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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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# Haier

## 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) 2022 FINANCIAL STATEMENTS;
- (2) 2022 ANNUAL REPORT AND ANNUAL REPORT SUMMARY;
- (3) 2022 REPORT ON THE WORK OF THE BOARD OF DIRECTORS;
- (4) 2022 REPORT ON THE WORK OF THE BOARD OF SUPERVISORS;
- (5) 2022 AUDIT REPORT ON INTERNAL CONTROL;
- (6) 2022 PROFIT DISTRIBUTION PLAN;
- (7) RE-APPOINTMENT OF PRC ACCOUNTING STANDARDS AUDITORS FOR 2023;
- (8) RE-APPOINTMENT OF INTERNATIONAL ACCOUNTING STANDARDS AUDITORS FOR 2023;
- (9) RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND ITS PROPOSED ANNUAL CAPS;
- (10) ANTICIPATED GUARANTEES' AMOUNTS FOR THE COMPANY AND ITS SUBSIDIARIES IN 2023;
- (11) CONDUCT OF FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS;
- (12) PURCHASE OF LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY;
- (13) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF A SHARES;
- (14) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF H SHARES;
- (15) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF D SHARES;
- (16) GENERAL MANDATE TO REPURCHASE H SHARES;
- (17) GENERAL MANDATE TO REPURCHASE D SHARES;
- (18) 2023 A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (DRAFT) AND ITS SUMMARY;
- (19) 2023 H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (DRAFT) AND ITS SUMMARY;
- (20) REVISED NOTICE OF THE 2022 AGM; AND
- (21) NOTICE OF THE FIRST H SHARE CLASS MEETING OF 2023

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The Letter from the Board is set out on pages 5 to 43 of this circular.

The Company will convene the AGM and Class Meetings by way of on-site meeting at 2:00 p.m. on Monday, 26 June 2023 at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC. The revised notice of the AGM and the notice of H Share Class Meeting are set out on pages 164 to 169 of this circular.

Whether or not you intend to attend and/or vote at the AGM and H Share 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 Share 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 Share Class Meeting or any adjournment thereof should you so wish.

This circular has been prepared in Chinese and English. In case of any inconsistency, unless otherwise stated, the Chinese text of this circular shall prevail over the English text.

\* For identification purpose only

6 June 2023

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	44
<b>Letter from Somerley Capital Limited</b> .....	45
<b>Appendix I — 2022 Audit Report on Internal Control</b> .....	88
<b>Appendix II — Resolution on the Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023</b> .....	91
<b>Appendix III — Resolution on the Conduct of Foreign Exchange Fund Derivatives Business</b> .....	94
<b>Appendix IV — Explanatory Statement for the Repurchase of H Shares</b> .....	100
<b>Appendix V — Explanatory Statement for the Repurchase of D Shares</b> .....	105
<b>Appendix VI — 2023 A Share Core Employee Stock Ownership Plan (Draft)</b> ...	108
<b>Appendix VII — 2023 H Share Core Employee Stock Ownership Plan (Draft)</b> ..	132
<b>Appendix VIII — General Information</b> .....	156
<b>Revised Notice of the 2022 AGM</b> .....	164
<b>Notice of the First H Share Class Meeting of 2023</b> .....	168

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## DEFINITIONS

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

“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 Shareholders”	holders of A Shares of the Company
“AGM”	the annual general meeting of 2022 of the Company to be held by way of on-site meeting at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC at 2:00 p.m. on Monday, 26 June 2023
“Articles of Association” or “Articles”	the articles of association of the Company, as amended, supplemented or otherwise amended from time to time
“associate(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of our Company
“Business Day(s)”	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 or other organisations adjusted in accordance with the provisions of the relevant Chinese government bodies
“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 first A Shares/D Shares/H Share Class Meetings of 2023 of the Company to be held by way of on-site meeting at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC immediately after the AGM of the Company on Monday, 26 June 2023

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## DEFINITIONS

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“Company”	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC with limited liability, whose A Shares are listed on the Shanghai Stock Exchange (stock code: 600690), 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》)
“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
“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)
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries from time to time, and the expression <i>member(s) of the Group</i> shall be construed accordingly
“H Share Class Meeting”	the first H Share Class Meeting of 2023 of the Company to be held by way of on-site meeting at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC immediately after the AGM of 2022, the first A Share Class Meeting of 2023 and the first D Share Class Meeting of 2023 of the Company on Monday, 26 June 2023
“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)
“Haier Finance Company”	Haier Group Finance Co., Ltd.

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## DEFINITIONS

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“Haier Group”	Haier Group Corporation
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent committee under the Board comprising all Independent Non-executive Directors, namely Mr. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi. The Committee has been established to advise the Independent Shareholders on the New Financial Services Framework Agreement and its proposed annual caps
“Independent Director(s)” or “Independent Non-executive Director(s)”	the independent Director(s) referred to the Articles and the independent non-executive Director(s) under the Listing Rules
“Independent Financial Advisor” or “Somerley”	Somerley Capital Limited, a corporation licensed 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 on the New Financial Services Framework Agreement and its proposed annual caps
“Independent Shareholders”	the Shareholders of the Company other than Haier Group and its associates
“Latest Practicable Date”	30 May 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its printing
“New Financial Services Framework Agreement”	the Financial Services Framework Agreement entered into by the Company with Haier Group and Haier Finance Company on 30 March 2023
“PBOC”	the People’ Bank of China
“RMB”	Renminbi, the lawful currency of the PRC
“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

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## DEFINITIONS

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“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” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed under the Hong Kong Listing Rules unless the context otherwise requires
“Supervisor(s)”	supervisors(s) of the Company
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs (as amended from time to time)
“USD” or “US\$”	United States dollars, the lawful currency of the United States
“%”	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.*



**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:*

LI Huagang (*Chairman*)  
GONG Wei

*Non-executive Directors:*

YU Hon To, David  
Eva LI Kam Fun  
SHAO Xinzhi

*Independent Non-executive Directors:*

CHIEN Da-Chun  
WONG Hak Kun  
LI Shipeng  
WU Qi

*Registered office and Headquarters:*

Haier Science and Technology Innovation  
Ecological Park (originally known  
as Haier Information Industry Park)  
Laoshan District  
Qingdao, Shandong Province  
PRC

*Principal place of business*

*in Hong Kong:*

Unit 3513, 35/F, The Centre  
99 Queen's Road Central  
Hong Kong

*To the Shareholders,*

Dear Sir or Madam,

- (1) 2022 FINANCIAL STATEMENTS;
- (2) 2022 ANNUAL REPORT AND ANNUAL REPORT SUMMARY;
- (3) 2022 REPORT ON THE WORK OF THE BOARD OF DIRECTORS;
- (4) 2022 REPORT ON THE WORK OF THE BOARD OF SUPERVISORS;
- (5) 2022 AUDIT REPORT ON INTERNAL CONTROL;
- (6) 2022 PROFIT DISTRIBUTION PLAN;
- (7) RE-APPOINTMENT OF PRC ACCOUNTING STANDARDS AUDITORS FOR 2023;
- (8) RE-APPOINTMENT OF INTERNATIONAL ACCOUNTING STANDARDS AUDITORS FOR 2023;
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AND ITS PROPOSED ANNUAL CAPS;
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AND ITS SUBSIDIARIES IN 2023;
- (11) CONDUCT OF FOREIGN EXCHANGE FUND DERIVATIVES BUSINESS;
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MANAGEMENT OF THE COMPANY;
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- (15) GENERAL MANDATE ON ADDITIONAL ISSUANCE OF D SHARES;
- (16) GENERAL MANDATE TO REPURCHASE H SHARES;
- (17) GENERAL MANDATE TO REPURCHASE D SHARES;
- (18) 2023 A SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (DRAFT) AND ITS SUMMARY;
- (19) 2023 H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (DRAFT) AND ITS SUMMARY;
- (20) REVISED NOTICE OF THE 2022 AGM; AND
- (21) NOTICE OF THE FIRST H SHARE CLASS MEETING OF 2023

\* For identification purpose only

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## LETTER FROM THE BOARD

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### I. INTRODUCTION

The Company will convene the AGM at 2:00 p.m. on Monday, 26 June 2023, at which the following resolutions (special resolutions are marked with<sup>#</sup>) will be proposed for the Shareholders to consider and approve, if thought fit:

#### RESOLUTIONS

1. To Consider and Approve 2022 Financial Statements
2. To Consider and Approve 2022 Annual Report and Annual Report Summary
3. To Consider and Approve 2022 Report on the Work of the Board of Directors
4. To Consider and Approve 2022 Report on the Work of the Board of Supervisors
5. To Consider and Approve 2022 Audit Report on Internal Control
6. To Consider and Approve 2022 Profit Distribution Plan
7. To Consider and Approve Resolution on the Re-appointment of PRC Accounting Standards Auditor
8. To Consider and Approve Resolution on the Re-appointment of International Accounting Standards Auditor
9. To Consider and Approve Resolution on Renewal of the Financial Services Framework Agreement and its Expected Related-Party Transaction Limit with Haier Group Corporation and Haier Group Finance Co., Ltd.
10. To Consider and Approve Resolution on the Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023
11. To Consider and Approve Resolution on the Conduct of Foreign Exchange Fund Derivatives Business
12. To Consider and Approve Resolution on Purchase of Liability Insurance for Directors, Supervisors, and Senior Management of the Company
13. <sup>#</sup>To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of A Shares of the Company
14. <sup>#</sup>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



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## LETTER FROM THE BOARD

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15. #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
16. #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
17. #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
18. #To Consider and Approve the 2023 A Share Core Employee Stock Ownership Plan (Draft) and its Summary
19. #To Consider and Approve the 2023 H Share Core Employee Stock Ownership Plan (Draft) and its Summary

In addition, the A Share Class Meeting, D Share Class Meeting and H Share Class Meeting are to be held immediately after the AGM on Monday, 26 June 2023. 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 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 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 Share Class Meeting for approval. The revised notice of the AGM and notice of the H Share Class Meeting are set out on pages 164 to 169 of this circular.

## II. RESOLUTIONS TO BE CONSIDERED AND APPROVED AT THE AGM

### 1. 2022 Financial Statements

Please refer to the financial report section in the 2022 Annual Report (A Shares) and 2022 Annual Report (H Shares) respectively published by the Company.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

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## LETTER FROM THE BOARD

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### **2. 2022 Annual Report and Annual Report Summary**

Please refer to the 2022 Annual Report published by the Company.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **3. 2022 Report on the Work of the Board of Directors**

For the main content of the 2022 Report on the Work of the Board of Directors, please refer to the relevant part of the 2022 annual report published by the Company.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **4. 2022 Report on the Work of the Board of Supervisors**

An ordinary resolution will be proposed at the AGM to consider and approve the 2022 Report on the Work of the Board of Supervisors.

The 2022 Report on the Work of the Board of Supervisors of the Company is as follows:

#### ***1. The Work of the Board of Supervisors***

During the Reporting Period, the Board of Supervisors convened 6 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 related-party 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

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## LETTER FROM THE BOARD

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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 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 Financial Report issued by Hexin Certified Public Accountants LLP and HLB Hodgson Impey Cheng Limited, 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 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 Evaluation Report on Internal Control*

During the Reporting Period, the Board of Supervisors of the Company carefully reviewed the Evaluation Report on the 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.

This resolution has been reviewed and approved by the meeting of the Board of Supervisors on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **5. 2022 Audit Report on Internal Control**

An ordinary resolution is to be proposed at the AGM to consider and approve the 2022 Audit Report on Internal Control.

