and breaches of regulatory requirements, Haier Finance Company shall give written notice to the Group within three Business Days after having knowledge of the occurrence of such situations or circumstances, and to take measures to avoid or contain any loss. Upon such notice, the Group has the right to immediately withdraw its deposits together with accrued interests forthwith, if it is unable to do so, it may set off its deposits (including accrued interests) against the loans extended by Haier Finance Company, except otherwise as provided in the relevant PRC laws and regulations;
- iii) Haier Finance Company will provide annual statutory audit reports issued by independent auditors to the Group to enable the management of the Group to have a comprehensive knowledge about the financial situation of Haier Finance Company;
- iv) Haier Finance Company will appoint an independent accounting firm to review the completeness and impartiality of its internal controls, risk management and operation system under the New Financial Services Framework Agreement, and provide risk management report to the Group and review and assess the internal control measures pursuant to the New Financial Services Framework Agreement on an annual basis;

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- v) Haier Finance Company will provide to the Group within three Business Days a copy of all compliance reports submitted to the CBIRC so that the Group would be informed of the compliance status of Haier Finance Company;
- vi) Haier Finance Company undertakes to strictly comply the risk monitoring indicators for finance companies as stipulated by the CBIRC in its operations. The major risk monitoring indicators include the capital adequacy ratio, assets and liabilities ratio, interbank lending ratio and current ratio, and based on its quarterly management accounts. The Group will review the compliance status of Haier Finance Company at each quarter;
- vii) Haier Finance Company will provide to the Group a copy of the external reports on its credit rating when they are available, and notify the Group immediately when there are changes in credit rating so that the Group will be informed of the credit status of Haier Finance Company;
- viii) the Group will review the transactions with Haier Finance Company, summarise the experiences and supplement any inadequacies on an annual basis.

There is a proper and complete separation of duties, and no common staff, senior management or director of the Group or Haier Finance Company will be involved in the internal control and risk management procedures.

The Directors are of the view that the above internal control and risk management procedures adopted by the Group are appropriate and sufficient, and that the procedures and measures give assurance to the Independent Shareholders that the provision of Deposit Services provided by Haier Finance Company will be appropriately monitored. In addition, the internal control measures and procedures would be carried out during the term of the New Financial Services Framework Agreement.

5. Implications of the Hong Kong Listing Rules

As at the date of this circular, as Haier Group holds, directly and indirectly, 33.76% of the voting rights in the Company, therefore, Haier Group is the Controlling Shareholder of the Company and becomes a Connected Person of the Company. Consequently, the transactions contemplated under the New Financial Services Framework Agreement constitute Continuing Connected Transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

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In respect of the proposed annual caps of the New Financial Services Framework Agreement, as the applicable percentage ratio of the highest annual cap for the Deposit Services is higher than 5% but less than 25%, the provision of Deposit Services under the New Financial Services Framework Agreement constitutes a discloseable transaction of the Company and is subject to the requirements of reporting and announcement but is not subject to the Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (except for the profits ratio which is not applicable) for the Deposit Services is higher than 5%, the provision of Deposit Services under the New Financial Services Framework Agreement constitutes a Connected Transaction of the Company and is subject to the requirements of reporting, announcement, Independent Financial Advisor's opinions, annual review and Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

The receipt of Loan Services under the New Financial Services Framework Agreement represents financial assistance provided by a Connected Person for the benefit of the Group, which is on normal commercial terms similar to or more favourable than those offered by independent commercial banks for comparable services in the PRC with no security over the assets of the Group be granted and is fully exempt under Rule 14A.90 of the Hong Kong Listing Rules from all requirements of reporting, announcement, Independent Financial Advisor's opinions, annual review and Independent Shareholders' approval.

As the highest applicable percentage ratio for the Other Financial Services is higher than 0.1% but less than 5%, they will be subject to the requirements of reporting, annual review and announcement but will be exempt from the requirements of Independent Financial Advisor's opinions and Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Although under the Hong Kong Listing Rules, Loan Services and Other Financial Services under the New Financial Services Framework Agreement are exempt from compliance with Independent Financial Advisors' opinions and Independent Shareholders' approval requirements, according to the Rules Governing the Listing of Shares on the Shanghai Stock Exchange, the New Financial Services Framework Agreement as a whole shall be submitted to the general meeting for consideration. To provide Shareholders with more comprehensive information, the Company has appointed the Independent Financial Advisor to advise Independent Shareholders on Deposit Services, Loan Services and Other Financial Services under the New Financial Services Framework Agreement and their proposed annual caps.

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6. *Information of Parties to the Transactions*

Information of the Company

Founded in 1980s, the Company is the leading provider of home appliances and smart home solutions in the world. The Company's main businesses include the R&D, production and sales of smart home appliances such as refrigerators/freezers, washing machines, air conditioners, water heaters, kitchen appliances, small home appliances, and smart home scenario solutions. It creates whole scenario smart life experience with rich product, brand and solution package to meet the needs of users to customize a better life.

Information of Haier Group

Haier Group, a company incorporated under the laws of the PRC, was established in 1984 and is the Controlling Shareholder of the Group, and its principal business is investment holding. Haier Group is an urban collective ownership enterprise. According to the Regulations on Urban Collective Ownership Enterprises of the People's Republic of China promulgated by the State Council, which was revised in February 2016, all property under the urban collective ownership belongs to the working people collectively and the worker representative organization is its governing body.

Information of Haier Finance Company

Haier Finance Company, a company incorporated under the laws of the PRC, was established in 2002 and is held 58% and 42% of the shares by Haier Group and its subsidiaries and the Group respectively. The principal business is taking deposits from group members; handling loans for group members; supply chain financing; interbank lending; securities investment settlement; equity investment; issuing financial corporate bonds; underwriting corporate bonds of group members and bill acceptance and discount, etc. The ultimate beneficial owner of Haier Finance Company is Haier Group, the principal business of which is investment holding.

7. *Opinions of the Board*

After taking into consideration the above pricing policy, basis of determining the proposed annual caps, reasons and benefits as well as internal control measures, the Directors (including the Independent Non-executive Directors) believed the terms of the transactions contemplated under the New Financial Services Framework Agreement and the proposed annual cap thereunder were determined on normal commercial terms in the ordinary and usual business course of the Company, and are fair, reasonable and in the interests of the Company

and the Shareholders of the Company as a whole. Meanwhile, the Company was of the opinion that sufficient mechanism, internal control measures and external regulatory measures have been put in place to ensure the Continuing Connected Transactions are in compliance with and in strict accordance with relevant regulatory guidance and the terms of the New Financial Services Framework Agreement.

As Directors of the Company LIANG Haishan, XIE Juzhi and LI Huagang hold position in Haier Group, therefore, they are deemed to have material interests in the New Financial Services Framework Agreement and the transactions contemplated thereunder, consequently, they have abstained from voting on the resolution of the Board for approving the New Financial Services Framework Agreement and its proposed annual caps. Save as disclosed above, other Directors did not have any material interests in such transactions and they were not required to abstain from voting on the resolutions of the Board for considering and approving the New Financial Services Framework Agreement and its proposed annual caps.

The aforesaid resolution has been reviewed and approved by the Board on 29 April 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

22. A Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary

Reference is made to the Company's announcement dated 25 May 2021, a special resolution is to be proposed at the AGM to consider and approve the adoption of A Share Core Employee Stock Ownership Plan, the details are as follows:

I. Purpose

The purposes of the A Share ESOP include:

1. Motivating employees to pursue business ventures and innovation with the philosophy “Ren Dan He Yi (人單合一)”, promoting full implementation of the Company's brand strategy of Internet of Things (IoT) smart household ecology;
2. Perfecting the corporate governance mechanism and creating values for Shareholders;
3. Attracting talents and realizing innovation of the Company's remuneration management system.

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II. Basis for Determining the Eligibility and Scope of the A Share ESOP Participants

A. Basis for determining the eligibility of the A Share ESOP Participants

The A Share ESOP Participants include Directors (except the independent Directors), Supervisors and Senior Management Members and core technical (business) personnels of the Company and its subsidiaries. In addition, the Company will implement the A Share ESOP in accordance with the principle of voluntary participation by employees with no compulsory participation by employees by way of apportionment or forced distribution. A Share ESOP Participants are responsible for their own profits and losses and bear their own risks, and have equal rights and interests with other investors.

B. Entitlement allocated to the A Share ESOP Participants

Under the A Share ESOP, the A Share ESOP Participants shall be entitled to “unit”, which is equivalent to each RMB1.00 used for acquisition of A Shares for the purpose of the A Share ESOP. With the authorization to be sought at the AGM, during the period from 2021 to 2025, the Board shall have the right to set up the A Share ESOP in phases which shall subsist independently as necessary. The term of each phase of the A Share ESOP shall not exceed 5 years commencing from the registration of the last tranche of Target A Shares under the respective phase of the A Share ESOP. The respective phase of the A Share ESOP shall terminate upon its expiry, or can be extended after being considered and approved by the Board. For the first phase of the A Share ESOP (which is expected to be granted to the A Share ESOP Participants in 2021), the total funds for share acquisition under the A Share ESOP shall be up to RMB708 million. With the authorization to be sought at the AGM, the Board shall have the discretion to determine amount of funds for acquisition of shares for subsequent phases.

1. First phase A Share ESOP Participants and entitlement

The A Share ESOP Participants for the first phase shall include 12 Directors, supervisors and other Senior Management Members, namely, Liang Haishan, Xie Juzhi, Li Huagang, Yu Miao, Gong Wei, Ming Guozhen, Huang Xiaowu, Li Pan, Wang Li, Wu Yong, Li Yang and Guan Jiangyong, with a total holding of RMB50.91 million, representing 7.19% of the first phase of the A Share ESOP; and 1,587 core technical (business) Employees, with a total holding of RMB657.09 million, representing 92.81% of the first phase of the A Share ESOP.

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First Phase of A Share ESOP

The following table sets out the proposed holdings and their respective percentages:

A Share ESOP Participants		Holding (RMB'000)	As a percentage of the first phase of the A Share ESOP
1	12 Directors, Supervisors and other Senior Management Members	50,910	7.19%
2	1,587 core technical (business) Employees	657,090	92.81%
Total: 1,599 Employees		708,000	100.0%

The holdings for each of the Directors, Supervisors and chief executive of the Company have not been determined yet. The Company will make further disclosure regarding the shareholdings for its Directors, Supervisors and chief executive of the Company pursuant to Hong Kong Listing Rules and relevant laws and regulations in due course.

2. A Share ESOP Participants and Allocation of Entitlement for Subsequent Phases

Pursuant to the authorisation to be sought at the AGM, the Board has the sole discretion of determining the list of Employees entitled to participate in the A Share ESOP and the allocation for subsequent phases, based on the rules of the A Share ESOP, changes in the workforce and performance assessment results, and are authorized to make adjustments.

III. Sources of Funding, Source of Shares and Vesting of Shares

A. Source of funding

Sources of funding for the A Share ESOP consist of incentive fund withdrawn by the Company, remuneration legally obtained by Employees, personal funds of the A Share ESOP Participants and fundings from other means as permitted by laws and regulations. Where incentive fund is used, such amount shall be calculated based on the net profits of the Group as set out in the audited consolidated statements of the preceding year. The maximum amount of incentive fund to be withdrawn for the first phase of the

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A Share ESOP is RMB708 million, while the specific maximum amount of incentive fund to be withdrawn under subsequent phases, subject to the specified scope above, shall be at the discretion of the Board as authorized by the AGM.

B. Source of Shares

1. Source of Shares for the A Share ESOP

A Shares for the A Share ESOP shall be acquired through the sources, including but not limited to, repurchase of A Shares by the Company; purchase of A Shares in the secondary market (including but not limited to open bidding and block trade); subscription of A Shares in a non-public offering; voluntary gift of A Shares by A Share ESOP Participants and other means as permitted by laws and administrative regulations, and if the Company is to conduct fund raising through non-public offering or share placing, the A Share ESOP shall have the right to participate in such subscriptions in a fair manner. The source of shares under the A Share ESOP for its first phase is expected to be shares repurchased by the Company through its designated repurchase account.

2. Number of A Shares for the A Share ESOP

As the source of shares for the first phase is the proposed transfer of shares repurchased from the designated securities repurchase account of the Company, and the transfer price of such shares shall be determined in accordance with the average price of the accumulated repurchased shares in the repurchase account, the exact number of such repurchased shares will be determined in accordance with their average trading price at the time of their transfer.

While each phase of the A Share ESOP under the A Share ESOP is independent of each other, the total number of shares held under each phase of the Employee stock ownership plan established and subsisting (including the H Share ESOP) in aggregate shall not exceed 10% of the entire share capital of the Company, and the total number of shares in respect of the grant of each Employee under the A Share ESOP (including all phases) in aggregate shall not exceed 1% of the entire share capital of the Company. Shares held under the A Share ESOP shall exclude shares acquired by the A Share ESOP Participants prior to the public listing of the Company's shares, shares acquired independently through the secondary market or shares acquired by way of incentive awards.

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C. Vesting Period

The Target A Shares interest for the first phase of the A Share ESOP will be vested to the participants in two tranches, with the corresponding Target A Shares vesting to the participants in the proportion of 40% and 60% after the expiry of the relevant lock-up period. The specific vesting schedule will be determined by the A Share ESOP Management Committee after the expiry of the lock-up period. In order to motivate the employees to focus on their objectives, create value for the business and promote the strategic implementation of the Company's IoT smart household strategy, the assessment criteria under the first phase of the A Share ESOP are as follows:

- (I) The assessment criteria and vesting conditions for participants under the first phase of the A Share ESOP who are the Chairman, President, Supervisors and corporate platform staff of the Company are as follows:
 - (1) If the A Share ESOP Management Committee assesses that such participants have achieved the target results for 2021 and the growth of the Company's audited net profit attributable to the parent for 2021 exceeds 26% (including 26%) over the 2020 Adjusted Net Profit (as defined below), 40% of their interests in the Target A Shares under the A Share ESOP in 2021 shall be vested to the participants in full; if the growth rate is between 20.8% (including 20.8%) and 26%, the A Share ESOP Management Committee will determine the percentage of vesting and report to the Remuneration and Assessment Committee of the Board for approval before vesting; if the growth is less than 20.8% (excluding 20.8%), the corresponding portion of the 2021 assessment will not vest.
 - (2) If the A Share ESOP Management Committee assesses that such participants have achieved the target results for 2022 and the compound annual growth rate of the Company's audited net profit attributable to the parent for 2022 exceeds 18% (including 18%) over the 2020 Adjusted Net Profit, 60% of their interests in the Target A Shares under the A Share ESOP for such period shall vest to the participants in full; if the compound annual growth rate is between 14.4% (including 14.4%) and 18%, the A Share ESOP Management Committee will determine the percentage of vesting and report to the Remuneration and Assessment Committee of the Board for approval before vesting; if the growth is less than 14.4% (excluding 14.4%), the corresponding portion of the 2022 assessment will not vest.

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- (II) Other than the aforementioned participant in (1), the passing rate of A Share ESOP Participants shall be determined by the A Share ESOP Management Committee and the vesting could be 40% and 60% for 2021 and 2022, respectively.

The net profit attributable to the parent company in 2021/2022 described above represents net profit attributable to the parent company after excluding the one-off impact on profit or loss arising from any material asset disposal/acquisition (if any) for the year. In this regard, with reference to relevant requirements in the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Listing Rules, material asset disposals and acquisitions are defined as: (1) material asset disposals and acquisitions with a transaction amount representing over 5% (inclusive) of the latest audited net asset attributable to the parent company of the listed company, or (2) asset with a net profit arising from transaction or net profit of target acquisition representing over 5% of the latest audited net profit attributable to the parent company of the listed company.

2020 Adjusted Net Profit is calculated as follows. The Company completed a material asset restructuring in the privatization of Haier Electronics Group Co., Ltd. on 23 December 2020; according to the Unaudited Pro Forma Financial Information as prepared by HLB Hodgson Impey Cheng Limited in Appendix XIV in this circular, assuming this material asset restructuring had been completed on 1 January 2020 and HEG had become a wholly-owned subsidiary of Haier Smart Home and had then delisted from the Hong Kong Stock Exchange, 2020 net profit attributable to the parent company would amount to RMB11.16 billion. The audited one-off gain from the disposal of 54.40% equity interests in Haier COSMO IOT Ecosystem Technology Co., Ltd. (海爾卡奧斯物聯生態科技有限公司) (hereinafter referred to as “**COSMOPlat**”) in 2020 amounted to RMB2.27 billion. The relevant tax expenses related to the COSMOPlat disposal in 2020 amounted to RMB0.625 billion. Therefore, the net gain of disposal of COSMOPlat would be RMB1.64 billion. Excluding the effect of the disposal of equity interests in COSMOPlat, the adjusted net profit attributable to the parent company would amount to RMB9.52 billion (i.e. the “**2020 Adjusted Net Profit**”).

The Company engaged Hexin Certified Public Accountants LLP to issue “Report on Review of Pro Forma Combined Financial Statement of Haier Smart Home Co., Ltd. (He Xin Zhuan Zi (2021) No. 000116)”, according to which, after adjustments as detailed therein, the 2020 net profit attributable to the parent company would amount to RMB11.16 billion. Pursuant to Rule 4.29 of the Hong Kong Listing Rules, the Company engaged HLB Hodgson Impey Cheng Limited to issue the Unaudited Pro Forma Financial Information, according to which the 2020 pro forma net profit attributable to the parent company also amounted to RMB11.16 billion. The Company

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will refer to its audited consolidated accounts prepared in accordance with accounting principles generally accepted in the PRC when calculating relevant figures referred to above.

IV. Term and Lock-up Period

A. Term

The term of each phase of the A Share ESOP shall not exceed 5 years commencing from the time when the Company announces the registration of the last tranche of Target A Shares under the respective phase of the A Share ESOP. The respective phase of the A Share ESOP shall terminate upon its expiry, or can be extended after being considered and approved by the Board. With the authorization to be sought at the AGM, unless terminated as determined by the Board, the Board shall have the right to set up an annual phase of the A Share ESOP which shall subsist independently.

B. Lock-up Period

- (1) If the Target A Shares under the A Share ESOP are to be acquired in the secondary market or through share placing, the lock-up period for such Shares acquired under the A Share ESOP shall be 12 months commencing from the time when the Company announces the registration of the last tranche of Target A Shares purchased in each phase of the A Share ESOP under its respective phase; for the first phase of the A Share ESOP, a lock up period of 12 months commencing from the date when the Company makes announcement disclosure of the completion of transfer and repurchase of Target A Shares from the Company's designated securities repurchase account shall apply.
- (2) If the Target A Shares under the A Share ESOP are to be acquired by participating in a non-public offering of the Company's Shares, the lock-up period for the Shares acquired under the A Share ESOP shall be determined in accordance with the requirements of laws and regulations, commencing from the time when the Company announces the registration of Shares acquired by non-public offering under the respective phase of the A Share ESOP.
- (3) If there is share capital increase by conversion of capital reserves, bonus issue and re-financing, occur during the lock-up period, the newly acquired Shares due to the holding of the Shares of the Company under the A Share ESOP shall also be subject to lock-up restriction, and shall not be disposed in the secondary market or otherwise dealt with. The lock-up period of such newly acquired Shares shall be the same as that of their corresponding Shares.

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V. Administration of the A Share ESOP

The A Share ESOP will be managed by a professional institution with asset management qualifications and commissioned by the Company, with the Meeting of the A Share ESOP Participants as the highest management authority. Meeting of the A Share ESOP Participants consists of all A Share ESOP Participants of the A Share ESOP. An A Share ESOP Management Committee will be elected and authorized by the Meeting of the A Share ESOP Participants as the management party to take charge of the daily management affairs of the A Share ESOP and exercise of A Share ESOP Participants' rights on their behalf or authorize the A Share ESOP Management Committee to exercise Shareholders' rights. The Board shall be responsible for preparing and revising the A Share ESOP, and shall deal with other matters related to the A Share ESOP within the scope of authorization to be sought at the AGM.

VI. Measures in the Event of Changes in Circumstances of the Company and the A Share ESOP Participants

A. Changes in the control of the Company, mergers or spin-off

In the event of changes in the control of the Company, merger or spin-off due to any reason, the A Share ESOP shall remain unaffected.

B. Failure in meeting assessment requirements by the A Share ESOP Participants

During the vesting period, the A Share ESOP Participants will be assessed for each vesting period, and where the A Share ESOP Participants fail to meet the requirements, relevant Shares under the A Share ESOP will be at the disposal of the A Share ESOP Management Committee (including but not limited to granting to other A Share ESOP Participants, same as below).

C. Change of position, resignation or death of the A Share ESOP Participants

1. Change of Duties

- (1) If the position of any A Share ESOP Participant changes but he/she remain a Director (except independent Director), Supervisor, Senior Management Member or core technical (business) personnel of the Company, or is appointed by the Company to serve in a subsidiary of the Company, his/her units under the A Share ESOP may be adjusted accordingly, provided that the number of units granted but not vested under the A Share ESOP shall not increase in principle.

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- (2) If the position of any A Share ESOP Participant changes due to being not fit for their current position, failure in meeting assessment requirements, violation of laws and/or business ethics, leakage of business secrets of the Company, default or malpractice etc., which is detrimental to the interests or reputation of the Company, his/her units granted but unvested under the A Share ESOP shall be at the disposal of the A Share ESOP Management Committee.

2. Resignation

Except in the case of the A Share ESOP Participants leaving the Company upon reaching retirement age, regardless of the reason for resignation, any unvested A Share ESOP units granted to the A Share ESOP Participants from the date of leaving the Company shall be at the disposal of the A Share ESOP Management Committee, including but not limited to vesting the units to the A Share ESOP Participants based on their actual contribution, or forfeiting any unvested A Share ESOP units granted to the A Share ESOP Participants.

3. Retirement

Where the A Share ESOP Participant reaches the retirement age set by the PRC Government and the Company,

- (1) If the A Share ESOP Participant meets the assessment requirements and accepts the Company's non-competition restriction in the year he/she leaves the Company, the unvested A Share ESOP units granted to him/her will remain unaffected; if the A Share ESOP Participant retires during the lock-up period or during the first vesting period, the unvested units granted to him/her will be fully vested during the first vesting period.
- (2) If the A Share ESOP Participant fails to meet the assessment requirements in the year he/she leaves the Company, the unvested A Share ESOP units granted to him/her will be at the disposal of the A Share ESOP Management Committee.

4. Loss of working ability

Where the A Share ESOP Participant loses his/her capability to work due to injury arising from the performance of his/her duties, the unvested A Share ESOP units granted to him/her shall remain unaffected. In cases other than the above, the A Share ESOP Management Committee shall have the discretion to determine how to handle the unvested A Share ESOP units that have been granted to the A Share ESOP Participants.

5. Death

In the event that any A Share ESOP Participant passes away due to work-related reasons, the units granted but not yet vested under the A Share ESOP will remain unaffected, and the respective interests shall continue to be held by his/her legal successor. If such event occurs during the lock-up period or the first vesting period, the units granted but not yet vested will be fully vested with his/her legal successor during the first vesting period. Otherwise, the units granted but not yet vested under the A Share ESOP shall be at the disposal of the A Share ESOP Management Committee.

The aforesaid resolution has been reviewed and approved by the Board on 25 May 2021, and is now proposed at the AGM for review and approval as a special resolution.

23. H Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary

Reference is made to the Company's announcement dated 25 May 2021, a special resolution is to be proposed at the AGM to consider and approve the adoption of H Share Core Employee Stock Ownership Plan, the details are as follows:

I. Purpose

The purposes of the H Share ESOP include:

1. Motivating employees to pursue business ventures and innovation with the philosophy “Ren Dan He Yi (人單合一)”, promoting full implementation of the Company's brand strategy of Internet of Things (IoT) smart household ecology.
2. Perfecting the corporate governance mechanism and creating values for Shareholders.
3. Attracting talents and realizing innovation of the Company's remuneration management system.

II. Basis for Determining the Eligibility and Scope of the H Share ESOP Participants

A. Basis for determining the eligibility of the H Share ESOP Participants

The H Share ESOP Participants include Directors (except the independent Directors), Supervisors and Senior Management Members of the Company and core technical (business) personnels of the Company and its subsidiaries. In addition, the Company will implement the H Share ESOP in accordance with the principle of voluntary participation by employees

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with no compulsory participation by employees by way of apportionment or forced distribution. H Share ESOP Participants are responsible for their own profits and losses and bear their own risks, and have equal rights and interests with other investors.

B. Entitlement allocated to the H Share ESOP Participants

Under the H Share ESOP, the H Share ESOP Participants shall be entitled to “unit”, which is equivalent to each RMB1.00 used for acquisition of H Shares for the purpose of the H Share ESOP. With the authorization to be sought at the AGM, during the period from 2021 to 2025, the Board shall have the right to set up the H Share ESOP in phases which shall subsist independently as necessary. The term of each phase of the H Share ESOP shall not exceed 5 years commencing from the registration of the last tranche of Target H Shares under the respective phase of the H Share ESOP. The respective phase of the H Share ESOP shall terminate upon its expiry, or can be extended after being considered and approved by the Board. For the first phase of the H Share ESOP (which is expected to be granted to the first phase of H Share Participants in 2021), the total funds for share acquisition under the H Share ESOP shall be up to RMB90 million. With the authorization to be sought at the AGM, the Board shall have the discretion to determine amount of funds for acquisition of shares for subsequent phases.

1. First phase H Share ESOP Participants and entitlement

The H Share ESOP Participants are 35 core senior management staff members of the Company who play an important role in the overall performance and medium to long term development of the Company. The H Share ESOP Participants for the first phase shall include 11 Directors and Senior Management Members, namely, Liang Haishan, Xie Juzhi, Li Huagang, Gong Wei, Ming Guozhen, Huang Xiaowu, Li Pan, Wang Li, Wu Yong, Li Yang and Guan Jiangyong, with a total holding of RMB50.73 million, representing 56.37% of the first phase of the H Share ESOP; and 24 other core management staff members of the Company, with a total holding of RMB39.27 million, representing 43.63% of the first phase of the H Share ESOP.

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First Phase H Share ESOP

The following table sets out the proposed holdings of the H Share ESOP Participants and their respective percentages:

	H Share ESOP Participants	Holding (RMB'000)	As a percentage of the first phase of the H Share ESOP
1	11 Directors and Senior Management Members	50,730	56.37%
2	24 other staff	39,270	43.63%
	Total: 35 Employees	90,000	100%

The holdings for each of the Directors, Supervisors and chief executive of the Company have not been determined yet. The Company will make further disclosure regarding the shareholdings for its Directors, Supervisors and chief executive of the Company pursuant to Hong Kong Listing Rules and relevant laws and regulations in due course.

2. H Share ESOP Participants and Allocation of Entitlement for Subsequent Phases

Pursuant to the authorisation to be sought at the AGM, the Board of the Company have the sole discretion of determining the list of Employees entitled to participate in the H Share ESOP and the allocation for subsequent phases, based on the rules of the H Share ESOP, changes in the workforce and assessment results, and are authorized to make adjustments.

III. Sources of Funding, Source of Shares and Vesting of Shares

A. Source of funding

Sources of funding for the H Share ESOP consist of incentive fund withdrawn by the Company, remuneration legally obtained by Employees, personal funds of the H Share ESOP Participants and fundings from other means as permitted by laws and regulations. Where incentive fund is used, such amount shall be calculated based on the net profits of the Group as set out in the audited consolidated statements of the preceding year. The maximum amount of incentive fund withdrawn under the first phase of the H Share ESOP is RMB90 million, while the specific maximum amount of incentive fund to be withdrawn under subsequent phases, subject to the specified scope above, shall be at the discretion of the Board of Directors as authorized by the AGM.

B. Source of Shares

1. Source of shares for the H Share ESOP

Source of shares under the H Share ESOP shall be H Shares acquired through the Shanghai-Hong Kong Stock Connect on the secondary market by the Asset Manager. The Asset Manager shall complete the purchase of the Target H Shares within 6 months after passing of the resolution at the AGM or by the Board as authorised.

2. The number of H Shares for the H Share ESOP

The actual dates and prices of share purchases under the H Share ESOP will only be determined after the adoption of the H Share ESOP.

While each phase of the H Share ESOP under the H Share ESOP is independent of each other, the total number of Shares held under each phase of the Employees share ownership plans established and subsisting (including the A Share ESOP) in aggregate shall not exceed 10% of the entire share capital of the Company, and the total number of Shares in respect of the grant of each Employee under the H Share ESOP (including all phases) in aggregate shall not exceed 1% of the entire share capital of the Company. Shares held under the H Share ESOP shall exclude Shares acquired by the H Share ESOP Participants prior to the public listing of the Company's Shares, Shares acquired independently through the secondary market or shares acquired by way of incentive awards.

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C. Vesting Period

The Target H Shares interest for the first phase of the H Share ESOP will be vested to the participants in two tranches, with the corresponding Target H Shares vesting to the participants in the proportion of 40% and 60% after the expiry of the relevant lock-up period. The specific vesting schedule will be determined by the H Share ESOP Management Committee after the expiry of the lock-up period. In order to motivate the employees to focus on their objectives, create value for the business and promote the strategic implementation of the Company's IoT smart household strategy, the assessment criteria under the first phase of the H Share ESOP are as follows:

- (I) The assessment criteria and vesting conditions for participants under the first phase of the H Share ESOP who are the Chairman, President and corporate platform staff of the Company are as follows:
 - (1) If the H Share ESOP Management Committee assesses that such participants have achieved the target results for 2021 and the growth of the Company's audited net profit attributable to the parent for 2021 exceeds 26% (including 26%) over the 2020 Adjusted Net Profit, 40% of their interests in the Target H Shares under the H Share ESOP in 2021 shall be vested to the participants in full; if the growth rate is between 20.8% (including 20.8%) and 26%, the H Share ESOP Management Committee will determine the percentage of vesting and report to the Remuneration and Assessment Committee of the Board of Directors for approval before vesting; if the growth is less than 20.8% (excluding 20.8%), the corresponding portion of the 2021 assessment will not vest.
 - (2) If the H Share ESOP Management Committee assesses that such participants have achieved the target results for 2022 and the compound annual growth rate of the Company's audited net profit attributable to the parent for 2022 exceeds 18% (including 18%) over the 2020 Adjusted Net Profit, 60% of their interests in the Target H Shares under the H Share ESOP for such period shall vest to the participants in full; if the compound annual growth rate is between 14.4% (including 14.4%) and 18%, the H Share ESOP Management Committee will determine the percentage of vesting and report to the Remuneration and Assessment Committee of the Board of Directors for approval before vesting; if the growth is less than 14.4% (excluding 14.4%), the corresponding portion of the 2022 assessment will not vest.

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- (II) Other than the aforementioned participant in (1), the passing rate of the first phase of the H Share ESOP Participants shall be determined by the H Share ESOP Management Committee and the vesting could be 40% and 60% for 2021 and 2022, respectively.

The net profit attributable to the parent company in 2021/2022 described above represents net profit attributable to the parent company after excluding the one-off impact on profit or loss arising from any material asset disposal/acquisition (if any) for the year. In this regard, with reference to relevant requirements in the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Listing Rules, material asset disposals and acquisitions are defined as: (1) material asset disposals and acquisitions with a transaction amount representing over 5% (inclusive) of the latest audited net asset attributable to the parent company of the listed company, or (2) asset with a net profit arising from transaction or net profit of target acquisition representing over 5% of the latest audited net profit attributable to the parent company of the listed company.

2020 Adjusted Net Profit attributable to the parent company (excluding the one-off gain from the disposal of 54.40% equity interests in COSMOPlat) is calculated as follows. The Company completed a material asset restructuring in the privatization of Haier Electronics Group Co., Ltd. on 23 December 2020; according to the Unaudited Pro Forma Financial Information issued by HLB Hodgson Impey Cheng Limited in Appendix XIV in this circular, assuming this material asset restructuring had been completed on 1 January 2020 and HEG had become a wholly-owned subsidiary of the Company and had then delisted from the Hong Kong Stock Exchange, 2020 net profit attributable to the parent company amounted to RMB11.16 billion. The audited one-off gain from the disposal of 54.40% equity interests in Haier COSMO IOT Ecosystem Technology Co., Ltd. (海爾卡奧斯物聯生態科技有限公司) (hereinafter referred to as “**COSMOPlat**”) in 2020 amounted to RMB2.27 billion. The relevant tax expenses related to the COSMOPlat in 2020 amount to RMB0.625 billion. The net gain of disposal of COSMOPlat amounted to RMB1.64 billion excluding the effect of the disposal of equity interests in COSMOPlat. The net profit attributable to the parent company amounted to RMB9.52 billion (the “**2020 Adjusted Net Profit**”).

The Company engaged Hexin Certified Public Accountants LLP to issue “Report on Review of Pro Forma Combined Financial Statement of Haier Smart Home Co., Ltd. (He Xin Zhuan Zi (2021) No. 000116)”, according to which the 2020 net profit attributable to the parent company amounted to RMB11.16 billion. Pursuant to Rule 4.29 of the Hong Kong Listing Rules, the Company engaged HLB Hodgson Impey Cheng Limited to issue the Unaudited Pro Forma Financial Information, according to which the 2020 net profit attributable to the parent company also amounted to RMB11.16

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billion. The Company will refer to its audited consolidated accounts prepared in accordance with accounting principles generally accepted in the PRC when calculating relevant figures referred to above.

IV. Term and Lock-up Period

A. Term

The term of each phase of the H Share ESOP shall not exceed 5 years commencing from the time when the Company announces the registration of the last tranche of Target H Shares under the respective phase of the H Share ESOP. The respective phase of the H Share ESOP shall terminate upon its expiry, or can be extended after being considered and approved by the Board. With the authorization to be sought at the AGM, unless terminated as determined by the Board, the Board shall have the right to set up an annual phase of the H Share ESOP which shall subsist independently.

B. Lock-up Period

- (1) The lock-up period for Target H Shares acquired under the H Share ESOP shall be 12 months commencing from the time when the Company announces the registration of the last tranche of Target H Shares purchased in each phase of the H Share ESOP under its respective phase.
- (2) If there is share capital increase by conversion of capital reserves, bonus issue and re-financing, occur during the lock-up period, the newly acquired Shares due to the holding of the Shares of the Company under the H Share ESOP shall also be subject to lock-up restriction, and shall not be disposed in the secondary market or otherwise dealt with. The lock-up period of such newly acquired Shares shall be the same as that of their corresponding Shares.

V. Administration of the H Share ESOP

The H Share ESOP will be managed by a professional institution with asset management qualifications and commissioned by the Company, with the Meeting of the H Share ESOP Participants as the highest management authority. Meeting of the H Share ESOP Participants consists of all H Share ESOP Participants of the H Share ESOP. A H Share ESOP Management Committee will be elected and authorized by the Meeting of the H Share ESOP Participants as the management party to take charge of the daily management affairs of the H Share ESOP and exercise Shareholders' rights on their behalf or authorize the H Share ESOP Management Committee to exercise Shareholders' rights. The Board shall be responsible for preparing and revising the H Share ESOP, and shall deal with other matters related to the H Share ESOP within the scope of authorization to be sought at the AGM.

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VI. Measures in the Event of Changes in Circumstances of the Company and the H Share ESOP Participants

A. Changes in the control of the Company, mergers or spin-off

In the event of changes in the control of the Company, merger or spin-off due to any reason, the H Share ESOP shall remain unaffected.

B. Failure in meeting assessment requirements by the H Share ESOP Participants

During the vesting period, the H Share ESOP Participants will be assessed for each vesting period, and where the H Share ESOP Participants fail to meet the requirements, relevant Shares under the H Share ESOP will be at the disposal of the H Share ESOP Management Committee (including but not limited to granting to other H Share ESOP Participants, same as below).

C. Change of position, resignation or death of the H Share ESOP Participants

1. Change of Duties

- (1) If the position of any H Share ESOP Participant changes but he/she remain a Director (except independent Director), Supervisor, Senior Management Member or core technical (business) personnel of the Company, or is appointed by the Company to serve in a subsidiary of the Company, then his/her units under the H Share ESOP may be adjusted accordingly, provided that the number of units granted but not vested under the H Share ESOP shall not increase in principle.
- (2) If the position of any H Share ESOP Participant changes due to being not fit for their current position, failure in meeting assessment requirements, violation of laws and/or business ethics, leakage of business secrets of the Company, default or malpractice etc., which is detrimental to the interests or reputation of the Company, his/her units granted but unvested under the H Share ESOP shall be at the disposal of the H Share ESOP Management Committee.

2. Resignation

Except in the case of the H Share ESOP Participants leaving the Company upon reaching retirement age, regardless of the reason for resignation, any unvested H Share ESOP units granted to the H Share ESOP Participants from the date of leaving the Company shall be at the disposal of the H Share ESOP Management Committee, including but

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not limited to vesting the units to the H Share ESOP Participant based on his/her actual contribution, or forfeiting any unvested H Share ESOP units granted to the H Share ESOP Participants.

3. Retirement

Where the H Share ESOP Participant reaches the retirement age set by the PRC Government and the Company,

- (1) If the H Share ESOP Participant meets the assessment requirements and accepts the Company's non-competition restriction in the year he/she leaves the Company, the unvested H Share ESOP units granted to him/her will remain unaffected; if the H Share ESOP Participant retires during the lock-up period or during the first vesting period, the unvested units granted to him/her will be fully vested during the first vesting period.
- (2) If the H Share ESOP Participant fails to meet the assessment requirements in the year he/she leaves the Company, the unvested H Share ESOP units granted to him/her will be at the disposal of the H Share ESOP Management Committee.

4. Loss of working ability

Where the H Share ESOP Participant loses his/her capability to work due to injury arising from the performance of his/her duties, the unvested H Share ESOP units granted to him/her shall remain unaffected. In cases other than the above, the H Share ESOP Management Committee shall have the discretion to determine how to handle the unvested H Share ESOP units that have been granted to the H Share ESOP Participants.

5. Death

In the event that any H Share ESOP Participant passes away due to work-related reasons, the units granted but not yet vested under the H Share ESOP will remain unaffected, and the respective interests shall continue to be held by his/her legal successor. If such event occurs during the lock-up period or the first vesting period, the units granted but not yet vested will be fully vested in his/her legal successor during the first vesting period. Otherwise, the units granted but not yet vested under the H Share ESOP shall be at the disposal of the H Share ESOP Management Committee.

The aforesaid resolution has been reviewed and approved by the Board on 25 May 2021, and is now proposed at the AGM for review and approval as a special resolution.

24. Authorization by the General Meeting to the Board of Directors to Handle Matters Pertaining to the Core Employee Stock Ownership Plan of the Company

Reference is made to the Company's announcement dated 25 May 2021, a special resolution is to be proposed at the AGM to consider and approve the Authorization by the General Meeting to the Board to Handle Matters Pertaining to the Core Employee Stock Ownership Plan of the Company, the details are as follows:

In order to ensure the successful implementation of the A Share ESOP and H Share ESOP, the Board proposed that, subject to the approval of the A Share ESOP and H Share ESOP by the Shareholders at the AGM, the Shareholders also grant an authorization to the Board to handle matters pertaining to the A Share ESOP and H Share ESOP with full authority, please refer to item XIV of Appendix XI and Appendix XII for details.

The aforesaid resolution has been reviewed and approved by the Board on 25 May 2021, and is now proposed at the AGM for review and approval as a special resolution.

25. H Share Restricted Share Unit Scheme (2021–2025) (Draft)

I. Introduction

Reference is made to the announcement of the Company dated 25 May 2021 in relation to, among other things, (i) the proposed adoption of the RSU Scheme and (ii) the proposed authorization to the Board and/or the Delegatee to handle matters pertaining to the RSU Scheme.

II. Proposed Adoption of the RSU Scheme

As disclosed in the announcement of the Company dated 25 May 2021, the Board has proposed to adopt the RSU Scheme and a special resolution will be proposed at the AGM to consider and approve the proposed adoption of the draft RSU Scheme. The RSU Scheme shall be effective upon the approval by the Shareholders at the AGM.

The full text of the RSU Scheme Rules is set out in Appendix XIII to this circular. The principal terms of the RSU Scheme are set out below.

(a) Purposes of the RSU Scheme

The purposes of the RSU Scheme are:

- (a) to stimulate the pro-activeness of the Eligible Persons, encourage their innovation to create value, enhance profit, achieve competitive goals, and ultimately maximise return for the Shareholders;

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- (b) to promote the strategic development and realize the goals of the Company: to incentivise Eligible Persons to create value for customers and users, and increase the Company's competitiveness; to incentivise Eligible Persons to align the Company's development strategy with theirs and thus creating Shareholder's value as a whole;
- (c) to optimise the remuneration structure of the Group's employees through RSUs and provide them with a mechanism to own equity interests in the Company for interests and risks sharing; and
- (d) to attract, motivate and retain core capable talents of the Group for the future business development and expansion of the Group.

(b) Selected Participants of the RSU Scheme

Eligible Person who may participate in the RSU Scheme include any individual, being an Employee, directors, Supervisor, senior management, key operating team member of any member of the Group who the Board or its Delegatee considers, in their sole discretion, to have significantly contributed or will significantly contribute to the development of the Group.

The Board or the Delegatee may, from time to time, select any Eligible Person to be a Selected Participant in accordance with the RSU Scheme Rules.

The grant for each of the Directors, Supervisors and chief executive of the Company have not been determined yet. The Company will make further disclosure regarding the shareholdings for its Directors, Supervisors and chief executive of the Company upon any grant of Awards pursuant to Hong Kong Listing Rules and relevant laws and regulations in due course.