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## LETTER FROM THE BOARD

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According to the relevant guidelines of Notice on Disclosure of 2022 Annual Reports of Companies Listed on Main Board and the Self-regulatory Guidelines for Listed Companies No. 1 — Standardized Operation issued by the Shanghai Stock Exchange and the Self-regulatory Guidelines for Listed Companies No. 2 — Business Handling issued by the 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 Smart Home has maintained effective internal control of financial report in all material aspects as of 31 December 2022 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

The 2022 Audit Report on Internal Control is set out in Appendix I to this circular.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **6. 2022 Profit Distribution Plan**

An ordinary resolution is to be proposed at the AGM to consider and approve the 2022 Profit Distribution Plan, the details are as follows:

Upon the audit by Hexin Certified Public Accountants LLP, as of 31 December 2022, the 2022 distributable profits (undistributed profits) of the Company were RMB5,328,311,799.62.

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 (2021–2023) of the Company, the Articles of Association and relevant laws and regulations, we currently recommend the Company's 2022 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 RMB5.66 per 10 Shares (tax inclusive) to all Shareholders, with a total distributed profit of RMB5,297,529,553.10 (tax inclusive), representing a proportion of 36.01% of the Company's cash dividends for the year to the net profit attributable to shareholders of the parent company. If any change of the total share capital of the Company occurred before the record date of implementation of dividend distribution, the total distributable amount is proposed to be unchanged, and the distribution ratio per Share shall be adjusted accordingly. The undistributed profits retained by the Company will be primarily used for project construction, foreign investment, R&D

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## LETTER FROM THE BOARD

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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, 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 total distributable amount and adjust the distribution ratio per Share accordingly. No capital reserves will be converted into share capital and no bonus shares will be distributed by the Company during the year. This equity distribution will constitute a differentiated dividend.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **7. Proposed Re-appointment of PRC Accounting Standards Auditor for 2023**

As ordinary resolution is to be proposed at the AGM to consider and approve the appointment of PRC accounting standards auditor and its remuneration for 2023, 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 PRC accounting standards in 2023 and the continuity of the audit work, and considering that Hexin Certified Public Accountants LLP has the qualifications for auditing securities and futures-related business 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 Certified Public Accountants LLP as the Company's audit agency on financial statement and internal control under the PRC accounting standards in 2023. The audit service fee for 2023 is RMB8.78 million (including the audit fee of RMB6.55 million for annual report and audit fee of RMB2.23 million for internal control), same as last year.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval as an ordinary resolution.

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## LETTER FROM THE BOARD

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### **8. Proposed Re-appointment of International Accounting Standards Auditor for 2023**

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 2023, the details are as follows:

In order to ensure the smooth progress of the Company's audit work on finance under the international accounting standards in 2023 and the continuity of the audit work, and considering that HLB Hodgson Impey Cheng Limited has corresponding qualifications and the service team has extensive 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 audit, the Company intends to renew the engagement of HLB Hodgson Impey Cheng Limited as the Company's audit agency under the international accounting standards in 2023. The audit service fee is RMB3.89 million (including the audit fee of RMB3.74 million for financial report and audit fee of RMB0.15 million for reviewing continuing connected transactions), which is consistent with last year.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

### **9. Renewal of the Financial Services Framework Agreement and its Proposed Annual Caps**

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on the Renewal of the Financial Services Framework Agreement and its Expected Related-Party Transaction Limit with Haier Group Corporation and Haier Group Finance Co., Ltd.

#### ***1. Background***

Reference is made to the announcement of the Company dated 29 April 2021, the circular of the Company dated 4 June 2021 and the poll results announcement of the Company dated 25 June 2021 in relation to, among other things, the Financial Services Framework Agreement entered into between the Company and Haier Group as well as its annual caps for 2021, 2022 and 2023 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 31 December 2023 and the Company will continue to conduct such transactions subsequent to 31 December 2023, therefore the Company, Haier Group and Haier Finance Company entered into the New Financial Services Framework Agreement on 30 March 2023 for a term of three years commencing from 1 January 2024 to 31 December 2026, 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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## LETTER FROM THE BOARD

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### 2. *New Financial Services Framework Agreement*

Date: 30 March 2023

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 hedging financial derivatives business, international settlement, trade financing and non-financing letter of guarantee services, etc.;
  - (2) financial consulting and consulting agency services;
  - (3) cross-border foreign exchange funds and cross-border RMB funds business;
  - (4) credit verification and provision of entrusted loans services;
  - (5) bill issuance, acceptance and discount;
  - (6) providing collection and automatic liquidation management of physical and electronic commercial bills;
  - (7) the internal transfer and settlement service of the Group and the corresponding settlement;

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## LETTER FROM THE BOARD

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- (8) underwriting the corporate bonds of the Group;
- (9) services related to receipt and payment of funds;
- (10) consumer credit, buyer credit services for the Group's products;  
and
- (11) other services as approved by the CBIRC (collectively "**Other Financial Services**").

The New Financial Services Framework Agreement will become effective from 1 January 2024 subject to approval by the general meeting and will expire on 31 December 2026. Subject to the Company's compliance with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules (if applicable), the Group has an option, in its entire discretion, to renew the New Financial Services Framework Agreement upon its expiry for another term of three years. 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 in breach of regulations, or in any other circumstances which causes Haier Finance Company to be unable to repay the Group's deposits (including accrued interests), Haier Finance Company shall then immediately repay the relevant deposits (including accrued interests) to the Group, and 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. Specifically, the Group may send a letter to Haier Finance Company and Haier Group to assert that the relevant deposits are due immediately, Haier Finance Company shall then immediately repay the relevant deposits (including accrued interests) to the Group. The Group may also appropriate such deposits to set off against the outstanding loans (including accrued interests) extended by Haier Finance Company to the Group, which enables Haier Finance Company to immediately repay the relevant deposits (including accrued interests) to the Group. If the Group's deposit with Haier Finance Company is more than the loans extended by Haier Finance Company, the Group may offset part of the deposit with Haier Finance Company against the total loans extended by Haier Finance Company. As to the remaining deposits, the Group is entitled to request Haier Finance Company to repay the deposits through negotiation, arbitration and/or litigation, as well as to request Haier Group to assume its joint and several guarantee liability under the New Financial Services Framework Agreement. 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



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## LETTER FROM THE BOARD

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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.

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 in breach of regulations, or in any other circumstances which causes it to be unable to repay the Group's deposits (including accrued interests), such other associates of Haier Group except Haier Finance Company shall then immediately repay the relevant deposits (including accrued interests) to the Group, and the Group is entitled to appropriate 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 undertaken and guaranteed joint and several liability 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 provide the joint and several liability guarantee to ensure fulfilment of obligations by Haier Finance Company under the New Financial Services Framework Agreement.

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## LETTER FROM THE BOARD

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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, loan services and foreign exchange derivatives investment 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 institution 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 enterprise group finance company in China to pass the ISO27001 certification of the International Information Security Management System and the third-level certification of national standard protection;
- (ii) as a non-banking financial institution specialising in providing financial services to enterprise group member entities, 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 by the CBIRC is more stringent than the regulation of commercial banks in the PRC in certain aspects, for example, in terms of capital adequacy ratio and admission standards for certain businesses of finance companies. To the best knowledge of the Company, as at 31 December 2022, Haier Finance Company's regulatory indicators complied with the provisions of the Measures for the Administration of Finance Companies of Enterprise Groups 《企業集團財務公司管理辦法》 and transitional requirements of the CBIRC;
- (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 joint liability guarantee for the deposits in Haier Group and its associates placed by the Group; and
- (iv) the Group currently holds 42% direct and indirect 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. The Group has conducted risk monitoring

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## LETTER FROM THE BOARD

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and assessment of Haier Finance Company in the past years and has not identified any risky items in respect of deposits with Haier Finance Company.

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 domestic RMB deposits provided by Haier Group and its associates is more favourable 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% or above higher than the benchmark interest rate of 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 no less favourable than the highest interest rate of commercial banks available to the Group (please refer to Internal Control Measures section for details);
- (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 hundreds of subsidiaries, which will save financial costs, strengthen fund management and improve the efficiency of capital use and gains;
- (iii) Haier Finance Company is an important partner of the customers of the Company along the industry chain, many of which have opened accounts with Haier Finance Company, allowing the Group's ecosystem partners to use the settlement platform of Haier Finance Company to process most of the transactions with the Group at their convenience, so as to improve operational efficiency. In addition, Haier Finance Company provides customized comprehensive supply chain financial services to the Group, such as purchaser credit granted to downstream customers as per regulatory requirements;
- (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 and the convenience of fund management. 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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## LETTER FROM THE BOARD

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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, improve the efficiency of capital operations and reduces financial costs while meeting the liquidity demand of bill holders. Meanwhile, Haier Finance Company exempts 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 with an adequate professional financial services team, which can accurately predict and quickly meet the Group's needs for financial service; and
- (vii) the Group directly and indirectly holds 42% equity interest in Haier Finance Company. The Group's deposit in Haier Finance Company will bring interest income and are expected to maintain 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, the Group 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 more 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 RMB and foreign currencies are implemented in accordance with market principles, and the interest rate of similar

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## LETTER FROM THE BOARD

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deposits is no less favourable than the highest interest rate of commercial banks available to the Group (please refer to Internal Control Measures section for details).

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 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 provided by Haier Group and its associates with those provided by the three major banks or financial institutions with which the Group has established business relationships in each quarter.

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 three major financial institutions/commercial banks (please refer to Internal Control Measures section for details). 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 Finance Company 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 three major commercial banks or financial institutions with which the Group has established business relationships. Haier Finance Company 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 Group and its associates agrees to waive all the service fees charged to the Group by it, including but not limited to, account management fees, online banking activation fees, inquiry fees, deposit certificate fees, credit certificate fees, and internal settlement fees.

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## LETTER FROM THE BOARD

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*Historical amount:*

The maximum daily balance of deposits placed by the Group with Haier Group and its associates for each of the three years ended 31 December 2022 and for the three months ended 31 March 2023 were approximately RMB24,987 million, RMB28,655 million, RMB31,977 million and RMB33,977 million, respectively. The corresponding interest income received by the Group from Haier Finance Company for each of the three years ended 31 December 2022 and for the three months ended 31 March 2023 were approximately RMB86 million, RMB340 million, RMB570 million and RMB175 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 2022 and for the three months ended 31 March 2023 were approximately RMB3,628 million, RMB557 million, RMB338 million and RMB60 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 2022 and for the three months ended 31 March 2023 were RMB86 million, RMB8 million, RMB5 million and RMB0.5 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 2022 and for the three months ended 31 March 2023 were approximately RMB4,418 million, RMB2,612 million, RMB413 million and RMB220 million, respectively.

The service fee for Other Financial Services paid by the Group for each of the three years ended 31 December 2022 and for the three months ended 31 March 2023 were approximately RMB18 million, RMB23 million, RMB29 million and RMB5 million, respectively.

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## LETTER FROM THE BOARD

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### 3. *Proposed Annual Caps and Basis of Determination*

The transaction annual caps under the New Financial Services Framework Agreement for the three years ending 31 December 2026 shall not exceed the following caps:

<i>(in RMB million)</i>	Proposed Annual Caps		
	For the period ending 31 December 2024	For the period ending 31 December 2025	For the period ending 31 December 2026
<b>Deposit Services</b>			
(a) Maximum daily outstanding balance of deposits placed by the Group	34,000	34,000	34,000
(b) Interest income	1,020	1,020	1,020
<b>Loan Services</b>			
(a) Maximum daily outstanding balance of loans granted to the Group	10,000	10,000	10,000
(b) Interest expense	400	400	400
<b>Other Financial Services</b>			
(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 Group's historical transaction amounts of and underlying interest income from the above deposits of Haier Group and its associates are arrived at after taking into account the maximum daily outstanding balance of deposits of RMB31,977 million and the interest income of RMB570 million that incurred for the year ended 31 December 2022;
- (ii) the Group will manage the proportion of deposits in Haier Finance Company in a scientific and versatile manner based on management requirements. At the same time, taking into account the Group can obtain the highest price in Haier Finance Company that is no less favourable than the market deposit pricing and the most efficient capital operation support to maintain a stable consolidated return for the Group in Haier Finance Company, the maximum daily deposit balance cap for the three years ending 31 December 2026 is intended to remain the same as the cap of RMB34 billion in 2023;

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## LETTER FROM THE BOARD

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- (iii) 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;
- (iv) the Group's business is expected to maintain a sound development trajectory driven by the domestic recovery from epidemic, global consumption upgrades and smart home development trends. In 2022, the Group's revenue and gross profit increased by 7.2% and 7.2% year-on-year respectively. The growth of the Group's business in 2022 and its expected upward momentum in the next three years will maintain the Group's demand for deposits and fund settlements at a stable level;
- (v) 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 geopolitical conflict. Leveraging on Haier Finance Company's cross-border fund pool channel service, subject to the fulfilment of the conditions of the foreign exchange regulatory legislation, the Group can remit domestic capital to overseas quickly, which meets the capital needs of the Group's overseas subsidiaries and improves the Group's efficiency in the use of capital.

In terms of Loan Services:

- (i) the Group's historical transaction amounts of and underlying interest expense to the loans from Haier Group and its associates are arrived at after taking into account the maximum daily outstanding balance of loans of RMB338 million that incurred and the interest expense of RMB5 million that incurred for the year ended 31 December 2022; and
- (ii) it is expected that the Group's demands on loans will maintain a steady growth. 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 with the maximum amount of working capital loans amounting to approximately RMB4,000 million, so as to satisfy the financing needs of the Group from time to time. 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 meet the capital expenditure requirements such as construction to expand production lines and investment and mergers and acquisition



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## LETTER FROM THE BOARD

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plans. The development pace of the Group's domestic and overseas projects will pick up in next three years, and the Group has begun to explore diversified expansion plans that require capital resources, therefore it is expected that the Group's demands on loans for its business and projects will maintain a steady growth. The Group may consider borrowing from a finance company if the loan package offered by Haier Finance Company is competitive. Accordingly, the limit for the local currency loan is approximately RMB4,500 million. In addition, taking into account the complex changes in the international environment and exchange rate fluctuations, combined with the increase in the cost of loans in US\$, possible need for loan replacement or additional financing for the Merger and Acquisition segment, as well as the future capital expenditure and working capital requirements of the Group overseas, the limit for foreign currency loans is approximately RMB5,500 million.

In terms of Other Financial Services:

- (i) the historical transaction amounts of Other Financial Services and the underlying services fees the Group paid to Haier Group and its associates are arrived at after taking into account the maximum daily trading balance of foreign exchange derivative products of RMB4,418 million, RMB2,612 million and RMB413 million that incurred for each of the three years ended 31 December 2022, respectively.
- (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. In the past three years, the size of the Group's foreign exchange transactions with Haier Finance Company (including export business, overseas investments, dividends, repurchases, etc.) averaged around US\$1,300 million (approximately RMB8,500 million) per year, and the amount of the Group's foreign exchange transactions in the recent year was approximately RMB7,700 million. The maximum daily balance of the Group's foreign exchange derivative products traded with Haier Finance Company in the past three years was approximately RMB4,400 million. Considering the Group's revenue from overseas operations has exceeded 50% of the overall business revenue and the scale of revenue is expected to keep growing, the Group's demand for global financial services, especially the foreign exchange derivatives, to satisfy its

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## LETTER FROM THE BOARD

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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, have contributed to the increasing phased economic uncertainty in recent years and may lead to fluctuations in the foreign exchange market, which in turn increases the Group's hedging needs. Therefore, the size of the Group's foreign exchange derivative products in Haier Finance Company is expected to grow at 10% per annum, with a transaction limit of approximately RMB5,500 million for the next three years.

- (iii) The service fees of Other Financial Services primary consist of handling fees for promissory notes and non-financing letter of guarantee. Due to the surge in commodity prices of steel and non-ferrous metals in recent years, the Company's demand for raw material purchases has increased in order to cut raw material costs. Further, with the relaxation of epidemic control and the accelerated development of the industry, the Company expects to increase the scale of future purchases across all segments, which will lead to an increase in the handling fee accordingly. In addition, with the development of business, as the Company continues to innovate its products and upgrade its service experience and consumer scenarios in this era of Internet of Things, it is expected that the Company will strengthen its industrial integration with Haier Finance Company in the next three years and start cooperation in more financial service areas, which will lead to a corresponding increase in the service fees.

#### **4. Internal Control Measures**

Pursuant to the Hong Kong Listing Rules, the Group 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.

- 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 at least twice a year;

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## LETTER FROM THE BOARD

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- Pursuant to the Hong Kong Listing Rules, 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; 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 listing rules, including but not limited to providing financial and other data and/or documents within 7 business days, 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 perspective of financial and listing compliance in accordance with the relevant governing regime of the Company, and judging and approving related transactions, specifically:
    - (a) the Finance Department and Securities Department of the Company will obtain quarterly (i) deposit interest rates announced by the Comparable Banks; and/or (ii) the interest rates offered by 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 Department of the Company and its head will carry out the review process and final approval of the transaction following the approval of the Finance Department;

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## LETTER FROM THE BOARD

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- (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 three major commercial banks or financial institutions with which the Group has established business relationships; if the interest rate and fee are not the prime interest rate/fee offered by the three major commercial banks or financial institutions with which the Group has established business relationships for similar loans/services, 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 of the Company and its head will carry out the review process and final approval of the transaction following the approval of the Finance Department.
- iii) the Finance Department of the Company will monitor the daily deposit level to ensure that the daily deposit amount does not exceed the upper limit. 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 compliance 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 is at liberty to choose other financial services providers.
- vi) the Group currently holds 42% direct and indirect interests in the Haier Finance Company, and appoints the directors to participate in the governance decision-making of the Haier Finance Company, In accordance with the internal governance procedures of Haier Finance Company, the approval of at least two-thirds of the directors is required for the consideration of material matters, and the directors appointed by the Group have a certain degree of influence on its corporate governance decisions. Meanwhile, the directors appointed by the Group serve as members of the Risk Management Committee and Audit Committee of Haier Finance Company. Through the directors appointed by the Group, the

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## LETTER FROM THE BOARD

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Group can perceive, review and control the operational risks of Haier Finance Company, so as to improve the fund security. The Group has conducted risk monitoring and assessment of Haier Finance Company in the past years and has not identified any risky items in respect of deposits with Haier Finance Company.

- vii) the Company has formulated the Contingency Plan on the Risk of Deposits with Haier Group Finance Co., Ltd., and the risk assessment report against Haier Finance Company is issued annually in accordance with the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, mainly covering the internal control, operational management and risk management of Haier Finance Company.
- viii) the Company may terminate the New Financial Services Framework Agreement if Haier Group and its associates fail to satisfy certain financial performance criteria from time to time. The Group shall be entitled to terminate the New Financial Services Framework Agreement by serving Haier Group and its associates not less than one month's written notice upon:
  - (a) the occurrence of any of the following which exposes or potentially exposes the Group to substantial risks or losses: breaches or potential breaches of PRC laws and regulations by Haier Group and its associates; or by its non-performance or breach of any terms of the New Financial Services Framework Agreement; Haier Group and its associates experience or foresee to experience any major operational problems or difficulties with liquidity; or
  - (b) breaches or potential breaches of laws and regulations (including the listing rules of the stock exchange where the Company's shares are listed, including but not limited to the Shanghai Stock Exchange Listing Rules, Frankfurt Stock Exchange Listing Rules and Hong Kong Listing Rules, as the case may be) by the Company as a result of compliance with the New Financial Services Framework Agreement.
- ix) the Group will assess Haier Finance Company and the services it provides on a semi-annual basis and review the transactions with Haier Finance Company, summarise the experiences and supplement any inadequacies on an annual basis. Such assessment and review are submitted to the Board for reference at the relevant time. Based on the past experience in conducting business with the Haier Group and its associates, the Board and the Independent Board Committee are of the view that the Haier Group and its associates can effectively meet the Company's needs

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## LETTER FROM THE BOARD

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for financial services and provide customized financial services solutions to the Company in accordance with the Company's strategic plan, which is in the interest of the Company and its shareholders as a whole.

Pursuant to the New Financial Services Framework Agreement, the risks monitoring measures to be implemented by Haier Finance Company shall include but not limited to:

- i) Haier Finance Company 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 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) 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;
- iii) 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 Group's deposits with Haier Finance Company (such as default on any payments due, operational risks or regulatory violations), 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 that may be sustained by the Group. 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;
- iv) 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;

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## LETTER FROM THE BOARD

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- v) Haier Finance Company will appoint an independent accounting firm to review the completeness and impartiality of its internal control, risk management and operation system under the New Financial Services Framework Agreement, give assessment on the completeness and effectiveness of internal control measures, and provide an evaluation report on the effectiveness of implementation of the internal control measures to the Group on an annual basis;
- vi) Haier Finance Company will provide to the Group within three Business Days after it submits to the CBIRC 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;
- vii) 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 and current ratio. Based on the management accounts quarterly provided by Haier Finance Company, the Group will monitor the compliance with key risk monitoring indicators of Haier Finance Company on a quarterly basis;
- viii) 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 rating status of Haier Finance Company;
- ix) Following Haier Finance Company having prepared its quarterly financial statements the same will be made available to the Group in a timely manner.

There will be a proper and complete separation of duties, and no representative of Haier Group or any of its associates will be involved in the Group's 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 Latest Practicable Date, as Haier Group holds, directly and indirectly, approximately 34% of the voting rights in the Company, therefore, Haier Group is the Controlling Shareholder of the Company and becomes a

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## LETTER FROM THE BOARD

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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.

Pursuant to the Hong Kong Listing Rules, 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.

Pursuant to 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.

Pursuant to 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.

Pursuant to the Hong Kong Listing Rules, 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



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## LETTER FROM THE BOARD

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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.

### **6. Information of Parties to the Transactions**

#### *Information of the Company*

The Company is a joint stock company incorporated in the PRC with limited liability, whose A Shares are listed on the Shanghai Stock Exchange, whose D Shares are listed on the Frankfurt Stock Exchange and whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange. 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 its rich product, brand and solution package to meet the needs of users for 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 Company. Its scope of operation is: technology development, technology consultancy, technology transfer, technology services, including industrial internet, etc.; data processing; engaged in digital technology, intelligent technology, software technology; research and development, sales and after-sales services of robots and automation equipment products; logistics information services; the research and development and sales of intelligent household equipment and solution system software technology (方案系統軟件技術); the production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and robots for industrial purpose; domestic commercial (excluding national restricted, licensed and controlled commodities) wholesale and retail; export and import business (refer to foreign enterprise confirmation certificate for details); economic technology consultancy; research, development and transfer of technological achievements; and lease of self-owned properties. 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.