(c) Duration of the RSU Scheme

Unless early termination of the RSU Scheme pursuant to the RSU Scheme Rules, the RSU Scheme shall be valid and effective for the Award Period (after which no further RSUs will be granted), and thereafter for so long as there are any non-vested RSUs granted hereunder prior to the expiration of the RSU Scheme, in order to give effect to the vesting of such RSU or otherwise as may be required in accordance with the provisions of the RSU Scheme Rules.

(d) RSU Scheme Limit

The Board shall not make any further grant which will result in the aggregate number of H Shares granted to exceed one per cent (1%) of the total number of issued H Shares as at the relevant Grant Date.

LETTER FROM THE BOARD

The total number of RSUs granted but remain unvested to a Selected Participant under the RSU Scheme shall not exceed zero point one per cent (0.1%) of the total number of issued H Shares as at the relevant Grant Date.

(e) Approval and review

The RSU Scheme shall be subject to the following administrative bodies in accordance with the RSU Scheme Rules and, where applicable, the Trust Deed:

- (a) the general meeting of the Shareholders, as the organ of authority of the Company, is responsible for the deliberation and approval of the adoption of the RSU Scheme. The general meeting of the Shareholders may authorize the Board and/or the Delegatee to deal with all matters related to the RSU Scheme to the extent of its authority; and
- (b) the Board is the institution in charge of the administration of the RSU Scheme in accordance with the RSU Scheme Rules and where applicable, the Trust Deed. A decision of the Board and/or the Delegatee shall be final and binding on all persons affected. Upon deliberation and approval of the RSU Scheme by the Board, the Board will submit the RSU Scheme to the general meeting of the Shareholders for consideration. The Board and/or the Delegatee may handle all matters related to the RSU Scheme within the authorization by the general meeting of the Shareholders.

Pursuant to the RSU Scheme Rules, the authority to administer the RSU Scheme may be delegated by the Board to the Delegatee as deemed appropriate at the sole and absolute discretion of the Board.

The Independent Non-executive Directors of the Company shall also review the proposal for the grant of Awards approved by the Remuneration and Assessment Committee and formulate their opinions on whether the grant of Awards is beneficial to the continuing development of the Company, and whether the grant of Awards is detrimental to the interests of the Company and the Shareholders.

(f) Source of funds

The source of funds for funding the RSU Scheme is the internal funds of the Group.

It is proposed during the year 2021, the cost for purchasing H Shares by the Trustee for grant under the RSU Scheme will be up to RMB102 million (approximately equivalent to HK\$123 million).

LETTER FROM THE BOARD

(g) Subscription and acquisition of Shares pursuant to the RSU Scheme

The Group may from time to time, subject to the terms and conditions in the RSU Scheme Rules and the compliance of all relevant laws, rules and regulations, cause to transfer funds to the Trust as for the subscription or acquisition of H Shares and other purposes set out in the RSU Scheme Rules and the Trust Deed.

Subject to the RSU Scheme Rules, the Company and/or the Delegatee may from time to time instruct the Trustee in writing to subscribe or acquire H Shares through on the Stock Exchange and to hold them on trust for the benefit of the Selected Participants under the Trust on and subject to the terms and conditions of the RSU Scheme Rules and the Trust Deed.

In the event that the H Shares are to be allotted and issued as new H Shares by the Company for the purpose of the Trust, the Company shall comply with the relevant Listing Rules, laws and regulations of the PRC, the Articles and all applicable laws and regulations.

(h) Grant of RSUs

The Board or the Delegatee may grant Awards to Selected Participants during the Award Period conditional upon fulfilment of terms and conditions of the Awards and performance targets as the Board or the Delegatee determines from time to time.

Each grant of an Award to any Director or Connected Person of the Group shall be subject to the Listing Rules and any applicable laws and regulations.

No grant of any RSU to any Selected Participant may be made and no directions or recommendations shall be given to the Trustee with respect to a grant of an Award under the circumstances below:

- a) where any Directors is in possession of unpublished inside information in relation to the Company; or where any Directors knows or believes there is inside information which must be disclosed pursuant to the Listing Rules or any applicable laws, rules or regulations; or where dealings by Directors of members of the Group are prohibited under any code, internal written guidelines for securities transactions by employees, or requirement of the Listing Rules or any applicable laws, rules or regulations;
- b) during the period of 60 days immediately preceding the publication date of the annual results for any financial period of the Company or, if shorter, the period from the end of the relevant financial year up to the publication date of such results; and

LETTER FROM THE BOARD

- c) during the period of 30 days immediately preceding the publication date of the quarter or half-year results for any financial period of the Company or, if shorter, the period from the end of the relevant quarter or half-year period of the financial period up to the publication date of such results.

(i) Vesting of the Awards

The Board or the Delegatee may determine the vesting criteria and conditions or periods for the Awards to be vested.

The vesting of the Award granted under the RSU Scheme is subject to the conditions of the relevant business unit(s) and personal performance targets of the relevant Selected Participant and any other applicable vesting conditions as set out in the Award Letter.

If the Selected Participant fails to fulfil the vesting conditions applicable to the relevant Awards, all the RSUs underlying the relevant Awards which may otherwise be vesting during the respective vesting period shall not be vested and become immediately forfeited with respect to such Selected Participant. The Board's or the Delegatee's decision on whether the vesting conditions are fulfilled and satisfied shall be conclusive and final.

Any Award granted hereunder but not yet vested shall be personal to the Selected Participant to whom it is made and shall not be assignable or transferable and no Selected Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Award.

The Company expects that any grant of RSUs shall be vested or lapsed no later than the end of 36 months after the Grant Date.

(j) Occurrence of certain events pertaining to the Company

(A) Change in control

If there is an event of change in control of the Company by way of a merger, a privatisation of the Company by way of a scheme or by way of an offer, change of actual control of the Company, the Company no longer exists after merger with another company or the H Shares are no longer listed on the Stock Exchange, the Board or the committee of the Board or the Delegatee shall at their sole and absolute discretion determine whether the Vesting Dates of any Awards will be accelerated. If the Vesting Dates of any Awards are accelerated, the procedures as set out in the RSU Scheme Rules shall apply except that the Vesting Notice will be sent to such Selected Participant affected by the change in control based on the proposed Vesting Date as soon as practicable once the proposed

LETTER FROM THE BOARD

Vesting Date is known. The Trustee shall transfer the RSUs or pay the Actual Selling Price in cash, as the case may be, to the Selected Participant in accordance with the Confirmation Letter as provided by the Board or its delegate(s).

(B) Open offer and rights issue

In the event the Company undertakes an open offer of new securities, the Trustee shall not subscribe for any new H Shares. In the event of a rights issue, the Trustee shall seek instruction from the Company on the steps or actions to be taken in relation to the nil-paid rights allotted to it and the net proceeds of sale of such rights shall be held as part of the funds in the Trust.

(C) Bonus warrants

In the event the Company issues bonus warrants in respect of any H Shares which are held by the Trustee, the Trustee shall not, unless otherwise instructed by the Company, subscribe for any new H Shares by exercising any of the subscription rights attached to the bonus warrants, and shall sell the bonus warrants created and granted to it, and the net proceeds of sale of such bonus warrants shall be held as funds of the Trust.

(D) Scrip dividend

In the event the Company undertakes a scrip dividend scheme, the Trustee shall elect to receive the scrip H Shares and such H Shares will be held as part of the funds in the Trust. In the event the Company undertakes a cash or scrip dividend, the Trustee shall elect to receive cash at any time and it shall be deemed as cash income of a H Share held upon the Trust.

(E) Consolidation, Sub-division, bonus issue and other distribution

In the event the Company undertakes a sub-division or consolidation of the H Shares, corresponding changes will be made to the number of outstanding RSUs that have been granted provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the RSU Scheme for the Selected Participants. The Board or the Delegatee shall as soon as practicable after such sub-division or consolidated has been effected, notify each such Selected Participant of the number of RSUs that he/her has become entitled to on vesting after such subdivision or consolidation (as the case may be).

LETTER FROM THE BOARD

(F) Voluntary winding up

If notice is duly given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering a resolution for the voluntary winding-up of the Company (other than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company are passed to a successor company) or an order of winding up of the Company is made, the Board or the Delegatee shall determine at its discretion whether such RSUs shall vest in the Selected Participant and the time at which such RSUs shall vest in the Selected Participant and the time at which such RSUs shall vest. If the Board determines that any RSUs shall vest, it shall promptly notify the Selected Participant and shall use its reasonable endeavours to procure the Trustee to take such action as may be necessary to transfer the legal and beneficial ownership of the RSUs which are to become vested in such Selected Participant or pay the sum they would have received in respect of the Awards, to such Selected Participant.

(k) Voting Rights

The Trustee shall not exercise the voting rights in respect of any Shares held by it under the Trust (if any) (including but not limited to the RSU, any bonus shares and scrip shares derived therefrom).

(l) Alteration or Termination of the RSU Scheme

The RSU Scheme may be altered by a resolution of the Board or the Delegatee provided that no such amendment shall operate to affect materially and adversely any subsisting rights of any Selected Participants.

The RSU Scheme shall terminate on the earlier of (i) the end of the Award Period except in respect of any non-vested RSUs granted prior to the expiration of the RSU Scheme, for the purpose of giving effect to the vesting of such RSU or otherwise as may be required in accordance with the provisions of the RSU Scheme; and (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Participant under the RSU Scheme.

(m) Reasons for and benefits of the adoption of the RSU Scheme

Please refer to the paragraph headed "II. Proposed Adoption of the RSU Scheme — (a) Purposes of the RSU Scheme" in this circular.

The Directors are of the view that the adoption of the RSU Scheme will realize the aforesaid goals, and that the terms and conditions of the RSU Scheme are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The aforesaid resolution has been reviewed and approved by the Board on 25 May 2021, and is now proposed at the AGM for review and approval as a special resolution.

26. Authorization by the General Meeting to the Board of Directors or the Delegatee to Handle Matters Pertaining to the Restricted Share Unit Scheme

In order to ensure the successful implementation of the RSU Scheme, the Board proposed that, subject to the approval of the RSU Scheme by the Shareholders at the AGM, the Shareholders also grant an authorization to the Board and/or the Delegatee to deal with matters in relation to the RSU Scheme with full authority, including but not limited to:

- (a) to consider, appoint and establish the Management Committee, and authorize the Management Committee, for the purpose of the RSU Scheme to deal with matters in relation to the RSU Scheme with full authority;
- (b) to determine the basis of eligibility of any Eligible Person for the grant of Awards from time to time on the basis of their contribution to the development and growth of the Group or such other factors deemed appropriate;
- (c) to grant Awards to those Eligible Person whom it shall select from time to time;
- (d) to determine the terms and conditions of the Awards and determine whether the vesting conditions are met;
- (e) to decide how the vesting of the RSUs will be settled pursuant to the RSU Scheme Rules;
- (f) to construe and interpret the RSU Scheme Rules and the terms of the Award granted under the RSU Scheme;
- (g) to supervise the daily management of the RSU Scheme;
- (h) to make or vary such arrangements, guidelines, procedures and/or regulations for the administration, interpretation, implementation and operation of the RSU Scheme, provided that they are not inconsistent with the RSU Scheme Rules, if such amendments require the approval of the Shareholders' meeting and/or relevant regulatory authorities pursuant to the relevant laws, regulations or requirements of the relevant regulatory authorities, the Board or the Delegatee shall obtain the corresponding authorization;
- (i) to establish and administer performance targets in respect of the RSU Scheme;

LETTER FROM THE BOARD

- (j) to approve from time to time the form of an Award Letter, Vesting Notice and Confirmation Letter;
- (k) to engage bank(s), accountant(s), lawyer(s), consultant(s) and other professional parties for the purpose of the RSU Scheme;
- (l) for the purposes of the operations of the RSU Scheme and dealing with the RSUs in accordance with the Trust Deed, to sign all relevant documentations for securities account opening;
- (m) to determine the execution, amendment and termination of the RSU Scheme;
- (n) to sign, execute, affix the common seal of the Company, amend and terminate documents (including the Trust Deed) on behalf of the Company relating to the RSU Scheme and take such other steps or actions to give effect to the terms and intent of the RSU Scheme Rules; and
- (o) to exercise any authority as may be granted by the Shareholders from time to time.

The aforementioned authorization to the Board and/or the Delegatee shall be valid so long as the RSU Scheme remains valid.

The aforesaid resolution has been reviewed and approved by the Board on 25 May 2021, and is now proposed at the AGM for review and approval as a special resolution.

27. Proposed Election of Independent Director

An ordinary resolution is to be proposed at the AGM to consider and approve the election of independent Director, the details are as follows:

Reference is made to the announcement of the Company dated 31 March 2021 in relation to the proposed election of Independent Non-executive Director.

The term of office of six years of Mr. Dai Deming, the current Independent Non-executive Director of the Company, will expire soon. He will cease to hold any office in the Company upon the election of a new Independent Non-executive Director at the general meeting of the Company. To ensure the normal operation of the Board of Directors of the Company, in accordance with the relevant provisions of the Company Law, the Articles of Association and the opinions of the Nomination Committee under the Board of Directors, the Board hereby nominate Mr. Wu Qi (“**Mr. Wu**”) as an Independent Non-executive Director of the 10th session of the Board of Directors, whose term of office shall be the same as the 10th session of the Board of Directors. After the expiry of his term, he shall then be eligible for re-election.

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His qualification as an Independent Non-executive Director has been filed with Shanghai Stock Exchange without any objection. The biographical details of Mr. WU Qi are set out as below:

Mr. Wu Qi, born in 1967. He graduated from Zhejiang University with a Bachelor's degree majoring in national economic management in 1990, thereafter he graduated from Renmin University of China with an on-the-job Master's degree majoring in Money and Banking in 1995 and China Europe International Business School with an EMBA in 2002, respectively. He has 25 years of work and management experience in world-class management and consulting companies. He is currently a senior consultant for Foxconn's D sub-business group strategy and intelligent manufacturing and a consultant of Xnode, a famous accelerator for startups. He served as the vice president (Global) and vice chairman (Greater China) of Accenture, and the chairman of Shun Zhe Technology Development Co., Ltd. He was a member and the president (Greater China) of Roland Berger's Global Management Committee, a member of Roland Berger's Global Supervisory Board, and non-executive director of Grimm Advanced Materials Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600206.SH) (resigned in April 2018). He was awarded 2015 Outstanding Talent in Jing'an District, Shanghai. Mr. WU's past experience in consulting industry involves transportation/logistics, high-tech manufacturing, tourism, finance, consumer goods, real estate, government departments and other industries. He has extensive experience in fields such as development strategy, organizational change, sales and brand strategy, corporate innovation, digital transformation and intelligent manufacturing, post-merger integration, regional industrial and economic development and upgrading. He is a well-known expert in Industry 4.0, transportation and regional planning and development in the PRC. He served as a consultant for Hangzhou Bay Development Planning, a member of the Intelligent Manufacturing Expert Committee of the Shenzhen Municipal Government, deputy head of the 13th Five-Year Planning Expert Committee of Zhengzhou City, Henan Province, vice chairman of China Cold Chain Alliance and other social positions.

As of the Latest Practicable Date, save as disclosed in this circular, in the past three years, Mr. Wu has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas, nor served other positions in other members of the Group, and does not have any other major appointments or professional qualifications. Mr. Wu does not have other relationship with any Directors, Supervisors, senior management or substantial Shareholders or Controlling Shareholders of the Company and does not hold any interest in the Shares of the Company or its associated companies within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). There is or was no information in relation to the appointment of Mr. Wu which is required to be disclosed pursuant to the requirements set out in 13.51(2)(h) to (v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders of the Company.

LETTER FROM THE BOARD

If the appointment is approved, the Company will enter into a service contract with Mr. Wu. The Director's fee would be RMB260,000 (subject to the approval at the AGM) if appointed.

Mr. Wu has extensive experience in the consulting industry. Not only will his joining be able to promote the diversity of Board members, but also speed up planning and implementation of the Company's strategies of the Internet of Things ecology brand. The nomination of Mr. Wu was made by the Company after taking into consideration of the diversity of Board members in respect of several factors, including cultural and educational background, professional experience, skills and expertise in particular. It is based on the value and contributions that can be made by the candidate to the Board, evaluated on an objective bases, after taking into full consideration of the benefits on the diversity of the Board members, and implemented in accordance with the law, regulations and relevant provisions of securities regulatory authorities.

The aforesaid resolution has been reviewed and approved by the Board on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

28. Proposed Election of Supervisors of the Company

An ordinary resolution is to be proposed at the AGM to consider and approve the election of Supervisors of the Company, the details are as follows:

Reference is made to the announcement of the Company dated 31 March 2021 in relation to the proposed election of Supervisors.

Mr. Wang Peihua and Mr. Ming Guoqing, both current Supervisors of the Company, have retired. According to their applications, they will no longer hold any position in the Company after new Supervisors are elected at the Shareholders' general meeting of the Company. To ensure the normal operation of the Board of Supervisors, pursuant to the relevant requirements of the Company Law and the Articles of Association of the Company, Mr. Liu Dalin and Ms. Ma Yingjie are nominated as Supervisors, whose terms of service are in line with the tenth session of the Board of Supervisors. Their biographies are set out below:

Mr. Liu Dalin, was born in 1980. He holds master's degree in business administration from Renmin University of China. He is a senior engineer. From August 2005 to September 2010, he served as a designer of water heater department at Haier Group, an assistant R&D engineer, a R&D engineer and a R&D manager of the electric heating department of Haier Group successively. From September 2010 to October 2015, he was the deputy secretary of the Youth League Committee of Haier Group. From October 2015 to October 2020, he was the deputy secretary of the Disciplinary Committee of Haier Group. From October 2020 to date, he has been serving as the executive deputy secretary of the Disciplinary Committee of Haier Group. Mr. Liu Dalin holds 21,355 H Shares of the Company.

LETTER FROM THE BOARD

Ms. Ma Yingjie, was born in 1969. She is an assistant officer specialising on society matters. She once served as the secretary of the Youth League Committee of the Company, the secretary of the trade union of the Company, the contact person of the customer service department of Qingdao Haier Dishwasher Co., Ltd. Currently, she is the head of Society and Community department of the Company.

As of the Latest Practicable Date, save as disclosed in this circular, each candidate for Supervisor had not held any other directorships in the past three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas, nor did they have any other positions in other members of the Group or other major appointment and professional qualifications. Each candidate for Supervisor does not have other relationship with any Directors, Supervisors, senior management, substantial Shareholders or Controlling Shareholders of the Company. They do not have any interests in the Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). They are not in possession of any information, nor are they being involved in any activity that shall be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there was no matter that need to be brought to the attention of the Shareholders.

Should they be appointed, the Company will enter into a service contract with each candidate for Supervisor. The Supervisors will not receive any Supervisor's fees from the Company. Ms. Ma Yingjie's full remuneration, including salaries, bonuses and other benefits, has not been finalized yet. The Company will disclose such information as soon as practicable when it is determined.

The aforesaid resolution has been reviewed and approved by the Board of Supervisors on 30 March 2021, and is now proposed at the AGM for review and approval as an ordinary resolution.

III. THE AGM AND H SHARES CLASS MEETING

The Company will convene the AGM and Class Meetings at 2:00 p.m. on 25 June 2021 (Friday) at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC, to consider and approve, if thought fit, the proposed matters as set out in the relevant notices. The notices of the AGM and H Shares Class Meeting are set out on pages 236 to 242 of this circular.

Whether or not you intend to attend and/or vote at the AGM in person, you are requested to complete the form(s) of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM and H Shares Class Meeting or any adjournment thereof should you so wish. The forms of proxy for the AGM and H Shares Class Meeting are published on both the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://smart-home.haier.com>).

LETTER FROM THE BOARD

IV. VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the chairman of the meeting will demand a poll in relation to all the proposed resolutions at the AGM.

Haier Group and its associates hold 33.76% of the total issued shares of the Company and are entitled to exercise control over the voting right in respect of their Shares. Haier Group and its associates will abstain from voting on the resolution in respect of the New Financial Service Framework Agreement and its proposed annual cap at the AGM. As at the Latest Practicable Date, to the knowledge and belief of the Directors having made all reasonable enquiries, save as disclosed herein, no Shareholder or its associate, who is entitled to exercise control over the voting right in respect of his/her/its Shares, is deemed to have a material interest in any of the resolutions to be proposed at the AGM and H Shares Class Meeting, and therefore, no Shareholder is required to abstain from voting on any resolutions at the AGM and H Shares Class Meeting.

The cumulative voting method shall be adopted for the election of independent Directors and Supervisors. The cumulative voting method refers to the voting for the election of Directors, Independent Non-Executive Directors or Supervisors where each Share is entitled to the same number of votes which equals to the total number of Directors, Independent Non-Executive Directors or Supervisors to be elected, and Shareholders may consolidate their voting rights when casting a vote. The cumulative voting method includes the regular voting method where Shareholders may cast their votes with partial or all Shares with voting rights.

The voting results of the AGM and H Shares Class Meeting will be published on both websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://smart-home.haier.com>) in accordance with the Listing Rules.

V. CLOSURE OF THE REGISTER OF MEMBERS AND THE ELIGIBILITY FOR ATTENDING AND VOTING AT THE AGM AND H SHARES CLASS MEETING

The Company's register of members will be closed from 17 June 2021 (Thursday) to 25 June 2021 (Friday), both days inclusive, during which period no transfer of Shares will be effected. To be eligible for attending and voting at the AGM and H Shares Class Meeting, all transfer documents together with the relevant share certificates and other appropriate documents must be lodged with the H Shares Registrar, namely, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the H Shareholders) not later than 4:30 p.m., on 16 June 2021 (Wednesday) for registration.

LETTER FROM THE BOARD

VI. RECOMMENDATION

The Board (including the Independent Non-executive Directors) considers that all resolutions to be proposed at the AGM of 2020 and H Shares Class Meeting are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends Shareholders to vote in favour of all the resolutions to be proposed at the AGM of 2020 and H Shares Class Meeting.

VII. OTHER INFORMATION

You are kindly requested to pay attention to the information as set out in Appendix I to XV to this circular.

By Order of the Board
Haier Smart Home Co., Ltd.*
Mr. Liang Haishan
Chairman

Qingdao, the PRC
4 June 2021



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)

Stock Code: 6690

4 June 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF
FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the New Financial Services Framework Agreement and the proposed annual caps for 2021, 2022 and 2023 thereunder, details of which are set out in the “**Letter from the Board**” in the circular dated 4 June 2021 (the “**Circular**”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Somerley to the Independent Board Committee and the Independent Shareholders in respect of the same matter as set out in the “**Letter from Somerley Capital Limited**” in the Circular. Having taken into account the advice from Somerley, we are of the view that the transactions contemplated under the New Financial Services Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole. We also consider that the transactions contemplated under the New Financial Services Framework Agreement (including the proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Financial Services Framework Agreement and the proposed annual caps at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

DAI Deming
*Independent
Non-executive
Director*

CHIEN Da-Chun
*Independent
Non-executive
Director*

WONG Hak Kun
*Independent
Non-executive
Director*

LI Shipeng
*Independent
Non-executive
Director*

* For identification purpose only

LETTER FROM SOMERLEY CAPITAL LIMITED

The following is the text of the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

4 June 2021

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND ITS PROPOSED ANNUAL CAPS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the transactions contemplated under the New Financial Services Framework Agreement (including the proposed annual caps), for which Independent Shareholders' approval is being sought. Details of the New Financial Services Framework Agreement and the proposed annual caps are contained in the circular of the Company to its Shareholders dated 4 June 2021 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, Haier Group holds approximately 33.76% of the voting rights in the Company, and therefore is the Controlling Shareholder and a Connected Person of the Company. Accordingly, the transactions contemplated under the New Financial Services Framework Agreement (the "**Provision of Financial Services**") constitute Continuing Connected Transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the provision of deposit services under the New Financial Services Framework Agreement is higher than 5% but less than 25%, the provision of deposit services is subject to the reporting, announcement, independent financial advisor's advice, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The provision of deposit services also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

LETTER FROM SOMERLEY CAPITAL LIMITED

The receipt of the loan services under the New Financial Services Framework Agreement represents financial assistance provided by a Connected Person for the benefit of the Group, which is on normal commercial terms or better with no security over the assets of the Group, and is fully exempt under Rule 14A.90 of the Hong Kong Listing Rules. As the highest applicable percentage ratio for the other financial services under the New Financial Services Framework Agreement is higher than 0.1% but less than 5%, they will be subject to the reporting, announcement and annual review requirements but will be exempt from the independent financial advisor's advice and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Although the loan services and other financial services under the New Financial Services Framework Agreement are exempt from compliance with the independent financial advisor's advice and Independent Shareholders' approval requirements under the Hong Kong Listing Rules, the New Financial Services Framework Agreement as a whole shall be submitted to the AGM for consideration, according to the listing rules of the Shanghai Stock Exchange. In view of Haier Group's interests in the New Financial Services Framework Agreement, Haier Group and its associates will, and are required to, abstain from voting on the ordinary resolution to approve the New Financial Services Framework Agreement (including the proposed annual caps) at the AGM.

The Independent Board Committee, comprising all four independent non-executive Directors, namely Mr. Dai Deming, Mr. Chien Da-Chun, Mr. Wong Hak Kun and Mr. Li Shipeng, has been established to advise the Independent Shareholders on the New Financial Services Framework Agreement and its proposed annual caps. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley has acted as the independent financial advisor to the then independent board committee and independent shareholders of Haier Electronics Group Co., Ltd. ("**Haier Electronics**"), a subsidiary of the Group, in relation to (i) the privatisation of Haier Electronics by the Company by way of a scheme of arrangement, details of which were set out in the scheme document jointly issued by the Company and Haier Electronics dated 16 November 2020, and (ii) certain continuing connected transactions between Haier Electronics and its connected persons, details of which were set out in the circular of Haier Electronics dated 31 May 2019. The above engagements were limited to providing independent advisory services to the then independent board committee and independent shareholders of Haier Electronics pursuant to the Hong Kong Listing Rules, for which Somerley received normal professional fees from Haier Electronics. Notwithstanding the above engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, Haier Group, Haier Finance Company and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rules to act as the Independent Financial Advisor.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, and have assumed that they are true, accurate and complete in all material aspects as at the date of the Circular or the Latest Practicable Date (as the case may be) and will remain so up to the time of the AGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth, accuracy or completeness of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business and affairs of the Group, Haier Group, Haier Finance Company, and their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the New Financial Services Framework Agreement (including the proposed annual caps), we have taken into account the principal factors and reasons set out below:

1. Information on the parties

(i) The Group

The Group is principally engaged in research and development, manufacturing and distribution of products including refrigerators, freezers, kitchen appliances, air-conditioners, washing machines, water heaters, water purifiers and small home appliances. In addition to the self-developed brands, namely Haier, Casarte and Leader, the Group has developed a global portfolio of home appliance brands through a series of overseas acquisitions, including GE Appliances, Candy, Fisher & Paykel and AQUA.

As set out in the Company's 2020 annual report, the Group has continued to expand its global business by continuously embracing new members into the Group through mergers and acquisitions. In 2020, the Group recorded revenue of approximately RMB209.7 billion, representing a year-on-year increase of approximately 5.9%, and the total overseas revenue increased by approximately 8.3% to approximately RMB100.6 billion. The profit attributable to owners of the Company was approximately RMB8.9 billion in 2020, representing a year-on-year increase of approximately 8.2%. The Group recorded net cash inflow from operating activities of approximately RMB17.6 billion in 2020, representing a year-on-year increase of approximately 16.7%. As at 31 December 2020, the Group recorded total assets of approximately RMB203.5 billion including cash and cash equivalents of approximately RMB45.6 billion, and interest-bearing borrowings of approximately RMB24.5 billion.

The Company's A Shares (stock code: 600690) have been listed on the Shanghai Stock Exchange since 1993, while the Company's D Shares (stock code: 690D) have been listed on the Frankfurt Stock Exchange since 2018. In December 2020, the Company completed the privatisation of Haier Electronics, with its H Shares listed by way of introduction on the Main Board of Hong Kong Stock Exchange. The Company had a market capitalisation of approximately HK\$325.5 billion as at the Latest Practicable Date.

(ii) Haier Group and Haier Finance Company

Haier Group, an urban collective ownership enterprise incorporated under the laws of the PRC in 1984, is headquartered in Qingdao, Shandong Province, the PRC. Haier Group is the Controlling Shareholder of the Company, holding approximately 33.76% voting rights in the Company as at the Latest Practicable Date. Apart from its interests in the Group, Haier Group has also been primarily engaged in the following businesses through its subsidiaries and close associates: (i) production, sourcing and sales of black goods; (ii) investment and incubation platforms; (iii) financial services; (iv) real estates; (v) cultural platforms; and (vi) manufacturing of medical equipment and relevant solutions.

Haier Finance Company, a limited liability company incorporated under the laws of the PRC in 2002, is headquartered in Qingdao, Shandong Province, the PRC, and is owned as to 58% and 42% by Haier Group and its subsidiaries and the Group respectively. Haier Finance Company is a non-banking financial institution approved by the PBOC, and subject to regulations by the PBOC and the CBIRC along with commercial banks in the PRC. The principal businesses of Haier Finance Company include, among others, deposits taking from group members, handling loans for group members, supply chain financing, interbank lending, securities investment settlement, equity investment, issuing financial corporate bonds, underwriting corporate bonds of group members and bill acceptance and discount.

2. Background to and reasons for the New Financial Services Framework Agreement

As advised by the management of the Group, Haier Finance Company has, since 2002, been providing a chain of various financial solutions, including deposit and loan services, to members of the Group; As an enterprise group finance company specialising in home appliance industry, Haier Finance Company is in a position to provide services to the Group in a more efficient and flexible manner than independent commercial banks. Prior to the H Shares listing on the Main Board of Hong Kong Stock Exchange, the Company entered into a financial services framework agreement (the “**Existing Financial Services Framework Agreement**”) with Haier Group on 9 November 2020 to govern the provision of financial services by Haier Group and its associates (mainly Haier Finance Company) for the period from the date of H Shares listing (being 23 December 2020, the “**Listing Date**”) to the date of the AGM. Details

of the Existing Financial Services Framework Agreement are set out in the section headed “Connected Transactions” in the Company’s listing document dated 16 November 2020.

Give that the Existing Financial Services Framework Agreement and its annual caps will expire on the date of the AGM and the Company’s intention to continue to use financial services from Haier Group and its associates, on 29 April 2021, the Company, Haier Group and Haier Finance Company, entered into the New Financial Services Framework Agreement for a term commencing from 25 June 2021 (being the date of the AGM) to 31 December 2023. Pursuant to the agreement, Haier Group and its associates agreed to provide financial services to the Group from time to time on a non-exclusive basis.

The Directors stated in its letter that historically, all terms of the financial services agreements between the Group and Haier Group and its associates have been fulfilled, and that Haier Group and its associates are capable of effectively satisfying the Group’s demands for financial services and can provide customised financial service solutions to the Group, according to the Group’s strategic plan, which is in the interests of the Group and the Shareholders as a whole. The main reasons and benefits are summarised below:

(a) Improved operational and capital efficiencies and enhanced cost savings

Haier Finance Company can provide the Group with customised comprehensive management services for the fund pools in domestic and overseas capital markets, so as to improve the cross-region and cross-border capital allocation and management among members of the Group. Haier Finance Company also agreed to waive all the handling fees (including account management fees, online banking activation fees, inquiry fees, deposit certificate fees, credit certificate fees, and internal settlement fees) and will not charge any other intermediate fees except for those charged by external banks. The above would result in improved operational efficiency and savings in financial costs.

Moreover, Haier Finance Company is an important partner of the Group’s upstream suppliers and downstream customers, many of which maintain deposit accounts with Haier Finance Company. Because of the Group’s comprehensive supply chain financial services customised by Haier Finance Company, such as purchase credit and factoring services, the Group’s business partners are encouraged to use the settlement platform of Haier Finance Company to process their transactions with the Group. For the same reason, the Group conducted substantial amounts of settlement of trade receivables and payables through its deposit accounts with Haier Finance Company in its ordinary and usual course of business.

(b) Favourable pricing mechanism

While the pricing principles of Haier Group and its associates and independent commercial banks or financial institutions in the PRC are subject to the benchmark rates published by the PBOC, the rates or fees charged by Haier Group and its associates for the similar financial services and terms to the Group will be at least equal to, or more favourable than, those charged by the major commercial banks or financial institutions that the Group has established business relationships, pursuant to the New Financial Services Framework Agreement. The Group has its own discretion in choosing other financial service providers, and in respect of deposit services, the Group may freely decide the amounts and term of the relevant funds to be deposited with Haier Group and its associates, for the purposes of internal and external settlement needs and earning higher interest income. For our further analysis on the pricing principles, please refer to the section below headed “Principal terms of the New Financial Services Framework Agreement”; and

(c) Customised financial services

Compared to other commercial banks or financial institutions, Haier Group and its associates have an in-depth understanding of the Group’s development strategy, development goals and business model. This enables Haier Group and its associates to accurately predict and quickly meet the Group’s needs for financial services, such as the fund pools management services from Haier Finance Company. The Directors further stated in its letter that the Group is independent from its shareholders (including Haier Group) in financial aspects, and that the abovementioned fund pools management services to be provided by Haier Finance Company represent the internal fund management of the Group only.

In addition, by leveraging its unique cross-bank aggregation function, Haier Finance Company can shorten the Group’s capital transfer and turnover time in several bank channels. Haier Finance Company has continuously upgraded its digitisation system and established a professional team to provide the Group more considerate services with higher quality.

Haier Finance Company is regulated by the PBOC and the CBIRC, and is required to comply with the rules and operational requirements as promulgated by these regulatory authorities, such as capital risk guidelines, capital adequacy ratios and other requirements as set out in the Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups. As stated in the letter from the Board, Haier Finance Company is the first batch of enterprise group finance company to carry out domestic and foreign currencies businesses, as well as the pilot programme of centralised management of foreign exchange funds. Haier Finance Company has high rankings among more than 200 finance groups in the industry, based on various indicators.

In addition to complying with the applicable Hong Kong Listing Rules relating to the connected transactions, in order to safeguard the interests of the Company and its Shareholders as a whole, the Company has adopted a number of guidelines and principles in monitoring the transactions contemplated under the New Financial Services Framework Agreement, as more particularly described in the section headed “Overall internal control and risk management procedures”. For the purpose of providing an additional protection to the Group, Haier Group agreed to provide a joint and several liability guarantee to the Group in respect of the deposits (including any accrued interests) placed by the Group with Haier Group and its associates (including Haier Finance Company) during the term of the New Financial Services Framework Agreement. In our opinion, the above as a whole provides appropriate protections to the Group and lowers the risk relating to the Group’s deposits placed with Haier Group and its associates.

3. Principal terms of the New Financial Services Framework Agreement

On 29 April 2021, the Company entered into the New Financial Services Framework Agreement with Haier Group and Haier Finance Company, pursuant to which, Haier Group and its associates (mainly Haier Finance Company) agreed to provide financial services to the Group from time to time. The relevant parties shall enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Financial Services Framework Agreement.

The New Financial Services Framework Agreement is non-exclusive in nature, meaning that the Group has its own discretion in choosing other financial service providers. The Group may also terminate the agreement if Haier Group and its associates fails to satisfy certain financial performance criteria (including the applicable ratios requirements for PRC licensed finance companies as promulgated by the CBIRC) from time to time.

Set out below are the principal terms of the financial services to be provided by Haier Group and its associates under the New Financial Services Framework Agreement. For further details, please refer to the section headed “New Financial Services Framework Agreement” in the letter from the Board.

Deposit services

We are advised by the management of the Group that the money deposit services offered by Haier Group and its associates are similar to those offered by other commercial banks, including short-term deposits. The Group may freely decide the amounts and term of the relevant funds to be deposited with Haier Group and its associates, and may by instructions transfer and withdraw the deposits made, depending on the Group’s business development needs at the time. Based on our understanding from the management of the Group, the main purposes for placing deposits with Haier Group and its associates are to save financial costs, improve capital efficiencies, and for the daily cash settlements

between members of the Group and their customers and suppliers for the Group's procurement and sales transactions during the ordinary and usual course of business.

In respect of domestic RMB deposits, the interest rate offered by Haier Group and its associates shall be referenced to the benchmark interest rate for deposits of similar terms announced by the PBOC from time to time, and at a rate no less favourable than the highest interest rate for the same terms of deposits as quoted by Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China and all the listed national joint stock banks in the PRC (the "**Comparable Banks**"). As set out in the letter from the Board, generally, the interest rates of domestic RMB demand and seven-day notice deposits offered by Haier Finance Company are approximately 10% higher than the benchmark interest rates for deposits of similar terms announced by the PBOC on the quotation date.

In respect of overseas RMB deposits and foreign currency deposits, the interest rate offered by Haier Group and its associates shall be more favourable than the highest interest rate for deposits of similar terms obtained by the Group from its major commercial banks.

Loan services

The interest rate offered by Haier Group and its associates shall be no less favourable than the interest rate for the same type of loans charged by two or three major commercial banks or financial institutions that the Group has established business relationships. Haier Group and its associates agreed to give priority to satisfy the Group's loan needs, according to their own funding capabilities. As confirmed by the management of the Group, no security over assets of the Group will be provided for the above loan services.

There may be circumstances where one of the members of the Group requires financing while another member of the Group has surplus funding. After the fund lending arrangement between such members of the Group is reached, Haier Group and its associates can act as financial service intermediaries to provide entrusted loan services and preferential treatment on a free-of-charge basis.

Other financial services

Other financial services offered by Haier Group and its associates include, among others, spot sale and purchase of foreign exchange services and other financial derivatives business, international trade settlement, trade financing, letter of guarantee services, cross-border foreign exchange and RMB funds business, the internal transfer and settlement services and other services as approved by the CBIRC. Members of the Group can use the online banking system of Haier Group and its associates in relation to the internal transfer and settlement services for free. In addition, Haier Finance Company agreed to waive the Group all the handling fees (including account management fees, online

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banking activation fees, inquiry fees, deposit certificate fees, credit certificate fees, and internal settlement fees) and will not charge any other intermediate fees except for those charged by external banks.

The fees for other financial services charged by Haier Group and its associates shall be determined with reference to the benchmark rates published by the PBOC from time to time. If there are no such benchmark rates published by the PBOC for that kind of financial services, the fees shall be determined with reference to, among others, the rates for the same types of services and conditions charged by two or three major commercial banks or financial institutions that the Group has established business relationships and on terms no less favourable than those offered by independent commercial banks or financial institutions in the PRC to the Group.

The Group has established internal control procedures for the regular comparison of deposit interest rate, loan interest rate and service fees rate offered by Haier Group and its associates and the Comparable Banks and/or the major commercial banks or financial institutions that the Group has established business relationships (where applicable). In particular, if the interest rate for deposits of similar terms offered by Haier Group and its associates is not the highest among others, the Group will negotiate with Haier Group and its associates to adjust the proposed interest rate in compliance with the abovementioned pricing principles. In the event that the domestic RMB deposit benchmark interest rate is adjusted by the PBOC, the Group will obtain adjusted interest rates from the Comparable Banks so as to ascertain that the rates offered by Haier Group and its associates are the highest among the Comparable Banks. Details of the relevant internal control procedures are set out in the section headed “Overall internal control and risk management procedures”.

Term

Subject to approval by the Independent Shareholders at the AGM, the New Financial Services Framework Agreement shall become effective for a term commencing from the date of the AGM and expiring on 31 December 2023. The Group has an option, at its own discretion, to renew the New Financial Services Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years, subject to the Company’s compliance with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules (if applicable). The above option is not available to Haier Group and its associates.

Set-off right available to the Group

In respect of the deposits placed by the Group with Haier Finance Company or Haier Group and its associates (as the case may be), in the event that they are unable to repay the Group’s deposits (including accrued interests), the Group is entitled to use such deposits to set-off against the outstanding loans (including accrued interests) extended by them to the Group. However, in the event that the

Group fails to repay its loans extended by them on time, they will not be entitled to set-off the outstanding loans owed by the Group to them against the deposits (including accrued interests) placed by the Group with them, except as otherwise provided by the laws and regulations of the PRC.

Based on our understanding from the management of the Group, the above set-off right will initially apply to the Group's deposits with Haier Finance Company, a signing party to the New Financial Services Framework Agreement. If in future the Group uses deposit services from Haier Group and its associates other than Haier Finance Company, Haier Group will procure them to fulfill the set-off right obligations as described above, as if they are the parties to the New Financial Services Framework Agreement.

Undertakings by Haier Group

As part of the New Financial Services Framework Agreement, Haier Group has unconditionally and irrevocably guaranteed and undertaken to the Company that, during the term of the New Financial Services Framework Agreement, Haier Group will:

- (i) provide the joint and several liability guarantee to the Group in respect of the deposits (including accrued interests) placed by the Group with Haier Group and its associates;
- (ii) jointly bear all the financial losses incurred by the Group, including the Group's deposits, interests and the relevant expenses incurred, due to the failure in performing the obligations or breach of any obligations or terms under the New Financial Services Framework Agreement by Haier Group and its associates, or the breach or potential breach of the PRC laws and regulations by Haier Group and its associates, or Haier Group or its associates having or potentially having any major operational problems or difficulties with liquidity, within ten business days following occurrence of such failure or problems; and
- (iii) use its best endeavors and take all reasonable steps to ensure fulfilment of obligations by Haier Group and its associates under the New Financial Services Framework Agreement.

Our comments

Given the long history of providing financial services to the Group, Haier Group and its associates have an in-depth understanding of the Group's development strategy, development goals and business model, and has in place a professional team with a mature digitisation system and various customised financial services, including fund pools management services, to cater for the Group's strategic plan and actual business needs. Besides members of the Group, Haier Group and its associates have also been providing financial services to Haier Group's other members and business partners (including suppliers and

customers), many of which maintain deposit accounts with Haier Finance Company for their respective business operations. The Group maintains deposit balances with Haier Finance Company mainly for the purpose of improving the operational and capital efficiencies between members of the Group and their business partners by processing transactions through the settlement platforms of Haier Group and its associates and leveraging on the comprehensive fund pools managements services offered by Haier Finance Company.