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## LETTER FROM THE BOARD

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### *Information of Haier Finance Company*

Haier Finance Company, a company incorporated under the laws of the PRC, was established in 2002 and is directly and indirectly 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; handling bill discount for group members; handling fund settlement and receipt and payment for group members; providing entrusted loans to group members, bond underwriting, non-financing letter of guarantee, financial consulting, credit verification and consulting agency services; conducting interbank lending; handling bill acceptance for group members; handling product buyer credit and consumer credit for group member; engaging in fixed-income securities investment; engaging in hedging derivatives transactions; other businesses approved by the CBIRC. Haier Group is the ultimate beneficial owner of Haier Finance Company, 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 Directors (including the Independent Non-executive Directors) were 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, namely LI Huagang, SHAO Xinzhi and GONG Wei, have relevant interests in Haier Group, therefore, 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 30 March 2023 and is now proposed at the AGM for review and approval as an ordinary resolution.

**10. Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023**

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on the Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023.

The resolution on the Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023 is set out in Appendix II to this circular.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

**11. 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.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by an ordinary resolution.

**12. Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company**

An ordinary resolution is to be proposed at the AGM to consider and approve the resolution on the Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company, the details are as follows:

The Company is the first A+D+H share listed company with diversified businesses and extensive regional coverage, and therefore faces a more complex regulatory environment. On the one hand, the Company is actively preventing internal control risks by adhering to effective internal control measures in various areas and processes in its daily operations, and on the other hand, it is actively exploring ways to further improve its risk management system to ensure continuous improvement in corporate governance standards. Therefore, with reference to the common practice of domestic and overseas companies, the Company intends to purchase liability insurance for all directors, supervisors and senior management, the specific plan is set out as below:

1. Policyholder: Haier Smart Home Co., Ltd.
2. Insured person: All directors, supervisors and senior management of the Company

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## LETTER FROM THE BOARD

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3. Liability limit: Not exceeding US\$72 million/year (subject to insurance contract)
4. Total premiums: Not exceeding US\$350,000/year (subject to insurance contract)
5. Insurance period: 12 months (renewable or a new insurance contract may be entered into annually)

The Board of Directors of the Company intends to propose at the general meeting to authorize the Board of Directors within the above authority, and agrees that the Board of Directors further authorizes the management of the Company to handle matters related to the purchase of liability insurance for all directors, supervisors and senior management within the next three years (including but not limited to identifying other relevant responsible persons, identifying insurance companies, determining insurance coverage, determining insurance amounts, premiums and other insurance terms, selecting and appointing insurance brokerage firms or other intermediaries, signing relevant legal documents and handling other matters related to the insurance), and the renewal of insurance or purchase of new insurance policies on or before the expiry of the liability insurance contracts for directors, supervisors and senior management.

All directors of the Company, as insured persons, are interested parties and therefore all of them abstained from voting on this resolution when the same was being proposed for consideration at the board meeting. This resolution is now proposed at the AGM for review and approval by an ordinary resolution.

### **13. General Mandate on Additional Issuance of A Shares**

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

In order to meet the need of the Company's strategic development and business, in accordance with relevant requirements of the Company Law and the Articles of Association and on the prerequisite of complying with the regulatory rules of A Shares, 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 A Shares of up to 10% of the number of the A 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 A Shares of the Company (hereinafter referred to as the "**Similar Rights**"), and the above-mentioned authorization is hereinafter referred to as the "**General Mandate**"). According to the relevant laws and regulations of the PRC, the

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## LETTER FROM THE BOARD

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issuance of A Shares or securities convertible into A Shares by the Company still needs to obtain the approval of the general meeting even if a general mandate was granted. 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 A 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 A 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 A Shares in issue of the Company at the time when this resolution is considered and passed at the general meeting of the Company.

The discount (if any) of the issue price of the A Shares 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 as above shall not exceed 10% of the benchmark price of the securities.
- (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 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 A 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

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## LETTER FROM THE BOARD

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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 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 2023 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.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by a special resolution.

#### **14. General Mandate on Additional Issuance of H Shares**

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 strategic development and business, in accordance with relevant requirements of the Company Law, the Hong Kong Listing Rules and the Articles of Association and on the prerequisite of complying with the regulatory rules of H Shares, 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

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## LETTER FROM THE BOARD

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(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 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.

The discount (if any) of the issue price of the H Shares 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 shall not exceed 10% of the benchmark price of the securities (rather than the 20% as limited under the Hong Kong Listing Rules).
- (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 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

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## LETTER FROM THE BOARD

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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 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 2023 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.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by a special resolution.

### **15. General Mandate on Additional Issuance of D Shares**

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 strategic development and business, in accordance with the Company Law, 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 regulatory rules of D Shares, 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 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



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## LETTER FROM THE BOARD

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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 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.

The discount (if any) of the issue price of the D Shares 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 as above shall not exceed 10% of the benchmark price of the securities.
- (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

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## LETTER FROM THE BOARD

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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 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 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 2023 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.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM for review and approval by a special resolution.

### **16. General Mandate to Repurchase H Shares**

A special resolution is to be proposed at the AGM and the H Share Class Meeting 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 IV to this circular contains the explanatory letter required by the Hong Kong Listing Rules and provides the information necessary for repurchase mandate.

This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM and the H Share Class Meeting for review and approval by a special resolution.

### **17. General Mandate to Repurchase D Shares**

A special resolution is to be proposed at the AGM and the H Share Class Meeting 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 V to this circular contains the explanatory letter required by the Hong Kong Listing Rules and provides the information necessary for repurchase mandate.

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## LETTER FROM THE BOARD

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This resolution has been reviewed and approved by the Board meeting on 30 March 2023, and is now proposed at the AGM and the H Share Class Meeting for review and approval by a special resolution.

### **18. 2023 A Share Core Employee Stock Ownership Plan (Draft) and its Summary**

A special resolution is to be proposed at the AGM to consider and approve the 2023 A Share Core Employee Stock Ownership Plan (Draft) and its Summary.

References are made to the announcement dated 25 May 2021 and the circular dated 4 June 2021 of the Company, in relation to, amongst other things, the A Share Core Employee Stock Ownership Plan (2021–2025), as well as the announcement dated 27 April 2023 of the Company in relation to, amongst other things, the 2023 A Share Core Employee Stock Ownership Plan (the “**2023 A Share ESOP**”).

Considering the continuity of the Company’s remuneration appraisal mechanism, the Company has introduced the 2023 A Share ESOP in accordance with its actual operation and future expectation. An amount of RMB565.50 million is intended to be withdrawn for the 2023 A Share ESOP as the incentive funds of the Plan, which forms part of the Company’s employee remuneration, representing 3.84% of the Company’s net profit attributable to the parent company in 2022. The source of shares for the 2023 A Share ESOP shall be the repurchased shares transferred from the Company’s repurchase special account. The transfer price of such shares shall be determined according to the average price of all the shares repurchased in the repurchase account.

The full text of the 2023 A Share ESOP is set out in Appendix VI to this circular.

This resolution has been reviewed and approved by the Board meeting on 27 April 2023, and is now proposed at the AGM for review and approval by a special resolution.

### **19. 2023 H Share Core Employee Stock Ownership Plan (Draft) and its Summary**

A special resolution is to be proposed at the AGM to consider and approve the 2023 H Share Core Employee Stock Ownership Plan (Draft) and its Summary.

References are made to the announcement dated 25 May 2021 and the circular dated 4 June 2021 of the Company, in relation to, amongst other things, the H Share Core Employee Stock Ownership Plan (2021–2025), as well as the announcement dated 27 April 2023 of the Company in relation to, amongst other things, the 2023 H Share Core Employee Stock Ownership Plan (the “**2023 H Share ESOP**”).

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## LETTER FROM THE BOARD

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Considering the continuity of the Company's remuneration appraisal mechanism, the Company has introduced the 2023 H Share ESOP in accordance with its actual operation and future expectation. An amount of RMB70.50 million is intended to be withdrawn for the 2023 H Share ESOP as the incentive funds of the Plan, which forms part of the Company's employee remuneration, representing 0.48% of the Company's net profit attributable to the parent company in 2022. The source of shares for the 2023 H Share ESOP shall be H shares of the Company purchased from the secondary market through the Shanghai-Hong Kong Stock Connect.

The full text of the 2023 H Share ESOP is set out in Appendix VII to this circular.

This resolution has been reviewed and approved by the Board meeting on 27 April 2023, and is now proposed at the AGM for review and approval by a special resolution.

### III. THE AGM AND H SHARE CLASS MEETING

The Company will convene the AGM and Class Meetings by way of on-site meeting at 2:00 p.m. on Monday, 26 June 2023 at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC, to consider and approve, if thought fit, the proposed matters as set out in the relevant notices. The revised notice of the AGM and the notice of H Share Class Meeting are set out on pages 164 to 169 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 Share Class Meeting or any adjournment thereof should you so wish. The forms of proxy for the AGM and H Share Class Meeting are published on both the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://smart-home.haier.com>).

### 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 and H Share Class Meeting.

Haier Group and its associates hold approximately 34% 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 Services Framework Agreement and its proposed annual cap at the AGM. The Directors, namely LI Huagang, SHAO Xinzhi and GONG Wei, hold interest of the Company and have relevant interests in Haier Group, therefore, they have abstained from voting on the resolution for approving the New Financial Services Framework Agreement and its proposed annual caps. 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

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## LETTER FROM THE BOARD

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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 Share Class Meeting, and therefore, no Shareholder is required to abstain from voting on any resolutions at the AGM and H Share Class Meeting.

The voting results of the AGM and H Share Class Meeting will be published on both websites of the Stock Exchange ([www.hkexnews.hk](http://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 SHARE CLASS MEETING**

The Company's register of members will be closed from 19 June 2023 (Monday) to 26 June 2023 (Monday), 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 Share 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the H Shareholders) not later than 4:30 p.m., on 16 June 2023 (Friday) for registration.

### **VI. RECOMMENDATION**

The Board (including the Independent Non-executive Directors) considers that all resolutions to be proposed at the AGM of 2022 and H Share 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 2022 and H Share Class Meeting.

### **VII. OTHER INFORMATION**

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

By Order of the Board  
**Haier Smart Home Co., Ltd.\***  
**LI Huagang**  
*Chairman*

Qingdao, the PRC  
6 June 2023

\* *For identification purpose only*



**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**

6 June 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF  
THE 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 2024, 2025 and 2026 thereunder, details of which are set out in the “**Letter from the Board**” in the circular dated 6 June 2023 (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 of 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**

**CHIEN Da-Chun**  
*Independent  
Non-executive  
Director*

**WONG Hak Kun**  
*Independent  
Non-executive  
Director*

**LI Shipeng**  
*Independent  
Non-executive  
Director*

**WU Qi**  
*Independent  
Non-executive  
Director*

\* *For identification purpose only*

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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*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

6 June 2023

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND THE PROPOSED ANNUAL CAPS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the provision of the financial services by Haier Group and its associates to the Group (the “**Provision of Financial Services**”) under the New Financial Services Framework Agreement (including the proposed annual caps) for the three years ending 31 December 2026, 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 6 June 2023 (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 34% of the voting rights in the Company, and therefore is the Controlling Shareholder and a Connected Person of the Company. Accordingly, the Provision of Financial Services under the New Financial Services Framework Agreement constitutes Continuing Connected Transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

According to 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.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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According to the Hong Kong Listing Rules, 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.

According to the Hong Kong Listing Rules, as the highest applicable percentage ratio for the provision of other financial services under the New Financial Services Framework Agreement is higher than 0.1% but less than 5%, the provision of other financial services is subject to the reporting, announcement and annual review requirements but 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. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi, has been established to advise the Independent Shareholders on the New Financial Services Framework Agreement and the 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, independent shareholder and/or the board of the Company in relation to certain continuing connected transactions and a placing exercise. The above engagements were limited to providing independent advisory services to the then independent board committee, independent shareholders and/or the board of the Company, for which Somerley received normal professional fees from the Company based on market rate. 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.