The entering into of the New Financial Services Framework Agreement represents a continuation of the provision of existing financial services by Haier Group and its associates (mainly Haier Finance Company). This allows the Group to continue to use the relevant financial services available from Haier Group and its associates when and to the extent the management deems appropriate for the Group's financial management purpose. The increase in the proposed annual caps as compared to the existing ones is to reflect the growing business operations of the Group, and to accommodate increasing demands for deposits and fund settlements under the Group's ordinary and usual course of business. Further details and our analysis on the proposed annual caps are set out in the section below headed "The proposed annual caps".

The financial services arrangements under the New Financial Services Framework Agreement is non-exclusive in nature, meaning that and the Group reserves the freedom and discretion to determine whether to choose any deposit services, loan services or other financial services provided by Haier Group and its associates, or to choose those provided by other independent commercial banks. In our view, Haier Group and its associates (in particular Haier Finance Company) can be seen as an additional choice of service provider in financial aspects, and this may also encourage other financial service providers to offer more competitive terms for the relevant financial services to the Group.

We note from the pricing policies under the New Financial Services Framework Agreement that: (a) in respect of the deposit services, the interest rate offered by Haier Group and its associates shall be at least equal to the highest rate for the same terms of deposits as quoted by the Comparable Banks (in the case of domestic RMB deposits) and the major commercial banks or financial institutions that the Group has established business relationships (in the case of overseas RMB and foreign currency deposits); (b) in respect of the loan services, the interest rate offered by Haier Group and its associates shall be no less favourable than the rate for the same type of loans charged by other commercial banks or financial institutions, and no security over the Group's assets will be required; and (c) in respect of the other financial services, the fees charged by Haier Group and its associates shall be no less favourable than those charged by other commercial banks or financial institutions in the PRC. Haier Group and its associates agreed to waive the Group handling fees for a number of selected financial services. The Group shall regularly make comparisons of terms between different services providers, so as to ensure that the terms offered by Haier Group

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and its associates are on normal commercial terms or better, details of which are set out in the section headed “Overall internal control and risk management procedures”.

In respect of the set-off right available to the Group under the New Financial Services Framework Agreement, we note that the Group had only a relatively small amount of borrowings, but maintained a relatively large amount of deposits, with Haier Group and its associates as at 31 December 2020. While it is the case, we do not consider it to be a material factor in our analysis of the New Financial Services Framework Agreement, given that Haier Group has agreed to provide a joint and several liability guarantee to the Group in respect of the deposits (including any accrued interests) placed by the Group with Haier Group and its associates during the term of the agreement, which is a new arrangement when compared with the Existing Financial Services Framework Agreement, as further explained below.

As advised by the Company’s PRC legal advisor, King & Wood Mallesons (“KWM”), compared to an ordinary guarantee, the joint and several liability guarantee provides a higher level of protection to the lender under the relevant PRC laws and regulations, and for the purpose of enforcing the guarantee it is not required to go through the relevant judicial or arbitration procedures to confirm that the relevant borrower is not capable of repaying the amount. KWM has reviewed the terms of the New Financial Services Framework Agreement and issued a legal opinion letter dated 4 June 2021, stating that:

- (i) the terms of the New Financial Services Framework Agreement (including the set-off right and the joint and several liability guarantee) are in compliance with the relevant PRC laws and regulations, and legally binding on the relevant parties, and
- (ii) in the event that Haier Finance Company or associates of Haier Group (as the case may be) fails to perform their obligations to repay the Group’s deposits under the agreement, the Group has the right to require Haier Group directly to assume all the contractual liabilities of them pursuant to the New Financial Services Framework Agreement, in accordance with the scope and timing set out in the New Financial Services Framework Agreement.

Moreover, we note from the articles of association of Haier Finance Company that shareholders of Haier Finance Company (including Haier Group and its subsidiaries) should, among others, (i) support the board of directors of Haier Finance Company’s decision and measures to increase capital adequacy ratio of Haier Finance Company, if it is lower than the regulatory requirements, and (ii) repay all the borrowings extended to them by Haier Finance Company immediately, in the event that Haier Finance Company has financial and liquidity difficulties.

In our opinion, the joint and several liability guarantee provided by Haier Group under the New Financial Services Framework Agreement and Haier Group and its subsidiaries' obligations to support Haier Finance Company financially as stated in its articles of association provide favourable conditions to the Group. Accordingly, the above arrangements and the internal control measures, as more particularly described in the section headed "Overall internal control and risk management procedures", as a whole provides appropriate protections to the Group and lowers the risk relating to the Group's deposits placed with Haier Group and its associates.

4. Information on Haier Group and Haier Finance Company

Haier Group

According to the audited financial statements of Haier Group for the year ended 31 December 2019, Haier Group recorded total revenue of approximately RMB208.1 billion and RMB225.9 billion, while the consolidated profits before tax amounted to approximately RMB14.3 billion and RMB13.8 billion, in 2018 and 2019 respectively. Based on the unaudited management accounts of Haier Group for the six months ended 30 June 2020 (being the latest available financial information of Haier Group as at the Latest Practicable Date as confirmed by the management of the Group), as at 30 June 2020, Haier Group had total assets of approximately RMB331.5 billion (including a cash balance of approximately RMB50.7 billion) and total equity of approximately RMB94.8 billion. On the same date, Haier Group had registered capital of approximately RMB311.2 million, consolidated net assets attributable to its owners of approximately RMB25.3 billion. The above suggest that Haier Group operates a substantial business operation, at a scale larger than that of the Group, and it has been recording stable revenue and profitability. As confirmed by the management of the Group, Haier Group has not defaulted on any of its repayment obligations arising from borrowings, payables and other liabilities in the past three years. On the basis of the above, we are of the view that Haier Group has a stable and profitable business, with substantial assets, allowing it to honor its obligations arising from the joint and several liability guarantee pursuant to the New Financial Services Framework Agreement.

We are advised by the management of the Group that all the financial services under the Existing Financial Services Framework Agreement during the period from the Listing Date to the Latest Practicable Date were mainly provided by Haier Finance Company, and the Group intends to primarily use the financial services from Haier Finance Company in the future. Accordingly, our analyses in the section below are centred on Haier Finance Company's business, management and financial capabilities.

Haier Finance Company

(i) Scope of business

According to its business licence, Haier Finance Company is authorised to provide financial services, including deposit taking, loan servicing, notes acceptance and discounting, as well as the provision of financial and other advisory services, to members of Haier Group, and other businesses as approved by the CBIRC. As confirmed by the management of Haier Finance Company, Haier Finance Company is allowed to provide financial services to entities that Haier Group has established business relationships, for example, the Group's customers and suppliers. Haier Finance Company is the first finance group in China to pass the ISO27001 certification of the International Information Security Management System and the third-level certification of national standard protection.

Haier Finance Company has a registered capital of RMB7 billion and has a capital adequacy ratio of approximately 26.9%, as at 31 December 2020, significantly higher than the requirement promulgated by the CBIRC of 10% for finance companies.

(ii) Board and senior management

As at the Latest Practicable Date, the board of directors of Haier Finance Company comprises five members. As advised by the management of Haier Finance Company, all the board members and the senior management of Haier Finance Company have on average more than 15 years of experience in corporate management, finance, accounting fields, or the financial capital market in the PRC, and they would be able to understand and monitor the operation and development of Haier Finance Company. Currently, two out of five directors of Haier Finance Company are appointed by the Group, enabling the Group to participate in the decision-making process of Haier Finance Company, to inspect and control the operation risk of Haier Finance Company, which in turn improve the security of deposits placed by the Group.

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(iii) Financial information

Set out below is a summary of the financial information of Haier Finance Company, as extracted and summarised from its audited financial statements for the three years ended 31 December 2020, prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

Financial performance

	For the year ended 31 December		
	2020	2019	2018
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)
Net interest income	1,669	1,713	1,899
Investment income	662	679	698
Impairment loss	49	126	254
Foreign exchange (losses)/gains	(122)	135	(57)
Profit after taxation	1,551	1,720	1,644

Net interest income of Haier Finance Company, mainly derived from its provision of loan services, experienced a decreasing trend, from approximately RMB1.9 billion in 2018 to approximately RMB1.7 billion in 2020. As advised by the management of Haier Finance Company, the decrease in net interest income mainly resulted from the drop in borrowing rate in recent years.

Investment income of Haier Finance Company, mainly derived from wealth management products and bonds (such as Chinese Government Bonds and Policy Bank Bonds), remained stable over the past three years. The provision for impairment loss exhibited a downward trend during the periods presented above, which are recognised in accordance with Haier Finance Company's provision policy, with reference to the customer loan classification and related credit grading.

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Profit after taxation of Haier Finance Company remained largely stable over the past three years, amounted to approximately RMB1.6 billion, RMB1.7 billion and RMB1.6 billion in 2018, 2019 and 2020, respectively. The decrease in profit after taxation of Haier Finance Company in 2020 mainly due to the depreciation of USD against Renminbi in late 2020, which lead to increase in foreign exchange loss of its foreign exchange derivative products which were mainly for hedging purpose.

Financial position

	As at 31 December		
	2020	2019	2018
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)
Assets			
Available-for-sale financial assets	11,714	4,899	4,361
Cash and bank balances	15,512	13,960	16,301
Loan receivables	42,773	44,624	42,500
Other assets	<u>5,658</u>	<u>3,993</u>	<u>3,135</u>
	<u><u>75,657</u></u>	<u><u>67,476</u></u>	<u><u>66,297</u></u>
Liabilities			
Deposits received from customers	48,642	40,792	39,627
Bank and other borrowings	9,934	10,839	12,112
Other liabilities	<u>1,542</u>	<u>1,534</u>	<u>1,687</u>
	<u><u>60,118</u></u>	<u><u>53,165</u></u>	<u><u>53,426</u></u>
Equity			
Share capital	7,000	7,000	7,000
Reserves	<u>8,539</u>	<u>7,311</u>	<u>5,871</u>
	<u><u>15,539</u></u>	<u><u>14,311</u></u>	<u><u>12,871</u></u>

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As at 31 December 2020, total assets of Haier Finance Company mainly included (i) loan receivables, net of related impairment loss, of approximately RMB42.8 billion, (ii) cash and bank balances of approximately RMB15.5 billion, and (iii) available-for-sale financial assets, comprising debt and equity instruments, of approximately RMB11.7 billion.

As at 31 December 2020, total liabilities of Haier Finance Company mainly included (i) deposits received from customers of approximately RMB48.6 billion, and (ii) bank and other borrowings of approximately RMB9.9 billion. Included in the deposits received from customers was an amount of approximately RMB25.0 billion (or approximately 51.4% of total deposits) placed by the Group.

As at 31 December 2020, total equity of Haier Finance Company was approximately RMB15.5 billion. As confirmed by Haier Finance Company, it has not defaulted on any of its repayment obligations arising from borrowings, payables and other liabilities since incorporation.

(iv) Internal controls

We have obtained the risk management and internal control operation manuals of Haier Finance Company and note that it has adopted certain corporate governance measures according to the regulations promulgated by CBIRC, including “Banking Supervision Law of the People’s Republic of China” and “Measures for the Administration of Finance Companies of Enterprise Group”, to manage the risks associated with its operations, including credit risk, market risk, liquidity risk and financial risk. We further note that Haier Finance Company has clearly set out the responsibilities and accountabilities of its directors, supervisors and senior managements. For example, the board is responsible for ensuring the establishment and implementation of adequate and effective risk management and internal control systems, and determining the risk tolerance level that Haier Finance Company is allowed to take in conducting its daily operations. We are advised by Haier Finance Company that there was no material breach of the relevant rules or regulatory requirements promulgated by the relevant authorities during the past three years and up to the Latest Practicable Date.

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(v) *Regulatory environment*

The banking industry in the PRC is highly regulated, and the current principal regulatory authorities include the CBIRC, responsible for supervising and regulating banking institutions, and the PBOC, responsible for formulating and implementing monetary policies and preparing drafts of important laws and regulations in the banking industry and prudently regulating basic systems. Licensed finance companies of enterprise groups, including Haier Finance Company, are required to meet certain ratio requirements. The major regulatory ratio requirements and the relevant ratios of Haier Finance Company as at 31 December 2018, 2019 and 2020 are set out in the table below:

		Requirements for PRC licensed finance companies			As at 31 December		
			2020	2019	2018		
Capital adequacy ratio <i>(Note)</i>	Not lower than 10%	26.86%	26.50%	22.01%			
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	55.75%	70.15%	74.33%			
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	90.89%	87.89%	75.43%			
Non-performing asset ratio	Not higher than 4%	0.01%	0.01%	0.00%			
Impaired loan ratio	Not higher than 5%	0.02%	0.02%	0.00%			
Current ratio	Not lower than 25%	41.70%	35.91%	50.08%			
Asset impairment adequacy ratio	Not lower than 100%	> 100%	> 100%	> 100%			
Loan impairment adequacy ratio	Not lower than 100%	> 100%	> 100%	> 100%			
Investment to total capital ratio	Not higher than 70%	67.17%	33.57%	44.2%			
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.00%	0.00%	0.00%			

Note: Capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets

As set out in the letter from the Board, the regulation of finance companies (such as Haier Finance Company) by the CBIRC is more stringent than the regulation of commercial banks in the PRC in certain aspects. From the above table, Haier Finance Company's capital adequacy ratio has improved during the periods presented above, increasing from approximately 22.0% as at 31 December 2018 to approximately 26.9% as at 31 December 2020, significantly higher than the 10% minimum requirement for PRC licensed finance companies. Further, Haier Finance Company has complied with other applicable ratios requirements as set out above, for PRC licensed finance companies as promulgated by the CBIRC.

As advised by Haier Finance Company, the CBIRC monitors Haier Finance Company's operations and compliance with relevant laws and regulations, through on-site examinations and off-site surveillance, from time to time. The CBIRC may impose corrective and punitive measures, including fines and ordering the suspension of certain business activities. According to Haier Finance Company, the CBIRC has not taken any material disciplinary actions, or imposed material penalties or fines on Haier Finance Company in the past three years. We have obtained the latest annual compliance reports regarding the business operation of Haier Finance Company, submitted by Haier Finance Company to the CBIRC, and did not note any material disciplinary actions, penalties or fines imposed.

On the basis of the above, in particular Haier Finance Company's most recent financial performance, financial position and capital adequacy ratio, we are of the view that Haier Finance Company has sufficient financial capabilities to provide the relevant financial services to the Group and fulfil its obligations under the New Financial Services Framework Agreement.

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5. The proposed annual caps

(i) Review of historical figures

Set out below are the historical transaction amounts under the Existing Financial Services Framework Agreement and the existing caps, for the three years ended 31 December 2020 and for the period from the Listing Date to 31 March 2021:

	For the year ended 31 December			For the period from the Listing Date to 31 March 2021
	2018	2019	2020	
	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Deposit services				
Maximum daily outstanding balance of deposits placed by the Group	16,602	17,752	24,987	25,022
Annual caps	N/A	N/A	N/A	25,100
Utilisation rates	N/A	N/A	N/A	100%
Interest income	77	81	86	56
Annual caps	N/A	N/A	N/A	86
Utilisation rates	N/A	N/A	N/A	65%
Loan services				
Maximum daily outstanding balance of loans granted to the Group	4,516	2,737	3,628	526
Annual caps	N/A	N/A	N/A	3,977
Utilisation rates	N/A	N/A	N/A	13%
Interest expense	125	73	86	3
Annual caps	N/A	N/A	N/A	103
Utilisation rates	N/A	N/A	N/A	3%
Other financial services				
Maximum daily trading balance of foreign exchange derivative products	2,019	1,850	4,418	2,645
Annual caps	N/A	N/A	N/A	5,500
Utilisation rates	N/A	N/A	N/A	48%
Service fee	23	22	18	7
Annual caps	N/A	N/A	N/A	22
Utilisation rates	N/A	N/A	N/A	32%

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As set out in the table above, the maximum daily outstanding balance of deposits placed by the Group showed an increasing trend, increasing by approximately 6.9% from approximately RMB16.6 billion in 2018 to approximately RMB17.8 billion in 2019, and further increasing by approximately 40.8% to approximately RMB25.0 billion in 2020. For the period from the Listing Date to 31 March 2021, the maximum daily outstanding balance of deposits placed by the Group was approximately RMB25.0 billion, fully utilising the existing cap. As advised by the management of the Group, the high utilisation was mainly attributable to the increase in frequency and quantity of settlements of the Group through Haier Finance Company's platform due to the rise in procurement and sales business volume resulting from the continuous growth of the Group's business.

Interest income earned by the Group from Haier Group and its associates increased broadly in line with the maximum daily outstanding balance of deposits placed by the Group. The related existing cap had been fairly utilised after listing.

In respect of the loan services, the maximum daily outstanding loan balance granted by Haier Group and its associates to the Group fluctuated over the past three years, decreasing from approximately RMB4.5 billion in 2018 to approximately RMB2.7 billion in 2019, but increasing to approximately RMB3.6 billion in 2020. For the period from the Listing Date to 31 March 2021, the maximum daily outstanding balance of loans granted to the Group was approximately RMB0.5 billion, and the utilisation of existing cap was at a relatively low level, being approximately 13%. As advised by the management of the Group, as the loan services provided by Haier Group and its associates are to satisfy the financing needs of the Group from time to time, in particular the needs for short term funds to support its business activities, the utilisation of loan services may fluctuates, largely depending on the positions of the Group's cash flows. We are further advised by the management of the Group, the Group has optimised the cash resources of Haier Electronics (which was previously listed on the Main Board of Hong Kong Stock Exchange and maintained financial management independent from the Group) after the privatisation in December 2020, and repaid part of its borrowings with Haier Group and its associates.

Interest expense paid by the Group to Haier Group and its associates fluctuated broadly in line with the maximum daily outstanding balance of loans granted to the Group. The utilisation of related cap was approximately 3%, mainly due to the reasons as explained above.

In respect of the other financial services, the maximum daily trading balance of foreign exchange derivative products fluctuated over the past three years, decreasing from approximately RMB2.0 billion in 2018 to approximately RMB1.9 billion in 2019, but significantly increasing to approximately RMB4.4 billion in 2020. For the period from the Listing Date to 31 March 2021, the maximum daily trading balance of foreign exchange derivative products was approximately RMB2.6 billion, that roughly half of the existing cap had been utilised after

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listing. We understand from the management of the Group that the Group's purchases of foreign exchange derivative products from Haier Group and its associates were to hedge the Group's foreign exchange risks exposure, given that the Group's global business performance has been strengthening in recent years, as evidenced by the increasing revenue proportion from the Group's overseas operation.

The service fees paid by the Group to Haier Group and its associates mainly represented the fees for bill issuance, acceptance and discount, credit verification and provision of guarantee services offered by Haier Group and its associates. The utilisation of related cap was approximately 32%.

(ii) Assessment of the proposed annual caps

Set out below are the proposed annual caps governing all the transactions contemplated under the New Financial Services Framework Agreement, for the three years ending 31 December 2023 as follow:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>
Deposit Services			
Maximum daily outstanding balance of deposits placed by the Group	29,000	32,000	34,000
Interest income	870	960	1,020
Loan Services			
Maximum daily outstanding balance of loans granted to the Group	5,000	7,000	10,000
Interest expense	200	280	400
Other Financial Services			
Maximum daily trading balance of foreign exchange derivative products	5,500	5,500	5,500
Service fee	80	80	80

Proposed annual caps for the deposit services (the “Deposit Services Caps”)

In assessing the reasonableness of the Deposit Services Caps, we have discussed with the management of the Group the bases and assumptions underlying the projections. As set out in the letter from the Board, the Deposit Services Caps were determined after taking into account, among other things, (i) the historical transaction amounts and the underlying interest income of deposits received by the Group from Haier Group and its associates, as mentioned above, (ii) the estimated daily cash inflows of the Group available for deposit with Haier Group and its associates, and (iii) the rapid business growth in the Group’s overseas market and the increase in synergies between domestic and overseas business.

As advised by the management of the Group, the Group will continue to focus on the business growth and expects the growth trend to continue in the next three years, leading to a higher demand and frequency for fund settlements through the Group’s accounts with Haier Finance Company. Accordingly, the existing maximum daily outstanding balance of deposits placed by the Group, which had been fully utilised as mentioned in the sub-section above, may not be able to meet the Group’s actual business needs. As set out in the Company’s annual reports, total revenue of the Group increased by approximately 11.5% from approximately RMB177.6 billion in 2018 to approximately RMB198.0 billion in 2019 and further increased by approximately 5.9% to approximately RMB209.7 billion in 2020. In the past three years, the Group recorded net cash inflows from its operating activities in a range of approximately RMB15.1 billion to RMB19.1 billion. On the other hand, as at 31 December 2020, the Group had cash and cash equivalents of approximately RMB45.6 billion, representing an increase of approximately 30.5% as compared to the end of 2019. The above indicates the growing business scale and transaction volumes of the Group in recent years. In determining the Deposit Services Caps, the Group has adopted growth rates in 2021, 2022 and 2023 of approximately 15.5%, 10.3% and 6.3% respectively in order to cater for the increased demands for fund settlements along with its potential business growth, which are broadly in line with the historical revenue growth as discussed above. Based on our discussion with the management of the Group, the Deposit Services Caps are to meet the actual capital and operating needs of the Group, increase the Group’s transaction efficiency, and reduce management costs and operational risks in the process of capital transfer to avoid the annual cap being exceeded.

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We have obtained the expected future operating cash inflow and outflow of the Group for the years ending 31 December 2023, and are advised by the management of the Group that the Group's business are expected to continue to grow, in particular the overseas market, as synergies between domestic and overseas business have become stronger. We note from the Company's 2020 annual report that the Group has been gaining leadership and consumer loyalty in the domestic market while expanding its global footprint by mergers and acquisitions. The Group's investment in proprietary brands with a local touch and ongoing integrations around the world have improved product and service offerings and increased the Group's overseas revenue. These may translate to a higher transaction volume between the Group and its suppliers and customers, and a higher demand for daily settlement needs through the deposit balances with Haier Finance Company.

As set out in the letter from the Board, according to the scale of overseas credit and actual business needs, the Group plans to reserve certain amount of funds to ensure there is a sufficient liquidity for its overseas business to maintain financial stability in response to international emergencies such as overseas epidemics and tensions between China and the United States. Based on our discussions with the management of the Group, the Group can remit domestic funds to overseas quickly to meet the funding needs of the Group's overseas business and improve the Group's capital efficiencies by leveraging on Haier Finance Company's cross-border fund pools management services.

As an additional check, we have researched and identified 24 listed companies in Hong Kong (the "**Comparable Companies**") utilising deposit services provided by a finance company, the majority interest of which was held by the controlling shareholder of the listed company, with their respective circulars published and independent shareholders' approval obtained during the past year up to and including the Latest Practicable Date. We consider it appropriate to cover such one-year review period, which allows us to obtain a sufficient number of Comparable Companies for analysis, having considered, among others, the comparability of the transaction nature of the Comparable Companies to that of the Company and the timeframe appropriate for us to understand the recent market practice for this type of transaction. In our view and based on our best efforts, the list of Comparable Companies presented below represents an exhaustive list, according to our research on the website of the Hong Kong Stock Exchange based on the above selection criteria.

We have reviewed the proposed maximum daily balance of deposits to be placed by the Comparable Companies with their respective finance companies, and the Comparable Companies' cash and bank balances, including cash and cash equivalents, bank balances and time deposits (the "**Cash Balance**"), according to their latest published annual or interim financial reports before publication of the relevant circulars. While a relatively wide range of values are derived from the Comparable

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Companies, in view of the fact that all the Comparable Companies are utilising deposit services from the connected finance companies (mainly providing financial services to their respective group members), a transaction nature same as the Company's case and falling within the above selection criteria, we consider that the Comparable Companies can provide the Independent Shareholders a meaningful analysis of the recent market practice for such type of transaction in the Hong Kong capital market and a benchmark when evaluating the proportion of Cash Balance to the Deposit Services Caps. The results of our findings are summarised in the following table:

Company name	Date of circular	Maximum daily deposit balance (million) (A) (Note)	Cash Balance (million) (B)	Maximum daily deposit balance as a percentage of Cash Balance (%) (A/B)
CGN Power Co., Ltd. (stock code: 1816)	9 April 2021	RMB31,333	RMB12,128	258.4
Minmetals Land Limited (stock code: 230)	25 February 2021	HKD3,565	HKD3,557	100.2
Luoyang Glass Company Limited (stock code: 1108)	25 January 2021	RMB600	RMB563	106.6
Beijing Energy International Holding Co., Ltd. (stock code: 686)	8 January 2021	RMB2,500	RMB2,026	123.4
Hsense Home Appliances Group Co., Ltd. (stock code: 921)	28 December 2020	RMB18,500	RMB6,690	276.5
Changhong Jiahua Holdings Limited (stock code: 3991)	11 December 2020	HKD1,777	HKD718	247.5
Xinte Energy Co., Ltd. (stock code: 1799)	2 December 2020	RMB1,000	RMB2,495	40.1
Inner Mongolia Yitai Coal Co., Ltd (stock code: 3948)	1 December 2020	RMB11,700	RMB13,589	86.1
Poly Culture Group Corporation Limited (stock code: 3636)	30 November 2020	RMB600	RMB944	63.6
CGN New Energy Holdings Co., Ltd. (stock code: 1811)	25 November 2020	USD643	USD323	199.1
Sinotrans Limited (stock code: 598)	20 November 2020	RMB5,000	RMB9,585	52.2
China BlueChemical Ltd (stock code: 3983)	13 November 2020	RMB400	RMB1,003	39.9
China Datang Corporation Renewable Power Co., Limited (stock code: 1798)	13 November 2020	RMB6,000	RMB6,028	99.5
Guodian Technology & Environment Group Corporation Limited (stock code: 1296)	23 October 2020	RMB4,500	RMB4,858	92.6
CSSC Offshore & Marine Engineering (Group) Company Limited (stock code: 317)	8 October 2020	RMB6,235	RMB6,636	94.0
Kunlun Energy Company Limited (stock code: 135)	5 October 2020	RMB3,219	RMB20,698	15.6

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Company name	Date of circular	Maximum daily deposit balance (million) (A) (Note)	Cash Balance (million) (B)	Maximum daily deposit balance as a percentage of Cash Balance (%) (A/B)
Shandong Fengxiang Co., Ltd (stock code: 9977)	30 September 2020	RMB1,350	RMB1,084	124.5
Aluminum Corporation of China Limited (stock code: 2600)	30 September 2020	RMB12,000	RMB8,830	135.9
PetroChina Company Limited (stock code: 857)	15 September 2020	RMB55,000	RMB113,749	48.4
Joy City Property Limited (stock code: 207)	10 August 2020	RMB1,500	RMB11,752	12.8
China Jinmao Holdings Group Limited (stock code: 817)	7 August 2020	RMB10,000	RMB17,195	58.2
COSCO SHIPPING International (Hong Kong) Co., Ltd. (stock code: 517)	15 June 2020	HKD799	HKD6,314	12.7
China Electronics Optics Valley Union Holding Company Limited (stock code: 798)	9 June 2020	RMB650	RMB1,695	38.3
China Isotope & Radiation Corporation (stock code: 1763)	2 June 2020	RMB3,083	RMB2,745	112.3
			Mean	101.6
			Median	93.3
			Maximum	276.5
			Minimum	12.7
The Company		RMB29,000– RMB34,000	RMB45,635	63.5–74.5

Source: Published financial reports and circulars of the Comparable Companies

Note: The maximum daily deposit balances of certain Comparable Companies for each of the future relevant financial years are different. For ease of comparison, we have taken the average of the annual caps of the relevant maximum daily deposit balances for each of the Comparable Companies

As shown above, the proposed maximum daily deposit balances of the Comparable Companies represent approximately 12.7% to 276.5% of their respective Cash Balance, with a mean and median of approximately 101.6% and 93.3% respectively. The Deposit Services Caps represent approximately 63.5% to 74.5% of the Group's Cash Balance as at 31 December 2020, which is below the mean and median of the Comparable Companies.

When determining the proposed annual caps for interest income, management of the Group assumed an interest rate of 3% based on the maximum daily outstanding balance of deposits placed by the Group. As advised by the management of the Group, the interest rate of 3% was determined with reference to the interest rate for deposits offered by Haier Finance Company under the Existing Financial Services Framework Agreement, factoring in an allowance catering for the possibilities of the increase in deposit interest rates in the next three years. We note from the Company's 2020 annual report that the interest rate of deposits placed by the Group with Haier Finance Company ranges from approximately 0.4% to 3.9% per annum in 2020, depending on the type and duration of deposits. Provided that the maximum daily outstanding deposit balance is fair and reasonable, we consider it appropriate to set an annual cap on the associated interest income such that it will not limit the future interest income to be received by the Group.

Proposed annual caps of the loan services (the “Loan Services Caps”)

In assessing the reasonableness of the Loan Services Caps, we have discussed with the management of the Group the bases and assumptions underlying the projections. As set out in the letter from the Board, the Loan Services Caps were determined after taking into account, among other things, (i) the historical transaction amounts of loans and the underlying interest expense paid by the Group to Haier Group and its associates, as mentioned above, and (ii) the estimated increase in loan demands of the Group according to its latest business development plans and growth profile, in particular the Group's needs for short term funds to support business activities.

As advised by the management of the Group, the Group has been utilising the loan services from Haier Group and its associates to supplement the overall financing needs of the Group. In the past three years, the maximum daily outstanding balance of loans granted by Haier Group and its associates to the Group amounted to approximately RMB4.5 billion, and we are advised by the management of the Group that the Group plans to replace part of its existing external borrowings, ranging from approximately RMB1.0 billion to RMB3.0 billion, with loans from Haier Group and its associates in the next three years in order to utilise the lower loan interest rates offered by Haier Group and its associates. We note from Company's 2020 annual report that the Group had approximately RMB24.5 billion of interest-bearing borrowings as at 31 December 2020, out of which approximately RMB12.6 billion is repayable on demand or within 2021 and approximately RMB6.8 billion is repayable within 2022. In our view, the Loan Services Caps could be translated into additional financing potentially available to the Group, in the event that the Group cannot obtain adequate new financing on acceptable terms through other debt and/or equity financing externally.

When determining the proposed annual caps for interest expense, the management of the Group assumed an interest rate of 4% based on the maximum daily outstanding balance of loans granted to the Group. As advised by the management of the Group, the interest rate of 4% was determined with reference to the interest rate charged by Haier Finance Company for the loans extended to the Group under the Existing Financial Services Framework Agreement, factoring in an allowance catering for the possibilities of the increase in borrowing interest rates in the next three years. We note from the Company's 2020 annual report that the interest rate of loans extended to the Group by Haier Finance Company ranges from approximately 1.6% to 3.5% per annum in 2020, while the effective interest rate for the Group's unsecured bank loans ranges from approximately 0.5% to 12.5%. As advised by the management of the Group, for loans with similar terms, the interest rates offered by Haier Group and its associates under the Existing Financial Services Framework Agreement have been no less favourable than those charged by the Group's major commercial banks or financial institutions.

Proposed annual caps of the other financial services (the “Other Financial Services Caps”)

In assessing the reasonableness of the Other Financial Services Caps, we have discussed with the management of the Group the bases and assumptions underlying the projections. As set out in the letter from the Board, the Other Financial Services Caps were determined after taking into account, among other things, (i) the historical transaction amounts of other financial services and the underlying service fees paid by the Group to Haier Group and its associates, as mentioned above, and (ii) the anticipated increase in the Group's demands for global financial services, in particular the foreign exchange derivative products.

In recent years, the Group has been strengthening its global business performance and expanding its global business portfolio and growth profile through acquisitions of suitable overseas targets. For example, the Group acquired the white goods businesses of Sanyo Electric Co., Ltd. in Japan and Southeast Asia in 2015, and the home appliances businesses of General Electric, Fisher&Paykel and Candy in 2016, 2018 and 2019 respectively. The overseas revenue of the Group exhibited an increasing trend during the past three years, from approximately RMB75.4 billion in 2018 to approximately RMB92.9 billion in 2019 and further to approximately RMB100.6 billion in 2020. As the Group expects to continue strengthening its overseas business, which may further increase the Group's exposure to foreign exchange risks, as advised by the management of the Group, the Other Financial Services Caps cater for the Group's increased demands for hedging needs.

When determining the proposed annual caps for service fees, the management of the Group has taken into account the historical transaction amounts of service fees paid by the Group to Haier Group and its associates, and the anticipated increase in the Group's demands for global financial services. According to the letter from the Board, given the increase in commodity prices in early 2021 and the accelerating industry recovery from COVID-19, the Group expected a significant increase in scale of raw materials procurement in 2021, which will in turn lead to an increase in the Group's needs for other financial services. Further, the Company continues to innovate products, upgrade service experience and consumption scenarios, and the management of the Group expects the Group will seek cooperation with Haier Finance Company in more financial service fields in the next three years, which will lead to an increase in service fees. We are advised by the management of the Group that the service fees paid by the Group to Haier Group and its associates in relation to bill issuance, acceptance and discount, which are a major component of service fees charged under other financial services, increased by approximately 104% in the first quarter of 2021 as compared to the same period in 2020. In addition, the Group plans to strengthen its co-operations with Haier Group and its associates, utilising the bill-related services as well as other financial services. In our view, a higher service fee cap is to afford the Group with a reasonable level of allowance to cater for the potential increase in the Group's needs for other financial services (including bill issuance, acceptance and discount), as driven by its continuous business growth as discussed above. The higher annual caps in relation to the deposit and loan services would also naturally drive the demand for other financial services in conjunction with the higher level of deposits and loans. Despite the above, given the proposed annual cap of RMB80.0 million represents considerably less than 1% of the Group's consolidated profit before tax in 2020, we do not consider it to be substantial when compared to the business scale of the Group.

6. Overall internal control and risk management procedures

In order to safeguard the interest of the Company and the Shareholders as a whole, the Company has adopted a number of guidelines and principles in monitoring the transactions between the Group and Haier Group and its associates under the New Financial Services Framework Agreement, and a series of measures and policies to ensure that the underlying transactions will be conducted in accordance with the terms of the New Financial Services Framework Agreement. We have obtained and reviewed the Company's internal controls operation manuals relating to the transactions under the New Financial Services Framework Agreement, and we have been confirmed by the management of the Group that the relevant measures and procedures would be carried out during the term of the New Financial Services Framework Agreement. As confirmed by the management of the Group, there is a proper and complete separation of duties, and no common staff, senior management or director of the Group or Haier

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Group and its associates will be involved in the internal control and risk management procedures. Below are the key controls and procedures summarised from the letter from the Board:

- (a) the Company will report the transactions under the New Financial Services Framework Agreement with Haier Group and its associates to the independent non-executive Directors during each of the audit committee meetings (if necessary); and
- (b) the Company will review the transactions with Haier Group and its associates to identify any transactions that may be at risk of exceeding the caps, and any measures to be taken in respect of such transactions. The Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the New Financial Services Framework Agreement. Examples of the aforementioned measures and policies include:
 - (i) Haier Group and its associates shall as far as practicable and on a best effort basis provide such assistance as necessary to the Group so as to allow the Group to comply with its internal control procedures and the requirements under the Hong Kong Listing Rules, including but not limited to providing financial and other data and/or documents within a reasonable timeframe, giving written or verbal explanations to queries raised by the Group and issue explanatory notes for certain facts or circumstances.
 - (ii) the finance department and securities department of the Company are responsible for comparing the quotations/rates/interest rates of financial services provided by Haier Group and its associates, from the perspectives of financial treatment and listing compliance respectively, with those obtained from third parties in accordance with the provisions of the implementation rules, and judging and approving related transactions, specifically;
 - (1) the finance department and securities department of the Company will, on a quarterly basis, obtain deposit interest rates announced by the Comparable Banks, and/or the interest rates offered by two or three major commercial banks or financial institutions that the Group has established business relationships, and compare those with the interest rate offered by Haier Group and its associates. If the interest rate is not the highest offered by the Comparable Banks and/or the major commercial banks or financial institutions that the Group has established business relationships for deposits of similar terms, the Group will negotiate with Haier Group and its associates to adjust the proposed interest rate in compliance with the abovementioned pricing principles. If the interest rate is consistent with the abovementioned pricing principles, the

securities department will perform review procedures and finally approve the transaction after the approval of the finance department of the Company;

- (2) before obtaining a loan or using other financial services provided by Haier Group and its associates, the Company will compare the interest rate offered or fee charged by Haier Group and its associates with those offered or fee charged by two or three major commercial banks or financial institutions that the Group has established business relationships; if the interest rate or fee is not the more favourable one for the same types of loans/services offered by the two or three major commercial banks or financial institutions that the Group has established business relationships, the Group will negotiate with Haier Group and its associates to adjust the proposed interest rate/fee in compliance with the abovementioned pricing principles. If the interest rate/fee is consistent with the abovementioned pricing principle, the securities department will perform review procedures and finally approve the transaction after the approval of the finance department of the Company.
- (iii) the finance department of the Company will monitor the daily deposit level to ensure that the daily deposit amount does not exceed the caps. Haier Group and its associates shall provide necessary cooperation.
- (iv) the internal audit department of the Company is responsible for supervising and ensuring the effective implementation of internal control procedures and conducts a comprehensive compliance review and inspection quarterly, and reports to the audit committee of the Company. The internal audit department of the Company will conduct internal sampling inspections to ensure internal control measures of transactions remain intact and effective.

In addition to the above, pursuant to the New Financial Services Framework Agreement, Haier Group and its associates undertake to monitor its credit risks at all times and take measures to avoid any loss. Haier Finance Company is required to give a written notice to the Company within three business days after having acknowledged the occurrence of the following situations or circumstances: (i) Haier Finance Company breaches or may breach the law, regulations, or the terms of the New Financial Services Framework Agreement, and (ii) any other circumstances that may cause serious concern on the security of the deposits placed by the Group with Haier Finance Company, such as the organisational changes, default on any payments due, occurrence of operational risks and breaches of regulatory requirements. The members of the Group have the right to immediately withdraw its deposits (including any accrued interests).

The Directors consider that the above internal control and risk management procedures adopted by the Group are appropriate and sufficient, and that the procedures and measures give assurance to the Independent Shareholders that the provision of deposit services, loan services and other financial services will be appropriately monitored. We understand that the Group has been taking measures in the past, such as transferring the deposits placed by the Group with Haier Finance Company to other banks, to ensure that the daily deposit balance would not exceed the existing caps. In our view, the daily review of the transactions with Haier Group and its associates, together with the other strengthened procedures as described above, including those relating to the active monitoring of the financial position and regulatory compliance of Haier Finance Company, are important to assist the Company in preventing the potential breach of the Listing Rules (such as exceeding of the proposed annual caps) and to safeguard the Group's deposits placed with Haier Group and its associates.

7. Reporting requirements and conditions of the Provision of Financial Services

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Provision of Financial Services is subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Provision of Financial Services every year and confirm in the annual report and accounts that the Provision of Financial Services has been entered into:
 - (i) in the ordinary and usual course of business of the Company;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Provision of Financial Services every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Hong Kong Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Provision of Financial Services:
 - (i) has not been approved by the Board;
 - (ii) was not, in all material respects, in accordance with the pricing policies of the Company;
 - (iii) was not entered into, in all material respects, in accordance with the relevant agreements governing the Provision of Financial Services; and
 - (iv) has exceeded the proposed annual caps;

LETTER FROM SOMERLEY CAPITAL LIMITED

- (c) the Company must allow, and ensure that the counterparties to the Provision of Financial Services allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Provision of Financial Services as set out in paragraph (b); and
- (d) the Company must promptly notify the Hong Kong Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Provision of Financial Services, in particular, (i) the restriction of the value of the Provision of Financial Services by way of the proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the New Financial Services Framework Agreement and the proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the transactions contemplated under the New Financial Services Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole. We also consider that the transactions contemplated under the New Financial Services Framework Agreement (including the proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the New Financial Services Framework Agreement and the proposed annual caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

Haier Smart Home Co., Ltd.

Internal Control Audit Report

Hexin Shen Zi. (2021) No. 000175

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Hexin Certified Public Accountants LLP

30 March 2021

INTERNAL CONTROL AUDIT REPORT

Hexin Shen Zi. (2021) No. 000175

To all shareholders of Haier Smart Home Co., Ltd.:

In accordance with the relevant requirements of the *Audit Guidelines on Corporate Internal Control* and the code of practice of Chinese certified public accountants, we have audited the effectiveness of the internal control over the financial report of Haier Smart Home Co., Ltd. (hereinafter referred to as “**Haier Smart Home**”) as at 31 December 2020.

I. Responsibilities of the Company towards internal control

It is the responsibility of the Board of Directors of Haier Smart Home to establish, improve and implement effectively internal control and to evaluate its effectiveness in accordance with the requirements of the *Basic Standards for Enterprise Internal Control*, *Application Guidelines on Enterprise Internal Control* and *Evaluation Guidelines on Enterprise Internal Control*.

II. Responsibilities of certified public accountants

Our responsibilities are to express an audit opinion on the effectiveness of internal control over financial report based on our audit, and to disclose the material defects that have come to our attention in the financial reports that are irrelevant to the internal control.



Haier Smart Home Co., Ltd.

Report Text

III. Inherent limitations on internal control

Internal control has its inherent limitations, and is exposed to the possibility of being incapable of preventing or detecting misreporting. Moreover, as changes in circumstances may render internal control inappropriate or reduce the degree of compliance with control policy or procedure, it is risky, to a certain extent, to predict the effectiveness of internal control in the future based on the audit results of internal control.