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## LETTER FROM SOMERLEY CAPITAL LIMITED

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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, 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. In addition to the self-developed brands, namely Haier, Casarte and Leader, the Group has a global portfolio of home appliance brands, including GE Appliances, Candy, Fisher & Paykel and AQUA, through a series of overseas acquisitions.

As set out in the Company's 2022 annual report, the Group's 2022 performance was driven by, among others, the strengths of its high-end brands which enhanced user value, the promotion and opening of scenario-based retail stores, the continued overseas market expansions, and the development of new product categories. In 2022, the Group recorded total revenue of approximately RMB243.5 billion, representing a year-on-year increase of approximately 7.2%, and the total overseas revenue increased by approximately 10.3% to approximately RMB125.4 billion. The profit attributable to owners of the Company was approximately RMB14.7 billion in 2022, representing a year-on-year increase of approximately 12.5%. The Group recorded net cash inflow from operating activities of approximately RMB20.2 billion in 2022. As at 31 December 2022, the Group recorded total assets of approximately RMB235.8 billion including cash and cash equivalents and bank deposits of approximately RMB54.1 billion in aggregate, and interest-bearing borrowings of approximately RMB26.1 billion.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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In addition to the Company's H Shares that have been listed on the Main Board of the Hong Kong Stock Exchange since 2020, its A Shares (stock code: 600690.SH) have been listed on the Shanghai Stock Exchange since 1993, and its D Shares (stock code: 690D) have been listed on the Frankfurt Stock Exchange since 2018. The Company had a market capitalisation of approximately HK\$220 billion, based on the respective closing prices of the H Shares, A Shares and D Shares sourced from Bloomberg as at the Latest Practicable Date.

### *(ii) Haier Group and Haier Finance Company*

Haier Group is an urban collective ownership enterprise incorporated under the laws of the PRC in 1984, and is headquartered in Qingdao, Shandong Province, the PRC. The scope of operation of Haier Group includes, among others, (i) technology development, technology consultancy, technology transfer, and technology services; (ii) data processing; (iii) digital technology, intelligent technology, and software technology; (iv) research and development, sales and after-sales services of robots and automation equipment products; (v) logistics information services; (vi) research and development and sales of intelligent household equipment and solution system software technology; and (vii) production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and robots for industrial purpose.

Haier Finance Company is a limited liability company incorporated under the laws of the PRC in 2002, and is headquartered in Qingdao, Shandong Province, the PRC. Haier Finance Company is 58% owned by Haier Group and its subsidiaries and 42% owned by the Group. Haier Finance Company is a non-banking financial institution approved by the PBOC, and subject to regulations by the PBOC and the CBIRC. The principal business activities of Haier Finance Company include, among others, (i) deposits taking from group members; (ii) handling loans for group members; (iii) handling bills acceptance and discounting for group members; (iv) handling funds settlement, receipt and payment for group members; (v) providing entrusted loans to group members, bond underwriting and non-financing letter of guarantee; (vi) conducting interbank lending; (vii) handling product buyer credit and consumer credit for group members; and (viii) other businesses as approved by the CBIRC.

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

### *Background*

Haier Group and its associates (among which Haier Finance Company is the principal financial services provider) have been providing a chain of various financial solutions, including deposit and loan services, to members of the Group. Haier Finance Company, as an enterprise group finance company of Haier Group, has a long-term and stable business relationship with the Group. It is therefore more familiar with the Group's business process and needs, and is in a position to provide services to the Group in a more efficient and flexible manner than independent commercial banks. Haier Finance Company is regulated by the PBOC and the CBIRC, and has complied with the rules and operational requirements as promulgated by these regulatory authorities, such as 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. In addition, the Group currently holds 42% equity interest in Haier Finance Company, and has two out of five representatives at the board of directors of Haier Finance Company, so as to participate in the corporate governance and decision-making of Haier Finance Company, as well as monitor and control the operation risks of Haier Finance Company. In the past years, the Group has conducted risk monitoring and assessments on Haier Finance Company, and has not identified any events concerning the safety of the Group's deposits placed with Haier Finance Company.

Currently, the financial services provided by Haier Group and its associates to the Group are governed by a financial services framework agreement (the "**Existing Financial Services Framework Agreement**") for a term ending 31 December 2023, which, together with the existing annual caps, were approved by the then independent shareholders of the Company at a shareholders' meeting held on 25 June 2021.

In view of the expiry of the Existing Financial Services Framework Agreement by the end of this year and taking into account the Group's business development needs for financial services from Haier Group and its associates, on 30 March 2023, the Company (for and on behalf of the Group, as service recipient), Haier Group (for and on behalf of Haier Group and its associates, as service provider and guarantor) and Haier Finance Company (as service provider) entered into the New Financial Services Framework Agreement for a term commencing from 1 January 2024 to 31 December 2026. 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.

*Reasons and benefits*

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. Summarised below are the main reasons and benefits, and for further details, please refer to the section headed "9. Renewal of the Financial Services Framework Agreement and its Proposed Annual Caps — Reasons for and benefits of the transaction" in the letter from the Board:

*(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 realise 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 customers along the industry chain, many of which have opened accounts with Haier Finance Company, allowing them to process transactions with the Group through the settlement platform of Haier Finance Company at their convenience, thereby improving operational efficiency. Haier Finance Company also provides customised comprehensive supply chain financial services to the Group, such as purchaser credit services to its downstream customers, in accordance with the relevant regulatory requirements.

For the same reason, the Group conducted substantial amounts of settlement of trade receivables and payables with Haier Group through its deposit accounts with Haier Finance Company during its ordinary and usual course of business. We note from the Company's 2022 annual report that the aggregate amount of purchase and sale of good and services between (a) the Group and (b) Haier Group's associates and subsidiaries and its respective associates was approximately RMB22.6 billion and RMB22.7 billion in 2021 and 2022 respectively.

*(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 referenced to the benchmark rates published by the PBOC (as described in section below headed “3. Principal terms of the New Financial Services Framework Agreement”), the rates or fees charged by Haier Group and its associates for the similar financial services and terms to the Group will be more favourable than, or at least equal to, 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. Given that the New Financial Services Framework Agreement is non-exclusive in nature, the Group may freely choose other financial services 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 yields; 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, thereby enhancing the efficiency of capital operations and the convenience of fund management. Haier Finance Company has continuously upgraded its digitisation system and established a professional financial services team to provide the Group more considerate financial services with higher quality.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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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 below headed “6. 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.

Currently, the Group has 42% equity interest in Haier Finance Company, and has two out of five representatives at its board of directors. As such, the Group is in a position to exercise significant influence over the business decisions and affairs of Haier Finance Company, thereby monitoring and controlling the overall risk exposures facing Haier Finance Company and the Group.

In our opinion, the above as a whole provides an increased level of 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 30 March 2023, the Company (for and on behalf of the Group, as service recipient) entered into the New Financial Services Framework Agreement with Haier Group (for and on behalf of Haier Group and its associates, as service provider and guarantor) and Haier Finance Company (as service provider), pursuant to which Haier Group and its associates (among which Haier Finance Company is the principal financial services provider) 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 may freely choose other financial services providers.

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 “2. New Financial Services Framework Agreement” in the letter from the Board.

*Deposit services*

We are advised by the management of the Group that the deposit services offered by Haier Group and its associates are similar to those offered by other commercial banks. 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, members of Haier Group, and their customers and suppliers for the Group's procurement and sales transactions during the ordinary and usual course of business.

According to the internal measures and policies as confirmed by the management of the Group, in respect of domestic RMB deposits, the interest rates offered by Haier Group and its associates shall be (i) referenced to the benchmark interest rate for deposits of similar terms announced by the PBOC from time to time, and (ii) at a rate more favourable than the highest interest rate for the same terms of deposits as (a) 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**"), and (b) obtained from three major commercial banks or financial institutions that the Group has established business relationships, which are obtained on a quarterly basis. As confirmed by the management of the Group, 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.

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 about 10% or above higher than the relevant benchmark interest rates for deposits of similar terms announced by the PBOC on the quotation date.

According to the internal measures and policies as confirmed by the management of the Group, in respect of overseas RMB deposits and foreign currency deposits, the interest rates offered by Haier Group and its associates shall be implemented in accordance with market principles, and no less favourable than the highest interest rate for deposits of similar terms obtained from three major commercial banks or financial institutions that the Group has established business relationships, which are obtained on a quarterly basis.

*Loan services*

Haier Group and its associates agreed to provide the loan services to the Group and give priority to satisfy the Group's loan needs, according to their own funding capabilities, where no security over assets of the Group will be given, as confirmed by the management of the Group. According to the internal measures and policies as confirmed by the management of the Group, the interest rates offered by Haier Group and its associates shall be no less favourable than the interest rate for the same type of loans charged by three major commercial banks or financial institutions.

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 offer 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 hedging financial derivatives business, international settlement, trade financing, non-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 Finance Company in relation to the internal transfer and settlement services for free. In addition, Haier Group and its associates agreed to waive the Group 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.

According to the internal measures and policies as confirmed by the management of the Group, the fees for other financial services charged by Haier Group and its associates shall be determined based on the corresponding benchmark rates published by the PBOC from time to time, and if there is no such benchmark rates, the fees will be on terms no less favourable than and determined with reference to, among others, those offered to the Group by three major commercial banks or financial institutions that the Group has established business relationships for the same type of financial services and conditions.



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## LETTER FROM SOMERLEY CAPITAL LIMITED

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The Group has established internal control procedures for the regular comparison of deposit interest rates, loan interest rates 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 the rates from the Comparable Banks and/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 in compliance with the abovementioned pricing principles. Details of the relevant internal control procedures are set out in the section below headed “6. 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 from 1 January 2024 and shall expire on 31 December 2026. The Group has an option, at its own discretion, to renew the New Financial Services Framework Agreement upon expiry 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.

The management of the Group informed us that 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 undertaken and guaranteed joint and several liability 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 (a) 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 (b) the breach or potential breach of the PRC laws and regulations by Haier Group and its associates, or (c) 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 endeavours and take all reasonable steps to provide the joint and several liability guarantee to ensure fulfilment of obligations by Haier Finance Company under the New Financial Services Framework Agreement.

***Our comments***

Haier Group and its associates (in particular Haier Finance Company) are familiar with the Group's business process and needs, and are in the position to provide financial services to the Group in a more efficient and flexible manner as compared to independent commercial banks. Haier Group and its associates have a long-term business relationship history with the Group, and hence have an in-depth understanding of the Group's development strategy, development goals and business model. Haier Finance Company has a professional team to provide financial services and to cater the Group's strategic plan and actual business needs, including fund pools management services. On the other hand, Haier Group and its associates also provide financial services to other members and business partners of Haier Group, many of which have opened 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 Finance Company and leveraging on the comprehensive fund pools managements services offered by Haier Finance Company.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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The New Financial Services Framework Agreement would allow the Group to continue using the relevant financial services from Haier Group and its associates (mainly Haier Finance Company), when and to the extent the management deems appropriate for the Group's financial management purpose. The terms of the New Financial Services Framework Agreement are substantially the same as the Existing Financial Services Framework Agreement, while the proposed annual caps for the coming three years will not increase with the scale of the Group, and will be the same as those for the year 2023. Further details and our analysis on the proposed annual caps are set out in the section below headed "5. The proposed annual caps".

Based on our discussions with the management of the Group, the Group maintains a number of accounts with independent commercial banks in the PRC and other jurisdictions where the Group operates in. As the New Financial Services Framework Agreement is non-exclusive in nature, the Group has the freedom and absolute 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 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 services 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 rates offered by Haier Group and its associates shall be more favourable than, or at least equal to, the highest rate for the same terms of deposits as quoted by the Comparable Banks and/or the major commercial banks or financial institutions that the Group has established business relationships with (where applicable); (b) in respect of the loan services, the interest rates 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 financial services providers, so as to ensure that the terms offered by Haier Group and its associates adhere to the above principles, details of which are set out in the section below headed "6. Overall internal control and risk management procedures".

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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Based on our discussions with the management of the Group, with its shareholding interests in and board representatives at Haier Finance Company, the Group can exert significant influence on Haier Finance Company to monitor and control the overall risks of Haier Finance Company. This allows the Group to reduce risks associated with its deposits placed with Haier Finance Company. For further details, please refer to the section below headed “4. Information on Haier Group and Haier Finance Company”.

In respect of the set-off right available to the Group under the New Financial Services Framework Agreement, we note from the Company’s annual reports that the Group had only a relatively small amount of borrowings, amounted to approximately RMB454 million, RMB337 million and RMB60 million as at 31 December 2020, 2021 and 2022 respectively, but maintained a relatively large amount of deposits with Haier Group and its associates, amounted to approximately RMB24,958 million, RMB28,745 million and RMB31,424 million respectively. 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, as further explained below.

As advised by the Company’s PRC legal advisor, Zhong Lun Law Firm LLP (“**Zhong Lun**”), compared to an ordinary guarantee, joint and several liability guarantee provides a higher level of protection to the lender under the relevant PRC laws and regulations, and according to the “Civil Code of the PRC”, 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. Zhong Lun has reviewed the terms of the New Financial Services Framework Agreement and issued a legal opinion letter dated 6 June 2023, 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 the responsibility under the joint and several liability guarantee regarding the contractual liabilities of Haier Finance Company or associates of Haier Group (as the case may be) 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, Haier Group and its subsidiaries' obligations to support Haier Finance Company financially as stated in its articles of association, and the Group's right to exert significant influence on Haier Finance Company's business decisions and affairs provide favourable conditions to the Group. Accordingly, the above arrangements and the internal control measures, as more particularly described in the section below headed "6. Overall internal control and risk management procedures", as a whole provides an increased level of protections to the Group and lower 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 2021, Haier Group recorded total revenue of approximately RMB225.0 billion and RMB272.2 billion, while the consolidated profits before tax amounted to approximately RMB15.3 billion and RMB18.6 billion, in 2020 and 2021 respectively. Based on the unaudited management accounts of Haier Group for the six months ended 30 June 2022 (being the latest available financial

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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information of Haier Group as at the Latest Practicable Date as confirmed by the management of the Group), as at 30 June 2022, Haier Group had total assets of approximately RMB374.5 billion (including cash and bank deposit balance of approximately RMB44.8 billion) and total equity of approximately RMB119.9 billion. On the same date, Haier Group had registered capital of approximately RMB311.2 million and consolidated net assets attributable to its owners of approximately RMB31.5 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. Based on 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 to assume the responsibility under the joint and several liability guarantee regarding the contractual liabilities of Haier Finance Company or associates of Haier Group (as the case may be) 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 (up 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 to members of Haier Group, including deposits taking, loan services, notes acceptance and discounting, the provision of financial and other advisory services, and other businesses as approved by the CBIRC. As confirmed by the management of Haier Finance Company, Haier Finance Company is also allowed to provide financial services to entities that Haier Group has established business relationships, such as the Group's business partners, including downstream customers. According to the letter from the Board, Haier Finance Company is the first enterprise group finance company in China to pass the ISO27001 certification of the International Information Security Management System and the third-level certification of national standard protection.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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As at 31 December 2022, Haier Finance Company had a registered capital of RMB7 billion and has a capital adequacy ratio of approximately 31.8%, significantly higher than the 10% minimum requirement promulgated by the CBIRC for finance companies.

*(ii) Shareholding structure*

As at the Latest Practicable Date, Haier Group and its subsidiaries hold 58% equity interest in Haier Finance Company, while the Group holds the remaining 42% equity interest. According to the articles of association of Haier Finance Company, the Group (as its shareholder) has the right to, among others, (a) participate in determining the plans of development, business operations and investments of the company in accordance with the regulations of the CBIRC and such articles of association; and (b) review and approve the annual financial budget and final accounts, as well as the profit distribution and loss recovery plans of the company. Certain reserved matters in relation to Haier Finance Company, including the changes of the registered capital, the issuance of bonds and the amendments to the articles of association, will require more than two-thirds of the voting approval by the shareholders of Haier Finance Company (i.e. the Group's approval is mandatorily required in such cases).

*(iii) 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.

Two out of five directors of Haier Finance Company are nominated by the Group, namely Ms. SHAO Xinzhi ("**Ms. Shao**"), a non-executive Director, and Mr. GONG Wei ("**Mr. Gong**"), an executive Director. According to the articles of association of Haier Finance Company, the duties of its directors include, among others, governing the company's business operation and management on an ongoing basis, and requiring senior management to report to them the company's

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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business operation and management, related materials or explanations, and participating in board meetings from time to time. Ms. Shao is currently the chairlady of the board of the directors, the chairlady of the risk management committee and a member of the audit committee of Haier Finance Company, while Mr. Gong is a director, a member of each of the risk management committee and the audit committee of Haier Finance Company. The primary duties of the risk management committee and the audit committee are to ensure the objectivity and credibility of financial reporting and review of Haier Finance Company's financial controls, internal control and risk management systems. Certain reserved matters in relation to Haier Finance Company, including the profit distribution and significant investments or assets disposals, will require more than two-thirds of the voting approval by the board of directors of Haier Finance Company.

*(iv) 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, 2021 and 2022, prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

*Financial performance*

	For the year ended 31 December		
	2022	2021	2020
	RMB million	RMB million	RMB million
	(audited)	(audited)	(audited)
Net interest income	1,790	1,820	1,669
Investment income	118	327	662
Reversal of provision for impairment loss/ (Provision for impairment loss)	168	46	(49)
Foreign exchange gains/(losses)	113	(102)	(122)
<b>Profit after taxation</b>	<b>1,585</b>	<b>1,503</b>	<b>1,551</b>

*Note: Certain figures (including interest income derived from financial bonds, which has been reclassified from "investment income" to "net interest income" since 2021) for the year 2020 were not reclassified/restated to comply with the Accounting Standards for Business Enterprises adopted from 1 January 2021, and as a result did not conform with the presentation for the years 2021 and 2022.*



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## LETTER FROM SOMERLEY CAPITAL LIMITED

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Net interest income, mainly derived from its provision of loan services, increased from approximately RMB1.7 billion in 2020 to approximately RMB1.8 billion in 2021. As advised by the management of Haier Finance Company, the increase in 2021 was mainly due to the reclassification of certain interest income derived from financial bonds (amounted to approximately RMB287 million in 2021) from “investment income” to “net interest income”, as a result of the new Accounting Standards for Business Enterprises adopted from 1 January 2021. Net interest income remained fairly stable in 2022.

Investment income, mainly derived from wealth management products, financial bonds and other equity instruments, experienced a decrease over the past three years. The significant decrease in 2021 was mainly due to (i) the reclassification of interest income as described in the paragraph above and (ii) the absence of investment income from other equity instruments in 2021. The further decrease in 2022 was mainly due to the reduction in investment income from wealth management products, as finance companies have been restricted from purchasing wealth management products since the fourth quarter of 2022, as a result of the introduction of certain measures and notices, as further discussed below.

Provision for impairment loss of approximately RMB49 million was recorded in 2020, while reversals of provision for impairment loss of approximately RMB46 million and RMB168 million were recorded in 2021 and 2022 respectively. Based on our discussions with the management of Haier Finance Company, the provisions for impairment loss were generally recognised in accordance with its provision policy, with reference to the profile of the customers, their corresponding loan classification and credit grading based on an expected credit loss model. The reversals of provision for impairment loss in the past two years were mainly due to the reduction in Haier Finance Company’s outstanding loan portfolio.

Profit after taxation remained largely stable over the past three years, ranging from approximately RMB1.5 billion to RMB1.6 billion. The increase in profit after taxation in 2022 mainly due to the appreciation of the US dollar against Renminbi during the year, which led to an increase in foreign exchange gains from its foreign exchange derivative products mainly for hedging purpose.

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**LETTER FROM SOMERLEY CAPITAL LIMITED**

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*Financial position*

	<b>As at 31 December</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited and restated) (Note)
<b>Assets</b>			
Financial investments	11,708	10,506	11,802
Financial assets held under resale agreements	10,641	1,547	4,470
Cash and bank balances	12,386	13,943	15,517
Loans receivable, net	39,339	43,751	43,482
Other assets	<u>916</u>	<u>952</u>	<u>1,067</u>
	<u><u>74,990</u></u>	<u><u>70,699</u></u>	<u><u>76,338</u></u>
<b>Liabilities</b>			
Deposits received from customers	44,245	42,320	48,962
Financial assets sold under repurchase agreements	8,549	6,088	6,145
Bank and other borrowings	3,451	4,702	3,790
Other liabilities	<u>745</u>	<u>663</u>	<u>1,461</u>
	<u><u>56,990</u></u>	<u><u>53,773</u></u>	<u><u>60,358</u></u>
<b>Equity</b>			
Share capital	7,000	7,000	7,000
Reserves	<u>11,000</u>	<u>9,926</u>	<u>8,980</u>
	<u><u>18,000</u></u>	<u><u>16,926</u></u>	<u><u>15,980</u></u>

*Note: Haier Finance Company has adopted a number of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC, including the “Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments”, the “Accounting Standard for Business Enterprises No. 23 — Transfer of Financial Assets”, and the “Accounting Standard for Business Enterprises No. 37 — Presentation of Financial Instruments” from 1 January 2021, which resulted in comparable figures as at 31 December 2020 being restated.*

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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As at 31 December 2022, total assets of Haier Finance Company mainly included (i) loans receivable, net, arising primarily from medium- and short-term loans and discounted bills, of approximately RMB39.3 billion, which comprised of (a) gross loans receivable of approximately RMB41.3 billion, and (b) accumulated provision for impairment loss of approximately RMB2.0 billion; (ii) cash and bank balances of approximately RMB12.4 billion, mainly deposited with state-owned commercial banks in the PRC; (iii) financial investments of approximately RMB11.7 billion, comprising bonds issued by the Ministry of Finance of the PRC and policy-banks; and (iv) financial assets held under resale agreements of approximately RMB10.6 billion, generally maturing within one month with the underlying assets represented financial bonds with highest credit rating of AAA. Included in the above loans receivable were amounts of approximately RMB32.8 billion from members of Haier Group, and the remaining RMB8.5 billion from independent third parties, which were mainly upstream suppliers and downstream customers of Haier Group and/or the Group as advised by the management of Haier Finance Company.

We have discussed with the management of Haier Finance Company in relation to its loan business and treasury management and investment strategy, details of which are set out below:

### *Loans business/receivable*

Haier Finance Company's loans and/or advances are mainly granted to (i) members of Haier Group, (ii) downstream customers of Haier Group and/or the Group, primarily arising from the provision of financial services such as buyer's credit/financing services, and (iii) upstream suppliers of Haier Group and/or the Group, primarily arising from the provision of financial services such as bill discounting and factoring. Before the granting of loans and/or advances, Haier Finance Company would perform comprehensive assessments on the borrower's profile, including a review and analysis of (a) financial information of the borrower and indicators such as debt to asset ratio, account receivable/inventory turnover ratio and interest coverage ratio, and (b) other qualitative indicators such as industry reputation and intended use of loan proceeds. In respect of loans and/or advances to entities other than members of Haier Group, the maximum thresholds of loan amount outstanding are 5% (for a particular entity) and 7.5% (for a particular group) of Haier Finance Company's loan portfolio. After the granting of loans and/or advances, Haier Finance Company would conduct ongoing monitoring, including regular reviews of updated financial information and actual use of loan proceeds, to ensure the risk of loan recoverability is contained.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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### *Treasury management and investment strategy*

During the ordinary and usual course of its business, Haier Finance Company makes low-risk investments for liquidity management purposes. Its investment focus is financial assets that have reasonable yields, while satisfying safety and liquidity needs. Such financial assets mainly include (i) bonds issued by the Ministry of Finance of the PRC and policy-banks, (ii) certificates of deposits issued by commercial banks in the PRC with highest credit rating of AAA, and (iii) bonds under held under resale agreements, all of which have an active secondary market. Based on our discussions with Haier Finance Company, the above strategy in respect of types of investments is expected to continue in the coming three years.