IV. Audit opinion on the internal control over the financial report

We believe that Haier Smart Home has maintained effective internal control over financial report in all material respects as at 31 December 2020 in accordance with the *Basic Standards for Enterprise Internal Control* and relevant requirements.

**Hexin Certified Public
Accountants LLP
Jinan, China**

**Chinese Certified Public Accountant: Zhao Bo
(Engagement Partner)**

Chinese Certified Public Accountant: Wang Lin

30 March 2021



I. SUMMARY OF THE GUARANTEES

In order to cater for the production and operation capital requirements and business development needs of the Company and its wholly-owned subsidiaries, controlling subsidiaries (hereinafter referred to as the “**subsidiaries**”), and to ensure that the subsidiaries are able to carry out the production and operation activities smoothly, the Company intends to provide guarantees to the subsidiaries when they apply to the financial institution for comprehensive credit granting in 2021, with a maximum amount of RMB27,500 million.

The aforesaid guarantees provided to the subsidiaries include but are not limited to the guarantees provided for the actual amount incurred by the subsidiaries when they apply to the banks and other financial institutions for comprehensive credit granting and apply for the settlement of accounts payable to the suppliers, and when the company undertakes joint guarantee liabilities with the financial institutions such as banks granting borrowings to the subsidiaries by way of capital increase, but exclude guarantees in which the subsidiaries pledge or charge their assets or rights to carry out the aforesaid activities. The term of guarantee commences on the date of consideration and approval at the 2020 AGM and ends on the date of approval of the anticipated provision of guarantees to the subsidiaries at the next annual general meeting.

II. ANTICIPATED PROVISION OF GUARANTEES IN 2021

Based on the development expectations and budget on the capital needs of the subsidiaries in 2021, the Company intends to provide guarantees totaling RMB27,500 million to the following subsidiaries during the guarantee period. The particulars of the subsidiaries are as follows:

No.	Company name	Percentage of shareholding (%)	Registered capital (RMB0'000)	Legal representative	Principal business	Prediction on guarantee quota (RMB0'000)
1	Qingdao Haier Special Refrigerator Co., Ltd.	100	16,555.46	Li Weijie	Production of special fluorine-free refrigerators, and the after-sale services thereof, etc.	150,000
2	Hefei Haier Refrigerator Co., Ltd.	100	4,900	Li Weijie	Manufacture of electrical appliances, digital products and relevant accessories	100,000
3	Qingdao Haier Refrigerator Co., Ltd.	100	20,729	Li Weijie	Manufacturing of fluorine-free refrigerators, import and export of goods and technology, business management services and consulting, computer information technology services	100,000
4	Zhengzhou Haier Air-conditioning Co., Ltd.	100	10,000	Cao Chun Hua	Manufacture, R&D and sales of air-conditioners, home appliances and cooling equipment, etc.	200,000
5	Chongqing Haier Air-conditioning Co., Ltd.	100	13,000	Wang Youning	Manufacture and sale of air-conditioners, home appliances and cooling equipment	100,000
6	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	99.83	95,764	Wang Li	R&D, manufacture, sales and after sales service of air-conditioners and cooling equipment, etc.	200,000
7	Haier Singapore Investment Holding Co., Ltd.	100	/	/	Purchase, wholesale, retail, import and export of household appliances, etc.	900,000
8	Haier US Appliance Solutions, Inc.	100	/	/	R&D, product design, technical testing and analysis, etc.	1,000,000
Total						2,750,000

Subject to the approval of the above-mentioned guarantees at the general meeting, the Board of Directors authorizes the general manager office and others to decide the particular issues on each of the aforementioned guarantees made by the Company, adjust the guarantee quota among each level of the subsidiaries and among the subsidiaries in accordance with the actual operation needs of the Company, and sign the relevant legal documents on behalf of the Board of Directors. There is no need to convene additional board meetings or general meetings to consider matters such as adjustment of the above-mentioned guarantees amounts for subsidiaries, but the Company will disclose the actual amounts incurred and performances of the above-mentioned guarantees in the periodic reports.

III. GENERAL INFORMATION ON THE GUARANTEED PARTIES

Unit: RMB0'000

No.	Company name	Total assets	Total liabilities	Current liabilities	Bank borrowings	Net assets	Gearing ratio	Operating revenue	Net profit
1	Qingdao Haier Special Refrigerator Co., Ltd.	236,474.03	129,647.69	124,571.34		106,826.34	55%	505,072.25	44,483.07
2	Hefei Haier Refrigerator Co., Ltd.	294,870.91	240,540.73	235,718.17		54,330.18	82%	628,875.62	15,051.50
3	Qingdao Haier Refrigerator Co., Ltd.	220,688.04	106,511.01	103,396.92		114,177.02	48%	280,287.08	20,404.58
4	Zhengzhou Haier Air conditioning Co., Ltd.	114,689.20	63,259.34	62,817.45		51,429.86	55%	324,630.20	2,397.71
5	Chongqing Haier Air-conditioning Co., Ltd.	305,210.91	73,566.51	72,610.08		231,644.41	24%	285,832.84	5,073.34
6	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	891,513.46	438,804.92	403,212.77		452,708.55	49%	459,577.82	27,413.69
7	Haier Singapore Investment Holding Co., Ltd.	2,076,985.43	1,423,948.87	1,061,619.42	977,436.71	653,036.56	69%	1,267,459.06	22,718.94
8	Haier US Appliance Solutions, Inc.	5,018,422.69	2,513,390.29	1,359,079.33	853,604.11	2,505,032.40	50%	6,313,045.73	406,647.57

IV. PARTICULARS OF ANTICIPATED GUARANTEES FOR THE YEAR

The above guaranteed subsidiaries have not entered into guarantee contracts or agreements with related parties such as banks, and the actual guarantee amount will be subject to the signed and effected guarantee contracts. In the meantime, the Company may act as the guarantee body under the specific guarantee contracts through the subsidiaries. Each guarantee amount and term of the guarantee will be stipulated separately in the specific contracts.

The Company will be in strict compliance with the relevant laws and regulations as well as the constitutional documents such as the *Management Rules on External Guarantees of Haier Smart Home Co., Ltd.*, and will conduct the internal approval procedures on the guarantees and relevant guarantee contracts of the Company and the subsidiaries so as to control the financial risks of the Company.

**V. ACCUMULATED AMOUNT OF THE GUARANTEES AND THE SITUATION OF
GUARANTEES IN 2020**

As of 31 December 2020, the balance of guarantees provided by the Company, the wholly-owned and holding subsidiaries of the Company to the subsidiaries amounted to RMB29,431.65 million, representing 44.0% of the latest audited net assets of the Company, and 14.5% of the latest audited total assets of the Company. Apart from that, there is no external guarantees or overdue guarantees made by the Company and the subsidiaries. The above guarantees are in line with the operational development needs of the Company. All the guaranteed parties are subsidiaries in the scope of the Company's consolidated statements, and the internal review procedures have been duly conducted when the guarantees actually took place, which effectively controlled and prevented the guarantee risks. The guarantees and relevant amounts provided by the Company to the subsidiaries which remain in the guarantee term are all executions of guarantees approved by the previous general meeting, thus there is no need for the Company to otherwise perform internal review procedures and information disclosure obligations on such guarantees, the validity of which is subject to the conventions under the agreements entered into between the subsidiaries and the counterparties.

The guarantee quota to the subsidiaries in 2021 are in line with the actual situations of the Company and comply with the relevant laws and regulations as well as the requirements under the *Articles of Association*. The risks of such guarantees are overall under control, and are in the interests of the production and operation and long-term development of the Company. As such, it is approved that the Company and the subsidiaries provide a total of not more than RMB27,500 million guarantees to each other for banks and other various financing projects in 2021.

In 2020, the overseas revenue of the Company accounted for 48%. There were substantial amounts of foreign currency receipts and payments, deposits and loans in foreign currencies, and there was increasing impact of exchange rate fluctuations on the operating results of the Company. It is expected that the Company will continue to be exposed to increasing fluctuations of exchange rate or interest rate in 2021. In order to hedge the exchange rate and interest rate risks in the asset and liability business, the Company intends to conduct the foreign exchange fund derivatives business with a transaction balance of no more than US\$6.5 billion in 2021. The details are as follows:

I. OVERVIEW AND NECESSITY OF FOREIGN EXCHANGE FUND DERIVATIVES TRANSACTIONS

1. Foreign exchange fund derivatives transaction are foreign exchange hedging financial products approved by the People's Bank of China. The transaction principle is to enter into forward foreign exchange purchase agreements, foreign exchange settlement agreements and swap agreements with banks to agree on the foreign exchange currency, amount, term and exchange rate for foreign exchange purchases and settlements in the future. When the agreements expire, foreign exchange purchases and foreign exchange settlements will be dealt with at the currency, amount and exchange rate stipulated in these agreements to lock the cost of foreign exchange purchases and foreign exchange settlement in the current period.
2. The purpose of the Company's foreign exchange fund derivatives business is to hedge and prevent the exchange rate risks faced by the Company due to international trade business, and reduce the impact of exchange rate fluctuations on the performance of the Company. The cost of exchange transactions can be locked at a certain level in advance by conducting foreign exchange derivatives transactions, which can effectively hedge unexpected risks arising from the substantial fluctuations in exchange rates.
3. The scale of the foreign exchange fund derivatives business of the Company is commensurate with the actual volume of import and export business and the scale of overseas assets/liabilities of the Company, and there is no speculative operation. In the context of the continuous expansion of the overseas business scale of the Company, in order to ensure the sustained and robust development of the Company, accelerate the management and business integration and synergy between the Company and its new overseas subsidiaries, the Company believes that it is necessary to hedge the exchange rate risks by conducting foreign exchange fund derivatives business.

**II. SUMMARY OF PROPOSED FOREIGN EXCHANGE FUND DERIVATIVES
TRANSACTIONS****1. Forward foreign exchange settlement/purchase business**

For the import and export business of the Company, we enter into forward foreign exchange settlement/purchase contracts with banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law) to lock the foreign exchange settlement/purchase exchange rate of foreign exchange against RMB in the future and eliminate the impact of exchange rate fluctuations.

2. Currency swap business

In light of the different short-term and long-term demands for cash flow of the Company, we enter into swap contracts with banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law) to avoid the impact of exchange rate fluctuations.

3. Risk-controllable arbitrage portfolio business

This business is conducted to tackle the difference between foreign currency receipts and payments of the Company, and there is difference between the foreign currency forward exchange rate difference due to market fluctuations and the exchange rate difference arising from the theoretical spread, which may result in an arbitrage situation. We intend to appropriately operate the arbitrage businesses under controllable risks to cover the hedging costs, such as spot foreign exchange purchase plus forward foreign exchange settlement, foreign currency loan spot foreign exchange settlement plus forward foreign exchange purchase, etc.

4. Other NDF (Non-deliverable Forwards Foreign Exchange Transaction), currency futures and options business

The Company is exposed to increasingly diversify currency risks and increasing fluctuations in exchange rate, such as the Euro, Japanese yen, Indian rupee, Russian ruble, Thai baht, etc. There is no normal forwards deliverable for some currencies locally or the cost of hedging is extremely high. In order to enhance hedging measures and effectively hedge exchange rate risks, the Company will attempt to use other NDF, currency futures and option portfolios as supplementary and backup hedging methods.

5. Currency, interest rate swaps and other businesses

With the Company operates internationally, the scale of overseas business, assets and liabilities are keeping on increasing. In order to effectively hedge the exchange rate and interest rate fluctuation risks faced by overseas assets and liabilities, the Company intends to hedge exchange rate and interest rate fluctuation risks by using currency and/or interest rate swaps.

Based on the Company's import and export business and operating budget, the above items 1–4 are to hedge the risk of exchange rate fluctuations in the import and export business with the proposed transaction balance of not more than US\$4.0 billion in 2021; for item 5, it is to hedge the exchange rate and interest rate risk in assets and liabilities business with the proposed transaction balance of not more than US\$2.5 billion in 2021. The Company will adjust the actual transaction amounts of the above-mentioned items 1–5 within the range of total balance US\$6.5 billion according to actual business needs.

III. PRINCIPAL TERMS OF PROPOSED FOREIGN EXCHANGE FUND DERIVATIVES TRANSACTIONS

1. Contract term: The term of the foreign exchange fund transaction during the ordinary course of the Company is generally within one year. The contract term of currency/interest rate swap business in the assets and liabilities business ranges from 1 to 5 years.
2. Counterparty: Banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law, but for such businesses that fall within the scope of the foreign exchange derivatives business in this resolution, the counterparties of the Company and its subsidiaries do not include Haier Group Finance Co., Ltd. or other business entities under Haier Group that are permitted to engage in related business according to law).
3. Liquidity arrangement: All foreign exchange fund business shall depend on normal and reasonable import and export business background and match with the time of receipts and payments, and shall not affect the Company's liquidity.

IV. MANAGEMENT SYSTEM FOR FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS

In respect of the transaction norms of foreign exchange fund business, the Company internally conducts foreign exchange derivatives business in strict accordance with the relevant provisions of the *Foreign Exchange Risk Management Policy* and *Foreign Exchange Derivatives Transaction Management Rules*.

V. RISK ANALYSIS OF FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS

The Company and its holding subsidiaries adopt the principle of conservatism when conducting foreign exchange derivatives business, and shall not conduct foreign exchange transactions for speculation purposes. All foreign exchange fund business are conducted on the premise of normal production and operations and specific business operations to avoid and prevent exchange rate risks. However, there are still certain risks exist in conducting foreign exchange fund business:

1. Market risk

Unilateral forward foreign exchange settlement business: The Company will determine whether to enter into a forward contract based on the product cost (basically denominated in RMB) and market risk. By entering into the contract, we will lock the exchange rate price, and the unilateral forward foreign exchange settlement business will effectively protect against the market volatility risk, ensuring the Company secures reasonable and sound profit.

Unilateral forward foreign exchange purchase business: According to the import contract entered into with customers and the exchange rate risk, this business enables us to lock foreign exchange cost in the future. Although there is a certain risk of loss exists, the unilateral forward foreign exchange purchase business will effectively reduce the risk of market fluctuations by locking procurement costs.

Other NDF, currency futures and options businesses are mainly conducted when failing to enter into normal unilateral forward settlement/purchase of foreign exchange business or the cost is extremely high, which only serve as the supplements to the above unilateral business.

When conducting the arbitrage business, its return to maturity has been determined and there is no risk of market fluctuations.

Currency swap business is mainly designed to adjust the currency of assets or liabilities to match the currencies of assets and liabilities to avoid exchange rate fluctuation risks; interest rate swap business is to convert floating interest rate business to fixed interest rate business to avoid interest rate fluctuation risk, or in the case of a downward interest rate, convert fixed interest rate to floating interest rate to reduce costs. All of the above businesses have authentic transactions, and there is no speculation.

2. Exchange rate fluctuation risk

After the Company has locked the forward exchange rate based on the foreign exchange management strategy, if the actual trend of the foreign exchange rate significantly deviates from the direction of the Company's locked exchange rate fluctuations, the cost of the Company after the exchange rate is locked may exceed the cost when the exchange rate is not locked, thereby causing losses of Company. When the foreign exchange rate fluctuates significantly, the direction of the Company's locked exchange rate fluctuations is inconsistent with the direction of the foreign exchange hedging contract, thereby causing exchange losses. If the exchange rate does not fluctuate in future, a relatively greater deviation from the foreign exchange hedging contract will also result in exchange losses.

3. Internal control risks

The foreign exchange derivatives business is highly specialised and highly complicated, and may cause risks due to unsound internal control systems.

4. Transaction default risk

In the event of a breach of contract by the counterparty of a foreign exchange derivative transaction, the Company will not be able to obtain hedging profits in accordance with the agreement to hedge against the actual exchange losses of the Company, thereby resulting in losses by the Company.

5. Customer default risk

Overdue customer accounts receivable, adjustment of orders by customers, etc. will cause the actual payment of a transaction to be inconsistent with the expected payment, which may make the actual cash flow unable to fully match the term and amount of foreign exchange derivative transactions, thus resulting in losses by the Company.

VI. RISK CONTROL MEASURES TO BE ADOPTED BY THE COMPANY

1. The foreign exchange derivatives transactions is for the purpose of avoiding exchange rate risks, and limited to foreign exchange operations related to the import and export business and overseas asset/liability management of the Company, the Company shall not engage in foreign exchange derivative transactions for other purposes and outside of this scope.
2. By strictly following the *Foreign Exchange Risk Management Policy* and *Foreign Exchange Derivatives Transaction Management Rules*, we implement the approval process where the Company's general meeting and Board of Directors authorize the general manager/General Manager Office to be responsible for the operation and management of the foreign exchange derivatives transaction, and the Treasury Department serves as the department in charge of the conducting the transaction, and the Finance Department as the daily audit department.
3. The Company conducts foreign exchange derivatives business with large-scale banks and other financial institutions with legal qualifications, and the financial department keeps track of the changes in transaction in a timely manner, and strictly controls the occurrence of delivery default risks.
4. The foreign exchange derivatives business conducted by the Company must be based on the prudent forecast of foreign currency receipts (payments) of the Company. The delivery date of the foreign currency derivative must match the forecasted foreign currency receipt, deposit time or foreign currency payment time of the Company, or match the corresponding repayment term of bank borrowings in foreign currency.

VII. ANALYSIS OF FAIR VALUES

The Company recognizes and measures fair values in accordance with Chapter 7 "Determination of Fair Values" of the Accounting Standard for Enterprise No. 22 — Recognition and Measurement of Financial Instruments, and the fair values are generally determined in accordance with the prices provided by or obtained from banks and other pricing service institutions. The Company measures and recognises the fair values on a monthly basis.

VIII. ACCOUNTING POLICY AND ACCOUNTING PRINCIPLES

The accounting principles for the foreign exchange fund transactions carried out by the Company are based on the Accounting Standard for Enterprises. In accordance with the relevant requirements of the Accounting Standard for Enterprises No. 22 — Recognition and Measurement of Financial Instruments, Accounting Standard for Enterprises No. 24 — Hedging, and Accounting Standard for Enterprises No. 37 — Presentation of Financial Instruments and the guidelines of the Ministry of Finance, the Company conducts corresponding accounting treatments for its foreign exchange fund transaction business to reflect the relevant items in the balance sheet and income statement.

I. BASIC CONDITION OF THE PROCEEDS FROM ISSUANCE OF CONVERTIBLE BOND ISSUANCE PROJECT

With the approval of the CSRC's "Zheng Jian Xu Ke [2018] No.1912" and the consent from Shanghai Stock Exchange, the Company has issued 30,074,900 convertible corporate bonds to the public (hereinafter referred to as the "**Convertible Bond Issuance Project**"), with a par value of RMB100 each. The total proceeds were RMB3,007.49 million and the net proceeds were RMB2,980.0248 million after deducting the sponsorship underwriting fees and other issuance-related expenses. According to the Capital Verification Report (Hexin Yan Zi (2018) No. 000090) issued by Hexin Certified Public Accountants LLP (formerly known as "Shandong Hexin Certified Public Accountants LLP") after its verification on the receipt of proceeds, all the above proceeds have been credited to the account.

II. THE USE, DEPOSIT AND MANAGEMENT OF THE PROCEEDS FROM CONVERTIBLE BOND ISSUANCE PROJECT

(I) Use of funds for investment projects that are still using the proceeds

As of 31 December 2020, the use of funds for investment projects that are still using the proceeds is as follows:

Unit: RMB0'000

No.	Project name	Planned investment amount of proceeds	Accumulated actual investment amount	Using progress of funds for investment project
1	Project of high-end special refrigerators with 500,000 units annual outputs	52,420	50,970	97.23%
2	Project of Haier (Zhengzhou) Innovative Industrial Park Air Conditioning Production Base Intelligent Manufacturing Upgrade	7,800	3,063	39.27%
3	Project of Haier Jiaozhou Innovation Industrial Park Air Conditioning Intelligent Manufacturing and Upgrade	8,800	5,612	63.77%
4	Project of Hefei Haier Air Conditioning Co., Ltd. on increasing 2 million sets of energy-saving and environmentally-friendly air conditioners annually	20,864	15,731	75.40%
5	Project of high-end central air conditioner with an annual output of 1.5 million units	37,314	17,602	47.17%
6	Project of Haier North India Industrial Park Project (Phase I)	66,045	50,227	76.05%
7	Project of Haier Kitchen Appliance New Factory	30,110	21,805	72.42%
8	Project of Haier Kitchen Appliance Laiyang New Factory	27,620	26,306	95.24%
9	Project of Smart Home Operational System (U+) based on Natural Interaction and Cloud Brain	2,967	219	7.39%
Total		253,940	191,535	

**RESOLUTION ON CLOSING CERTAIN
FUND-RAISING FOR INVESTMENT PROJECTS
FROM CONVERTIBLE CORPORATE BONDS AND
PERMANENTLY SUPPLEMENTING THE WORKING CAPITAL
WITH THE SURPLUS FUNDS**

(II) Deposits of Proceeds

As of 31 December 2020, the special accounts for proceeds and the deposits of proceeds are as follows:

Unit: RMB

No.	Account name	Bank	Account No.	Account balance (as of 31 December 2020)
1	Haier Smart Home Co., Ltd.	CCB Haier Road Sub-branch	37150198551000000640	717,105.84
2	Haier Smart Home Co., Ltd.	BOC Qingdao Branch	244237870606	1,022,722.57
3	Haier Russian Washing Machine Co., Ltd.	ICBC Moscow Sub-branch	40702840500000010918(USD)	Account closed
			40702810200000010918(RUB)	Account closed
4	Hefei Haier Air-Conditioning Electronic Co., Ltd.	CCB Haier Road Sub-branch	37150198551000000669	2,979,846.24
5	Qingdao Haier (Jiaozhou) Air Conditioner Co., Ltd.	BOC Qingdao Branch	235138702712	272,204.30
6	Qingdao Haier Technology Co., Ltd.	BOC Qingdao Branch	228639313388	965,987.88
7	Qingdao Haier Special Refrigeration Appliance Co., Ltd.	BOC Qingdao Branch	210438496214	1,590,071.99
8	AQUA Electrical Appliances Vietnam Co., Ltd.	BOC HoChiMinh City Branch	100000600301527(USD)	0.00
9	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	BOC Qingdao Branch	227338455528	6,024,747.52
10	Hefei Haier Air Conditioning Co., Ltd.	CCB Haier Road Sub-branch	37150198551000000672	4,820,666.06
11	Lai Yang Haier Smart Kitchen Appliances Co., Ltd.	CCB Haier Road Sub-branch	37150198551000000674	11,054,566.55
12	Zhengzhou Haier Air Conditioning Co., Ltd.	CCB Haier Road Sub-branch	37150198551000000670	169,106.27
13	Haier Appliances (India) Private Limited	ICBC Mumbai Sub-branch	0166000100000164728(RUB)	1,570,590,735.34
			0166000100000169238(USD)	18,739.80
	Subtotal of balance in Proceeds account (converted to RMB amount)			169,685,217.42
	The amount of idle Proceeds for cash management			463,518,078.00
	Total balance of unused Proceeds			633,203,295.42

(III) Management of Proceeds

1. Cash management

After deliberation at the 26th meeting of the ninth session of Board of Directors and the seventh meeting of the tenth session of Board of Directors, it was agreed that the Company may use no more than RMB1.5 billion and RMB700 million of idle proceeds for cash management within 12 months from 24 January 2019 and within 18 months from 28 April 2020 respectively, which can be utilized on a rolling basis within the above-mentioned quota and period. The independent directors, the Board of Supervisors and the sponsors expressed agreement or no objection to the above matters respectively.

As of 31 December 2020, the balance of financial products purchased by the Company from the above-mentioned proceeds for cash management was RMB463,518,078.

2. Replenishment of working capital

The Company held the third meeting of the tenth session of Board of Directors on 29 August 2019, at which the “Proposal on Using Part of Idle Proceeds to Temporarily Replenish Working Capital of Haier Smart Home Co., Ltd.” was reviewed and approved, and decided to use no more than RMB35 million of the proceeds to replenish the working capital of “Russian Front-loading Washing Machine Manufacturing Base Project” temporarily for a period of no more than 12 months from the date of approval by the Board of Directors. The independent directors, the Board of Supervisors and the sponsors expressed agreement or no objection to the above matters respectively.

On 28 April 2020, the seventh meeting of the Company’s tenth session of Board of Directors deliberated and approved the “Proposal on Closing Certain Fund-raising for Investment Project and Permanently Supplementing the Working Capital with the Surplus Funds”, agreeing to permanently replenish the working capital with the surplus proceeds totaled RMB97.03 million upon the completion of Russian Front-loading Washing Machine Manufacturing Base Project and Vietnamese Front-loading Washing Machine Manufacturing Base Project under “construction project of manufacturing base launched for the ‘Belt and Road’ and overseas new markets”. Independent directors, the Board of Supervisors and the sponsors expressed their affirmative opinions on the foregoing matters.

As of 31 December 2020, an accumulative total of RMB2,397,570,000 of the proceeds from the Convertible Bond Issuance Project was used, with a balance of RMB633,200,000 (the account balance includes the income generated by the Company's purchase of wealth management products, interest on demand deposits, exchange gains and losses and unutilized proceeds).

III. THE INVESTMENT PROJECTS TO BE COMPLETED AND THE USE AND BALANCE OF ITS PROCEEDS

According to the implementation of the project, Project of Haier (Zhengzhou) Innovative Industrial Park Air Conditioning Production Base Intelligent Manufacturing Upgrade (hereinafter referred to as the “**Zhengzhou Air Conditioning Project**”) and Project of Smart Home Operational System (U+) based on Natural Interaction and Cloud Brain (hereinafter referred to as the “**U+ Project**”, together with Zhengzhou Air Conditioning Project referred to as the “**Investment Projects to Be Completed**”) are proposed to be completed. As of 15 March 2021, the use and balance of proceeds for the Investment Projects to Be Completed are as follows:

Unit: RMB0'000

Investment projects funded by the Proceeds	Planned investment amount of proceeds	Accumulated investment amount of proceeds	Investment amount of proceeds unutilised	The balance to be paid
Zhengzhou Air Conditioning Project	7,800	3,173	4,627	461
U+ Project	2,967	219	2,748	—
Total	10,767	3,392	7,375	461

Based on the above, as of 15 March 2021, the Zhengzhou Air Conditioning Project has remained RMB46.27 million in proceeds and the U+ Project has remained RMB27.48 million in proceeds, for a total of RMB73.75 million in proceeds.

**IV. THE MAIN REASON FOR SAVING PROCEEDS OF INVESTMENT PROJECTS
TO BE CLOSED****(I) Zhengzhou Air Conditioning Project**

1. In the construction process of Zhengzhou Air Conditioning Project, the Company used the proceeds strictly in accordance with the relevant requirements of the proceeds management, and according to the project planning and the actual situation, the Company optimised the equipment procurement and project implementation plan, strengthened the cost control, supervision and management. The Company used the proceeds carefully and saved part of the proceeds on the premise of ensuring the quality of the investment projects funded by proceeds as well as in line with reasonable, effective and frugal principles.
2. In the implementation process of Zhengzhou Air Conditioning Project, the Company carried out detailed investigations and scientific planning, strengthened the comprehensive management of production, and significantly improved the production automation, intelligence and product R&D manufacturability, reduced the implementation cost, and obtained a higher output of production capacity with the same input related to production, thereby saving part of the proceeds.
3. In the implementation process of Zhengzhou Air Conditioning Project, the Company used idle proceeds for cash management and obtained certain interest income.

(II) U+ Project

1. Based on the project planning and the actual development of the Company's business and in line with the principle of cost control and efficiency improvement and with the development of emerging technologies, the Company decided to lease R&D equipment or use cloud service instead of procuring most R&D equipment according to the implementation plan, therefore, the implementation of the project no longer requires proceeds for fixed asset investment.
2. The Company used existing promises for project R&D without building new laboratory as planned due to the overall relocation of the building that was originally planned as testing laboratory, thereby saving construction capital.
3. In the implementation process of U+ Project, the Company used idle proceeds for cash management and obtained certain interest income.

V. PLAN OF USE OF SURPLUS PROCEEDS

After completing the construction of Zhengzhou Air Conditioning Project and U+ Project, the air conditioner production scale of the Company and the technical level of IOT operating system have been improved and the supporting working capital investment has increased. In order to further improve the efficiency of use of proceeds, improve financial situation of the Company, reduce financial costs of the Company, and promote the economic benefits of the Company, the Company intends to use the unused amount of the proceeds investment of RMB73.75 million in total in terms of the aforementioned two projects to permanently replenish working capital of the Company for daily operations of the Company. When the last installments of Zhengzhou Air Conditioning Project meet the conditions of payment, the Company would make the payment with its own funds in accordance with the relevant contracts. After the supplement of working capital, the Company will cancel the relevant accounts of proceeds, thus the supervisory agreements of the special account entered into by the Company with the sponsors, the project implementation body and the bank will be terminated.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide the requisite information to you for your consideration of the repurchase mandate.

SHARE CAPITAL

On 1 June 2021 (the “**Latest Practicable Date**”), the total issued capital of the Company was RMB9,398,164,915, comprising 2,818,598,288 H Shares of RMB1.00 each, 6,308,552,654 A Shares of RMB1.00 each and 271,013,973 D Shares of RMB1.00 each. The Company has issued HK\$8,000,000,000 Zero Coupon Guaranteed Convertible Bonds due in 2022 convertible into the ordinary H Shares of the Company (Stock Code: 5024), with balance of HK\$898,000,000. The balance of such bonds will be convertible into 47,672,620 H Shares, representing approximately 0.51% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.50% of the issued share capital of the Company as enlarged by the issuance of such Shares (assuming that there is no other change to the issued share capital of the Company).

If the special resolutions are approved at the AGM and the Class Meetings, respectively, the Board will be granted the repurchase mandate until the earlier of (a) the conclusion of the 2021 annual general meeting of the Company; or (b) the date on which the authorities conferred by the relevant special resolution is revoked or varied by special resolution by the Shareholders at the general meeting, the A Shares Class Meeting, the D Shares Class Meeting and the H Shares Class Meeting, respectively (the “**Relevant Period**”).

REASONS FOR THE REPURCHASE OF H SHARES

The Directors believe that the flexibility offered by the repurchase mandate would be beneficial to the Company and the Shareholders as a whole. At any time in the future when the Shares are trading at a discount to their underlying value, the ability of the Company to repurchase the Shares will be beneficial to the Shareholders who retain their investment in the Company as their proportionate interest in the assets of the Company would increase in proportion to the number of Shares repurchased by the Company from time to time and thereby resulting in an increase in net asset value and/or earnings per Share. Such repurchases will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

EXERCISE OF THE REPURCHASE MANDATE

The exercise in full of the repurchase mandate would not result in repurchasing more than 10% of the total H Shares in issue on the date of passing the relevant special resolution at the AGM and the Class Meetings. On the basis of 2,818,598,288 H Shares in issue as at the Latest Practicable Date and no H Shares will be allotted, issued or repurchased by the Company on or prior to the date of the AGM and the Class Meetings, the repurchased shares would not be more than 281,859,828 H Shares (which may be adjusted based on the conversion of the convertible bonds) being repurchased by the Company according to the repurchase mandate during the Relevant Period.

FUNDING OF REPURCHASES

In the repurchase of H Shares, the Company intends to and can only utilise self-owned funds or self-raising funds of the Company legally available for such purpose in accordance with the Articles of Association, Listing Rules and the applicable laws, rules and regulations of the PRC.

The Directors consider that there will not be a material adverse impact on the working capital or on the gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the 2020 results announcement of the Company dated 30 March 2021) in the event that the repurchase mandate is to be exercised in full at any time during the Relevant Period.

PRICES OF H SHARES

The highest and lowest prices at which the H Shares have been traded on the Stock Exchange during the 12 months preceding the Latest Practicable Date were as follows:

Month	H Shares	
	Highest Trading Price	Lowest Trading Price
	<i>HK\$</i>	<i>HK\$</i>
2020		
December	28.80	22.60
2021		
January	37.30	28.35
February	38.45	29.00
March	32.80	27.80
April	34.80	31.55
May	34.30	29.30
June (up to the Latest Practicable Date)	33.20	31.55

DIRECTORS' UNDERTAKINGS AND GENERAL INFORMATION

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers to make repurchases pursuant to the approved special resolution regarding the repurchase mandate in accordance with the Listing Rules and the applicable laws, rules and regulations of the PRC.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) presently have the intention to sell H Shares (if any) to the Company in the event that the repurchase mandate is approved by the Shareholders at the AGM and the Class Meetings, and the conditions (if any) to which the repurchase mandate is subject are fulfilled.

The Company has not been notified by any core connected persons (as defined in the Listing Rules) of the Company that they have a present intention to sell any H Shares to the Company, nor they have undertaken not to sell any H Shares held by them to the Company in the event that the repurchase mandate is approved by the Shareholders at the AGM and the Class Meetings and the conditions (if any) to which the repurchase mandate is subject are fulfilled.

TAKEOVERS CODE AND THE PUBLIC FLOAT REQUIREMENT

If a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Company's repurchase of shares pursuant to the repurchase mandate, such increase will be treated as an acquisition of voting rights for the purposes of Rule 32 of the Takeovers Code and, if such increase results in a change of control or consolidation of control, it may in certain circumstances give rise to an obligation to make a mandatory offer for Shares under Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors, Haier Group is the controlling Shareholder of the Company, holding approximately 33.76% interests of the ordinary shares of the Company in issue. The Company expects that exercising repurchase mandate in full will not have any implications for Haier Group under the Takeovers Code. The Directors are not aware of any other consequences under the Takeovers Code and any similar applicable laws which would arise from any repurchasing actions under the repurchase mandate.

The Directors do not propose to repurchase shares to the extent that would make the public float fall below the minimum requirements under Rule 8.08 of the Listing Rules.

SHARES REPURCHASED BY THE COMPANY

The Company has made repurchase of 13,019,600 H Shares and repurchase of 22,535,217 A Shares during the six months prior to the Latest Practicable Date.

STATUS OF REPURCHASED SHARES

Pursuant to the Listing Rules, the listing of all repurchased H Shares of the Company will be automatically cancelled and the relevant certificates will be cancelled and destroyed.

Under the PRC law, the repurchased H Shares will be cancelled and, if so cancelled, the amount of the Company's registered capital shall be reduced by the aggregate nominal value of the cancelled H Shares accordingly.

APPENDIX VI EXPLANATORY STATEMENT FOR THE REPURCHASE OF D SHARES

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide the requisite information to you for your consideration of the repurchase mandate.

SHARE CAPITAL

On 1 June 2021 (the “**Latest Practicable Date**”), the total issued capital of the Company was RMB9,398,164,915, comprising 2,818,598,288 H Shares of RMB1.00 each, 6,308,552,654 A Shares of RMB1.00 each and 271,013,973 D Shares of RMB1.00 each. The Company has issued HK\$8,000,000,000 Zero Coupon Guaranteed Convertible Bonds due in 2022 convertible into the ordinary H Shares of the Company (Stock Code: 5024), with balance of HK\$898,000,000. The balance of such bonds will be convertible into 47,672,620 H Shares, representing approximately 0.51% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.50% of the issued share capital of the Company as enlarged by the issuance of such Shares (assuming that there is no other change to the issued share capital of the Company).

If the special resolutions are approved at the AGM and the Class Meetings, respectively, the Board will be granted the repurchase mandate until the earlier of (a) the conclusion of the 2021 annual general meeting of the Company; or (b) the date on which the authorities conferred by the relevant special resolution is revoked or varied by special resolution by the Shareholders at the general meeting, the A Shares Class Meeting, the D Shares Class Meeting and the H Shares Class Meeting, respectively (the “**Relevant Period**”).

REASONS FOR THE REPURCHASE OF D SHARES

The Directors believe that the flexibility offered by the repurchase mandate would be beneficial to the Company and the Shareholders as a whole. At any time in the future when the Shares are trading at a discount to their underlying value, the ability of the Company to repurchase the Shares will be beneficial to the Shareholders who retain their investment in the Company as their proportionate interest in the assets of the Company would increase in proportion to the number of Shares repurchased by the Company from time to time and thereby resulting in an increase in net asset value and/or earnings per Share. Such repurchases will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

EXERCISE OF THE REPURCHASE MANDATE

The exercise in full of the repurchase mandate would not result in repurchasing more than 10% of the total D Shares in issue on the date of passing the relevant special resolution at the AGM and the Class Meetings. On the basis of 271,013,973 D Shares in issue as at the Latest Practicable Date and no D Shares will be allotted, issued or repurchased by the Company on or prior to the date of the AGM and the Class Meetings, the repurchased shares would not be more than 27,101,397 D Shares being repurchased by the Company according to the repurchase mandate during the Relevant Period.

FUNDING OF REPURCHASES

In the repurchase of D Shares, the Company intends to utilise self-owned funds or self-raising funds of the Company legally available for such purpose in accordance with the Articles of Association, Listing Rules and the applicable laws, rules and regulations of the PRC.

The Directors consider that there will not be a material adverse impact on the working capital or on the gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the 2020 results announcement of the Company dated 30 March 2021) in the event that the repurchase mandate is to be exercised in full at any time during the relevant period.

PRICES OF D SHARES

The highest and lowest prices at which the D Shares have been traded on Xetra of the Frankfurt Stock Exchange during the 12 months preceding the Latest Practicable Date were as follows:

Month	D Shares	
	Highest Trading Price	Lowest Trading Price
	<i>EUR</i>	<i>EUR</i>
2020		
June	0.72	0.64
July	0.84	0.65
August	0.83	0.71
September	0.80	0.70
October	0.85	0.75
November	1.04	0.85
December	1.84	0.98
2021		
January	2.59	1.49
February	2.57	1.86
March	2.10	1.77
April	2.03	1.82
May	1.85	1.60
June (up to the Latest Practicable Date)	1.82	1.78

DIRECTORS' UNDERTAKINGS AND GENERAL INFORMATION

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers to make repurchases pursuant to the proposed special resolution to approve the repurchase mandate in accordance with the Listing Rules and the applicable laws, rules and regulations of the PRC.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) presently have the intention to sell D Shares (if any) to the Company in the event that the repurchase mandate is approved by the Shareholders at the AGM and the Class Meetings, and the conditions (if any) to which the repurchase mandate is subject are fulfilled.

The Company has not been notified by any core connected persons (as defined in the Listing Rules) of the Company that they have a present intention to sell any D Shares to the Company, nor they have undertaken not to sell any D Shares held by them to the Company in the event that the repurchase mandate is approved by the Shareholders at the AGM and the Class Meetings and the conditions (if any) to which the repurchase mandate is subject are fulfilled.

TAKEOVERS CODE AND THE PUBLIC FLOAT REQUIREMENT

If a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Company's repurchase of shares pursuant to the repurchase mandate, such increase will be treated as an acquisition of voting rights for the purposes of Rule 32 of the Takeovers Code and, if such increase results in a change of control or consolidation of control, it may in certain circumstances give rise to an obligation to make a mandatory takeover offer for Shares under Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors, Haier Group is the controlling Shareholder of the Company, holding approximately 33.76% interests of the ordinary shares of the Company in issue. The Company expects that exercising repurchase mandate in full will not have any implications for Haier Group under the Takeovers Code. The Directors are not aware of any other consequences under the Takeovers Code and any similar applicable laws which would arise from any repurchasing actions under the repurchase mandate.

The Directors do not propose to repurchase shares to the extent that would make the public float fall below the minimum requirements under Rule 8.08 of the Listing Rules.

SHARES REPURCHASED BY THE COMPANY

No repurchase of D Shares but repurchase of 13,019,600 H Shares and 22,535,217 A Shares has been made by the Company during the six months prior to the Latest Practicable Date.

No.	Original provisions	Amended provisions	Basis or reason of amendment
1	Article 7 The Company's registered capital is RMB9,027,846,441 .	Article 7 The Company's registered capital is RMB9,284,895,068 .	Conversion of H Share convertible bonds issued by the Company
2	Article 25 The capital structure of the Company was comprised of 9,027,846,441 ordinary shares in total, of which the domestic shareholders hold 6,308,552,654 shares (representing 69.88% of total number of ordinary shares issued by the Company); the shareholders of overseas-listed foreign shares (D Share) hold 271,013,973 shares (representing 3.00% of total number of ordinary shares issued by the Company); the shareholders of overseas-listed foreign shares (H Share) hold 2,448,279,814 shares (representing 27.12% of total number of ordinary shares issued by the Company).	Article 25 The capital structure of the Company was comprised of 9,284,895,068 ordinary shares in total, of which the domestic shareholders hold 6,308,552,654 shares (representing 67.94% of total number of ordinary shares issued by the Company); the shareholders of overseas-listed foreign shares (D Share) hold 271,013,973 shares (representing 2.92% of total number of ordinary shares issued by the Company); the shareholders of overseas-listed foreign shares (H Share) hold 2,705,328,441 shares (representing 29.14% of total number of ordinary shares issued by the Company).	Conversion of H Share convertible bonds issued by the Company
3	Article 197 Rights of an independent director: (4) independent directors shall account for at least over one-half of the members of the remuneration and evaluation committee, audit committee, nomination committee, strategy committee or other such committees under the Board of Directors of the Company.	Article 197 Rights of an independent director: (4) independent directors shall be the majority in the remuneration and evaluation committee, audit committee, nomination committee, strategy committee or other such committees under the Board of Directors of the Company.	Consistent with Article 205

The Company currently intends to make the following amendments to *the Rules of Procedure for the Meeting of the Board of Directors of Haier Smart Home Co., Ltd.* to further improve the corporate system:

No.	Original provisions	Amended provisions	Basis or reason of amendment
	Article 2 The Board of Directors shall comprise of <i>nine</i> directors, <i>three</i> of which shall be independent directors. The Board of Directors shall have one chairman and one to two vice chairman/chairmen. The directors are not required to hold the shares of the Company.	Article 2 The Board of Directors shall comprise of <i>eight to thirteen</i> directors, <i>three to five</i> of which shall be independent directors. The Board of Directors shall have one chairman and one to two vice chairman/chairmen. The directors are not required to hold the shares of the Company.	Consistent with the Articles of Association
1	Article 3 The table in Article 3, to comply with the laws, administrative regulations, departmental rules, listing rules of the place where the Company's securities are listed or the <i>Articles of Association</i> , and exercise other functions and powers conferred by the general meeting...	Article 3...18. to comply with the laws, administrative regulations, departmental rules, listing rules of the place where the Company's securities are listed or the <i>Articles of Association</i> , and exercise other functions and powers conferred by the general meeting...	Improve the accuracy of expression

No.	Original provisions	Amended provisions	Basis or reason of amendment
2	Article 40 These Rules shall be considered and approved by the general meeting and shall be effective from the date when the Company's overseas listed foreign shares (H shares) are listed on the Stock Exchange of Hong Kong Limited. As of the effective date of these Rules, the original Rules of Procedure for the meeting of the Board of Directors of the Company will lapse automatically.	Article 40 These Rules shall be effective from the date when they are considered and approved by the general meeting and shall be effective from that date when the Company's overseas listed foreign shares (H shares) are listed on the Stock Exchange of Hong Kong Limited. As of the effective date of these Rules, the original Rules of Procedure for the meeting of the Board of Directors of the Company will lapse automatically.	Amend according to the actual situation of the Company
3	All references to "Manager" and "Deputy Manager" in the Articles	Amend to "President" and "Vice President"	Consistent with the Articles of Association

The Company proposes to amend the Rules of Procedures of the Board of Supervisors as follows to further improve the system of the Company:

No.	Original Clause	Amended Clause	Basis or Reason of Amendment
1	<p>Article 2 the Board of Supervisors shall exercise the following functions and powers in accordance with the Companies Law and the Articles of Association:</p> <p><i>1. inspecting the financial position of the Company;</i></p> <p><i>2. reviewing the Company's regular reports prepared by the Board of Directors and put forward audit opinions in writing;</i></p> <p><i>3. supervising the performance of duties of the Company by directors, managers and other senior management who have violated the laws, regulations or the Articles of Association;</i></p> <p><i>4. where directors, managers and other senior management has acted against the interests of the Company, requiring the directors or senior management to rectify and reporting to the shareholders' general meeting or the competent State authorities if necessary;</i></p> <p><i>5. proposing the convening of an interim general meeting;</i></p> <p><i>6. making proposals to the shareholders' general meeting;</i></p> <p><i>7. attending the board meetings;</i></p> <p><i>8. negotiating with the directors or filing a lawsuit against a director or senior management on behalf of the Company;</i></p> <p><i>9. verifying financial information such as financial reports, business reports, profit distribution plans, etc. that the Board of Directors intends to submit to the shareholders' general meeting and, if in doubt, a registered accountant or practicing auditor shall be appointed in the name of the Company to assist in reviewing such information.</i></p> <p><i>10. any other functions and powers stipulated in the Articles of Association or granted by the shareholders' general meeting.</i></p> <p><i>The expenses incurred by the Board of Supervisors may, when necessary, employ law firms, accounting firms and other professional institutions to provide assistance in exercising their functions and powers shall be borne by the Company.</i></p>	<p>Article 2 the Board of Supervisors shall exercise the following functions and powers in accordance with the Companies Law and the Articles of Association:</p> <p><i>1. reviewing the securities issuance documents and periodic reports prepared by the Board of Directors and putting forward audit opinions in writing and providing signatory confirmation; ensuring that the Company discloses information in a timely and fair manner, and the information disclosed is authentic, accurate, and complete; in the event that the authenticity, accuracy, completeness of the securities issuance documents and periodic reports cannot be guaranteed or there exists disagreement, supervisors shall express their opinions and state reasons in the written confirmation which the Company should disclose. If the Company does not disclose, supervisors may directly apply for disclosure;</i></p> <p><i>2. supervising the finance of the Company;</i></p> <p><i>3. supervising the directors or senior management in their performance of duties and proposing the removal of directors or senior management who have contravened any law, regulations, the Articles of Association or resolutions of the shareholders' general meeting;</i></p> <p><i>4. where directors and senior management has acted against the interests of the Company, requiring the director and senior management to rectify and reporting to the shareholders' general meeting or the competent State authorities if necessary;</i></p> <p><i>5. proposing the convening of an interim general meeting and convening and presiding over shareholders' general meeting when the Board of Directors fails to perform such duty;</i></p> <p><i>6. making proposals to the shareholders' general meeting;</i></p> <p><i>7. filing a lawsuit against a director or senior management;</i></p> <p><i>8. verifying financial information such as financial reports, business reports, profit distribution plans, etc. that the Board of Directors intends to submit to the shareholders' general meeting and, if in doubt, a registered accountant or practicing auditor shall be appointed in the name of the Company to assist in reviewing such information. The expenses incurred by the Board of Supervisors may, when necessary, employ law firms, registered accountant, practicing auditor and other professional institutions to provide assistance in exercising their functions and powers shall be borne by the Company.</i></p>	Amended in accordance with the article 82 of Securities Law and the Articles of Association

No.	Original Clause	Amended Clause	Basis or Reason of Amendment
2	Article 25 the Rules of Procedures shall be approved by the general meeting of shareholders of the Company and shall come into force on the date <i>when the foreign shares (H shares) of the Company listed abroad are listed on the Stock Exchange of Hong Kong Limited</i> . The original Rules of Procedures of the Company shall automatically become invalid upon the date when the Rules of Procedures become effective.	Article 25 the Rules of Procedures shall be approved by the general meeting of shareholders of the Company and shall come into force on the date when the foreign shares (H shares) of the Company listed abroad are listed on the Stock Exchange of Hong Kong Limited when approved by the general meeting of shareholders of the Company. The original Rules of Procedures of the Company shall automatically become invalid upon the date when the Rules of Procedures become effective.	The issue related to the listing of H shares of the Company has been completed
3	All expression of “ <i>manager</i> ”, “ <i>deputy manager</i> ” in the Articles	both amended as “ <i>president</i> ” and “ <i>vice-president</i> ”	Amended in accordance with the Articles of Association

The Company proposes to make the following amendments to *the Management Rules for the External Guarantee of Haier Smart Home Co., Ltd.* currently to further improve the corporate system:

No.	Original provisions	Amended provisions	Basis or reason of amendment
1	<p>Article 1 In order to regulate external guarantee management of Haier Smart Home Co., Ltd. (hereinafter referred to as the “Company”), control the corporate operation risks, and safeguard investors’ legitimate rights and interests and the corporate financial security, the Company has formulated this System in accordance with the relevant requirements under relevant laws, regulations and normative documents such as the <i>Company Law of the People’s Republic of China</i>, the <i>Guarantee Law of the People’s Republic of China</i>, the <i>Notification on Standardizing the Capital Transfer between Listed Companies and Related Parties and on Certain Issues of External Guarantee of Listed Companies</i>(《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》), the <i>Notification on Standardizing External Guarantee Behavior of Listed Companies</i>(《關於規範上市公司對外擔保行為的通知》), the <i>Rules Governing the Listing of Stocks on the Shanghai Stock Exchange</i>, the <i>Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited</i> (hereinafter referred to as the “<i>Hong Kong Listing Rules</i>”)as well as the <i>Articles of Association of Haier Smart Home Co., Ltd.</i> (hereinafter referred to as the “<i>Articles of Association</i>”).</p>	<p>Article 1 In order to regulate external guarantee management of Haier Smart Home Co., Ltd. (hereinafter referred to as the “Company”), control the corporate operation risks, and safeguard investors’ legitimate rights and interests and the corporate financial security, the Company has formulated this System in accordance with the relevant requirements under relevant laws, regulations and normative documents such as the <i>Company Law of the People’s Republic of China</i>, the <i>Civil Code of the People’s Republic of China</i>, the <i>Notification on Standardizing the Capital Transfer between Listed Companies and Related Parties and on Certain Issues of External Guarantee of Listed Companies</i>(《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》), the <i>Notification on Standardizing External Guarantee Behavior of Listed Companies</i>(《關於規範上市公司對外擔保行為的通知》), the <i>Rules Governing the Listing of Stocks on the Shanghai Stock Exchange</i>, the <i>Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited</i> (hereinafter referred to as the “<i>Hong Kong Listing Rules</i>”)as well as the <i>Articles of Association of Haier Smart Home Co., Ltd.</i> (hereinafter referred to as the “<i>Articles of Association</i>”).</p>	From 1 January 2021, the <i>Civil Code</i> came into effect, and the <i>Guarantee Law</i> was abolished at the same time

No.	Original provisions	Amended provisions	Basis or reason of amendment
2	<p>Article 2 The external guarantee mentioned herein refers to the guarantee provided by the Company and the subsidiaries of the Company as a third party for other independent legal entity in the form of warranty, collateral, pledge or other forms as permitted by law based on the principle of fairness, willingness and mutual benefit and in accordance with the <i>Guarantee Law</i> (《擔保法》) and the guarantee contract or agreement, by providing which, the Company or such subsidiaries shall bear corresponding legal liabilities by law. The guarantee provided by the Company for a subsidiary is deemed as an external guarantee. The guarantee referred to herein include the guarantor's assumption of liabilities or provision of property to guarantee the fulfillment of obligation by the obligor.</p>	<p>Article 2 The external guarantee mentioned herein refers to the guarantee provided by the Company and the subsidiaries of the Company as a third party for other independent legal entity in the form of warranty, collateral, pledge or other forms as permitted by law based on the principle of fairness, willingness and mutual benefit and in accordance with the <i>relevant laws, regulations</i> and the guarantee contract or agreement, by providing which, the Company or such subsidiaries shall bear corresponding legal liabilities by law. The guarantee provided by the Company for a subsidiary is deemed as an external guarantee. The guarantee referred to herein include the guarantor's assumption of liabilities or provision of property to guarantee the fulfillment of obligation by the obligor.</p>	Improve the accuracy of expression
3	<p>Article 45 This system shall be considered by the general meeting of the Company for approval, and will be effective on the date when the Company's overseas listed foreign shares (H shares) are listed on the Main Board the Stock Exchange of Hong Kong Limited. Since the effective date of this system, the Company's original <i>Management System on External Guarantee of Haier Smart Home Co., Ltd.</i> shall lapse automatically.</p>	<p>Article 45 This system shall be effective from the date when it is considered by the general meeting of the Company for approval, and will be effective on that date when the Company's overseas listed foreign shares (H shares) are listed on the Main Board the Stock Exchange of Hong Kong Limited. Since the effective date of this system, the Company's original <i>Management System on External Guarantee of Haier Smart Home Co., Ltd.</i> shall lapse automatically.</p>	Amend according to the actual situation of the Company
4	All references to "Manager" and "Deputy Manager" in the Articles	Amend to "President" and "Vice President"	Adjust to meet the needs of the Company

**Core Employees A Share Ownership Plan
of
Haier Smart Home Co., Ltd.
(For Years 2021–2025)
(Draft)**

May 2021

Risk Warning

- (I) This ESOP can only be implemented after being approved by the shareholders' meeting of the Company, or approved by the board of directors of the Company with the authorization of the shareholders' meeting, but it is uncertain whether or not it can be approved by the shareholders' meeting or the board of directors of the Company;
- (II) The specific capital source, amount of contribution and implementation plan of the ESOP are preliminary results, and it is uncertain whether or not it can be implemented successfully;
- (III) The ESOP will be managed by a professional institution after it is established, but it is uncertain whether or not it can achieve the planned scale and goal; the contract related to Asset Management ESOP has not been formally signed, so there is uncertainty;
- (IV) Investors should make prudent decisions and pay attention to investment risks.

**Core Employees A Share Ownership Plan
of
Haier Smart Home Co., Ltd.
(For Year 2021–2025)
(Draft)**

Special Tips

The terms used in this part shall have the meaning set forth in the “Interpretation”.

1. This Draft ESOP is formulated by the Company in accordance with the Company Law, the Securities Law, the Guiding Opinions on Pilot Implementation of ESOP by Listed Companies and other relevant laws, administrative regulations, rules, normative documents of China, as well as the Articles of Association of the Company.
2. The ESOP follows the principle of the Company’s independent decision and employees’ voluntary participation, and in no event will employee be forced to participate in the ESOP through the ways such as apportionment and forced distribution.
3. Participants of the ESOP shall include the directors (except for independent directors, the same hereinafter), supervisors and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries. There should be no more than 1599 employees participating in the ESOP for 2021. The board of directors of the Company may adjust the list of employees participating in the ESOP for subsequent years and the distribution proportion according to the changes and assessment results of employees.
4. The funds to be used for participating the ESOP shall be sourced from the incentive funds drawn by the Company, the legitimate salaries of employees, the self-owned funds of Participants, and other forms of funds permitted by laws and regulations. In case incentive funds will be used, the amount of incentive funds to be withdrawn shall be a certain proportion of the net profit as shown in the audited consolidated statements of the previous year. The amount of incentive funds to be withdrawn for the ESOP for 2021 shall be RMB708 million, and the amount of incentive funds to be withdrawn for the ESOP for subsequent years shall be determined by the board of directors with the authorization of the shareholders’ meeting.
5. The shares to be used for implementing the ESOP shall be sourced from: (1) A Share of the Company repurchased; (2) A Share of the Company purchased from the secondary market; (3) A Share of the Company that are not publicly issued; (4) A Share of the Company voluntarily donated by A share to A share A shares to A shares G/C the whole book holders; (5) other ways permitted by laws and administrative regulations. The source of shares under the A Share ESOP for 2021 is expected to be shares repurchased by the Company.

6. Duration, lock-up period and vesting period of the ESOP

The ESOP shall be set up in a rolling way. If an ESOP is set up for each year from 2021 to 2025, each ESOP shall be independent of each other. The duration of each ESOP shall not exceed five years, calculated from the date when the Company announces that the Underlying Shares obtained in the last time for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors with the authorization of the shareholders' meeting. With the authorization of the shareholders' meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year after 2022 based on the actual needs, and implement the ESOP within the scope authorized hereunder. The total number of shares held under those established and existing ESOPs (including H share to H share H shares to H shares G/C the whole book ESOP etc.) for each year shall not exceed 10% of the total amount of the Company's share capital, and the total number of shares corresponding to a single employee's share in the ESOPs (for each year) shall not exceed 1% of the total amount of the Company's share capital.

The lock-up period of the Underlying Shares under the ESOP is as follows:

- (1) If the Underlying Shares are purchased from the secondary market or through allotment of shares, the lock-up period shall be 12 months, calculated from the date when the Company announces that the Underlying Shares purchased in the last time in each year are recorded in the ESOP for that year. For the ESOP for 2021, the lock-up period shall be 12 months, calculated from the date the Company announces that the Underlying Shares are transferred to the Securities Account.
- (2) If the Underlying Shares are obtained through the Company's non-public offering shares, the lock-up period shall be determined in accordance with relevant laws and regulations of China, and shall be calculated from the date when the Company announces that the shares obtained by means of non-public offering are recorded in the ESOP for the current year.

After the end of the lock-up period, the Participants shall be appraised according to the performance appraisal system of the Company. The appraisal period is generally two years, and the final appraisal period and the vesting proportion shall be determined by the Management Committee of the ESOP.

7. If the Underlying Shares are purchased from the secondary market, the purchase shall be completed within 6 months after it is approved by the shareholders' meeting, or by the board of directors with authorization of the shareholders' meeting in the current year; if the Underlying Shares are obtained through the Company's non-public shares or allotment of shares, it shall be implemented in accordance with relevant regulations of China on non-public offering and allotment of shares.

8. The ESOP shall be managed by a third party with the asset management qualification stipulated by the laws and regulations of China. Such third party shall set up a special Asset Management ESOP for the ESOP, and purchase and hold the Company's shares in the way permitted by laws and regulations.
9. Shareholders holding more than 5% of the shares and the actual controller shall not participate in the ESOP.
10. The Company's directors, supervisors, senior officers and other Participants of the ESOP hereby voluntarily waive the voting rights and other rights on the shares they indirectly hold in the Company due to participation in the ESOP, and only reserve the dividend rights, investment income rights and other similar rights. Therefore, there is no concerted action arrangement, nor is there any concerted action plan, between the ESOP and the Company's directors, supervisors, senior officers and other Participants of the ESOP.
11. Before the implementation of the ESOP, the Company will fully solicit the opinions of employees through the employee congress and other organizations. After being put forward, deliberated and passed at the meeting of board of directors, the Draft ESOP shall be submitted to the shareholders' meeting for deliberation, and can only be implemented by the board of directors with the authorization of the shareholders' meeting. No resolution of the board of directors on any matter related to the ESOP shall be adopted unless it is approved by more than half of all the non-affiliated directors. If the number of non-affiliated directors present is less than three, the board of directors shall directly submit the matter to the shareholders' meeting for deliberation. When voting on the ESOP at the shareholders' meeting, a shareholder and its person acting in concert shall withdraw under the following circumstances: it or any of its affiliates intend to become the Asset Management Institution for the ESOP, or subscribe for the planned shares, or provide or advance funds, provide shares, share income or fall under other circumstances that may cause any interest bias.
12. Having deliberated and approved the ESOP, the board of directors of the Company will send a notice of shareholders' meeting and submit the ESOP to the shareholders' meeting for deliberation. The ESOP for 2021 can only be implemented after being deliberated and approved by the shareholders' meeting, and the ESOP in subsequent years can only be implemented after being approved by the board of directors with the authorization of the shareholders' meeting.
13. The financial and accounting treatment and taxation with respect to the Company's implementation of the ESOP shall be carried out in accordance with the relevant financial system, accounting standards and taxation system. Relevant personal income tax to be paid by the Participants due to the implementation of the ESOP shall be borne by the Participants themselves.
14. The implementation of the ESOP will not bring about a consequence that the equity structure of the Company does not meet the conditions for listing.

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I. INTERPRETATION

Unless otherwise specified herein, the following terms or abbreviations shall have the following meanings when used herein:

Company	refer(s) to	Haier Smart Home Co., Ltd
Draft ESOP	refer(s) to	Core Employees A Share Ownership Plan of Haier Smart Home Co., Ltd (for Years 2021–2025) (Draft)
ESOP	refer(s) to	Core Employees A Share Ownership Plan of Haier Smart Home Co., Ltd (for Years 2021–2025)
Participants	refer(s) to	participators of the ESOP
Senior Officer	refer(s) to	the president, vice president, secretary of the board of directors, finance director and other personnel specified in the Articles of Association of the Company
Remuneration and Appraisal Committee	refer(s) to	the Remuneration and Appraisal Committee under the board of directors of the Company
Underlying Shares	refer(s) to	A share of the Company obtained for the ESOP by various ways
Management Committee	refer(s) to	the Employee Stock Ownership Plan Management Committee of Haier Smart Home Co., Ltd
Asset Management Institution	refer(s) to	a third-party institution with asset management qualification required by laws and regulations and entrusted to provide asset management services under this by this ESOP
Asset Management ESOP	refer(s) to	the asset management plan which is set up by the Asset Management Institution under this ESOP and which is specially used for core employee share vesting
Company's Shares	refer(s) to	A Share of the Company
Securities Account	refer(s) to	the special securities account opened, with the ESOP as a securities holder, in the CSDC

CSRC	refer(s) to	China Securities Regulatory Commission
SFC	refer(s) to	Securities and Futures Commission of Hong Kong
SSE	refer(s) to	Shanghai Stock Exchange
SEHK	refer(s) to	The Stock Exchange of Hong Kong Ltd.
CSDC	refer(s) to	Shanghai Branch, China Securities Depository and Clearing Co., Ltd
Company Law	refer(s) to	the Company Law of the People’s Republic of China
Securities Law	refer(s) to	the Securities Law of the People’s Republic of China
Guiding Opinions	refer(s) to	the Guiding Opinions on Pilot Implementation of ESOP by Listed Companies
Articles of Association	refer(s) to	the Articles of Association of Haier Smart Home Co., Ltd
RMB	refer(s) to	RMB yuan

II. PURPOSE OF THE ESOP

1. To drive employees’ entrepreneurship and innovation with “Rendanheyi”, and promote the full implementation of the Company’s IOT smart home ecological brand strategy

The implementation of ESOP can give full play to and mobilize the enthusiasm of employees, encourage employees to create value for users, and enhance the competitiveness of the Company. Meanwhile, the short-term or medium and long-term ESOP is conducive to further promote the collaborative integration of the Company after its listing in H share market and improve the Company’s operational efficiency, drive employees to undertake the Company’s development strategic objectives, and promote the Company to achieve industry leadership.

2. To perfect corporate governance mechanism and create shareholders’ value

Core management team and core employees’ holding of shares or relevant interests of the Company through ESOP is conducive to the perfection of the corporate governance structure of the Company, the realization of the linking of the interests of management, core employees and the Company with the interests of shareholders, and

the establishment of benefit sharing and risk sharing mechanism between shareholders, employees and the Company, and thus helpful to enhance the value of the Company and shareholders.

3. To attract talents and innovate the remuneration management system of the Company

The implementation of ESOP is conducive to further improve the Company's remuneration incentive system and incentive and restraint mechanism. An open platform supporting first-class human resources can better attract entrepreneurial teams, motivate the operation and management backbone, core technology (business) talents and other key talents needed by the Company, so as to better advance the development of the Company.

III. BASIS FOR DETERMINING THE PARTICIPANTS AND SCOPE OF THE ESOP

Participants of the ESOP shall be determined based on the Company Law, the Securities Law, the Guiding Opinions and other relevant laws, regulations, rules, normative documents of China and the Articles of Association of the Company.

Participants of the ESOP shall be the directors (except for independent directors), supervisors and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries. In addition, the ESOP implemented by the Company follows the principle of employees' voluntary participation, and in no event will employee be forced to participate in the ESOP through the ways such as apportionment and forced distribution. The Participants of ESOP shall be responsible for their own profits and losses, bear their own risks, and have equal rights and interests with other investors.

The ESOP covers the Company and its subsidiaries, and the Participants should be the key personnel who play an important role in the overall performance and medium and long-term development of the Company.

IV. SOURCE OF FUNDS

The funds to be used for participating the ESOP shall be sourced from the incentive funds withdrawn by the Company, the legitimate salaries of employees, the self-owned funds of Participants, and other forms of funds permitted by laws and regulations. In case incentive funds will be used, the amount of incentive funds to be withdrawn shall be a certain proportion of the net profit as shown in the audited consolidated statements of the previous year. The amount of incentive funds to be withdrawn for the ESOP for 2021 shall be RMB708 million, and the amount of incentive funds to be withdrawn for the ESOP for subsequent years shall be determined by the board of directors with the authorization of the shareholders' meeting.

V. SOURCE AND NUMBER OF SHARES

(I) Source of ESOP shares

After the ESOP is approved, A Share for the ESOP shall be sourced by the ways stipulated herein, including but not limited to A Share of the Company repurchased, A Share of the Company purchased from the secondary market (including but not limited to through auction trading, block trading, etc.), A Share of the Company that are not publicly issued, A Share of the Company voluntarily donated by A share holders, and other ways permitted by laws and regulations. If the Company adopts the ways of non-public offering or allotment of shares for financing, the ESOP shall have the right to participate in the subscription fairly. The shares to be used for implementing the ESOP for 2021 shall be the repurchased shares of the Company in the repurchase special account.

(II) Number of Underlying Shares involved in ESOP

With the authorization of the shareholders' meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year from 2021 to 2025 based on the actual needs. The duration of each ESOP shall not exceed five years, calculated from the time when the Company announces that the Underlying Shares obtained in the last time for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors with the authorization of the shareholders' meeting.

The total amount of funds to be used to participate in the ESOP for 2021 shall be RMB708 million, and the shares used to participate in the ESOP for 2021 shall be those to be transferred to the Securities Account of the Company (according to the principle of first-in-first-out of existing shares in each repurchase plan). The transfer price of such shares shall be determined according to the average price of all the shares repurchased in the Securities Account (the average price shall be determined according to the total price of shares repurchased in the Securities Account divided by the total number of shares in the Securities Account), and the specific quantity shall be determined according to the average transaction price of the shares repurchased at that time. After the ESOP is approved by the shareholders' meeting, the ESOP will obtain shares of the Company held in the Securities Account through non-trading transfer and other legal and regulatory means.

The ESOP for each year shall be independent of each other, but the total number of shares held by each established and existing ESOP (including H share ESOP etc.) shall not exceed 10% of the total share capital of the Company, and the total number of shares corresponding to a single employee's share in the ESOPs (for each year) shall not exceed 1% of the total amount of the Company's share capital. The total number of shares held by the ESOP shall not include the shares acquired by the Participants before the IPO of the Company, and the shares purchased by the Participants from the secondary market and the shares acquired through equity incentive.

VI. STATUS OF THE PARTICIPANTS AND SHARES ALLOCATION

Participants of the ESOP shall include the directors (except for independent directors), supervisors and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries.

(I) Participants and shares allocation of the ESOP for 2021

There should be 1,599 employees participating in the ESOP for 2021. The total amount of funds to be used to participate in the ESOP for 2021 shall be RMB708 million, with “shares” as the subscription unit, and each share is RMB1. There are 12 directors, supervisors and senior officers, including Liang Haishan, Xie Juzhi, Li Huagang, Yu Miao, Gong Wei, Ming Guozhen, Huang Xiaowu, Li Pan, Wang Li, Wu Yong, Li Yang and Guan Jiangyong, with a total share of RMB50.91 million, accounting for 7.19% of the ESOP for 2021. There are 1,587 core technical (business) personnel of the Company and its subsidiaries, with a total share of RMB657.09 million, accounting for 92.81% of the ESOP for 2021.

S/N	Participants	Shares held (RMB)	Proportion in the ESOP
1	12 directors, supervisors and senior officers	50,910,000	7.19%
2	1,587 core technical (business) personnel of the Company and its subsidiaries	657,090,000	92.81%
	1,599 in total	<u>708,000,000</u>	<u>100.00%</u>

(II) Participants of the ESOP for subsequent years and share allocation

According to the authorization of the shareholders’ meeting, the board of directors of the Company can determine at its discretion the list and share allocation of employees participating in the ESOP for subsequent years according to the provisions of the ESOP, the changes of employees and the appraisal result, and have the right to adjust them.

VII. DURATION, LOCK-UP PERIOD, VESTING PERIOD AND TERMINATION

(I) Duration of the ESOP

The duration of each ESOP shall not exceed five years, calculated from the date when the Company announces that the Underlying Shares obtained in the last time for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board

of directors with the authorization of the shareholders' meeting. With the authorization of the shareholders' meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year based on its needs.

(II) Lock-up period of the Underlying Shares under the ESOP

1. If the Underlying Shares are purchased from the secondary market or through allotment of shares, the lock-up period shall be 12 months, calculated from the date when the Company announces that the Underlying Shares purchased in the last time in each year are recorded in the ESOP for that year. For the ESOP for 2021, the lock-up period shall be 12 months, calculated from the date the Company announces that the Underlying Shares are transferred to the Securities Account.
2. If the Underlying Shares are obtained through the Company's non-public offering shares, the lock-up period shall be determined in accordance with relevant laws and regulations of China, and shall be calculated from the date when the Company announces that the shares obtained by means of non-public offering are recorded in the ESOP for the current year.
3. In case the Company changes capital reserve to increase its share capital, distributes share dividends and refinances during the lock-up period, any and all shares newly acquired by the ESOP due to holding the Company's shares shall be locked as well, and cannot be sold or otherwise disposed in the secondary market. The lock-up period of such new shares shall be the same as that of the corresponding shares.

(III) Vesting of the ESOP

After the end of the lock-up period, the Management Committee shall appraise the Participants according to the performance appraisal system of the Company. The appraisal period is generally two years. During the duration of the ESOP, the Management Committee shall have the right to extend or shorten the appraisal period and adjust the corresponding proportion of vesting.

The Underlying Shares of the ESOP for 2021 will be vested to the Participants in two phases. After the end of the lock-up period of the ESOP for 2021, the corresponding Underlying Shares shall be vested to the Participants in two phases (40% and 60% respectively). The specific vesting time shall be determined by the Management Committee after the end of the locking-in period. In order to encourage

all the appraisees to focus on their objectives, create business value-added and promote the implementation of the Company's IOT smart home strategy, the appraisal indicators under the ESOP for 2021 are as follows:

1. Where the Participants under the ESOP for 2021 are the chairman, president, supervisors and platform personnel of the Company, the appraisal indicators and vesting shall be as follows:

If the results of the Management Committee's appraisal of such Participants in 2021 are up to the standard, and the audited net profit attributable to the parent company of the Company in 2021 is increased by more than 26% (inclusive) compared with the 2020 Adjusted Net Profit (as defined below), 40% of the interests of the Underlying Shares under the ESOP for 2021 shall be vested to the Participants. If the said net profit is increased by 20.8% (inclusive) to 26%, vesting shall be made after the proportion of vesting is determined by the Management Committee and submitted to the Remuneration and Appraisal Committee for approval; if the said net profit is increased by less than 20.8% (exclusive), the corresponding part of appraisal in 2021 will not be vested.

If the results of the Management Committee's appraisal of such Participants in 2022 are up to the standard, and the audited net profit attributable to the parent company of the Company in 2022 is increased by more than 18% (inclusive) compared with the 2020 Adjusted Net Profit, 60% of the interests of the Underlying Shares under the ESOP for 2022 shall be vested to the Participants. If the said net profit is increased by 14.4% (inclusive) to 18% on a CAGR basis, vesting shall be made after the proportion of vesting is determined by the Management Committee and submitted to the Remuneration and Appraisal Committee for approval; if the said net profit is increased by less than 14.4% (exclusive), the corresponding part of appraisal in 2022 will not be vested.

2. Where the Participants under the ESOP for 2021 are the persons other than those mentioned in item 1 above, 40% and 60% of the interests of the Underlying Shares under the ESOP shall be vested respectively if the results of the Management Committee's appraisal in 2021 and 2022 are up to the standard.

The "net profit attributable to the parent company" in year 2021/2022 as mentioned above shall refer to the net profit attributable to the parent company after excluding the impact of non-recurring profit and loss caused by the sale/acquisition of major assets (if any) in the current year. In accordance with the relevant provisions of the Listing Rules of the Shanghai Stock Exchange and the Listing Rules of the Stock Exchange of Hong Kong Ltd, "a major asset" shall be determined if it meet the following conditions: (1) the sale and acquisition of the major asset involves a transaction amount accounting for more than **5% (inclusive)** of the latest audited net assets of the Company, or (2) the net profit

generated by the transaction or the net profit of acquisition accounts for more than 5% of the audited net profit attributable to the parent company of the Company in the latest period.

The 2020 Adjusted Net Profit is defined as follows. The Company completed the major asset restructuring of Haier Electronics Group Co., Ltd for the privatization of the company on December 23, 2020. According to the Unaudited Pro Forma Financial Information issued by HLB Hodgson Impey Cheng Limited in Appendix XIV in this circular, assuming that the major asset restructuring has been completed on January 1, 2020, and Haier Electronics became a wholly-owned subsidiary of Haier Smart Home and delisted from the SEHK, the Company's net profit attributable to the parent company in 2020 would be RMB11.16 billion. In 2020, the non-recurring net income from the sale of 54.40% equity of COSMOPlat's is RMB1.64 billion (after relevant tax of approximately RMB0.625 billion). **After excluding the impact of the sale of COSMOPlat's equity, the Company's 2020 Adjusted Net Profit amounted to RMB9.52 billion.**

The performance appraisal indicators for the ESOPs in subsequent years will be specified in the corresponding ESOP.

The lock-up period of ESOP is 12 months or other periods determined according to laws and regulations. After the end of the lock-up period of the ESOP for 2021, the corresponding Underlying Shares shall be vested to Participants in two phases (40% and 60%).

(IV) Termination of the ESOP

1. Each ESOP shall automatically terminate at the expiration of the duration, unless such duration is extended by the resolution of the board of directors;
2. When all the assets of an ESOP are monetary funds after the end of the lock-up period of the ESOP, the ESOP can be early terminated;
3. In case of serious business difficulties or other major matters of the Company, the ESOP may be terminated by resolution of the board of directors.

- (V)** During the duration of the ESOP, when the Company finances by means of allotment, issuance and convertible bonds, the Management Committee shall decide whether to participate in the same and the fund solutions, and submit it to the meeting of the Participants for deliberation.

VIII. VESTING AND DISPOSAL OF THE INTERESTS OF THE SHARES UNDER THE ESOP

(I) After the end of the locking-in period of the ESOP, the Participants shall be appraised according to the Company's performance appraisal mechanism during the vesting period. If the appraisal is qualified and the conditions for vesting are met, one of the following treatment methods can be selected after an application is submitted by the Management Committee:

1. The Company applies to the Asset Management Institution, the SSE and the CSDC on behalf of the Company to vest the shares to the individual accounts of the Participants;
2. To entrust the Asset Management Institution to sell the Underlying Shares purchased for the ESOP during the duration of the ESOP;
3. To entrust the Asset Management Institution to continue to hold the Underlying Shares during the duration of the ESOP;

The vesting period under each ESOP is generally two years, and the final vesting period and the proportion of the interest of the Underlying Shares corresponding to each vesting period shall be determined by the Management Committee.

(II) Vesting of the interests of the shares under the ESOP

During the duration, the dividend of the shares under the ESOP shall be owned by the ESOP, and shall be firstly used to pay relevant management fees charged by the Asset Management Institution and the custodian bank. For the shares without objects to be vested due to the unqualified performance appraisal and employee's dismissal, the Management Committee shall decide to vest the interests of the Underlying Shares to the Company or use it to encourage other employees with greater contribution.

(III) Before the Management Committee makes a decision on vesting, the shares or interests of the ESOP granted to but not vested to the Participants shall not be transferred, withdrawn or used for mortgage, pledge, guarantee and repayment of debts; otherwise, the corresponding act shall be invalid.

(IV) After the Management Committee makes a decision on vesting, if the Management Committee is obliged to withhold relevant taxes and fees according to laws and regulations, the shares or interests of the ESOP granted to but not vested to the Participants shall be distributed after the Management Committee withholds the said taxes and fees according to law.

(V) If the Participants of the ESOP includes directors, supervisors and senior officers, the ESOP shall strictly abide by the market trading rules, and the regulations on non-trading of shares during the information sensitive period. No party shall use the ESOP to conduct insider trading, market manipulation and other securities

fraud. Unless otherwise provided by the CSRC, the stock exchange in the place where the Company's shares are listed and other regulatory bodies, the ESOP shall not trade the Company's shares during the following periods:

1. the period from the 60th day before the meeting of the board of directors of the Company where the annual report is deliberated to the date of disclosure of annual report (including the first and last two days);
2. the period from the 30th day before the meeting of the board of directors of the Company where the quarterly report or semi-annual report is deliberated to the date of disclosure of quarterly report or semi-annual report (including the first and last two days);
3. Within 10 days before the announcement of the Company's earnings preannouncement and preliminary earnings estimate (including the first and last two days);

The period mentioned in the items 1–3 above shall include the period during which the Company delays the announcement of its earnings;

4. the period from the date of occurrence of major events that may have a major impact on the trading price of the Company's shares or in the process of decision-making, to 2 trading days after disclosure according to law;
5. Other periods prescribed by the relevant laws, regulations and rules applicable to the Company, as well as those stipulated by the CSRC and the stock exchange where the Company's shares are listed and other regulatory bodies.

IX. PARTICIPANTS' MEETING, RESPONSIBILITIES OF THE MANAGEMENT COMMITTEE, CONVENING AND VOTING PROCEDURES

The highest internal management authority of the ESOP is the Participants' meeting. The Management Committee of the ESOP elected by the Participants' meeting shall be responsible for the daily management of the ESOP and exercise shareholders' rights on behalf of the ESOP Participants or authorize the Asset Management Institution to exercise shareholders' rights.

If the members of the Management Committee of the ESOP for 2021 still participate in the subsequent ESOPs, the Management Committee of the ESOP for 2021 shall continue to be the Management Committee of the subsequent ESOPs, unless it is otherwise agreed on in the subsequent ESOPs.

(I) Participants' meeting

1. A Participants' meeting shall be held for deliberation on the following:
 - (1) Election, removal or replacement of members of the Management Committee;
 - (2) Major material adjustments to the ESOP;
 - (3) Decision on whether to participate in the refinancing of the Company by rights offering, additional issuance, convertible bonds and other relevant matters;
 - (4) Other functions and powers that may be exercised by the ESOP Participants' meeting as stipulated by laws and regulations or the CSRC and the stock exchange in the place where the Company's securities are listed and other regulatory authorities.
2. The Participants' meeting of the ESOP for 2021 shall be convened and presided over by the chairman or the authorized person of the Company. Subsequent Participants' meetings shall be convened by the Management Committee and presided over by the director of the Management Committee. If the director of the Management Committee is unable to perform his duties, he shall designate a member of the Management Committee to preside over the meetings.
3. To hold a Participants' meeting, the Management Committee shall submit a written notice of the meeting to all Participants by direct service, mail, fax, e-mail or other means 3 days in advance. In case of emergency, the meeting can be held at any time after the notice is given. The written notice of the meeting shall contain at least the following:
 - (1) Time and place of the meeting;
 - (2) Way to hold the meeting;
 - (3) Matters to be deliberated;
 - (4) Convener and moderator of the meeting;
 - (5) Materials necessary for voting at the meeting;
 - (6) The Participants shall attend the meeting in person or entrust other Participants to attend the meeting on their behalf;
 - (7) Contact person and contact information;
 - (8) Date on which the notice is given.

4. Voting procedure

- (1) The Participants shall exercise their voting rights with their current plan shares, and each share shall have one vote. The Participants shall vote by open ballot at the meeting;
 - (2) A Participants' meeting may be an on-site meeting or a communication meeting;
 - (3) The Participants may cast approving or opposing votes or abstain from voting. The Participants attending the meeting shall choose one of such voting intentions. Not making a choice or choosing two or more intentions at the same time shall be regarded as abstention. An unfilled, inaccurately filled, illegible or uncast vote shall be regarded as abstention vote. If the Participants vote after the result of voting is announced by the presider of the meeting or after the expiry of the prescribed time limit for voting, the votes shall not be counted;
 - (4) The moderator of the meeting shall announce the result of voting on the spot. Unless otherwise stipulated by the Participants' meeting and each ESOP, each proposal shall be valid only if approved by more than half of the valid voting rights held by the Participants (or agents) present at the Participants' meeting.
5. If the matters to be deliberated at the Participants' meeting shall be submitted to the board of directors and the general meeting of shareholders of the Company for deliberation, they shall be submitted to the board of directors and the general meeting of shareholders for deliberation in accordance with the Articles of Association of the Company.
6. Participants who individually or collectively hold 10% or more of the current ESOP shares may submit to the Participants' meeting an interim proposal, which must be submitted to the Management Committee 5 days prior to the holding of the Participants' meeting.
7. Participants who individually or collectively hold 30% or more of the current ESOP shares may propose to hold a Participants' meeting.

(II) Management Committee of the ESOP

1. The Management Committee of the ESOP shall be elected by the ESOP Participants' meeting. The Management Committee consists of three to five members. In case of any change of the members of the Management Committee, they shall be re-elected by the Participants' meeting and approved by more than half of the valid voting rights held by the Participants (or agents) present at the Participants' meeting.

2. The Management Committee shall have a director who shall be elected by more than half of the members of the Management Committee.
3. The Management Committee shall perform the following duties:
 - (1) Convene a Participants' meeting;
 - (2) Supervise the daily management of the ESOP on behalf of all Participants;
 - (3) Exercise shareholders' rights on behalf of all Participants or authorize the Asset Management Institution to exercise shareholder' rights;
 - (4) Examine and determine the qualifications, scope, number and limit of participants according to the ESOP;
 - (5) Formulate and revise management measures for the ESOP;
 - (6) Determine the interests (shares) of the Participants according to the assessment results of the Company;
 - (7) Cooperate with the Asset Management Institution of the ESOP;
 - (8) Handle all matters concerning the locking, release and vesting of the shares purchased under the ESOP;
 - (9) Be responsible for the ESOP financing method, amount and other matters related to the ESOP financing;
 - (10) Perform the duty of the ESOP asset management, which can be entrusted to a third party for management, including but not limited to selling the Company's Shares to cash in upon expiration of the lock-up period, and investing cash assets of the ESOP in fixed income securities, financial products, money market funds and other cash management tools;
 - (11) Formulate and implement plans for refinancing by additional issuance, rights offering or issuance of convertible bonds within the duration of the current ESOP;
 - (12) Authorize the director of the Management Committee to exercise the shareholder' rights of the shares held in the current ESOP before the liquidation and distribution of the current ESOP are completed;
 - (13) Determine the allocation of the ESOP assets;
 - (14) Perform such other duties as may be authorized by the Participants' meeting.