As confirmed by the management of Haier Finance Company, Haier Finance Company has not encountered any default in the past three years by its loan customers or, in the case of debt investments and other financial assets, by the relevant counter-parties.

As at 31 December 2022, total liabilities of Haier Finance Company mainly included (i) deposits received from customers of approximately RMB44.2 billion; (ii) financial assets sold under repurchase agreements of approximately RMB8.5 billion, the underlying assets of which represented bonds and commercial papers; and (iii) bank and other borrowings of approximately RMB3.5 billion. Included in the deposits received from customers was an amount of approximately RMB31.4 billion (or approximately 71.0% of total) placed by the Group.

As at 31 December 2022, Haier Finance Company recorded contingent liabilities, mainly in relation to bill acceptance and letter of credit issued in favour of other financial institutions on behalf of its customers, of approximately RMB24.3 billion.

As at 31 December 2022, total equity of Haier Finance Company was approximately RMB18.0 billion, showing a stable growth over the past two years.

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.

*(v) Credit rating*

According to the credit rating report (the “**Haier Finance Credit Rating Report**”) issued by China Lianhe Credit Rating Co., Ltd (“**Lianhe Credit**”) dated 18 January 2023, the corporate long-term credit rating of Haier Finance Company was AAA, the highest rating under Lianhe Credit’s credit rating scale. According to its website, Lianhe Credit, incorporated in 2000 with the headquarters in Beijing, is one of the leading credit rating agencies in the PRC, and it has a full range of qualifications accredited by the regulatory authorities in the PRC, such as the National Development and Reform Commission, the China Securities Regulatory Commission and the CBIRC. We are further advised by Haier Finance Company that Lianhe Credit’s rating scale follows the relevant credit rating guidance jointly issued by, among others, the China Securities Regulatory Commission and the CBIRC. According to the Haier Finance Credit Rating Report, an AAA rating implies strong debt repayment capacity, remote default risk and an ability to withstand certain negative economic environment scenarios.

*(vi) 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 the 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 set out the responsibilities and accountabilities of its directors, supervisors and senior managements. Based on our discussions with the management of Haier Finance Company, the “Banking Supervision Law of the People’s Republic of China” outlined, among others, the general regulations and supervisions over the banking industry in the PRC as well as the administrative regulations, while the “Measures for the Administration of Finance Companies of Enterprise Group” outlined, among others, the rules and operational requirements applicable to licensed finance companies of enterprise groups, including risk monitoring indicators as further discussed in section below. 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.

We have obtained the evaluation reports on the effectiveness of internal control implementation for the two years ended 31 December 2021 and 2022 issued by an independent accountant, which concluded that (i) Haier Finance Company established a relatively complete internal control system, allowing Haier Finance Company to better control its risks, (ii) there were no breaches of the relevant rules or regulatory requirements in all material aspects under the

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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“Measures for the Administration of Finance Companies of Enterprise Group” by Haier Finance Company, and (iii) Haier Finance Company strictly conducted its operations in all material aspects in accordance with the regulation under “Measures for the Administration of Finance Companies of Enterprise Group”, and there were no major deficiencies in Haier Finance Company’s existing risk control system.

As mentioned above, the Group’s representatives to the board of directors of Haier Finance Company, namely Ms. Shao and Mr. Gong, are both members of its audit committee and risk management committee. We consider having direct board representation in Haier Finance Company is important to the Group to carry out effective monitoring of Haier Finance Company’s business conduct and internal controls.

*(vii) Regulatory environment*

The banking industry in the PRC is highly regulated, and the current principal regulatory authorities include the CBIRC, mainly responsible for supervising and regulating banking institutions, and the PBOC, mainly 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 regulatory ratio requirements as issued in prior years by the China Banking Regulatory Commission (the predecessor of the CBIRC, before its merging with the China Insurance Regulatory Commission in April 2018). The relevant major applicable regulatory ratio requirements under the prior years’ measures and the ratios of Haier Finance Company as at 31 December 2020, 2021 and 2022 are set out in the table below:

Risk monitoring indicators	Requirements for PRC licensed finance companies	As at 31 December		
		2022	2021	2020
Capital adequacy ratio <i>(Note)</i>	Not lower than 10%	31.84%	32.88%	26.86%
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	58.55%	57.76%	55.75%
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	63.39%	85.13%	90.89%
Non-performing asset ratio	Not higher than 4%	0.01%	0.01%	0.01%
Impaired loan ratio	Not higher than 5%	0.04%	0.01%	0.02%
Current ratio	Not lower than 25%	57.84%	39.59%	41.70%
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%	48.20%	60.31%	67.17%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.00%	0.00%	0.00%

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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*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 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 had improved during the periods presented above, increasing from approximately 26.9% as at 31 December 2020 to approximately 31.8% as at 31 December 2022, significantly higher than the 10% minimum requirement for PRC licensed finance companies. Haier Finance Company had also complied with the applicable ratio requirements as set out above.

In the fourth quarter of 2022, the CBIRC issued certain measures and notices, including the revised "Measures for the Administration of Finance Companies of Enterprise Groups" (the "**Revised Measures**") which came into effect on 13 November 2022 and would supersede the prior years' measures, and at the same time, the licensed finance companies are allowed to meet the new regulatory requirements during different transition periods. As advised by the management of Haier Finance Company, the Revised Measures strengthened the risk monitoring indicators for the industry of finance companies. The relevant major applicable regulatory ratio requirements under the Revised Measures and the ratios of Haier Finance Company as at 31 December 2022 are set out in the table below:

<b>Risk monitoring indicators</b> ( <i>Note</i> )	<b>Requirements for PRC licensed finance companies</b>	<b>As at 31 December 2022</b>
Capital adequacy ratio	Not lower than 10%	31.84%
Current ratio	Not lower than 25%	57.84%
Off balance sheet liabilities to net equity	Not higher than 100%	64.48%
Bills acceptance balance to interbank deposits balance	Not higher than 300%	246.87%
Total investment to net capital ratio	Not higher than 70%	48.20%
Fixed assets to net equity ratio	Not higher than 20%	0%

*Note: According to the relevant measures and notices, in addition to the above, there are other new regulatory ratio requirements (including (i) loans receivable to the sum of total deposits received and paid-up capital ratio (not higher than 80%); (ii) bills acceptance balance to total assets (not higher than 15%); (iii) bills acceptance and discount balance to net equity (not higher than 100%); and (iv) deposits for bills acceptance to total deposits received (not higher than 10%)). As confirmed by its management, as at 31 December 2022, each of Haier Finance Company's ratios met the transitional regulatory requirements.*

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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Based on our discussions with the management of the Haier Finance Company, as at 31 December 2022, Haier Finance Company had complied with the applicable regulatory ratio requirements as set out above, and it is expected to be able to meet all applicable regulatory ratio requirements by the end of the transition period. As at 31 March 2023, Haier Finance Company also met the new requirement for loans receivable to the sum of total deposits received and paid-up capital ratio.

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 the management of 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 annual compliance report regarding the business operation of Haier Finance Company for the year ended 31 December 2021 (being the latest available annual compliance report as at the Latest Practicable Date as confirmed by the management of Haier Finance Company), submitted by Haier Finance Company to the CBIRC, and did not note any material disciplinary actions, penalties or fines imposed.

### 5. The proposed annual caps

#### *(i) Review of historical figures*

Set out below are the historical transaction amounts under the previous and existing financial services framework agreements and the respective annual caps for the three years ended 31 December 2020, 2021 and 2022, and for the three months ended 31 March 2023:

	For the year ended 31 December			For the three months ended
	2020	2021	2022	31 March 2023
	<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>
<b>Deposit services</b>				
Maximum daily outstanding balance of deposits placed by the Group	24,987	28,655	31,977	33,977
Annual caps	N/A	29,000	32,000	34,000
Utilisation rates	N/A	99.8%	99.9%	99.9%
Interest income	86	340	570	175
Annual caps	N/A	870	960	1,020
Utilisation rates	N/A	39.1%	59.4%	68.6%
				<i>(Note)</i>



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**LETTER FROM SOMERLEY CAPITAL LIMITED**

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	For the year ended 31 December			For the three months ended
	2020	2021	2022	31 March 2023
	<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>
<b>Loan services</b>				
Maximum daily outstanding balance of loans granted to the Group	3,628	557	338	60
Annual caps	N/A	5,000	7,000	10,000
Utilisation rates	N/A	11.1%	4.8%	0.6%
Interest expense	86	8	5	0.5
Annual caps	N/A	200	280	400
Utilisation rates	N/A	4.0%	1.8%	0.5%
				<i>(Note)</i>
<b>Other financial services</b>				
Maximum daily trading balance of foreign exchange derivative products	4,418	2,612	413	220
Annual caps	N/A	5,500	5,500	5,500
Utilisation rates	N/A	47.5%	7.5%	4.0%
Service fees	18	23	29	5
Annual caps	N/A	80	80	80
Utilisation rates	N/A	29.4%	36.3%	25.0%
				<i>(Note)</i>

*Note: Based on the relevant three-month transaction amount and pro rata annual cap amount.*

*Deposit services*

The maximum daily outstanding balance of deposits placed by the Group showed an increasing trend, increasing from approximately RMB25.0 billion in 2020 to RMB28.7 billion in 2021, and further increasing to approximately RMB32.0 billion in 2022, matching closely to the respective annual caps. In first three months of 2023, the maximum daily outstanding balance of deposits placed by the Group was close to RMB34.0 billion, the annual cap set for 2023. The relevant existing annual caps had been fully utilised during the periods under review, 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, as advised by the management of the Group.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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The Group earned increased interest income from deposits with Haier Group and its associates during the periods under review, which was mainly due to the higher amount and longer duration of deposits placed with Haier Finance Company. The utilisation rates of the relevant existing annual caps had improved during the periods under review, amounting to approximately 59.4% in 2022 and approximately 68.6% in the first three months of 2023.

### *Loan services*

The maximum daily outstanding balance of loans granted by Haier Group and its associates to the Group declined during the periods under review, decreasing from approximately RMB3,628 million in 2020 to approximately RMB557 million in 2021, and further decreasing to approximately RMB338 million in 2022 and approximately RMB60 million in the first three months of 2023. The utilisation rates of the relevant existing annual caps decreased from approximately 11.1% in 2021 to approximately 4.8% in 2022 and approximately 0.6% in the first three months of 2023. As advised by the management of the Group, during the periods under review, (i) the Group has not identified suitable acquisition targets and/or investment opportunities for the expansion of its business portfolio, resulting in limited financing needs, and (ii) the Group has issued certain ultra-short-term financing bonds, bearing relatively low interest rates as compared to those of term loans. As a result, the Group had only utilised limited amount of borrowings from Haier Group and its associates.