4. The director of the Management Committee shall exercise the following functions and powers:
 - (1) Preside over the Participants' meetings and convene and preside over meetings of the Management Committee;
 - (2) Supervise and inspect the implementation of the resolutions of the Participants' meetings and the Management Committee;
 - (3) Exercise shareholders' rights on behalf of all Participants with authorization by the Management Committee;
 - (4) Sign relevant agreements and contracts on behalf of the ESOP;
 - (5) Exercise other functions and powers granted by the Management Committee.
5. The meetings of the Management Committee shall be held from time to time according to the need, and shall be convened by the director of the Management Committee. Notice of the meeting shall be given to all members of the Management Committee 2 days prior to the meeting. In case of emergency, the members may be notified of a meeting of the Management Committee orally. Such notice may be given by mail, telephone, fax, etc.
6. The meetings of the Management Committee shall be held only when more than half of the members are present. The system of one person one vote shall be adopted at the meetings of the Management Committee. The resolutions of the meetings shall be valid only if approved by more than half of the members of the Management Committee. Subject to the full expression of views by the members of the Management Committee, E-mail or other means may be used, and a resolution shall be made and signed by members present.
7. The meetings of the Management Committee shall be attended by the members themselves. If a member of the Management Committee cannot attend for some reason, he may entrust another member in writing to attend on his behalf. Failure to attend a meeting of the Management Committee and authorize a representative to attend shall be deemed to a waiver of the right to vote at the meeting.
8. The Management Committee shall make resolutions on the matters discussed at the meetings, and the resolutions shall be signed by members of the Management Committee.
9. Within the duration of the ESOP, if the Company raises funds by means of rights offering, additional issuance, convertible bonds, etc., the Management Committee shall submit to the Participants' meeting for deliberation on whether to participate in the financing and other relevant matters.

X. MANAGEMENT MODE, SELECTION OF ASSET MANAGEMENT INSTITUTION, AND MANAGEMENT AGREEMENT

(I) Selection of Asset Management Institution of the ESOP

Where the management of the ESOP is entrusted to a third party, the shareholders' meeting shall be requested to authorize the board of directors to handle relevant employment matters. The trustee must comply with the requirements of laws and regulations on asset management qualifications, set up a special Asset Management ESOP for the ESOP, and purchase and hold the Underlying Shares in the way permitted by laws and regulations.

The shares and funds held by the ESOP shall be the entrusted property, and the Asset Management Institution of the ESOP shall not include the entrusted property as its self-owned assets. Where the Asset Management Institution of the ESOP is liquidated for reasons such as dissolution, cancellation or bankruptcy according to law, the entrusted property shall not belong to the liquidating property.

(II) The main terms of the management agreement must contain the following:

1. Name of the Asset Management ESOP
2. Type
3. Entrustment of assets
4. Investment of entrusted assets
5. Rights and obligations of the client
6. Special risk warning
7. Management fee, custodian fee and other related expenses
8. Liquidation and termination of the Asset Management ESOP
9. Others

XI. MAIN PROVISIONS OF THE MANAGEMENT RULES

- (I)** The management of the ESOP is entrusted to a third party. The Industrial Securities Asset Management Co., Ltd. is appointed as the third-party Asset Management Institution of the ESOP for 2021.
- (II)** The Management Committee of the ESOP elected by the ESOP Participants' meeting shall supervise the daily management of the ESOP and exercise shareholders' rights on behalf of the ESOP Participants or authorize the Asset Management Institution to exercise shareholders' rights.

If the members of the Management Committee of the ESOP for 2021 still participate in the subsequent ESOPs, the Management Committee of the ESOP for 2021 shall continue to be the Management Committee of the subsequent ESOPs, unless it is otherwise agreed on in the subsequent ESOPs.

In case of any change of the members of the Management Committee, they shall be re-elected by the Participants' meeting.

(III) Composition of the ESOP assets

1. Underlying Shares;
2. Cash deposits and accrued interest;
3. Income from fund management and other assets without vesting objects for various reasons such as employee turnover and assessment.

Assets under the ESOPs shall be independent of each other and the assets of the Company and the Asset Management Institution. The Company, the Asset Management Institution and their creditors shall have no right to freeze, detain, pledge or otherwise dispose of the assets under the ESOP.

(IV) Measures for disposing of the ESOP assets

1. Within the duration of each ESOP, unless otherwise stipulated by laws, regulations, rules and management rules, or approved by the Participants' meeting after deliberation, the ESOP shares held by the Participants shall not be transferred, pledged, or otherwise disposed of in similar manner. The Participants shall not require the allocation of the ESOP assets.
2. Upon the expiration of the lock-up period of each ESOP and prior to the expiration of the duration of the current ESOP, the Asset Management Institution shall sell the Underlying Shares held in the current ESOP or determine the vesting of relevant shares according to the written authorization of the Management Committee.
3. When all the assets of an ESOP are monetary funds after the end of the lock-up period of the ESOP, the Management Committee shall decide whether to allocate the assets. If it is decided to allocate the assets, the Management Committee shall authorize the Asset Management Institution to allocate according to the shares held by the Participants.

If all the Underlying Shares held by the current ESOP are sold and the ESOP assets are liquidated and allocated completely according to the provisions of the preceding paragraph, the current ESOP shall be terminated after approved by the Management Committee and reported to the board of directors for record.

4. If the duration of the ESOP is expired and not extended, the Management Committee shall or shall authorize the Asset Management Institution to liquidate the ESOP assets and make cash or share allocations according to the shares held by the Participants.

XII. PROCEDURES FOR IMPLEMENTING THE ESOP

- (I) The Remuneration and Appraisal Committee under the board of directors shall be responsible for the Draft ESOP and ESOP personnel.
- (II) The congress of workers and staff shall solicit opinions from the staff.
- (III) The board of directors shall review the Draft ESOP and relevant proposals. The independent directors shall give independent opinions on whether the ESOP is conducive to the sustainable development of the Company, whether it damages the interests of the Company and all shareholders, and whether the employees are forced to participate in the ESOP by ways of apportion or forced allocation.
- (IV) The board of supervisors shall express opinions on whether the ESOP is conducive to the sustainable development of the Company, whether it damages the interests of the Company and all shareholders, and whether the employees are forced to participate in the ESOP by ways of apportion or forced allocation.
- (V) The Company shall employ a law firm to issue legal opinions on the legality and compliance of the ESOP.
- (VI) The board of directors shall, after reviewing and approving the ESOP, promptly publish relevant documents concerning the ESOP.
- (VII) The general meeting of shareholders shall be held to deliberate on the ESOP and relevant proposals. A combination of on-site voting and online voting shall be adopted at the general meeting of shareholders, and the ESOP can be implemented immediately after it is approved.
- (VIII) The ESOP Participants shall hold a Participants' meeting to elect the Management Committee and define the specific matters concerning the implementation of the ESOP.
- (IX) Other procedures to be fulfilled as stipulated by the CSRC, the stock exchange in the place where the Company's securities are listed and the relevant competent authorities.

**XIII. DISPOSAL MEASURES WHEN THE CIRCUMSTANCES OF THE COMPANY
AND THE PARTICIPANTS CHANGE**

(I) Change of control, merger or split of the Company

In the event of change of control, merger or split of the Company for any reason, the ESOP shall not be changed.

(II) Failure of the Participants to pass the assessment

During the vesting period, the Participants shall be assessed for each vesting period. The Management Committee shall dispose of the relevant ESOP shares held by the Participants who fail to pass the assessment (including but not limited to granting to other Participants, the same below).

(III) Position change, separation or death of the Participants

1. *Position change*

- (1) If a Participant is still a director (other than independent director), supervisor, Senior Officers or core technical (business) personnel of the Company when his position is changed, or is assigned by the Company to a subsidiary of the Company, the relevant ESOP shares can be adjusted accordingly, and in principle, the ESOP shares granted but not vested shall not be increased.
- (2) If a Participant's position is changed due to his incompetence, failure to pass the assessment, violation of law, violation of professional ethics, disclosure of company secrets, dereliction of duty or malpractice and other behaviors that damage the interests or reputation of the Company, the Management Committee shall dispose of the ESOP shares granted but not vested.

2. *Separation*

Except in the case of separation due to reaching the retirement age, regardless of the reasons for separation, the Management Committee shall dispose of the ESOP shares granted to but not vested in the Participants from the date of separation, including but not limited to vesting the shares in the Participants based on their actual contributions, or taking back the ESOP shares granted but not vested for disposal by the Management Committee.

3. *Retirement*

If a Participant has reached the retirement age prescribed by the state and the Company and has retired from his job,

- (1) his ESOP shares granted but not vested shall not be affected provided that he passed the performance assessment in the year of his separation and accepted the Company’s restrictions on non-competition; his shares granted but not vested shall be fully vested in the first vesting period provided that the time of his retirement is within the lock-up period or the first vesting period.
- (2) the Management Committee shall dispose of his ESOP shares granted but not vested provided that he failed to pass the performance assessment in the year of his separation.

4. *Loss of ability to work*

Where a Participant loses the ability to work due to an injury sustained in the performance of his duties, his ESOP shares granted but not vested shall not be affected. Otherwise, the Management Committee shall dispose of the ESOP shares granted but not vested.

5. *Death*

In the event of the death of a Participant on the job, his ESOP shares granted but not vested shall not be affected, and the relevant interests shall be enjoyed by his legal successors. If it occurs during the lock-up period or the first vesting period, the shares granted but not vested shall be fully vested in his legal successors during the first vesting period. Otherwise, the Management Committee shall dispose of the ESOP shares granted but not vested.

**XIV. SPECIFIC MATTERS AUTHORIZED BY THE GENERAL MEETING OF
SHAREHOLDERS TO THE BOARD OF DIRECTORS**

After the approval of the ESOP, the general meeting of shareholders shall authorize the board of directors to handle specific matters related to the ESOP, with details as follows:

- (I) Authorize the board of directors to handle the alteration and termination of the ESOP, including but not limited to disqualifying the Participants, adding the Participants, changing the shares of the Participants, handling the inheritance of the deceased Participants, terminating the ESOP in advance, revising the vesting period setting rules, formulating and revising the share vesting performance requirements in accordance with the provisions of the Draft ESOP.
- (II) Authorize the board of directors to handle the establishment and alteration of each ESOP, including but not limited to deciding the amount of incentive funds to withdraw, deciding on the objects to be granted (including directors, senior officers and supervisors), and changing the source of funds based on the actual situation of the Company.

- (III) Authorize the board of directors to decide on the extension of the duration of each ESOP.
- (IV) Authorize the board of directors to handle the locking and unlocking of the shares purchased under each ESOP.
- (V) Authorize the board of directors to decide on change of the Asset Management Institution and the custodian of assets under each ESOP.
- (VI) After the ESOP is deliberated and approved by the general meeting of shareholders, within the year of implementation, authorize the board of directors of the Company to adjust the handling methods of the alteration and termination of the Participants according to various factors of each ESOP, provided that it does not violate laws and regulations.
- (VII) Authorize the board of directors to explain the *Core Employees A share Ownership Plan of Haier Smart Home Co., Ltd. (2021–2025) (Draft)*.
- (VIII) In case of any change in relevant laws, regulations and policies, authorize the board of directors of the Company to make corresponding adjustments to the ESOP in accordance with the newly issued laws, regulations and policies within the year of implementation.
- (IX) Authorize the board of directors to handle other necessary matters required by the ESOP, except for the rights to be exercised by the general meeting of shareholders as clearly stipulated in the relevant documents.

XV. SUPPLEMENTARY PROVISIONS

1. The financial and accounting treatment and taxation with respect to the Company's implementation of the ESOP shall be carried out in accordance with the relevant financial system, accounting standards and taxation system. Relevant personal income tax to be paid by the Participants due to the implementation of the ESOP shall be borne by the Participants themselves;
2. The ESOP shall take effect from the date of deliberation and approval by the general meeting of shareholders of the Company;
3. The board of directors of the Company reserves the right to interpret the ESOP.

Haier Smart Home Co., Ltd.
Board of Directors
May 25, 2021

**Core Employees H Share Ownership Plan
of
Haier Smart Home Co., Ltd.
(For Years 2021–2025)
(Draft)**

May, 2021

Risk Warning

- (I) This ESOP can only be implemented after being approved by the shareholders' meeting of the Company, or approved by the board of directors of the Company with the authorization of the shareholders' meeting, but it is uncertain whether or not it can be approved by the shareholders' meeting or the board of directors of the Company;
- (II) The specific capital source, amount of contribution and implementation plan of the ESOP are preliminary results, and it is uncertain whether or not it can be implemented successfully;
- (III) The ESOP will be managed by a professional institution after it is established, but it is uncertain whether or not it can achieve the planned scale and goal; the contract related to Asset Management ESOP has not been formally signed, so there is uncertainty;
- (IV) Investors should make prudent decisions and pay attention to investment risks.

**Core Employees H shares Ownership Plan
of
Haier Smart Home Co., Ltd.
(For Year 2021–2025)
(Draft)**

Special Tips

The terms used in this part shall have the meaning set forth in the “Interpretation”.

1. This Draft ESOP is formulated by the Company in accordance with the Company Law, the Securities Law, the Guiding Opinions on Pilot Implementation of ESOP by Listed Companies and other relevant laws, administrative regulations, rules, normative documents of China, as well as the Articles of Association of the Company.
2. The ESOP follows the principle of the Company’s independent decision and employees’ voluntary participation, and in no event will employee be forced to participate in the ESOP through the ways such as apportionment and forced distribution.
3. Participants of the ESOP shall include the directors (except for independent directors, the same hereinafter), supervisors and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries. Participants of the ESOP for 2021 shall be the company’s core management persons who play an important role in the Company’s overall performance and medium and long-term development, totaling 35, including 11 directors and senior officers, and 24 other core management persons. The board of directors of the Company may adjust the list of employees participating in the ESOP for subsequent years and the distribution proportion according to the changes and assessment results of employees.
4. The funds to be used for participating the ESOP shall be sourced from the incentive funds withdrawn by the Company, the legitimate salaries of employees, the self-owned funds of Participants, and other forms of funds permitted by laws and regulations. In case incentive funds will be used, the amount of incentive funds to be withdrawn shall be a certain proportion of the net profit as shown in the audited consolidated statements of the Company in the previous year. The amount of incentive funds to be withdrawn for the ESOP for 2021 shall be RMB90 million, and the specific amount of incentive funds to be withdrawn for the ESOP for subsequent years shall be determined by the board of directors with the authorization of the shareholders’ meeting.
5. The shares to be used for implementing the ESOP shall be H shares of the Company purchased from the secondary market through the Shanghai-Hong Kong Stock Connect.

6. Duration, lock-up period and vesting period of the ESOP

The ESOP shall be set up in a rolling way. If an ESOP is set up for each year from 2021 to 2025, each ESOP shall be independent of each other. The duration of each ESOP shall not exceed five years, calculated from the date when the Company announces that the last of Underlying Shares obtained for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors with the authorization of the shareholders' meeting. With the authorization of the shareholders' meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year after 2022 based on the actual needs, and implement the ESOP within the scope authorized hereunder. The total number of shares held under those established and existing ESOPs (including A share ESOP etc.) for each year shall not exceed 10% of the total amount of the Company's share capital, and the total number of shares corresponding to a single employee's share in the ESOPs (for each year) shall not exceed 1% of the total amount of the Company's share capital.

The lock-up period of the Underlying Shares under the ESOP shall be 12 months, calculated from the date when the Company announces that the last of Underlying Shares purchased in each year are recorded in the ESOP for that year.

After the end of the lock-up period, the Participants shall be assessed according to the performance assessment system of the Company. The assessment period is generally two years, and the final assessment period and the vesting proportion shall be determined by the Management Committee of the ESOP.

7. If the Underlying Shares are purchased from the secondary market, the purchase shall be completed within 6 months after it is approved by the shareholders' meeting, or by the board of directors with authorization of the shareholders' meeting in the current year.
8. The ESOP shall be managed by a third party with the asset management qualification stipulated by the laws and regulations of China. Such third party shall set up a special Asset Management ESOP for the ESOP, and purchase and hold the Company's shares in the way permitted by laws and regulations.
9. Shareholders holding more than 5% of the shares and the actual controller shall not participate in the ESOP.
10. The Company's directors, supervisors, senior officers and other Participants of the ESOP hereby voluntarily waive the voting rights and other rights on the shares they indirectly hold in the Company due to participation in the ESOP, and only reserve the dividend rights, investment income rights and other similar rights. Therefore, there is no concerted action arrangement, nor is there any concerted action plan, between the ESOP and the Company's directors, supervisors, senior officers and other Participants of the ESOP.

11. Before the implementation of the ESOP, the Company will fully solicit the opinions of employees through the employee congress and other organizations. After being put forward, deliberated and passed at the meeting of board of directors, the Draft ESOP shall be submitted to the shareholders' meeting for deliberation, and can only be implemented by the board of directors with the authorization of the shareholders' meeting. No resolution of the board of directors on any matter related to the ESOP shall be adopted unless it is approved by more than half of all the non-affiliated directors. If the number of non-affiliated directors present is less than three, the board of directors shall directly submit the matter to the shareholders' meeting for deliberation. When voting on the ESOP at the shareholders' meeting, a shareholder and its person acting in concert shall withdraw under the following circumstances: it or any of its affiliates intend to become the Asset Management Institution for the ESOP, or subscribe for the planned shares, or provide or advance funds, provide shares, share income or fall under other circumstances that may cause any interest bias.
12. Having deliberated and approved the ESOP, the board of directors of the Company will send a notice of shareholders' meeting and submit the ESOP to the shareholders' meeting for deliberation. The ESOP for 2021 can only be implemented after being deliberated and approved by the shareholders' meeting, and the ESOP in subsequent years can only be implemented after being approved by the board of directors with the authorization of the shareholders' meeting.
13. The financial and accounting treatment and taxation with respect to the Company's implementation of the ESOP shall be carried out in accordance with the relevant financial system, accounting standards and taxation system. Relevant personal income tax to be paid by the Participants due to the implementation of the ESOP shall be borne by the Participants themselves.
14. The implementation of the ESOP will not bring about a consequence that the equity structure of the Company does not meet the conditions for listing.

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APPENDIX XII H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (2021–2025) (DRAFT)

I. INTERPRETATION

Unless otherwise specified herein, the following terms or abbreviations shall have the following meanings when used herein:

Company	refer(s) to	Haier Smart Home Co., Ltd
Draft ESOP	refer(s) to	Core Employees H Share Ownership Plan of Haier Smart Home Co., Ltd (for Years 2021–2025) (Draft)
ESOP	refer(s) to	Core Employees H Share Ownership Plan of Haier Smart Home Co., Ltd (for Years 2021–2025)
Participants	refer(s) to	participants of the ESOP
Senior Officer	refer(s) to	the president, vice president, secretary of the board of directors, finance director and other personnel specified in the Articles of Association of the Company
Remuneration and Assessment Committee	refer(s) to	the Remuneration and Assessment Committee under the board of directors of the Company
Underlying Shares	refer(s) to	H share of the Company obtained for the ESOP by various ways
Management Committee	refer(s) to	the Employee Stock Ownership Plan Management Committee of Haier Smart Home Co., Ltd
Asset Management Institution	refer(s) to	a third-party institution with asset management qualification required by laws and regulations and entrusted to provide asset management services under this by this ESOP
Asset Management ESOP	refer(s) to	the asset management plan which is set up by the Asset Management Institution under this ESOP and which is specially used for core employee share vesting
Company's Shares	refer(s) to	H shares of the Company
Securities Account	refer(s) to	the special securities account opened, with the ESOP as a securities holder, in the CSDC

CSRC	refer(s) to	China Securities Regulatory Commission
SFC	refer(s) to	Securities and Futures Commission of Hong Kong
SSE	refer(s) to	Shanghai Stock Exchange
SEHK	refer(s) to	The Stock Exchange of Hong Kong Ltd.
CSDC	refer(s) to	Shanghai Branch, China Securities Depository and Clearing Co., Ltd
Company Law	refer(s) to	the Company Law of the People’s Republic of China
Securities Law	refer(s) to	the Securities Law of the People’s Republic of China
Guiding Opinions	refer(s) to	the Guiding Opinions on Pilot Implementation of ESOP by Listed Companies
Articles of Association	refer(s) to	the Articles of Association of Haier Smart Home Co., Ltd
RMB	refer(s) to	RMB yuan

II. PURPOSE OF THE ESOP

1. To drive employees’ entrepreneurship and innovation with “Rendanheyi”, and promote the full implementation of the Company’s IOT smart home ecological brand strategy

The implementation of ESOP can give full play to and mobilize the enthusiasm of employees, encourage employees to create value for users, and enhance the competitiveness of the Company. Meanwhile, the short-term or medium and long-term ESOP is conducive to further promote the collaborative integration of the Company after its listing in H share market and improve the Company’s operational efficiency, drive employees to undertake the Company’s development strategic objectives, and promote the Company to achieve industry leadership.

2. To perfect corporate governance mechanism and create shareholders’ value

Core management team and core employees’ holding of shares or relevant interests of the Company through ESOP is conducive to the perfection of the corporate governance structure of the Company, the realization of the linking of the interests of management, core employees and the Company with the interests of shareholders, and

the establishment of benefit sharing and risk sharing mechanism between shareholders and the Company, and thus helpful to enhance the value of the Company and shareholders.

3. To attract talents and innovate the remuneration management system of the Company

The implementation of ESOP is conducive to further improve the Company's remuneration incentive system and incentive and restraint mechanism. An open platform supporting first-class human resources can better attract entrepreneurial teams, motivate the operation and management backbone, core technology (business) talents and other key talents needed by the Company, so as to better advance the development of the Company.

III. BASIS FOR DETERMINING THE PARTICIPANTS AND SCOPE OF THE ESOP

Participants of the ESOP shall be determined based on the Company Law, the Securities Law, the Guiding Opinions and other relevant laws, regulations, rules, normative documents of China and the Articles of Association of the Company.

Participants of the ESOP shall be the directors (except for independent directors), supervisors and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries. In addition, the ESOP implemented by the Company follows the principle of employees' voluntary participation, and in no event will employee be forced to participate in the ESOP through the ways such as apportionment and forced distribution. The Participants of ESOP shall be responsible for their own profits and losses, bear their own risks, and have equal rights and interests with other investors.

The ESOP covers the Company and its subsidiaries, and the Participants should be the key personnel who play an important role in the overall performance and long-term development of the Company.

IV. SOURCE OF FUNDS

The funds to be used for participating the ESOP shall be sourced from the incentive funds drawn by the Company, the legitimate salaries of employees, the self-owned funds of Participants, and other forms of funds permitted by laws and regulations. In case incentive funds will be used, the amount of incentive funds to be withdrawn shall be a certain proportion of the net profit as shown in the audited consolidated statements of the Company in the previous year. The amount of incentive funds to be withdrawn for the ESOP for 2021 shall be RMB90 million, and the amount of incentive funds to be withdrawn for the ESOP for subsequent years shall be determined by the board of directors with the authorization of the shareholders' meeting.

V. SOURCE AND NUMBER OF SHARES

(I) Source of ESOP shares

The shares to be used for implementing the ESOP shall be H shares of the Company purchased from the secondary market through the Shanghai-Hong Kong Stock Connect. The Asset Management Institution entrusted by the ESOP shall complete the purchase of the Underlying Shares within 6 months after the approval of the shareholders' meeting or the approval of the board of directors with the authorization of the shareholders' meeting.

(II) Number of Underlying Shares involved in ESOP

With the authorization of the shareholders' meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year from 2021 to 2025 based on the actual needs. The duration of each ESOP shall not exceed five years, calculated from the time when the Company announces that the Underlying Shares obtained in the last time for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors with the authorization of the shareholders' meeting.

The total amount of funds to be used to participate in the ESOP for 2021 shall be RMB90 million. In view of the uncertainty of the date and price of the shares actually purchased under the ESOP, the number of shares held by the ESOP for 2021 is still uncertain.

The ESOP for each year shall be independent of each other, but the total number of shares held by each established and existing ESOP (including A share ESOP etc.) shall not exceed 10% of the total share capital of the Company, and the total number of shares corresponding to a single employee's share in the ESOPs (for each year) shall not exceed 1% of the total amount of the Company's share capital. The total number of shares held by the ESOP shall not include the shares acquired by the Participants before the IPO of the Company, and the shares purchased by the Participants from the secondary market and the shares acquired through equity incentive.

VI. STATUS OF THE PARTICIPANTS AND SHARES ALLOCATION

Participants of the ESOP shall include the directors (except for independent directors) and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries.

(I) Participants and shares allocation of the ESOP for 2021

Those who participate in the ESOP for 2021 should be core management persons who play an important role in the overall performance and medium and long-term development of the Company, totaling 35. The total amount of funds to be used to

**APPENDIX XII H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN
(2021–2025) (DRAFT)**

participate in the ESOP for 2021 shall be RMB90 million, with “shares” as the subscription unit, and each share is RMB1. There are 11 directors and senior officers (i.e., Liang Haishan, Xie Juzhi, Li Huagang, Gong Wei, Ming Guozhen, Huang Xiaowu, Li Pan, Wang Li, Wu Yong, Li Yang, Guan Jiangyong), with a total share of RMB50.73 million, accounting for 56.37% of the ESOP for 2021. There are 24 other core management persons of the Company, with a total share of RMB39.27 million, accounting for 43.63% of the ESOP for 2021.

S/N	Participants	Shares held (RMB)	Proportion in the ESOP (%)
1	11 directors and senior officers of the Company	50,730,000	56.37%
2	24 other management persons of the Company	39,270,000	43.63%
	35 in total	<u>90,000,000</u>	<u>9,000</u>

(II) Participants of the ESOP for subsequent years and share allocation

According to the authorization of the shareholders’ meeting, the board of directors of the Company can determine at its discretion the list and share allocation of employees participating in the ESOP for subsequent years according to the provisions of the ESOP, the changes of employees and the assessment result, and have the right to adjust them.

VII. DURATION, LOCK-UP PERIOD, VESTING PERIOD AND TERMINATION

(I) Duration of the ESOP

The duration of each ESOP shall not exceed five years, calculated from the date when the Company announces that the Underlying Shares obtained in the last time for each year are recorded to the ESOP for that year. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors with the authorization of the shareholders’ meeting. With the authorization of the shareholders’ meeting, the board of directors shall have the right to decide on the establishment of an independent ESOP for each year based on its needs.

(II) Lock-up period of the Underlying Shares under the ESOP

1. The lock-up period of the Underlying Shares under the ESOP shall be 12 months, calculated from the date when the Company announces that the Underlying Shares purchased in the last time in each year are recorded in the ESOP for that year.

2. In case the Company changes capital reserve to increase its share capital, distributes share dividends and refinances during the lock-up period, any and all shares newly acquired by the ESOP due to holding the Company's shares shall be locked as well, and cannot be sold or otherwise disposed in the secondary market. The lock-up period of such new shares shall be the same as that of the corresponding shares.

(III) Vesting of the ESOP

After the end of the lock-up period, the Management Committee shall appraise the Participants according to the performance assessment system of the Company. The assessment period is generally two years. During the duration of the ESOP, the Management Committee shall have the right to extend or shorten the assessment period and adjust the corresponding proportion of vesting.

The Underlying Shares of the ESOP for 2021 will be vested to the Participants in two phases. After the end of the lock-up period of the ESOP for 2021, the corresponding Underlying Shares shall be vested to the Participants in two phases (40% and 60% respectively). The specific vesting time shall be determined by the Management Committee after the end of the locking-in period. In order to encourage all the appraisees to focus on their objectives, create business value-added and promote the implementation of the Company's IOT smart home strategy, the assessment indicators under the ESOP for 2021 are as follows:

1. Where the Participants under the ESOP for 2021 are the chairman, president and platform personnel of the Company, the assessment indicators and vesting shall be as follows:

If the results of the Management Committee's assessment of such Participants in 2021 are up to the standard, and the audited net profit attributable to the parent company of the Company in 2021 is increased by more than 26% (inclusive) compared with the 2020 Adjusted Net Profit, 40% of the interests of the Underlying Shares under the ESOP for 2021 shall be vested to the Participants. If the said net profit is increased by 20.8% (inclusive) to 26%, vesting shall be made after the proportion of vesting is determined by the Management Committee and submitted to the Remuneration and Assessment Committee for approval; if the said net profit is increased by less than 20.8% (exclusive), the corresponding part of assessment in 2021 will not be vested.

If the results of the Management Committee's assessment of such Participants in 2022 are up to the standard, and the audited net profit attributable to the parent company of the Company in 2022 is increased by more than 18% (inclusive) compared with the 2020 Adjusted Net Profit on a CAGR basis, 60% of the interests of the Underlying Shares under the ESOP for 2022 shall be vested to the Participants. If the said net profit is increased by 14.4% (inclusive) to 18% on a CAGR basis, vesting shall be made after the proportion of vesting is determined by the Management Committee and submitted to the

Remuneration and Assessment Committee for approval; if the said net profit is increased by less than 14.4% (exclusive), the corresponding part of assessment in 2022 will not be vested.

2. Where the Participants under the ESOP for 2021 are the persons other than those mentioned in item 1 above, 40% and 60% of the interests of the Underlying Shares under the ESOP shall be vested respectively if the results of the Management Committee's assessment in 2021 and 2022 are up to the standard.

The “net profit attributable to the parent company” in year 2021/2022 as mentioned above shall refer to the net profit attributable to the parent company after excluding the impact of non-recurring profit and loss caused by the sale/acquisition of major assets (if any) in the current year. In accordance with the relevant provisions of the Listing Rules of the Shanghai Stock Exchange and the Listing Rules of the Stock Exchange of Hong Kong Ltd, “a major asset” shall be determined if it meet the following conditions: (1) the sale and acquisition of the major asset involves a transaction amount accounting for more than **5% (inclusive)** of the latest audited net assets of the Company, or (2) the net profit generated by the transaction or the net profit of acquisition accounts for more than 5% of the audited net profit attributable to the parent company of the Company in the latest period.

The 2020 Adjusted Net Profit is defined as follows. The Company completed the major asset restructuring of Haier Electronics Group Co., Ltd for the privatization of the company on December 23, 2020. According to the Unaudited Pro Forma Financial Information issued by HLB Hodgson Impey Cheng Limited in Appendix XIV in this circular, assuming that the major asset restructuring has been completed on January 1, 2020, and Haier Electronics became a wholly-owned subsidiary of Haier Smart Home and delisted from the SEHK, the Company's net profit attributable to the parent company in 2020 would be RMB11.16 billion. In 2020, the non-recurring net income from the sale of 54.40% equity of COSMOPlat's is RMB1.64 billion (after relevant tax of approximately RMB0.625 billion). **After excluding the impact of the sale of COSMOPlat's equity, the Company's 2020 Adjusted Net Profit amounted to RMB9.52 billion.**

The performance assessment indicators for the ESOPs in subsequent years will be specified in the corresponding ESOP.

(IV) Termination of the ESOP

1. Each ESOP shall automatically terminate at the expiration of the duration, unless such duration is extended by the resolution of the board of directors;
2. When all the assets of an ESOP are monetary funds after the end of the lock-up period of the ESOP, the ESOP can be early terminated;
3. In case of serious business difficulties or other major matters of the Company, the ESOP may be terminated by resolution of the board of directors.

- (V) During the duration of the ESOP, when the Company finances by means of allotment, issuance and convertible bonds, the Management Committee shall decide whether to participate in the same and the fund solutions, and submit it to the meeting of the Participants for deliberation.

VIII. VESTING AND DISPOSAL OF THE INTERESTS OF THE SHARES UNDER THE ESOP

- (I) After the end of the locking-in period of the ESOP, the Participants shall be appraised according to the Company's performance assessment mechanism during the vesting period. If the assessment is qualified and the conditions for vesting are met, one of the following treatment methods can be selected after an application is submitted by the Management Committee:

1. To entrust the Asset Management Institution to sell the Underlying Shares purchased for the ESOP during the duration of the ESOP;
2. To entrust the Asset Management Institution to continue to hold the Underlying Shares during the duration of the ESOP.

The vesting period under each ESOP is generally two years, and the final vesting period and the proportion of the interest of the Underlying Shares corresponding to each vesting period shall be determined by the Management Committee.

(II) Vesting of the interests of the shares under the ESOP

During the duration, the dividend of the shares under the ESOP shall be owned by the ESOP, and shall be firstly used to pay relevant management fees charged by the Asset Management Institution and the custodian bank. For the shares without objects to be vested due to the unqualified performance assessment and employee's dismissal, the Management Committee shall decide to vest the interests of the Underlying Shares to the Company or use it to encourage other employees with greater contribution.

- (III) Before the Management Committee makes a decision on vesting, the shares or interests of the ESOP granted to but not vested to the Participants shall not be transferred, withdrawn or used for mortgage, pledge, guarantee and repayment of debts; otherwise, the corresponding act shall be invalid.
- (IV) After the Management Committee makes a decision on vesting, if the Management Committee is obliged to withhold relevant taxes and fees according to laws and regulations, the shares or interests of the ESOP granted to but not vested to the Participants shall be distributed after the Management Committee withholds the said taxes and fees according to law.
- (V) If the Participants of the ESOP includes directors, supervisors and senior officers, the ESOP shall strictly abide by the market trading rules, and the regulations on non-trading of shares during the information sensitive period. No party shall use the ESOP to conduct insider trading, market manipulation and other securities fraud. Unless otherwise provided by the CSRC, the SFC, the stock exchange in the place where the Company's shares are listed and other regulatory bodies, the ESOP shall not trade the Company's shares during the following periods:
1. the period from the 60th day before the meeting of the board of directors of the Company where the annual report is deliberated to the date of disclosure of annual report (including the first and last two days);
 2. the period from the 30th day before the meeting of the board of directors of the Company where the quarterly report or semi-annual report is deliberated to the date of disclosure of quarterly report or semi-annual report (including the first and last two days);
 3. Within 10 days before the announcement of the Company's earnings preannouncement and preliminary earnings estimate (including the first and last two days);

The period mentioned in the items 1–3 above shall include the period during which the Company delays the announcement of its earnings;

4. the period from the date of occurrence of major events that may have a major impact on the trading price of the Company's shares or in the process of decision-making, to 2 trading days after disclosure according to law;
5. Other periods prescribed by the relevant laws, regulations and rules applicable to the Company, as well as those stipulated by the CSRC, and the stock exchange where the Company's shares are listed and other regulatory bodies.

IX. PARTICIPANTS' MEETING, RESPONSIBILITIES OF THE MANAGEMENT COMMITTEE, CONVENING AND VOTING PROCEDURES

The highest internal management authority of the ESOP is the Participants' meeting. The Management Committee of the ESOP elected by the Participants' meeting shall be responsible for the daily management of the ESOP and exercise shareholders' rights on behalf of the ESOP Participants or authorize the Asset Management Institution to exercise shareholders' rights.

If the members of the Management Committee of the ESOP for 2021 still participate in the subsequent ESOPs, the Management Committee of the ESOP for 2021 shall continue to be the Management Committee of the subsequent ESOPs, unless it is otherwise agreed on in the subsequent ESOPs.

(I) Participants' meeting

1. A Participants' meeting shall be held for deliberation on the following:
 - (1) Election, removal or replacement of members of the Management Committee;
 - (2) Major material adjustments to the ESOP;
 - (3) Decision on whether to participate in the refinancing of the Company by rights offering, additional issuance, convertible bonds and other relevant matters;
 - (4) Other functions and powers that may be exercised by the ESOP Participants' meeting as stipulated by laws and regulations or the CSRC, the SFC and the stock exchange in the place where the Company's securities are listed and other regulatory authorities.
2. The Participants' meeting of the ESOP for 2021 shall be convened and presided over by the chairman or the authorized person of the Company. Subsequent Participants' meetings shall be convened by the Management Committee and presided over by the director of the Management Committee. If the director of the Management Committee is unable to perform his duties, he shall designate a member of the Management Committee to preside over the meetings.
3. To hold a Participants' meeting, the Management Committee shall submit a written notice of the meeting to all Participants by direct service, mail, fax, e-mail or other means 3 days in advance. In case of emergency, the meeting can be held at any time after the notice is given. The written notice of the meeting shall contain at least the following:
 - (1) Time and place of the meeting;

- (2) Way to hold the meeting;
 - (3) Matters to be deliberated;
 - (4) Convener and moderator of the meeting;
 - (5) Materials necessary for voting at the meeting;
 - (6) The Participants shall attend the meeting in person or entrust other Participants to attend the meeting on their behalf;
 - (7) Contact person and contact information;
 - (8) Date on which the notice is given.
4. Voting procedure
- (1) The Participants shall exercise their voting rights with their current plan shares, and each share shall have one vote. The Participants shall vote by open ballot at the meeting;
 - (2) A Participants' meeting may be an on-site meeting or a communication meeting;
 - (3) The Participants may cast approving or opposing votes or abstain from voting. The Participants attending the meeting shall choose one of such voting intentions. Not making a choice or choosing two or more intentions at the same time shall be regarded as abstention. An unfilled, inaccurately filled, illegible or uncast vote shall be regarded as abstention vote. If the Participants vote after the result of voting is announced by the presider of the meeting or after the expiry of the prescribed time limit for voting, the votes shall not be counted;
 - (4) The moderator of the meeting shall announce the result of voting on the spot. Unless otherwise stipulated by the Participants' meeting and each ESOP, each proposal shall be valid only if approved by more than half of the valid voting rights held by the Participants (or agents) present at the Participants' meeting.
5. If the matters to be deliberated at the Participants' meeting shall be submitted to the board of directors and the general meeting of shareholders of the Company for deliberation, they shall be submitted to the board of directors and the general meeting of shareholders for deliberation in accordance with the Articles of Association of the Company.

6. Participants who individually or collectively hold 10% or more of the current ESOP shares may submit to the Participants’ meeting an interim proposal, which must be submitted to the Management Committee 5 days prior to the holding of the Participants’ meeting.
7. Participants who individually or collectively hold 30% or more of the current ESOP shares may propose to hold a Participants’ meeting.

(II) Management Committee of the ESOP

1. The Management Committee of the ESOP shall be elected by the ESOP Participants’ meeting. The Management Committee consists of three to five members. In case of any change of the members of the Management Committee, they shall be re-elected by the Participants’ meeting and approved by more than half of the valid voting rights held by the Participants (or agents) present at the Participants’ meeting.
2. The Management Committee shall have a director who shall be elected by more than half of the members of the Management Committee.
3. The Management Committee shall perform the following duties:
 - (1) Convene a Participants’ meeting;
 - (2) Supervise the daily management of the ESOP on behalf of all Participants;
 - (3) Exercise shareholders’ rights on behalf of all Participants or authorize the Asset Management Institution to exercise shareholder’ rights;
 - (4) Examine and determine the qualifications, scope, number and limit of participants according to the ESOP;
 - (5) Formulate and revise management measures for the ESOP;
 - (6) Determine the interests (shares) of the Participants according to the assessment results of the Company;
 - (7) Cooperate with the Asset Management Institution of the ESOP;
 - (8) Handle all matters concerning the locking, release and vesting of the shares purchased under the ESOP;
 - (9) Be responsible for the ESOP financing method, amount and other matters related to the ESOP financing;

- (10) Perform the duty of the ESOP asset management, which can be entrusted to a third party for management, including but not limited to selling the Company's Shares to cash in upon expiration of the lock-up period, and investing cash assets of the ESOP in fixed income securities, financial products, money market funds and other cash management tools;
 - (11) Formulate and implement plans for refinancing by additional issuance, rights offering or issuance of convertible bonds within the duration of the current ESOP;
 - (12) Authorize the director of the Management Committee to exercise the shareholder' rights of the shares held in the current ESOP before the liquidation and distribution of the current ESOP are completed;
 - (13) Determine the allocation of the ESOP assets;
 - (14) Perform such other duties as may be authorized by the Participants' meeting.
4. The director of the Management Committee shall exercise the following functions and powers:
- (1) Preside over the Participants' meetings and convene and preside over meetings of the Management Committee;
 - (2) Supervise and inspect the implementation of the resolutions of the Participants' meetings and the Management Committee;
 - (3) Exercise shareholders' rights on behalf of all Participants with authorization by the Management Committee;
 - (4) Sign relevant agreements and contracts on behalf of the ESOP;
 - (5) Exercise other functions and powers granted by the Management Committee.
5. The meetings of the Management Committee shall be held from time to time according to the need, and shall be convened by the director of the Management Committee. Notice of the meeting shall be given to all members of the Management Committee 2 days prior to the meeting. In case of emergency, the members may be notified of a meeting of the Management Committee orally. Such notice may be given by mail, telephone, fax, etc.
6. The meetings of the Management Committee shall be held only when more than half of the members are present. The system of one person one vote shall be adopted at the meetings of the Management Committee. The resolutions

of the meetings shall be valid only if approved by more than half of the members of the Management Committee. Subject to the full expression of views by the members of the Management Committee, E-mail or other means may be used, and a resolution shall be made and signed by members present.

7. The meetings of the Management Committee shall be attended by the members themselves. If a member of the Management Committee cannot attend for some reason, he may entrust another member in writing to attend on his behalf. Failure to attend a meeting of the Management Committee and authorize a representative to attend shall be deemed to a waiver of the right to vote at the meeting.
8. The Management Committee shall make resolutions on the matters discussed at the meetings, and the resolutions shall be signed by members of the Management Committee.
9. Within the duration of the ESOP, if the Company raises funds by means of rights offering, additional issuance, convertible bonds, etc., the Management Committee shall submit to the Participants' meeting for deliberation on whether to participate in the financing and other relevant matters.

X. MANAGEMENT MODE, SELECTION OF ASSET MANAGEMENT INSTITUTION, AND MANAGEMENT AGREEMENT

(I) Selection of Asset Management Institution of the ESOP

The management of the ESOP shall be entrusted to an Asset Management Institution, who shall set up an asset management plan for investment operation and daily management of the ESOP. The trustee must comply with the requirements of laws and regulations on asset management qualifications, set up a special Asset Management ESOP for the ESOP, and purchase and hold the Underlying Shares in the way permitted by laws and regulations.

The shares and funds held by the ESOP shall be the entrusted property, and the Asset Management Institution of the ESOP shall not include the entrusted property as its self-owned assets. Where the Asset Management Institution of the ESOP is liquidated for reasons such as dissolution, cancellation or bankruptcy according to law, the entrusted property shall not belong to the liquidating property.

(II) The main terms of the asset management agreement must contain the following:

1. Name of the Asset Management ESOP
2. Type
3. Entrustment of assets

4. Investment of entrusted assets
5. Rights and obligations of the client
6. Special risk warning
7. Management fee, custodian fee and other related expenses
8. Liquidation and termination of the Asset Management ESOP
9. Others

XI. MAIN PROVISIONS OF THE MANAGEMENT RULES

- (I)** The management of the ESOP shall be entrusted to a third-party. The Industrial Securities Asset Management Co., Ltd is appointed as the third-party Asset Management Institution of the ESOP for 2021.
- (II)** The Management Committee of the ESOP elected by the ESOP Participants' meeting shall supervise the daily management of the ESOP and exercise shareholders' rights on behalf of the ESOP Participants or authorize the Asset Management Institution to exercise shareholders' rights.

If the members of the Management Committee of the ESOP for 2021 still participate in the subsequent ESOPs, the Management Committee of the ESOP for 2021 shall continue to be the Management Committee of the subsequent ESOPs, unless it is otherwise agreed on in the subsequent ESOPs.

In case of any change of the members of the Management Committee, they shall be re-elected by the Participants' meeting.

(III) Composition of the ESOP assets

1. Underlying Shares;
2. Cash deposits and accrued interest;
3. Income from fund management and other assets without vesting objects for various reasons such as employee turnover and assessment.

Assets under the ESOPs shall be independent of each other and the assets of the Company and the Asset Management Institution. The Company, the Asset Management Institution and their creditors shall have no right to freeze, detain, pledge or otherwise dispose of the assets under the ESOP.

(IV) Measures for disposing of the ESOP assets

1. Within the duration of each ESOP, unless otherwise stipulated by laws, regulations, rules and management rules, or approved by the Participants' meeting after deliberation, the ESOP shares held by the Participants shall not be transferred, pledged, or otherwise disposed of in similar manner. The Participants shall not require the allocation of the ESOP assets.
2. Upon the expiration of the lock-up period of each ESOP and prior to the expiration of the duration of the current ESOP, the Asset Management Institution shall sell the Underlying Shares held in the current ESOP according to the written authorization of the Management Committee.
3. When all the assets of an ESOP are monetary funds after the end of the lock-up period of the ESOP, the Management Committee shall decide whether to allocate the assets. If it is decided to allocate the assets, the Management Committee shall authorize the Asset Management Institution to allocate according to the shares held by the Participants.

If all the Underlying Shares held by the current ESOP are sold and the ESOP assets are liquidated and allocated completely according to the provisions of the preceding paragraph, the current ESOP shall be terminated after approved by the Management Committee and reported to the board of directors for record.

4. If the duration of the ESOP is expired and not extended, the Management Committee shall or shall authorize the Asset Management Institution to liquidate the ESOP assets and make cash allocations according to the shares held by the Participants.

XII. PROCEDURES FOR IMPLEMENTING THE ESOP

- (I) The Remuneration and Assessment Committee under the board of directors shall be responsible for the Draft ESOP and ESOP personnel.
- (II) The congress of workers and staff shall solicit opinions from the staff.
- (III) The board of directors shall review the Draft ESOP and relevant proposals. The independent directors shall give independent opinions on whether the ESOP is conducive to the sustainable development of the Company, whether it damages the interests of the Company and all shareholders, and whether the employees are forced to participate in the ESOP by ways of apportion or forced allocation.
- (IV) The board of supervisors shall express opinions on whether the ESOP is conducive to the sustainable development of the Company, whether it damages the interests of the Company and all shareholders, and whether the employees are forced to participate in the ESOP by ways of apportion or forced allocation.

- (V) The Company shall employ a law firm to issue legal opinions on the legality and compliance of the ESOP.
- (VI) The board of directors shall, after reviewing and approving the ESOP, promptly publish relevant documents concerning the ESOP.
- (VII) The general meeting of shareholders shall be held to deliberate on the ESOP and relevant proposals. A combination of on-site voting and online voting shall be adopted at the general meeting of shareholders, and the ESOP can be implemented immediately after it is approved.
- (VIII) The ESOP Participants shall hold a Participants' meeting to elect the Management Committee and define the specific matters concerning the implementation of the ESOP.
- (IX) Other procedures to be fulfilled as stipulated by the CSRC, the stock exchange in the place where the Company's securities are listed and the relevant competent authorities.

XIII. DISPOSAL MEASURES WHEN THE CIRCUMSTANCES OF THE COMPANY AND THE PARTICIPANTS CHANGE

(I) Change of control, merger or split of the Company

In the event of change of control, merger or split of the Company for any reason, the ESOP shall not be changed.

(II) Failure of the Participants to pass the assessment

During the vesting period, the Participants shall be assessed for each vesting period. The Management Committee shall dispose of the relevant ESOP shares held by the Participants who fail to pass the assessment (including but not limited to granting to other Participants, the same below).

(III) Position change, separation or death of the Participants

1. Position change

- (1) If a Participant is still a director (other than independent director), supervisor, Senior Officers or core technical (business) personnel of the Company when his position is changed, or is assigned by the Company to a subsidiary of the Company, the relevant ESOP shares can be adjusted accordingly, and in principle, the ESOP shares granted but not vested shall not be increased.
- (2) If a Participant's position is changed due to his incompetence, failure to pass the assessment, violation of law, violation of professional ethics, disclosure of company secrets, dereliction of duty or malpractice and

other behaviors that damage the interests or reputation of the Company, the Management Committee shall dispose of the ESOP shares granted but not vested.

2. *Separation*

Except in the case of separation due to reaching the retirement age, regardless of the reasons for separation, the Management Committee shall dispose of the ESOP shares granted to but not vested in the Participants from the date of separation, including but not limited to vesting the shares in the Participants based on their actual contributions, or taking back the ESOP shares granted but not vested for disposal by the Management Committee.

3. *Retirement*

If a Participant has reached the retirement age prescribed by the state and the Company and has retired from his job,

- (1) his ESOP shares granted but not vested shall not be affected provided that he passed the performance assessment in the year of his separation and accepted the Company’s restrictions on non-competition; his shares granted but not vested shall be fully vested in the first vesting period provided that the time of his retirement is within the lock-up period or the first vesting period.
- (2) the Management Committee shall dispose of his ESOP shares granted but not vested provided that he failed to pass the performance assessment in the year of his separation.

4. *Loss of ability to work*

Where a Participant loses the ability to work due to an injury sustained in the performance of his duties, his ESOP shares granted but not vested shall not be affected. Otherwise, the Management Committee shall dispose of the ESOP shares granted but not vested.

5. *Death*

In the event of the death of a Participant on the job, his ESOP shares granted but not vested shall not be affected, and the relevant interests shall be enjoyed by his legal successors. If it occurs during the lock-up period or the first vesting period, the shares granted but not vested shall be fully vested in his legal successors during the first vesting period. Otherwise, the Management Committee shall dispose of the ESOP shares granted but not vested.

**XIV. SPECIFIC MATTERS AUTHORIZED BY THE GENERAL MEETING OF
SHAREHOLDERS TO THE BOARD OF DIRECTORS**

After the approval of the ESOP, the general meeting of shareholders shall authorize the board of directors to handle specific matters related to the ESOP, with details as follows:

- (I) Authorize the board of directors to handle the alteration and termination of the ESOP, including but not limited to disqualifying the Participants, adding the Participants, changing the shares of the Participants, handling the inheritance of the deceased Participants, terminating the ESOP in advance, revising the vesting period setting rules, formulating and revising the share vesting performance requirements in accordance with the provisions of the Draft ESOP.
- (II) Authorize the board of directors to handle the establishment and alteration of each ESOP, including but not limited to deciding the amount of incentive funds to withdraw, deciding on the objects to be granted (including directors, senior officers and supervisors), and changing the source of funds based on the actual situation of the Company.
- (III) Authorize the board of directors to decide on the extension of the duration of each ESOP.
- (IV) Authorize the board of directors to handle the locking and unlocking of the shares purchased under each ESOP.
- (V) Authorize the board of directors to decide on change of the Asset Management Institution and the custodian of assets under each ESOP.
- (VI) After the ESOP is deliberated and approved by the general meeting of shareholders, within the year of implementation, authorize the board of directors of the Company to adjust the handling methods of the alteration and termination of the Participants according to various factors of each ESOP, provided that it does not violate laws and regulations.
- (VII) Authorize the board of directors to explain the *Core Employees H share Ownership Plan of Haier Smart Home Co., Ltd. (2021–2025) (Draft)*.
- (VIII) In case of any change in relevant laws, regulations and policies, authorize the board of directors of the Company to make corresponding adjustments to the ESOP in accordance with the newly issued laws, regulations and policies within the year of implementation.
- (IX) Authorize the board of directors to handle other necessary matters required by the ESOP, except for the rights to be exercised by the general meeting of shareholders as clearly stipulated in the relevant documents.

XV. SUPPLEMENTARY PROVISIONS

1. The financial and accounting treatment and taxation with respect to the Company's implementation of the ESOP shall be carried out in accordance with the relevant financial system, accounting standards and taxation system. Relevant personal income tax to be paid by the Participants due to the implementation of the ESOP shall be borne by the Participants themselves;
2. The ESOP shall take effect from the date of deliberation and approval by the general meeting of shareholders of the Company;
3. The board of directors of the Company reserves the right to interpret the ESOP.

Haier Smart Home Co., Ltd.

Board of Directors

May 25, 2021

HAIER SMART HOME CO., LTD.*
海爾智家股份有限公司

Restricted Share Unit Scheme
(Draft)

HAIER SMART HOME CO., LTD.

**RULES RELATING TO THE
RESTRICTED SHARE UNIT SCHEME OF
HAIER SMART HOME CO., LTD.**

(Draft)

If there is any inconsistency between the English version of the Scheme Rules and its Chinese translation, the English version shall prevail. The Chinese translation is for reference only.

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1. DEFINITIONS AND INTERPRETATION

1.1 In these Scheme Rules, unless the context otherwise requires, each of the following words and expressions shall have the meaning respectively shown opposite to it:

“Actual Selling Price”	the actual price at which the RSU are sold (net of brokerage, Stock Exchange trading fee, SFC transaction levy and any other applicable costs) on vesting of an Award pursuant to the Scheme or in the case of a vesting when there is an event of change in control or privatisation of the Company pursuant to Rule 14.1, the consideration receivable under the related scheme or offer;
“Adoption Date”	25 June 2021 being the date on which the Shareholders approve this Scheme;
“Articles”	the articles of association of the Company as amended from time to time;
“Award”	an award granted by the Board or the Delegatee to a Selected Participant, which may vest in the form of RSU or the Actual Selling Price of the RSU in cash, as the Board or the Delegatee may determine in accordance with the terms of the Scheme Rules;
“Award Letter”	shall have the meaning as set out in Rule 8.1;
“Award Period”	the period commencing on the Adoption Date, and ending on the Business Day immediately prior to the fifth (5th) anniversary of the Adoption Date;
“Board”	the board of directors of the Company (please also refer to Rule 1.2(f), from time to time);
“Business Day”	a day (other than a Saturday or Sunday) on which the Stock Exchange is open for the business of dealing in securities, provided that where, as a result of a typhoon signal number 8, black rainstorm warning or other similar event, the period during which the Stock Exchange is open for business on any day is reduced, such day shall not be a Business Day;
“Company”	Haier Smart Home Co., Ltd., a joint-stock limited company incorporated in the PRC;

“Connected person”	shall have the meaning as set out in the Listing Rules;
“Confirmation Letter”	means the letter of confirmation to be sent by the Company to the Trustee confirming that the vesting conditions of those Selected Participants has been fulfilled and consolidating the details of those Selected Participants including the (i) full name, (ii) number of H Shares vested, and (iii) vesting date with sufficient information to the satisfaction of the Trustee to facilitate share transfer or cash payment (as the case may be);
“Delegatee”	the Management Committee, person(s), board committee(s) or board of directors of the Designated Subsidiary to which the Board has delegated its authority;
“Designated Subsidiary”	any Subsidiary for the purpose of contributing funds to the Trust pursuant to the Scheme Rules;
“Employee”	any employee or contractual staff of any members of the Group provided that the Selected Participant shall not cease to be an Employee in the case of (a) any leave of absence approved by the Company; or (b) transfer amongst the Company and any members of the Group or any successor, and provided further that an Employee shall, for the avoidance of doubt, cease to be an Employee with effect from (and including) the date of termination of his employment/appointment;
“Eligible Person”	any individual, being an Employee, director (excluding independent non-executive director), supervisor, senior management, key operating team member of any member of the Group who the Board or its Delegatee considers, in their sole discretion, to have significantly contributed or will significantly contribute to the development of the Group; however, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or the Delegatee, in compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Scheme and such individual shall therefore be excluded from the term Eligible Person;

“General Mandate”	the general mandate in relation to H Shares granted or to be granted by the Shareholders at general meetings from time to time;
“Grant Date”	the date on which the grant of an Award is made to a Selected Participant, being the date of an Award Letter;
“Group”	the Company and its Subsidiaries from time to time, and the expression <i>member of the Group</i> shall be construed accordingly;
“H Share(s)”	the H shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (stock code: 6690), or, if there has been a sub-division, consolidation, re-classification or re-construction of the share capital of the Company, H shares forming part of the ordinary share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or re-construction;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Management Committee”	the management committee of the Scheme to which the Board has delegated its authority to supervise and administer the Scheme;
“PRC”	People’s Republic of China;
“Remuneration and Assessment Committee”	The remuneration and assessment committee of the Board (薪酬與考核委員會);
“Returned Shares”	such RSU that are failed to be vested and/or are lapsed, cancelled or forfeited in accordance with the terms of the Scheme, or such H Shares being deemed to be Returned Shares under the Scheme Rules;
“RMB”	Renminbi, the lawful currency of the PRC

“RSU(s)”	restricted share unit, each share unit represent one underlying H Shares granted to a Selected Participant in an Award;
“Scheme”	the H share restricted share unit scheme adopted by the Company in accordance with these Scheme Rules on the Adoption Date;
“Scheme Limit”	shall have the meaning set out in Rule 15.1;
“Scheme Rules”	the rules set out herein relating to the Scheme as amended from time to time;
“Selected Participant”	any Eligible Person approved for participation in the Scheme, in accordance with Rule 5.1, and who has been granted any Award or any person who is entitled to any Award in accordance with Rule 6.1;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary” or “Subsidiaries”	any subsidiary (as the term is defined in the Listing Rules) of the Company;
“Taxes”	shall have the meaning as set out in Rule 10.10;
“Trust”	the trust constituted by the Trust Deed to service the Scheme;
“Trust Deed”	the trust deed to be entered into between the Company and/or its Designated Subsidiary and the Trustee (as may be restated, supplemented and amended from time to time);
“Trustee”	the trustee to be appointed by the Company for the purpose of the Trust;

“Vesting Date” the date or dates, as determined and amended (if necessary), on which the Award (or part thereof) is to vest in the relevant Selected Participant as set out in the relevant Award Letter pursuant to Rule 8.1, unless a different Vesting Date is deemed to occur in accordance with Rule 14.1;

“Vesting Notice” shall have the meaning as set out in Rule 10.7;

1.2 In these Scheme Rules, except where the context otherwise requires:

- (a) references to Rules are to rules of the Scheme Rules;
- (b) references to times of the day are to Hong Kong time;
- (c) if a period of time is specified as from a given day, or from the day of an act or event, it shall be calculated exclusive of that day;
- (d) a reference to “**dollars**” or to “**\$**” shall be construed as a reference to the lawful currency for the time being of Hong Kong;
- (e) a reference, express or implied, to statutes, statutory provisions or the Listing Rules shall be construed as references to those statutes, provisions or rules as respectively amended or re-enacted or as their application is modified from time to time by other provisions (whether before or after the date hereof) and shall include any statutes, provisions or rules of which are re-enacted (whether with or without modification) and shall include any orders, regulations, instruments, subsidiary legislation, other subordinate legislation or practice notes under the relevant statute, provision or rule;
- (f) unless otherwise indicated, the Board can make determinations in its absolute discretion and if the Board delegates its authority to administer the Scheme to the Delegatee, such Delegatee shall enjoy the same absolute discretion;
- (g) a reference to “**include**”, “**includes**” and “**including**” shall be deemed to be followed by the words “**without limitation**”;
- (h) words importing the singular include the plural and vice versa, and words importing a gender include every gender;
- (i) headings are included in the Scheme Rules for convenience only and do not affect its interpretation; and
- (j) references to any statutory body shall include the successor thereof and any body established to replace or assume the functions of the same.

2. PURPOSE OF THE SCHEME

2.1 The purposes of the Scheme are:

- (a) to stimulate the pro-activeness of the Eligible Persons, encourage their innovation to create value, enhance profit, achieve competitive goals, and ultimately maximise return for the Shareholders;
- (b) to promote the strategic development and realize the goals of the Company: to incentivise Eligible Persons to create value for customers and users, and increase the Company's competitiveness; to incentivise Eligible Persons to align the Company's development strategy with theirs and thus creating Shareholder's value as a whole;
- (c) to optimise the remuneration structure of the Group's employees through the RSU and provide them with a mechanism to own equity interests in the Company for interests and risks sharing; and
- (d) to attract, motivate and retain core capable talents of the Group for the future business development and expansion of the Group.

3. CONDITIONS

- 3.1 The Scheme is conditional upon the passing of a resolution by (i) the Shareholders and (ii) the Board, to approve the adoption of the Scheme and to authorize the Management Committee and/or the Delegatee to grant Awards under the Scheme and to procure the transfer of and otherwise deal with the RSU in connection with the Scheme.

4. DURATION

- 4.1 Subject to Rule 10.7 and Rule 19, the Scheme shall be valid and effective for the Award Period (after which no further Awards will be granted), and thereafter for so long as there are any non-vested RSU granted hereunder prior to the expiration of the Scheme, in order to give effect to the vesting of such RSU or otherwise as may be required in accordance with the provisions of the Scheme Rules.

5. ADMINISTRATION

5.1 The Scheme shall be subject to the administration of the following administrative bodies in accordance with the Scheme Rules and, where applicable, the Trust Deed:

- (a) the general meeting of the Shareholders, as the organ of authority of the Company, is responsible for the deliberation and approval of the adoption of the Scheme. The general meeting of the Shareholders may authorize the Board and/or the Delegatee to deal with all matters related to the Scheme to the extent of its authority; and
- (b) the Board is the institution in charge of the administration of the Scheme in accordance with the Scheme Rules and where applicable, the Trust Deed. A decision of the Board and/or the Delegatee shall be final and binding on all persons affected. Upon deliberation and approval of the Scheme by the Board, the Board will submit the Scheme to the general meeting of the Shareholders for consideration. The Board and/or the Delegatee may handle all matters related to the Scheme within the authorization by the general meeting of the Shareholders.

5.2 The authority to administer the Scheme may be delegated by the Board to the Delegatee as deemed appropriate at the sole and absolute discretion of the Board, provided that nothing in this Rule 5.2 shall prejudice the Board's power to revoke such delegation at any time or derogate from the discretion rested with the Board as contemplated in Rule 5.1(b).

The independent non-executive Directors of the Company shall review the proposal for the grant of Awards approved by the Remuneration and Assessment Committee and formulate their opinions on whether the grant of Awards is beneficial to the continuing development of the Company, and whether the grant of Awards is detrimental to the interests of the Company and the Shareholders.

5.3 Subject to any restrictions in the Scheme Rules, it is noted that as at the Adoption Date, the Board has delegated to the Management Committee the authority to supervise and administer the Scheme.

5.4 Without prejudice to the Board's general power of administration, the Board or the Delegatee may from time to time appoint one or more administrators, who may be independent third-party contractors, to assist in the administration of the Scheme, to whom they, at their sole and absolute discretion, may delegate such functions relating to the administration of the Scheme as they may think fit. The duration of office, terms of reference and remuneration (if any) of such administrator(s) shall be determined by the Board or the Delegatee at their sole and absolute discretion from time to time.

- 5.5 Without prejudice to the Board's general power of administration, to the extent not prohibited by applicable laws and regulations, the Board or the Delegatee may also from time to time appoint one or more Trustees in respect of granting, administration or vesting of any RSU.
- 5.6 Subject to the Scheme Rules, the Listing Rules and any applicable law and regulations, the Board and/or the Delegatee shall have the power from time to time to:
- (a) construe and interpret the Scheme Rules and the terms of the Awards granted under the Scheme;
 - (b) supervising the daily management of the Scheme;
 - (c) make or vary such arrangements, guidelines, procedures and/or regulations for the administration, interpretation, implementation and operation of the Scheme, provided that they are not inconsistent with the Scheme Rules;
 - (d) decide how the vesting of the RSUs will be settled pursuant to Rule 10;
 - (e) determine the basis of eligibility of any Eligible Person for the grant of Awards from time to time on the basis of their contribution to the development and growth of the Group or such other factors deemed appropriate;
 - (f) grant Awards to those Eligible Person whom it shall select from time to time;
 - (g) determine the terms and conditions of the Awards and determined whether the vesting conditions are met;
 - (h) establish and administer performance targets in respect of the Scheme;
 - (i) approve from time to time the form of an Award Letter, Vesting Notice and Confirmation Letter;
 - (j) exercise any authority as may be granted by the Shareholders from time to time;
 - (k) engage bank(s), accountant(s), lawyer(s), consultant(s) and other professional parties for the purpose of the Scheme; and
 - (l) sign, execute, affix the common seal of the Company, amend and terminate documents relating to the Scheme and take such other steps or actions to give effect to the terms and intent of the Scheme Rules.

- 5.7 None of the directors of the Company or the Delegatee shall be personally liable by reason of any contract or other instrument executed by him/her, or on his/her behalf or for any mistake of judgment made in good faith, for the purposes of the Scheme, and the Company shall indemnify and hold harmless each member of the Board and any Delegatee in relation to the administration or interpretation of the Scheme, against any cost or expense (including legal fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Scheme unless arising out of such person's own wilful default, fraud or bad faith.

6. OPERATION OF THE SCHEME

- 6.1 The Board or the Delegatee may, from time to time, select any Eligible Person to be a Selected Participant and, subject to Rule 6.4, grant an Award to such Selected Participant during the Award Period conditional upon fulfilment of terms and conditions of the Awards.
- 6.2 In determining the Selected Participants, the Board or the Delegatee may take into consideration matters including the present and expected contribution of the relevant Selected Participant to the Group, the Group's general financial condition, and the Group's overall business objectives and future development plan.
- 6.3 Each grant of an Award to any director participating in this Scheme or Connected person of the Group shall be subject to the Listing Rules and any applicable laws and regulations.
- 6.4 Notwithstanding the provision in Rules 6.1, 6.2 and 6.3, no grant of any RSU to any Selected Participant may be made and no directions or recommendations shall be given to the Trustee with respect to a grant of an Award under the circumstances below:
- (a) in any circumstances where the requisite approval from any applicable regulatory authorities or Shareholders has not been granted;
 - (b) in any circumstances that any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Scheme, unless the Board determines otherwise;
 - (c) where such Award would result in a breach by any member of the Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;

- (d) where such grant of Award would result in a breach of the Scheme Limit;
- (e) after the expiry of the Award Period or after the early termination of this Scheme in accordance with Rule 19;

and any such grant so made shall be null and void to the extent (and only to the extent) that it falls within the circumstances above.

7. TIMING OF AWARDS

7.1 No grant of any Award shall be made to Selected Participants pursuant to Rule 6 and no directions or recommendation shall be given to the Trustee with respect to a grant of an Award under the Scheme:

- (a) where any director of the Company is in possession of unpublished inside information in relation to the Company; or where any director of the Company knows or believes there is inside information which must be disclosed pursuant to the Listing Rules or any applicable laws, rules or regulations; or where dealings by directors of the Company or members of the Group are prohibited under any code, internal written guidelines for securities transactions by employees, or requirement of the Listing Rules or any applicable laws, rules or regulations;
- (b) during the period of 60 days immediately preceding the publication date of the annual results for any financial period of the Company or, if shorter, the period from the end of the relevant financial year up to the publication date of such results; and
- (c) during the period of 30 days immediately preceding the publication date of the quarter or half-year results for any financial period of the Company or, if shorter, the period from the end of the relevant quarter or half-year period of the financial period up to the publication date of such results.

7.2 In respect of the administration and operation of the Scheme, the Company shall comply with all applicable disclosure regulations including those imposed by the Listing Rules and all applicable laws, rules and regulations from time to time.

8. AWARD LETTER AND NOTIFICATION OF GRANT OF AWARDS

- 8.1 The Company or the Delegatee shall issue a letter or notice (including but not limited to, by mail, e-mail or by notification via any electronic means) to each Selected Participant in such form as the Board or the Delegatee may from time to time determine, specifying the Grant Date, the manner of acceptance of the Award, the value of the Award and/or the number of RSU underlying the Award, the vesting criteria and conditions (which may include, but not limited to, the fulfilment of the key quantitative and qualitative requirements of the relevant business unit(s) and personal performance targets by the relevant Selected Participant prescribed by the Group), and the Vesting Date and such other details, terms and conditions as the Board may consider necessary and in compliance with this Scheme (an “**Award Letter**”). The Selected Participant shall indicate his/her acceptance in the manner specifically required by the Company (including but not limited to, by mail, e-mail or at designated electronic platform) within the acceptance period stated in the Award Letter, otherwise, the grant of the RSU shall be deemed not accepted and cancelled.
- 8.2 As soon as practicable after the grant of any Award to a Selected Participant, the Company or the Delegatee shall notify the Trustee of:
- (a) the name of each such Selected Participant to whom such an Award has been made;
 - (b) the number of RSU to which each such Award relates; and
 - (c) the date or dates on which each such Award will vest and the relevant conditions (if any).

9. SUBSCRIPTION OR ACQUISITION OF H SHARES BY THE TRUSTEE

- 9.1 The Group may from time to time, subject to the terms and conditions in this Scheme and the compliance of all relevant laws, rules and regulations, cause to be transferred to the Trust the necessary funds for any subscription or acquisition of H Shares and other purposes set out in the Scheme Rules and the Trust Deed.
- 9.2 Subject to Rules 7.1, 9.8 and 15, the Company or the Delegatee may from time to time instruct the Trustee in writing to subscribe or acquire H Shares through on-market transactions. Once subscribed or acquired, the H Shares are to be held by the Trustee for the benefit of Selected Participant under the Trust on and subject to the terms and conditions of these Scheme Rules and the Trust Deed.
- 9.3 In the event that the RSUs are to be allotted and issued as new H Shares under the General Mandate for the purpose of the Trust, the Board shall cause an amount equal to the nominal value of such new H Shares to be allotted and issued be transferred from the Group’s resources as soon as practicable but in any event not later than five (5) Business Days prior to the allotment and issuance of such

Shares as subscription monies for the new H Shares and cause to issue and allot such new H Shares to the Trustee, which shall be held upon trust for the relevant Selected Participant, subject to the terms and conditions set out herein and in the Trust Deed. The Company shall comply with the relevant Listing Rules, laws and regulations of the PRC, the Articles and all applicable laws and regulations when allotting and issuing any new H Shares under the General Mandate and application shall be made to the Stock Exchange or/and the relevant authorities in the PRC for the granting of the listing of, and permission to deal in the new H Shares to be issued at the time of offer the H Shares. The Company intends to use the General Mandate available at the time of granting the H Shares.

- 9.4 On each occasion when the Board or the Delegatee instructs the Trustee to acquire H Shares through on-market transactions, it may specify the price or range of prices for the acquisition, the maximum amount of funds to be used and/or the number of H Shares are to be acquired. The Trustee may not incur more than the maximum amount of funds or acquire any excess number of H Shares unless with the prior written consent of the Board or the Delegatee.

Where the Trustee has received instructions from the Company or the Delegatee to acquire H Shares through on-market transactions, the Trustee shall apply such number of H Shares in such manner as specified by the Board or the Delegatee in accordance with this Rule 9.4 to acquire such maximum number of H Shares on-market at the prevailing market price as soon as reasonably practicable after receiving the necessary funds from the Group.

- 9.5 The Trustee shall keep the Board or the Delegatee informed from time to time of the number of H Shares acquired and the price at which those H Shares have been acquired. If, for any reason, the Trustee is unable to acquire any or all of the H Shares with such number of H Shares in the manner as instructed by the Board or the Delegatee within the time period as agreed between the Board or the Delegatee and the Trustee after being instructed by the Board or the Delegatee to do so, the Trustee shall notify the Board or the Delegatee in writing. The Board or the Delegatee shall then decide on whether to instruct the Trustee to continue with such acquisition and under the conditions thereof. In the event that the Board or the Delegatee decides to instruct the Trustee to continue with such acquisition, the Board or the Delegatee shall provide new instructions to the Trustee, including the time for such acquisition, and the maximum amount of funds to be used and/or the number of H Shares are to be acquired, and/or any conditions thereof.
- 9.6 Subject to Rule 14, the Company or the Delegatee shall instruct the Trustee whether or not to apply any **Returned Shares** to satisfy any grant of Awards made, and if the **Returned Shares**, as specified by the Company, are not sufficient to satisfy the Awards granted, the Group shall, subject to this Rule 9.6, as soon as reasonably practicable, for purposes of satisfying the Awards granted, transfer to the Trust the necessary funds and instruct the Trustee to acquire further H Shares through on-market transactions in accordance with Rule 9.7.

- 9.7 Subject to Rule 10.6(b), the Trustee shall only be obliged to transfer RSUs to Selected Participants on vesting to the extent that RSUs are comprised in the Trust.
- 9.8 The Company or the Delegatee shall not instruct the Trustee to acquire H Shares through on-market transactions at the prevailing market price where (i) such action (as applicable) is prohibited under the Listing Rules, the SFO, the applicable PRC laws, rules and regulations or other applicable laws from time to time, or (ii) during such periods as stated in Rule 7. Where such a prohibition causes the prescribed timing imposed by the Scheme Rules or the Trust Deed to be missed, such prescribed timing shall be treated as extended until as soon as reasonably practicable after the first (1st) Business Day on which the prohibition no longer prevents the relevant action.
- 9.9 At any time during the Award Period, the Board or the Delegatee may instruct the Trustee to remit unused funds in the Trust that were previously transferred to the Trust by the Group for the purchase of H Shares back to the Group in a manner as instructed by the Board or the Delegatee.

10. VESTING OF AWARD

- 10.1 The Board or the Delegatee may from time to time while the Scheme is in force and subject to all applicable laws, rules and regulations, determine such vesting criteria and conditions or periods for the Award to be vested hereunder.
- 10.2 If the Vesting Date is not a Business Day, the Vesting Date shall, subject to any trading halt or suspension in the H Shares, be the Business Day immediately thereafter.
- 10.3 The vesting of the Award granted under the Scheme is subject to the conditions of the relevant business unit and personal performance targets of the relevant Selected Participant and any other applicable vesting conditions as set out in the Award Letter.
- 10.4 If the Selected Participant fails to fulfil the vesting conditions applicable to the relevant Awards, all the RSUs underlying the relevant Awards which may otherwise be vesting during the respective vesting period shall not be vested and become immediately forfeited with respect to such Selected Participant. The Trustee shall be notified of such forfeiture and such forfeited shares shall be held by the Trustee as Returned Shares. The Board's or the Delegatee's decision on whether the vesting conditions are fulfilled and satisfied shall be conclusive and final.
- 10.5 Any dividend underlying the non-vested RSU shall be retained by the Trustee as part of the funds in the Trust. At the sole and absolute discretion of the Board and/or the Delegatee, the Selected Participant may be entitled to any related income or dividend declared in relation to the RSUs during the period from the

Grant Date to the Vesting Date, subject to the terms and conditions specified in the Grant Letter. In the event that the RSUs are to be forfeited, lapsed or cancelled, such underlying dividend shall be retained by the Trustee as part of the funds in the Trust for the benefit of the Scheme.

10.6 For the purposes of vesting of the Award, the Company and/or the Delegatee may either:

- (a) direct and procure the Trustee to release from the Trust the RSUs to the Selected Participants by transferring the number of RSUs to the Selected Participants in such manner as determined by them from time to time; or
- (b) at the discretion of the Board and with the consent of the Selected Participant, desirable or for any other reason for the Selected Participant to receive the Award in H Shares or the Actual Selling Price of such RSUs, the Board or Delegatee will direct and procure the Trustee to sell, on-market at the prevailing market price, the number of RSUs so vested in respect of the Selected Participant and pay the Selected Participant in cash based on the Actual Selling Price of such RSUs as set out in the Confirmation Letter.

10.7 Except in the circumstances as set out in Rule 10.10, barring any unforeseen circumstances, within a reasonable time period as agreed between the Trustee and the Company or the Delegatee from time to time prior to any Vesting Date, the Board or the Delegatee shall send to the relevant Selected Participant a vesting notice in a manner as determined by the Board or the Delegatee (the “**Vesting Notice**”) together with the prescribed transfer documents which require the Selected Participant to execute to effect the vesting and transfer of the RSUs (where applicable). The Board or Delegatee shall provide a Confirmation Letter to the Trustee confirming that all vesting conditions has been fulfilled and instruct the Trustee the extent to which the RSUs held in the Trust shall be transferred and released from the Trust to the Selected Participant and/or paid to the Selected Participant in cash based on the Actual Selling Price of such RSUs in the manner as determined by the Board or the Delegatee on the Vesting Date. Upon completion of the transfer of the RSUs by the Trustee, the vested RSUs shall be legally and beneficially owned by the relevant Selected Participant.

Except in the circumstances as set out in Rule 10.10, subject to the receipt of the Confirmation Letter from the Board or the Delegatee, the Trustee shall transfer and release the relevant RSUs to the relevant Selected Participant in the manner as determined by the Board or the Delegatee on the Vesting Date, or pay the relevant Selected Participant in cash based on the Actual Selling Price of such RSUs as set out in the Confirmation Letter within a reasonable time period in satisfaction of the Award, provided that the Trust has sufficient cash to pay such proceeds.

- 10.8 Any stamp duty or other direct costs and expenses arising on vesting and transfer of the RSUs to or for the benefit of the Selected Participants shall be borne by the funds in the Trust, and if the funds in the Trust is insufficient to cover, it shall be borne by the Group (and the Trustee is entitled to deduct from the Trust such duty(ies), costs and expenses or request the Company to pay to the Trustee (in which case the Group is obliged and undertakes to the Trustee to do so).
- 10.9 All taxes, costs and expenses in relation to all dealings with the RSUs after vesting shall be borne by the Selected Participant and neither the Group nor the Trustee shall be liable for any such costs and expenses thereafter.
- 10.10 Other than the stamp duty to be borne by the Group in accordance with Rule 10.8, all other taxes (including personal income taxes, professional taxes, salary taxes and similar taxes, as applicable), duties, social security contributions, impositions, charges and other levies arising out of or in connection with the Selected Participant's participation in the Scheme or in relation to the RSUs or cash amount of equivalent value of the RSUs (the "**Taxes**") shall be borne by the Selected Participant and neither the Group nor the Trustee shall be liable for any Taxes. The Selected Participant shall indemnify the Trustee and all members of the Group against any liability each of them may have to pay or account for such Taxes, including any withholding liability in connection with any Taxes. To give effect to this, the Trustee or any member of the Group may, notwithstanding anything else in these Scheme Rules (but subject to applicable law):
- (a) reduce or withhold the number of the Selected Participant's RSUs underlying the Award (the number of RSUs underlying the Award that may be reduced or withheld shall be limited to the number of RSUs that have a fair market value on the date of withholding that, in the reasonable opinion of the Company is sufficient to cover any such liability);
 - (b) sell, on the Selected Participant's behalf such number of H Shares to which the Selected Participant becomes entitled under the Scheme and retain the proceeds and/or pay them to the relevant authorities or government agency;
 - (c) deduct or withhold, without notice to the Selected Participant, the amount of any such liability from any payment to the Selected Participant made under the Scheme or from any payments due from a member of the Group to the Selected Participant, including from the salary payable to the Selected Participant by any member of the Group; and/or
 - (d) require the Selected Participant to remit to the Trustee or any member of the Group, in the form of cash or a certified or bank cashier's check, an amount sufficient to satisfy any Taxes or other amounts required by any governmental authority to be withheld and paid over to such authority by the Trustee or any member of the Group on account of the Selected Participant or to otherwise make alternative arrangements satisfactory to the Company for the payment of such amounts.

The Trustee shall not be obliged to transfer any RSUs (or pay the Actual Selling Price of such RSUs in cash) to a Selected Participant unless and until the Selected Participant satisfies the Trustee and the Board or the Delegatee that such Selected Participant's obligations under this Rule have been met.

11. CESSATION OF EMPLOYMENT AND OTHER EVENTS

Changes in job position

11.1 If a Selected Participant has changes in his job position by reason of adjustment of his position within members of the Group to the extent that he/she will continue to be an Eligible Person, and all of the conditions set out in the Award Letter have been fulfilled, any outstanding RSUs not yet vested shall continue to vest in accordance with the Vesting Dates set out in the Award Letter, unless the Board or the Delegatee determines otherwise at their sole and absolute discretion.

11.2 If a Selected Participant ceases to be an Eligible Person by reason of the following circumstances:

- (a) having committed any act of fraud or dishonesty or serious misconduct or any violation behaviour (eg. bribery, disclosure of the Group's secrets, damage to the Group's assets, causing major accidents etc.) as determined by the Board at its sole and absolute discretion; or
- (b) having been convicted of any criminal offence involving his or her integrity or honesty, or is being held liable for any offence under or any breach of the SFO or other securities laws or regulations in Hong Kong, the PRC or any other applicable laws, rules or regulations in force from time to time; or
- (c) violation of professional ethics or the leakage of confidential information of the Company; or
- (d) caused damage to the interests or reputation of the Company, as determined by the Board at their sole and absolute discretion, due to failure to discharge his duties or a wilful misconduct; or
- (e) unable to meet the performance indicators or performance expectation at regular assessment;

any outstanding RSUs not yet vested shall be immediately forfeited, unless the Board or the Delegatee determines otherwise at their absolute discretion.

Retirement, Death, Permanent Disablement and Redundancy

11.3 If a Selected Participant ceases to be an Eligible Person by reason of (i) retirement of the Selected Participant by agreement with a member of the Group; (ii) death of the Selected Participant, (iii) termination of the Selected Participant's employment or contractual engagement with the Group by reason of his/her permanent physical or mental disablement resulting from work injury as a result of his/her employment with the Group, or (iv) termination of the Selected Participant's employment or contractual engagement with the Group by reason of redundancy, any outstanding RSUs not yet vested shall be vested on the next available Vesting Date set out in the Award Letter or on such other date as may be determined by the Board or the Delegatee at their sole and absolute discretion, provided that such Selected Participant achieved the relevant business units' and personal performance targets in the relevant year prior to the occurrence of the events listed in (i), (ii), (iii) and (iv) in this Rule 11.3 (as applicable) and accepted the non-compete undertakings (applicable for the retiring Eligible Person).

Resignation or cessation of employment

11.4 If a Selected Participant ceases to be Eligible Person by reason of (i) resignation; or (ii) the Selected Participant whose employment is terminated by the Group by reason of the employer terminating the contract of employment for reasons other than reasons set out in Rule 11.3 or the Selected Participant having committed any act of fraud or dishonesty or serious misconduct or any violation behaviour (eg. bribery, disclosure of the Group's secrets, damage to the Group's assets, causing major accidents etc.) as determined by the Board at its sole and absolute discretion, or having been convicted of any criminal offence involving his or her integrity or honesty, or is being held liable for any offence under or any breach of the SFO or other securities laws or regulations in Hong Kong, the PRC or any other applicable laws, rules or regulations in force from time to time, any outstanding RSUs not yet vested shall be immediately forfeited, unless the Board or the Delegatee determines otherwise at their sole and absolute discretion.

11.5 If a Selected Participant is declared or adjudged to be bankrupt by a competent court or governmental body, or becomes insolvent, or fails to pay his debts as they fall due (after the expiry of any applicable grace period), or makes any arrangements or composition with his or her creditors generally or an administrator takes possession of any of his assets, any outstanding RSUs not yet vested shall be immediately forfeited, unless the Board or the Delegatee determines otherwise at their sole and absolute discretion.

11.6 If a Selected Participant ceases to be an Eligible Person for reasons other than those set out in Rules 11.1, 11.2, 11.3, 11.4 or 11.5, any outstanding RSUs not yet vested shall be immediately forfeited, unless the Board or the Delegatee determines otherwise at their sole and absolute discretion.

- 11.7 Any Selected Participant ceasing to be an Eligible Person for reasons set out in Rules 11.1, 11.2, 11.3, 11.4, 11.5 or 11.6, such Selected Participant shall have no right or claim against the Company, any other member of the Group, the Board, the Delegatee, the Trust or the Trustee or with respect to those or any other RSU or any right thereto or interest therein in any way.
- 11.8 A Selected Participant shall be taken to have retired on the date that he or she retires upon or after reaching the age of retirement specified in his service agreement or pursuant to any retirement policy of the Company applicable to him/her from time to time or stipulated by law, in case there is no such terms of retirement applicable to the Selected Participant, with the approval of the Board or the board of the applicable members of the Group.
- 11.9 In the event that an Award or any part thereof to a Selected Participant vests by reason of the death of such Selected Participant as contemplated in Rule 11.3, the Trustee shall hold such number of Awards Shares as are equal to the vested RSUs or the Actual Selling Price (hereinafter referred to as “**Benefits**”) on trust and to transfer the same to the legal personal representatives of the Selected Participant within one year of the death of the Selected Participant (or such longer period as the Trustee and the Company or the Delegatee shall agree from time to time), or if the **Benefits** would otherwise become *bona vacantia*, the **Benefits** shall be forfeited and cease to be transferable and such **Benefits** shall be held by the Trustee as Returned Shares or funds of the Trust for the purposes of the Scheme. Notwithstanding the foregoing, the **Benefits** held upon the trusts hereof shall until transfer is made in accordance herewith be retained and may be invested and otherwise dealt with by the Trustee in every way as if they had remained part of the Trust.
- 11.10 The Company or the Delegatee shall, from time to time, inform the Trustee in writing, the date on which such Selected Participant ceased to be an Eligible Person, forfeiture of any outstanding RSUs not yet vested and any amendments to the terms and conditions of the Award in respect to such Selected Participant (including the number of RSUs entitled).

12. TRANSFERABILITY AND OTHER RIGHTS TO RSU

12.1 Any Award granted hereunder but not yet vested shall be personal to the Selected Participant to whom it is made and shall not be assignable or transferable and no Selected Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Award, or enter into any agreement to do so, unless the Award or any interest thereof is transferred as a result of the Selected Participant's death in accordance with the terms of this Scheme.

12.2 Any actual or purported breach of Rule 12.1 shall entitle the Board or the Delegatee to cancel any outstanding Award or part thereof granted to such Selected Participant. For this purpose, a determination from the Board or the Delegatee, to the effect that the Selected Participant has or has not breached any of the foregoing shall be final and conclusive as to such Selected Participant.

13. INTEREST IN THE ASSETS OF THE TRUST

13.1 For the avoidance of doubt:

- (a) a Selected Participant shall have only a contingent interest in the Award subject to the vesting of such Award in accordance with Rules 10 and 14;
- (b) no instructions may be given by a Selected Participant (including voting rights) to the Trustee in respect of the Award or any other property of the Trust and the Trustee shall not follow instructions given by a Selected Participant to the Trustee in respect of the Award or any other property of the Trust;
- (c) neither the Selected Participant nor the Trustee may exercise any voting rights in respect of any H Shares held by the Trustee under the Trust (including the RSUs that have not yet vested);
- (d) a Selected Participant shall have no right to any dividend to any of the RSUs that have not yet vested, any of the Returned Shares, any dividend of the Returned Shares, funds or other properties of the Trust, all of which shall be retained by the Trustee for the benefit of the Scheme, unless the Board or the Delegatee determines otherwise at its sole and absolute discretion;
- (e) a Selected Participant shall have no rights in the balance of the fractional shares arising out of the division and consolidation of H Shares (if any) and such H Shares shall be deemed Returned Shares for the purposes of the Scheme;

- (f) in the case of the death of a Selected Participant, the Benefits shall be forfeited if no transfer of the Benefits to the legal personal representatives of the Selected Participant is made within the period prescribed in Rule 11.9 and the legal personal representatives of the Selected Participant shall have no claims against the Company, any other member of the Group, the Board, the Delegatee, the Trust or the Trustee; and
- (g) unless otherwise waived by the Board, in the event that the vesting conditions (if any) specified in an Award Letter are not fully satisfied prior to or on the relevant Vesting Date, the award of the RSU shall lapse, such RSU shall not vest on the relevant Vesting Date and the Selected Participant shall have no claims against the Company, any other member of the Group, the Board, the Delegatee, the Trust or the Trustee; and
- (h) in the event a Selected Participant ceases to be an Eligible Person on or prior to the relevant Vesting Date in accordance with Rule 11 and the Award in respect of the relevant Vesting Date shall lapse or be forfeited pursuant to the Scheme, such Award shall not vest on the relevant Vesting Date and the Selected Participant shall have no claims against the Company, any other member of the Group, the Board, the Delegatee, the Trust or the Trustee, unless the Board or the Delegatee determines otherwise at its sole and absolute discretion.

14. TAKEOVER, RIGHTS ISSUE, OPEN OFFER, SCRIP DIVIDEND SCHEME, ETC.

Change in control

14.1 If there is an event of change in control of the Company by way of a merger, a privatisation of the Company by way of a scheme or by way of an offer, change of actual control of the Company, the Company no longer exists after merger with another company or the H Shares are no longer listed on the Hong Kong Stock Exchange, the Board or the committee of the Board or the Delegatee shall at their sole and absolute discretion determine whether the Vesting Dates of any Awards will be accelerated. If the Vesting Dates of any Awards are accelerated, the procedures as set out in Rule 10.7 shall apply except that the Vesting Notice will be sent to such Selected Participant affected by this Rule 14.1 based on the proposed Vesting Date as soon as practicable once the proposed Vesting Date is known. The Trustee shall transfer the RSUs or pay the Actual Selling Price in cash, as the case may be, to the Selected Participant in accordance with the Confirmation Letter as provided by the Board or its delegate(s).

For the purpose of Rule 14.1, “control” shall have the meaning as specified in The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC from time to time.

Open offer and rights issue

14.2 In the event the Company undertakes an open offer of new securities, the Trustee shall not subscribe for any new H Shares. In the event of a rights issue, the Trustee shall seek instruction from the Company on the steps or actions to be taken in relation to the nil-paid rights allotted to it and the net proceeds of sale of such rights shall be held as part of the funds in the Trust.

Bonus warrants

14.3 In the event the Company issues bonus warrants in respect of any H Shares which are held by the Trustee, the Trustee shall not, unless otherwise instructed by the Company, subscribe for any new H Shares by exercising any of the subscription rights attached to the bonus warrants, and shall sell the bonus warrants created and granted to it, and the net proceeds of sale of such bonus warrants shall be held as funds of the Trust.

Scrip Dividend

14.4 In the event the Company undertakes a scrip dividend scheme, the Trustee shall elect to receive the scrip H Shares and such H Shares will be held as part of the funds in the Trust. In the event the Company undertakes a cash or scrip dividend, the Trustee shall elect to receive cash at any time and it shall be deemed as cash income of a H Share held upon the Trust.

Consolidation, Sub-division, Bonus issue and other distribution

14.5 In the event the Company undertakes a sub-division or consolidation of the H Shares, corresponding changes will be made to the number of outstanding RSUs that have been granted provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Scheme for the Selected Participants. The Board or the Delegatee shall as soon as practicable after such sub-division or consolidated has been effected, notify each such Selected Participant of the number of RSUs that he/her has become entitled to on vesting after such subdivision or consolidation (as the case may be).

14.6 In the event of an issue of H Shares by the Company credited as fully paid to the holders of the H Shares by way of capitalisation of profits or reserves (including share premium account), the H Shares attributable to any RSUs held by the Trustee shall be deemed to be an accretion to such RSUs and shall be held by the Trustee as if they were RSUs purchased by the Trustee hereunder and retained as part of the funds in the Trust.

- 14.7 In the event of any non-cash distribution or other events not referred to above by reason of which the Board considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding RSUs of each Selected Participant as the Board shall consider to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Scheme for the Selected Participants. The Company shall provide such funds, or such directions on application of the Returned Shares or other funds in the Trust, as may be required to enable the Trustee to purchase H Shares on-market at the prevailing market price to satisfy the additional Award.
- 14.8 In the event of other non-cash and non-scrip distributions made by the Company not otherwise referred to in the Scheme Rules in respect of the H Shares held upon Trust, the Trustee shall sell such distribution and the net sale proceeds thereof shall be deemed as cash income of a H Share held upon the Trust.

Voluntary winding up

- 14.9 If notice is duly given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering a resolution for the voluntary winding-up of the Company (other than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company are passed to a successor company) or an order of winding up of the Company is made, the Board or the Delegatee shall determine at its discretion whether such RSU shall vest in the Selected Participant and the time at which such RSU shall vest. If the Board determines that any RSU shall vest, it shall promptly notify the Selected Participant and shall use its reasonable endeavours to procure the Trustee to take such action as may be necessary to transfer the legal and beneficial ownership of the RSU which are to become vested in such Selected Participant or pay the such sum they would have received in respect of the Awards, to such Selected Participant.

15. SCHEME LIMIT

- 15.1 The Scheme Limit shall be the maximum number of H Shares that could be granted under the Scheme. The Company shall not make further grant which will result in the aggregate number of H Shares granted to exceed one per cent (1%) of the total number of issued H Shares as at the relevant Grant Date (the "**Scheme Limit**").
- 15.2 The Company shall not make any further grant of Award which will result in the aggregate number of H Shares underlying all grants made pursuant to the Scheme (excluding RSUs that have been forfeited, cancelled or lapsed in accordance with the Scheme) to exceed the Scheme Limit.

15.3 The total number of RSUs granted but remain unvested to a Selected Participant under the Scheme shall not exceed zero point one per cent (0.1%) of the total number of issued H Shares as at the relevant Grant Date.

16. RETURNED SHARES

16.1 The Trustee shall hold Returned Shares to be applied towards future Awards in accordance with the provisions hereof for the purpose of the Scheme. When H Shares have been deemed to be Returned Shares under the Scheme Rules, the Trustee shall notify the Company or the Delegatee accordingly.

17. ALTERATION OF THE SCHEME

17.1 The Scheme may not be altered in any respect in the occurrence of the event set out in Rule 14.1.

17.2 The Scheme may be altered by a resolution of the Board or the Delegatee provided that no such amendment shall operate to affect materially and adversely any subsisting rights of any Selected Participants hereunder.

17.3 Written notice of any amendment to the Scheme shall be given to all Selected Participants and the Trustee.

18. CANCELLATION OF AWARDS

18.1 The Board or the Delegatee may in its sole and absolute discretion cancel any Award that has not vested or forfeited provided that the cancellation shall not affect the subsisting rights of any Selected Participant.

19. TERMINATION

19.1 Subject to Rule 4, the Scheme shall terminate on the earlier of:

- (a) the end of the Award Period except in respect of any non-vested RSUs granted hereunder prior to the expiration of the Scheme, for the purpose of giving effect to the vesting of such RSUs or otherwise as may be required in accordance with the provisions of the Scheme; and
- (b) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Participant hereunder; provided further that for the avoidance of doubt, the change in the subsisting rights of a Selected Participant in this Rule 19.1(b) refers solely to any change in the rights in respect of the RSUs already granted to a Selected Participant.

19.2 On the Business Day following the settlement, lapse, forfeiture or cancellation (as the case may be) of the last outstanding Award made under the Scheme, the Trustee shall (i) sell all the H Shares remaining in the Trust within a reasonable time period as agreed between the Trustee and the Company upon receiving notice of the settlement, lapse, forfeiture or cancellation (as the case may be) of such last outstanding Award (or such longer period as the Company may otherwise determine), and remit all cash and net proceeds of such sale referred to in this Rule 19.2 and other funds remaining in the Trust (after making appropriate deductions in respect of all disposal costs, expenses and other existing and future liabilities in accordance with the Trust Deed) to the Group or; (ii) return the outstanding balance of the H Shares remaining in the Trust to the Group in the manner as instructed by the Board or the Delegatee, subject to the compliance of the Listing Rules or any applicable rules and regulations.

20. MISCELLANEOUS

20.1 The Scheme shall not form part of any contract of employment between the Company or any Subsidiary and any Eligible Person, and the rights and obligations of any Eligible Person under the terms of his/her office or employment shall not be affected by his/her participation in the Scheme or any right which he/she may have to participate in it and the Scheme shall afford such Eligible Person no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.

20.2 The Company shall bear the costs of establishing and administering the Scheme, including, for the avoidance of doubt, costs arising from communication as referred to in Rule 20.3, expenses incurred in the purchase of H Shares by the Trustee and stamp duty and normal registration fee (i.e. not being fee chargeable by the share registrar of any express service of registration) in respect of the transfer of H Shares to Selected Participants on the relevant Vesting Date. For the avoidance of doubt, the Company shall not be liable for any Tax or expenses of such other nature payable on the part of any Eligible Person in respect of any sale, purchase or transfer of H Shares (or cash amount of equivalent value being paid) subsequent to vesting of the RSUs, other than for any withholding tax liability of the Company or any member of the Group under applicable laws.

20.3 Any notice or other communication between the Company and any Eligible Person may be given by sending the same by prepaid post or by personal delivery to, in the case of the Company, its registered office in Hong Kong or the PRC or such other address as notified to the Eligible Person from time to time and in the case of an Eligible Person, his/her address as notified to the Company from time to time or by hand delivery. In addition, any notice (including the Vesting Notice) or other communication from the Company to any Eligible Person or Selected Participant may be given by any electronic means as the Board considers appropriate.

- 20.4 Any notice or other communication served by post shall be deemed to have been served 24 hours after the same was put in the post. Any notice or other communication served by electronic means shall be deemed to have been received on the day following that on which it was sent.
- 20.5 The Company, any other members of the Group, the Board, the Delegatee, the Trust and the Trustee shall not be responsible for any failure by any Eligible Person to obtain any consent or approval required for such Eligible Person to participate in the Scheme as a Selected Participant or for any Tax, expenses, fees or any other liability to which an Eligible Person may become subject as a result of participation in the Scheme.
- 20.6 Each and every provision hereof shall be treated as a separate provision and shall be severally enforceable as such in the event of any provision or provisions being or becoming unenforceable in whole or in part. To the extent that any provision or provisions are unenforceable they shall be deemed to be deleted from these Scheme Rules, and any such deletion shall not affect the enforceability of the Scheme Rules as remain not so deleted.
- 20.7 The Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.
- 20.8 Save as specifically provided herein, the Scheme shall not confer on any person any legal or equitable rights (other than those constituting and attaching to the RSUs themselves) against the Group, the Board, the Delegatee, the Trust and the Trustee directly or indirectly or give rise to any cause of action at law or in equity against the Group, the Board, the Delegatee, the Trust and the Trustee. No person shall, under any circumstances, hold the Board, its delegate and/or the Company liable for any costs, losses, expenses and/or damages whatsoever arising from or in connection with the Scheme or the administration thereof.
- 20.9 In the event that an Award lapses in accordance with the Scheme Rules, no Selected Participants shall be entitled to any compensation for any loss or any right or benefit or prospective right or benefit under the Scheme which he or she might otherwise have enjoyed.
- 20.10 The Scheme shall operate subject to the Articles and to any restrictions under any applicable laws, rules and regulations.

20.11 By participating in the Scheme, the Selected Participant consents to the holding, processing, storage and use of personal data or information concerning him or her by any member of the Group, the Trustee or other third party service provider, in Hong Kong, the PRC or elsewhere, for the purpose of the administration, management or operation of the Scheme. Such consent permits, but is not limited to, the following:

- (a) the administration and maintenance of records of the Selected Participant;
- (b) the provision of data or information to members of the Group, the Trustee, registrars, brokers or third party administrators or managers of the Scheme, in Hong Kong, the PRC or elsewhere;
- (c) the provision of data or information to future purchasers or merger partners of the Company, the Selected Participant's employing company, or the business in which the Selected Participant works;
- (d) the transfer of data or information about the Selected Participant to a country or territory outside the Selected Participant's home country which may not provide the same statutory protection for the information as his home country; and
- (e) in the case where an announcement is required to be made or a circular is required to be despatched pursuant to the Listing Rules for the purposes of granting an Award, the disclosure of the identity of such Selected Participant, the number of RSUs and the terms of the Award granted and/or to be granted and all other information as required under the Listing Rules, or other applicable laws, rules and regulations.

The Selected Participant is entitled, on payment of a reasonable fee, to a copy of the personal data held about him or her, and if such personal data is inaccurate, the Selected Participant has the right to have it corrected.

21. INTERPRETATION AND DISPUTE RESOLUTION

21.1 Any decision to be made under the Scheme, including matters of interpretation with respect to the Scheme Rules, shall be made by the Board.

21.2 The Board shall determine any question of interpretation and settle any dispute arising under or in connection with this Scheme. In such matters, the Board's decision shall be final.

22. GOVERNING LAW

22.1 The Scheme shall be governed by and construed in accordance with the laws of Hong Kong Special Administrative Region of the PRC.

The unaudited pro forma financial information should be read in conjunction with the published annual report of Haier Smart Home Co., Ltd and its subsidiaries (the “**HSH Group**”).

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ADJUSTED HSH GROUP

The following is an illustrative and unaudited pro forma consolidated statements of profit or loss and other comprehensive income of the HSH Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the material asset restructuring in the privatization of Haier Electronics Group Co., Ltd as if it had taken place on 1 January 2020 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 results of the adjusted HSH Group had the material asset restructuring in the privatization of Haier Electronics Group Co., Ltd been completed as at 1 January 2020.

Unaudited pro forma consolidated statements of profit or loss and other comprehensive income of the Adjusted HSH Group

	The HSH Group for the year ended 31 December 2020	Pro Forma adjustment	The Adjusted HSH Group for the year ended 31 December 2020
	<i>RMB' Million Note 1</i>	<i>RMB' Million Note 2</i>	<i>RMB' Million</i>
Revenue	209,703		209,703
Cost of services	<u>(148,870)</u>		<u>(148,870)</u>
Gross profit	60,833		60,833
Other gains or losses	3,994		3,994
Selling and distribution expenses	(33,641)		(33,641)
Administrative expenses	(17,930)		(17,930)
Finance costs	(1,321)		(1,321)
Share of profits and losses of associates	<u>1,620</u>		<u>1,620</u>
Profit before tax from continuing operations	13,555		13,555
Income tax expenses	<u>(2,232)</u>		<u>(2,232)</u>
PROFIT FOR THE YEAR	<u><u>11,323</u></u>		<u><u>11,323</u></u>
Other comprehensive loss			
Items that may be reclassified to profit or loss in subsequently periods:			
Share of other comprehensive (loss)/income of associates	(342)		(342)
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax	(97)		(97)
Exchange differences on translating foreign operations	<u>(2,004)</u>		<u>(2,004)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(2,443)</u>		<u>(2,443)</u>

	The HSH Group for the year ended 31 December 2020	Pro Forma adjustment	The Adjusted HSH Group for the year ended 31 December 2020
	<i>RMB'Million Note 1</i>	<i>RMB'Million Note 2</i>	<i>RMB'Million</i>
Items that will not be reclassified to profit or loss in subsequent periods:			
Changes arising from re-measurement of defined benefit plans	(23)		(23)
Change in fair value of equity investments designated at fair value through other comprehensive income ("FVTOCI"), net of tax	<u>(110)</u>		<u>(110)</u>
	<u>(133)</u>		<u>(133)</u>
Other comprehensive loss for the year, net of tax	<u>(2,576)</u>		<u>(2,576)</u>
Total comprehensive income for the year	<u><u>8,747</u></u>		<u><u>8,747</u></u>
Profit attributable to:			
Owners of the Company	8,877	2,283	11,160
Non-controlling interests	<u>2,446</u>	<u>(2,283)</u>	<u>163</u>
	<u><u>11,323</u></u>		<u><u>11,323</u></u>

	The HSH Group for the year ended 31 December 2020	Pro Forma adjustment	The Adjusted HSH Group for the year ended 31 December 2020
	<i>RMB' Million Note 1</i>	<i>RMB' Million Note 2</i>	<i>RMB' Million</i>
Total comprehensive income attributable to:			
Owners of the Company	6,340	2,245	8,585
Non-controlling interests	<u>2,407</u>	<u>(2,245)</u>	<u>162</u>
	<u><u>8,747</u></u>		<u><u>8,747</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF HSH			
— Basic (RMB per share)	<u>1.34</u>		<u>1.24</u>

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

1. These amounts are extracted from the audited consolidated statements of profit or loss and comprehensive income of the HSH Group of the published annual report for the year ended 31 December 2020 complied in accordance with International Financial Reporting Standards.
2. The adjustment represents the decrease in non-controlling interests' share of profit and total comprehensive income for the year ended 31 December 2020 attributable to the Haier Electronics Group Co., Ltd.
3. The basic earnings per share attributable to ordinary equity holders of adjusted HSH Group is based on the weighted average number of ordinary shares in issue of HSH for the year ended 31 December 2020 assuming Privatisation and Introduction had taken place on 1 January 2020 and the adjusted profit attributable to equity owners of HSH for the year ended 31 December 2020.
4. 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 2020.

B. 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 Circular, in connection with the unaudited pro forma financial information.



國 衛 會 計 師 事 務 所 有 限 公 司
HODGSON IMPEY CHENG LIMITED

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

4 June 2021

**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 financial information of the adjusted HSH Group for the year ended 31 December 2020, and the related notes as set out in pages 223 to 226 of Appendix XIV to the circular (the “**Circular**”). 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 223 to 226 in Appendix XIV to the Circular.

The unaudited pro forma financial information has been compiled by the directors of HSH to illustrate the impact of the material asset restructuring in the privatisation of Haier Electronics Group Co., Ltd. (the “**Privatisation**”) on HSH Group’s financial performance for the year ended 31 December 2020 as if the Privatisation had taken place at 1 January 2020, respectively. As part of this process, information about the HSH Group’s audited financial performance has been extracted by the directors of HSH from published annual report of HSH Group for the year ended 31 December 2020.

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 Circular 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 2020 or 1 January 2020 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
Tien Sun Kit, Jack
Practising Certificate Number: P07364
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

- (1) As at the Latest Practicable Date, the Directors, Supervisors or chief executives of the Company had interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (hereinafter referred to as the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executives or their respective associates were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules as follows:

Long positions in shares of the Company:

Name	Position	Class of Shares to be held	Number of Shares to be held	Nature of interest	Approximate percentage of shareholding interest in the relevant class of Shares	Approximate percentage of shareholding interest in the total share capital of the Company
Mr. LIANG Haishan	Chairman of the Board and executive Director	A Shares	15,570,174	Beneficial owner	0.2468%	0.1657%
Mr. LI Huagang	Executive Director and Chief Executive Officer	A Shares	694,607	Beneficial owner	0.0110%	0.0074%
		H Shares	812,145	Beneficial owner	0.0288%	0.0086%
Mr. XIE Juzhi	Executive Director	H Shares	715,444	Beneficial owner	0.0254%	0.0076%
Mr. YU Hon To, David	Non-executive Director	H Shares	810,000	Beneficial owner	0.0287%	0.0086%
Ms. LI Kam Fun Eva	Non-executive Director	H Shares	355,200	Beneficial owner	0.0126%	0.0038%
Mr. WANG Peihua	Chairman of the Board of Supervisors	A Shares	182,401	Beneficial owner	0.0029%	0.0019%
Mr. MING Guoqing	Supervisor	A Shares	119,449	Beneficial owner	0.0019%	0.0013%

Long positions in the shares of the Associated Corporations:

Name	Position	Name of Associated Corporations	Percentage Shareholding in the Associated Corporations
Mr. LIANG Haishan	Chairman of the Board and executive Director	Haier Electrical Appliances (Thailand) Company Limited	0.000008%
		P.T. Haier Electrical Appliances Indonesia	0.00002%
		P.T. Haier Sales Indonesia	0.01%
		Haier Pakistan (Private) Limited	0.0167%
		HNR Company (Private) Limited	0.0002%
		Haier Russia Trading Company LLC	0.1%

- (2) As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2020 (being the date on which the latest published audited consolidated accounts of the Company were prepared) been acquired or disposed of by or leased to by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to by the Company or any of its subsidiaries.
- (3) As at the Latest Practicable Date, except executive positions and related interests in the Haier Group, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.
- (4) As at the Latest Practicable Date, none of the Directors are directors or employees of another company having an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, except executive positions and related interests in the Haier Group, none of the Directors and candidate Directors and their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as was known to any Directors, as at the Latest Practicable Date, the following persons (not being a Director, a Supervisor or the chief executive of the Company or any member of the Group) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions:

Name of Shareholder	Class of Shares to be held	Number of Shares to be held	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in the total share capital of the Company
Haier Group Corporation ^{Notes 1 to 4}	A Share	2,576,559,148	Beneficial owner Interest in controlled corporation Interest through voting rights entrustment arrangement	40.84%	27.42%
	H Share	538,560,000	Interest in controlled corporation	19.11%	5.73%
	D Share	58,135,194	Interest in controlled corporation	21.45%	0.62%
Haier COSMO Co., Ltd. ^{Notes 1 and 2}	A Share	1,258,684,824	Beneficial owner	19.95%	13.39%
HCH (HK) Investment Management Co., Limited ^{Note 3}	H Share	538,560,000	Beneficial owner	19.11%	5.73%
Haier International Co., Limited ^{Note 4}	D Share	58,135,194	Beneficial owner	21.45%	0.62%
Other H class Shareholders ^{Note 5}					
Other D class Shareholders ^{Note 6}					

Notes:

1. Haier Group Corporation holds directly 1,072,610,764 A Shares. In addition, Haier Group Corporation indirectly owns or controls (i) 1,258,684,824 A Shares through Haier COSMO Co., Ltd. (海爾卡奧斯股份有限公司) (formerly Haier Electric Appliances International Co., Ltd.), one of its subsidiaries, (ii) 172,252,560 A Shares through Qingdao Haier Venture & Investment Information Co., Ltd. (青島海爾創業投資諮詢有限公司), one of its subsidiaries and (iii) 73,011,000 A Shares through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership) (青島海創智管理諮詢企業), a party acting in concert with Haier Group Corporation.
2. Haier Group Corporation holds 51.20% of the issued shares in Haier COSMO Co. Ltd. (海爾卡奧斯股份有限公司) (formerly Haier Electric Appliances International Co., Ltd.), and is also entitled to exercise the remaining 48.80% voting rights in Haier Cosmo Co., Ltd. through an irrevocable voting rights entrustment arrangement.
3. HCH (HK) Investment Management Co., Limited (“**HCH (HK)**”) holds 538,560,000 H Shares. Haier Group Corporation controls 100% voting rights in HCH (HK), thus is deemed to be interested in the 538,560,000 H Shares held by HCH (HK).
4. Haier International Co., Limited is a wholly-owned subsidiary of Haier Group Corporation. Therefore, Haier Group Corporation is deemed to be interested in the 58,135,194 D Shares held by Haier International Co., Limited.
5. JPMorgan Chase & Co. held 181,089,076 H Shares, representing approximately 6.42% of the total number of H Shares; BlackRock, Inc. held 144,712,625 H Shares, representing approximately 5.13% of the total number of H Shares.
6. Silk Road Fund Co., Ltd. held 54,007,663 D Shares, representing approximately 19.92% of the total number of D Shares; Morgan Stanley held 24,026,920 D Shares, representing approximately 8.86% of the total number of D Shares.

Short positions:

JPMorgan Chase & Co had a short position of 3,656,322 H Shares, representing approximately 0.13% of the total number of H Shares, and had a lending pool of 28,524,934 H Shares; BlackRock, Inc. had a short position of 891,200 H Shares, representing approximately 0.03% of the total number of H Shares.

Morgan Stanley had a short position of 23,452,146 D Shares, representing approximately 8.65% of the total number of D Shares.

Saved as disclosed above, as of the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, and, which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into any service contracts with the Company or any of its subsidiaries, excluding contracts expiring or terminable within one year without payment of compensation other than statutory compensation.

6. MATERIAL CONTRACTS

No contracts (other than those entered into in the ordinary business course), which are, or may be, material, have been entered into by the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date.

7. MATERIAL LEGAL PROCEEDINGS

As at the Latest Practicable Date, as far as the Directors are aware, the Company has not been involved in any material litigation or arbitration and there were no material litigations or claims known to the Directors to be pending or threatened against the Company.

8. EXPERTS' DISCLOSURE OF INTEREST AND CONSENTS

The followings are the qualifications of the experts who have given opinion in this circular:

Name	Qualification
Somerley	a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

- (1) As at the Latest Practicable Date, each of the above experts did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interests in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up.
- (3) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of recommendation and reference to its name in the form and context in which they appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any working day (public holidays excepted) at the Company's principal place of business in Hong Kong at Unit 3513, 35/F, The Centre, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the AGM:

- (1) the New Financial Services Framework Agreement;
- (2) the letter from the Independent Board Committee to the Independent Shareholders as set out on page 75 of this circular;
- (3) the letter from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders as set out on pages 76 to 108 of this circular;
- (4) the written consent of Somerley and HLB Hodgson Impey Cheng Limited referred to in paragraph 8 of this appendix;
- (5) the report on the unaudited pro forma financial information, the full text of which is set out in Appendix XIV to this circular;
- (6) the Articles of Association;
- (7) the listing documents and 2020 Annual Report of the Company; and
- (8) this circular.

10. GENERAL

- (1) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 December 2020, being the date on which the latest published audited consolidated accounts of the Company were prepared.
- (2) The registered office of the Company is Haier Industrial Park, Laoshan District, Qingdao, Shandong Province, the PRC.
- (3) The share registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (4) The company secretary of the Company are Mr. NG Chi Yin. Mr. NG Chi Yin is a fellow of the Association of Chartered Certified Accountants, and a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.



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)

Stock Code: 6690

**FURTHER REVISED NOTICE OF
THE ANNUAL GENERAL MEETING OF 2020**

FURTHER REVISED NOTICE IS HEREBY GIVEN that the annual general meeting of 2020 (the “AGM”) of Haier Smart Home Co., Ltd. (the “Company”) will be held at 2:00 p.m. on 25 June 2021 (Friday) at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC, for the shareholders of the Company to consider and, if thought fit, to approve the resolutions (special resolutions marked with*) set out below:

1. To Consider and Approve 2020 Financial Statements
2. To Consider and Approve 2020 Annual Report and Annual Report Summary
3. To Consider and Approve 2020 Report on the Work of the Board of Directors
4. To Consider and Approve 2020 Report on the Work of the Board of Supervisors
5. To Consider and Approve 2020 Audit Report on Internal Control
6. To Consider and Approve 2020 Profit Distribution Plan
7. *To Consider and Approve Resolution on the Anticipated Provision of Guarantees for its Subsidiaries in 2021
8. To Consider and Approve Resolution on the Conduct of Foreign Exchange Fund Derivatives Business
9. To Consider and Approve Resolution on the Adjustment of Allowances of Directors
10. To Consider and Approve Resolution on Closing Certain Fund-raising Investment Projects from Convertible Corporate Bonds and Permanently Supplementing the Working Capital with the Surplus Funds
11. *To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of H Shares of the Company

* For identification purpose only

FURTHER REVISED NOTICE OF THE 2020 AGM

12. *To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of D Shares of the Company
13. *To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of H Shares of the Company in Issue
14. *To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors to Decide to Repurchase Not More Than 10% of the Total Number of D Shares of the Company in Issue
15. *To Consider and Approve Resolution on Amendments to the Articles of Association
16. To Consider and Approve Resolution on Amendments to the Rules of Procedure for the Board of Directors
17. To Consider and Approve Resolution on Amendments to the Rules of Procedure for the Board of Supervisors
18. To Consider and Approve Resolution on Amendments to the External Guarantee Management System
19. To Consider and Approve Resolution on Re-appointment of PRC Accounting Standards Auditor
20. To Consider and Approve Resolution on Re-appointment of International Accounting Standards Auditor
21. To Consider and Approve Resolution on Renewal of the Financial Services Framework Agreement and its Expected Related-Party Transaction Limit with Haier Group and Haier Finance
22. *To Consider and Approve the A Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary
23. *To Consider and Approve the H Share Core Employee Stock Ownership Plan (2021–2025) (Draft) and its Summary
24. *To Consider and Approve Resolution on Authorization by the General Meeting to the Board of Directors to Handle Matters Pertaining to the Core Employee Stock Ownership Plan of the Company
25. *To Consider and Approve the H Share Restricted Share Unit Scheme (2021–2025) (Draft)

FURTHER REVISED NOTICE OF THE 2020 AGM

26. *To Consider and Approve Resolution on Authorization by the General Meeting to the Board of Directors or the Delegatee to Handle Matters Pertaining to the Restricted Share Unit Scheme

27. To Consider and Approve Resolution on Election of Independent Director

27.1 Wu Qi

28. To Consider and Approve Resolution on Election of Supervisors of the Company

28.1 Liu Dalin

28.2 Ma Yingjie

In addition, the AGM will listen to independent directors' report on their work in 2020.

By Order of the Board
Haier Smart Home Co., Ltd.*
LIANG Haishan
Chairman

Qingdao, the PRC
25 May 2021

As at the date of this notice, the executive directors of the Company are Mr. LIANG Haishan, Mr. LI Huagang and Mr. XIE Juzhi; the non-executive directors are Mr. WU Changqi, Mr. LIN Sui, Mr. YU Hon To, David and Ms. Eva LI Kam Fun; and the independent non-executive directors are Mr. DAI Deming, Mr. CHIEN Da-Chun, Mr. WONG Hak Kun and Mr. LI Shipeng.

Notes:

1. CLOSURE OF REGISTER OF MEMBERS, ELIGIBILITY FOR ATTENDING THE AGM

In order to determine the list of shareholders who are eligible to attend and vote at the AGM, the register of members for H shares of the Company will be closed from 17 June (Thursday) to 25 June 2021 (Friday) (both days inclusive). Shareholders whose names appear on the register of members of the Company on 25 June 2021 (Friday) are entitled to attend and vote at the AGM. Holders of H shares of the Company who wish to attend the AGM but have not registered the transfer documents are required to lodge the transfer documents together with relevant share certificates and other appropriate documents with the H share Registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 16 June 2021 (Wednesday).

FURTHER REVISED NOTICE OF THE 2020 AGM

2. ARRANGEMENT ON DIVIDEND DISTRIBUTION

The board of directors of the Company has recommended the distribution of a final cash dividend for the year ended 31 December 2020 of RMB3.66 (inclusive of tax) per 10 shares. Subject to approval of the proposal at the AGM, the dividend will be paid to A shareholders, D shareholders and H shareholders whose names appear on the register of members of the Company at the close of business on the respective record dates. The above proposed dividends payable are denominated in Renminbi, and will be paid to H shareholders in Hong Kong dollars. Calculation of the exchange rate for dividends payable in Hong Kong dollars shall be the average exchange rate (medium rates) for converting Renminbi into foreign currencies as quoted by the People's Bank of China for a week immediately prior to the announcement of dividend.

3. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY FOR FINAL DIVIDEND DISTRIBUTION

The Company will further announce the arrangement of book closure of H share register for the final dividend after the AGM.

4. PROXY

Shareholders entitled to attend and vote at the AGM may appoint one or more proxies by writing to attend and vote in their stand. A proxy need not be a shareholder of the Company.

The instrument appointing a proxy must be in writing under the hand of a shareholder or his/her attorney duly authorized in writing. If the shareholder is a corporate body, the proxy form must be under its common seal or under the hand of its director(s) or duly authorized attorney(s). If the Proxy Form is entered into by an attorney, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.

To be valid, the further revised proxy form must be lodged with the Company's H share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the H shareholders) not less than 24 hours prior to the holding of the AGM (i.e. no later than 2:00 p.m. on 24 June 2021 (Thursday)) or not less than 24 hours before any adjournment thereof (as the case may be). Completion and return of the further revised proxy form will not preclude you from attending and voting in person at the AGM or any adjournment thereof. In this case, the revised proxy form will be deemed to have been revoked.

In case of joint holders of a share of the Company, any one of such holders is entitled to vote at the AGM, by himself/herself or by proxy, as if he/she is the only one entitled to do so among the joint holders. However, only the vote of the person by himself/herself or by proxy whose name stands first on the register of members in respect of such share shall be accepted if more than one joint holder attend the AGM personally or by proxy.

FURTHER REVISED NOTICE OF THE 2020 AGM

If a shareholder has not yet returned the proxy form dated 30 March 2021 or 29 April 2021 (the “**Original Proxy Forms**”) published by the Company in accordance with the instructions thereon, and wishes to appoint a proxy to attend the AGM on his/her behalf, he/she is required to submit the further revised proxy form. In this case, the shareholder shall not submit the Original Proxy Forms. If a shareholder has already returned any Original Proxy Forms to the Company in accordance with the instructions printed thereon, he/she should note that:

- (1) If no further revised proxy form is returned by the shareholder in accordance with the instructions thereon, the Original Proxy Forms will be treated as a valid proxy form lodged by the shareholder if duly completed. The proxy appointed under the Original Proxy Forms will also be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her discretion (if no such instructions are given) on any resolutions (including the additional resolutions 22 to 26 set out in this further revised notice) properly put to the AGM.
- (2) If the further revised proxy form is returned by the shareholder in accordance with the instructions thereon at or before 2:00 p.m. on 24 June 2021, the further revised proxy form will be treated as a valid proxy form lodged by the shareholder if duly completed.
- (3) If the further revised proxy form is returned by the shareholder after the closing time (being at 2:00 p.m. on 24 June 2021) set out in this further revised notice, the further revised proxy form will be deemed invalid. It will not revoke the Original Proxy Forms previously lodged by the shareholder. The Original Proxy Forms will be treated as a valid proxy form lodged by the shareholder if duly completed. The proxy appointed under the Original Proxy Forms will also be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her discretion (if no such instructions are given) on any resolutions (including the additional resolutions 22 to 26 set out in this further revised notice) properly put to the AGM.

5. OTHER MATTERS

- (i) A shareholder or his/her proxy should produce proof of identity when attending the AGM (or any adjournment thereof). If a corporate shareholder’s legal representative or any other person duly authorized by such corporate shareholder attends the AGM (or any adjournment thereof), such legal representative or other person shall produce his/her proof of identity, and proof of designation as legal representative or the valid authorization document (as the case may be).
- (ii) The AGM is expected to take less than half a business day. Shareholders who attend the meeting shall be responsible for their own travel and accommodation expenses.
- (iii) Voting at the AGM will be conducted by poll. The cumulative voting method shall be adopted for the voting of Resolution 27 and Resolution 28. The cumulative voting method refers to the voting for the election of directors, independent non-executive directors or supervisors where each share is entitled to the same number of votes which equals to the total number of directors, independent non-executive directors or supervisors to be elected, and shareholders may consolidate their voting rights when casting a vote. The cumulative voting method includes the regular voting method where shareholders may cast their votes with partial or all voting rights.



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)

Stock Code: 6690

NOTICE OF THE SECOND H SHARES CLASS MEETING OF 2021

NOTICE IS HEREBY GIVEN that the Second H Shares Class Meeting of 2021 (the “**H Shares Class Meeting**”) of Haier Smart Home Co., Ltd. (the “**Company**”) will be held on 25 June 2021 (Friday) at Haier University, Haier Information Industry Park, Laoshan District, Qingdao, PRC immediately after the AGM of 2020, the Second A Shares Class Meeting and the Second D Shares Class Meeting of 2021 for the purpose of considering and, if thought fit, approving the resolution set out below:

SPECIAL RESOLUTIONS

1. To consider and approve the resolution on the general meeting to grant a general mandate to the Board of Directors to decide to repurchase not more than 10% of the total number of H Shares of the Company in issue
2. To consider and approve the resolution on the general meeting to grant a general mandate to the Board of Directors to decide to repurchase not more than 10% of the total number of D Shares of the Company in issue

By Order of the Board
Haier Smart Home Co., Ltd.*
Mr. Liang Haishan
Chairman

Qingdao, the PRC
30 March 2021

As at the date of this notice, the executive directors of the Company are Mr. LIANG Haishan, Mr. LI Huagang and Mr. XIE Juzhi; the non-executive directors are Mr. WU Changqi, Mr. LIN Sui, Mr. YU Hon To, David and Ms. Eva LI Kam Fun; and the independent non-executive directors are Mr. DAI Deming, Mr. CHIEN Da-Chun, Mr. WONG Hak Kun and Mr. LI Shipeng.

* For identification only

NOTICE OF THE SECOND H SHARES CLASS MEETING OF 2021

Notes:

1. CLOSURE OF REGISTER OF MEMBERS, ELIGIBILITY FOR ATTENDING THE H shares CLASS MEETING

In order to determine the shareholders who are eligible to attend and vote at the H Shares Class Meeting, the register of members for H Shares will be closed from 17 June (Thursday) to 25 June 2021 (Friday) (both days inclusive). For shareholders whose names appear on the register of members of the Company on 25 June 2021 (Friday) are entitled to attend and vote at the H Shares Class Meeting. Holders of H Shares who wish to attend the H Shares Class Meeting but have not registered the transfer documents are required to lodge the transfer documents together with relevant share certificates and other appropriate documents with the H Share Registrar of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 16 June 2021 (Wednesday).

2. PROXY

Shareholders entitled to attend and vote at the H Shares Class Meeting may appoint one or more proxies by writing to attend and vote in their stead. A proxy need not be a shareholder of the Company.

The instrument appointing a proxy must be in writing under the hand of a shareholder or his/her attorney duly authorized in writing. If the shareholder is a corporate body, the proxy form must be under its common seal or under the hand of its director(s) or duly authorized attorney(s). If the Proxy Form is entered into by an attorney, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.

To be valid, the form of proxy must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the H Shareholders) not less than 24 hours prior to the holding of the H Shares Class Meeting (i.e. no later than 2:00 p.m. on 24 June 2021 (Thursday)) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the H Shares Class Meeting or any adjournment thereof. In this case, the power of attorney will be deemed to have been revoked.

In case of joint holders of a share of the Company, any one of such holders is entitled to vote at the H Shares Class Meeting, by himself/herself or by proxy, as if he/she is the only one entitled to do so among the joint holders. However, only the vote of the person by himself/herself or by proxy whose name stands first on the register of members in respect of such share shall be accepted if more than one joint holder attend the H Shares Class Meeting personally or by proxy.

3. OTHER MATTERS

- (i) A shareholder or his/her proxy should produce proof of identity when attending the H Shares Class Meeting (or any adjournment thereof). If a corporate shareholder's legal representative or any other person duly authorized by such corporate shareholder attends the H Shares Class Meeting (or any adjournment thereof), such legal representative or other person shall produce his/her proof of identity, and proof of designation as legal representative or the valid authorization document (as the case may be).
- (ii) The H Shares Class Meeting is expected to take less than half a day. Shareholders who attend the H Shares Class Meeting shall be responsible for their own travel and accommodation expenses.