As a result of the above, the Group paid insignificant amount of interest expense on loans from Haier Group and its associates since 2021, in a range of approximately RMB5 million to RMB8 million, with the existing annual caps utilisation rate reduced from approximately 4.0% in 2021 to approximately 1.8% in 2022 and approximately 0.5% in the first three months of 2023.

### *Other financial services*

The maximum daily trading balance of foreign exchange derivative products declined during the periods under review, from approximately RMB4,418 million in 2020 to RMB2,612 million in 2021, and further down to approximately RMB413 million in 2022 and approximately RMB220 million in the first three months of 2023. The utilisation rates of the relevant existing annual caps decreased similarly, from approximately 47.5% in 2021 to approximately 7.5% in 2022 and approximately 4.0% in the first three months of 2023. We understand from the management of the Group that the Group's foreign exchange risk exposures mainly arise from its home appliance exports and overseas investments, and that the rising interest rates of major currencies, in particular the US dollar, weakened the value of Renminbi and increased the cost of foreign exchange derivative products. The Group has therefore been relying mainly on foreign exchange spot

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**LETTER FROM SOMERLEY CAPITAL LIMITED**

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products to reduce its exposure to exchange rate fluctuations, which in turn led to a significant drop of the utilisation rates of foreign exchange derivative products during the periods under review.

The service fees paid by the Group to Haier Group and its associates, mainly for bill issuance and acceptance, letter of credit and non-financing guarantee services offered by Haier Group and its associates, increased gradually between 2020 and 2022, amounting to approximately RMB29 million in 2022, which, in our view, are considered immaterial as compared to the scale of the Group. Utilisation in the first three months of 2023 was approximately RMB5 million.

***(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 2024, 2025 and 2026. Such proposed annual caps will remain the same as those existing caps for the year 2023 despite the increasing trend of the Group's business scale. Detailed analysis of the proposed annual caps is as follow:

	<b>For the year ending 31 December</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Deposit Services</b>			
Maximum daily outstanding balance of deposits placed by the Group	34,000	34,000	34,000
Interest income	1,020	1,020	1,020
<b>Loan Services</b>			
Maximum daily outstanding balance of loans granted to the Group	10,000	10,000	10,000
Interest expense	400	400	400
<b>Other Financial Services</b>			
Maximum daily trading balance of foreign exchange derivative products	5,500	5,500	5,500
Service fee	80	80	80

*Deposit services*

In assessing the reasonableness of the proposed annual caps for the deposit services (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 of deposits and the underlying interest income received by the Group from Haier Group and its associates, as discussed above, (ii) the estimated cash inflows of the Group available for deposit with Haier Group and its associates, and (iii) the Group’s intention to better manage the proportion of deposits with Haier Finance Company.

We note from the Company’s annual reports that total revenue of the Group increased by approximately 8.5% from approximately RMB209.7 billion in 2020 to approximately RMB227.5 billion in 2021 and further increased by approximately 7.2% to approximately RMB243.5 billion in 2022. In the past three years, the Group recorded net cash inflows from its operating activities in a range of approximately RMB17.6 billion to RMB23.1 billion, and amounted to approximately RMB20.2 billion in 2022. As at 31 December 2022, the Group had cash and bank balances and deposits of approximately RMB54.1 billion in aggregate, representing an increase of approximately 17.4% as compared to the end of 2021. The above evidence the growing business scale and transaction volumes of the Group in recent years.

As set out in the letter from the Board, the Group maintained a sound trajectory for its business development mainly driven by the recovery of the domestic market following the relaxation of the COVID-19 measures, the global consumption upgrades and smart home development trends. In addition, the Group has been expanding rapidly in the overseas market, and achieving increasingly strong synergy between the domestic and foreign business. In view of the scale of overseas credit and actual business needs, the Group plans to set aside certain deposits offshore to ensure the liquidity for its overseas business and to maintain financial stability in response to international emergencies, such as geopolitical conflicts. Based on our discussions with the management of the Group, subject to the Group’s compliance with the foreign exchange regulatory requirements, Haier Finance Company’s cross-border fund pools management services allow the Group to remit domestic funds to overseas quickly to meet the funding needs of the Group’s overseas business and improve the Group’s capital efficiencies.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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The growth of the Group's business in 2022 and its expected upward momentum in the next three years will maintain the Group's demand for deposits and fund settlements at a stable level, as stated in the letter from the Board. In this connection, we have obtained the expected future operating cash inflow and outflow of the Group for the four years ending 31 December 2026, and are advised by the management of the Group that the Group's business are expected to continue to grow and the net cash inflows from operating activities are expected to continue.

Management of the Group informed us that the Group intends to adopt a scientific and dynamic management to manage the proportion of deposits with Haier Finance Company, according to its business needs. As the Group's cash level has been increasing in recent years and such trend is expected to continue in the coming years, maintaining the Deposit Services Caps at RMB34.0 billion in the coming three years is expected to achieve a gradually reducing proportion of deposits with Haier Finance Company. The Group will continue to implement its internal control measures to ensure that the terms with Haier Finance Company are more favourable than those from the market and the Group's deposits placed are being safeguarded. Having considered the merits of the deposit services, particularly the more efficient capital operation support from Haier Group and its associates, and balancing the Group's deposits and fund settlements needs as well as the intended reduced proportion of deposits with Haier Finance Company, the Company intends to maintain the Deposit Services Caps of RMB34.0 billion, at the same level as the existing one for the year 2023, for the coming three years.

As an additional check, we have researched and identified 29 companies listed in Hong Kong (the "**Precedent 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 Precedent Companies for analysis, having considered, among others, the comparability of the transaction nature of the Precedent 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 Precedent 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.

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**LETTER FROM SOMERLEY CAPITAL LIMITED**

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We have reviewed the proposed maximum daily balance of deposits to be placed by the Precedent Companies with their respective finance companies, and the Precedent 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 Precedent Companies, in view of the fact that all the Precedent 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 circumstances and falling within the above selection criteria, we consider that research on the Precedent Companies provides 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 the Deposit Services Caps to the Cash Balance. The results of our findings are summarised in the following table:

Company name	Date of circular	Maximum daily deposit balance (million) (A)	Cash Balance (million) (Note 1) (B)	Maximum daily deposit balance as a percentage of Cash Balance (%) (A/B)
Air China Limited (stock code: 753) (Note 2)	3 May 2023	RMB22,667	RMB11,436	198.2
China Youran Dairy Group Limited (stock code: 9858)	25 April 2023	RMB1,500	RMB1,853	80.9
CSSC Offshore & Marine Engineering (Group) Company Limited (stock code: 317) (“ <b>CSSC Offshore &amp; Marine Engineering</b> ”) (Note 3)	31 March 2023	RMB16,500	RMB14,814	111.4
Changan Minsheng APLL Logistics Co., Ltd. (stock code: 1292)	4 January 2023	RMB190	RMB1,110	16.8
Financial Street Property Co., Limited (stock code: 1502)	21 December 2022	RMB1,000	RMB1,459	68.5
CPMC Holdings Limited (stock code: 906)	15 December 2022	RMB900	RMB1,871	48.1
Maanshan Iron & Steel Company Limited (stock code: 323)	9 December 2022	RMB10,000	RMB7,225	138.4
China Jinmao Holdings Group Limited (stock code: 817)	7 December 2022	RMB10,000	RMB42,322	23.6
China Tianrui Group Cement Company Limited (stock code: 1252)	6 December 2022	RMB1,200	RMB7,553	15.9
Rizhao Port Jurong Co., Ltd. (stock code: 6117)	5 December 2022	RMB360	RMB804	44.8
China Southern Airlines Company Limited (stock code: 1055)	1 December 2022	RMB21,000	RMB22,707	92.5
Beijing Energy International Holding Co., Ltd. (stock code: 686)	30 November 2022	RMB5,000	RMB4,360	114.7
China National Building Material Company Limited (stock code: 3323)	25 November 2022	RMB20,400	RMB41,752	48.9

## LETTER FROM SOMERLEY CAPITAL LIMITED

Company name	Date of circular	Maximum daily deposit balance (million) (A)	Cash Balance (million) (Note 1) (B)	Maximum daily deposit balance as a percentage of Cash Balance (%) (A/B)
Xiwang Property Holdings Company Limited (stock code: 2088)	8 November 2022	RMB280	RMB148	189.4
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (stock code: 2196)	31 October 2022	RMB2,000	RMB12,258	16.3
Datang International Power Generation Co., Ltd., (stock code: 991)	28 October 2022	RMB18,000	RMB12,901	139.5
Yankuang Energy Group Company Limited (stock code: 1171)	12 October 2022	RMB27,000	RMB56,843	47.5
China Shenhua Energy Company Limited (stock code: 1088)	30 September 2022	RMB75,000	RMB201,390	37.2
COSCO SHIPPING Ports Limited (stock code: 1199)	21 September 2022	RMB3,500	RMB8,343	42.0
Dongjiang Environmental Company Limited (stock code: 895)	15 September 2022	RMB550	RMB670	82.0
Sinofert Holdings Limited (stock code: 297)	14 September 2022	RMB2,000	RMB2,909	68.8
Inspur International Limited (stock code: 596)	31 August 2022	RMB500	RMB998	50.1
CGN Mining Company Limited (stock code: 1164)	19 August 2022	HK\$5,495	HK\$81	NM (Note 4)
Beijing Jingneng Clean Energy Co., Limited (stock code: 579)	17 August 2022	RMB6,500	RMB5,097	127.5
Hangzhou SF Intra-city Industrial Co., Ltd. (stock code: 9699)	20 July 2022	RMB728	RMB2,538	28.7
Poly Property Group Co., Limited (stock code: 119)	21 June 2022	HK\$2,907	HK\$36,602	7.9
Shanghai Pharmaceuticals Holding Co., Ltd. (stock code: 2607)	9 June 2022	RMB4,000	RMB22,390	17.9
First Tractor Company Limited (stock code: 38)	31 May 2022	RMB2,000	RMB3,243	61.7
Metallurgical Corporation of China Ltd. (stock code: 1618)	31 May 2022	RMB12,000	RMB41,824	28.7
			Mean	69.6
			Median	49.5
			Maximum	198.2
			Minimum	7.9
<b>The Company</b>		<b>RMB34,000</b>	<b>RMB54,139</b>	<b>62.8</b>

*Source: Published financial reports and circulars of the Precedent Companies*

*Notes:*

(1) *The maximum daily deposit balances of certain Precedent 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 Precedent Companies.*

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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- (2) *We noted that Air China Limited obtained its independent shareholders' approvals in respect of the revision of existing and the new maximum daily deposit balance of the relevant deposit services, both on 25 May 2023. To avoid double counting, we have taken the new maximum daily deposit balance and the then Cash Balance of Air China Limited, according to its latest published annual report before publication for the relevant circular, for the above calculation.*
- (3) *We noted that CSSC Offshore & Marine Engineering obtained its independent shareholders' approval in respect of the relevant deposit services and the maximum daily deposit balance of RMB7,500 million on 16 December 2022. Subsequently in March 2023, CSSC Offshore & Marine Engineering proposed to increase the maximum daily deposit balance to RMB16,500 million, which was further approved by its independent shareholders on 21 April 2023. To avoid double counting, we have taken the revised maximum daily deposit balance of RMB16,500 million and the then Cash Balance of CSSC Offshore & Marine Engineering, according to its latest published annual report before publication for the relevant circular, for the above calculation.*
- (4) *Not meaningful. We note that CGN Mining Company Limited recorded a Cash Balance of approximately HK\$81 million as at 31 December 2021. Its proposed maximum daily deposit balance of HK\$5,495 million represented approximately 67.8 times of its Cash Balance, which is far above the high end of approximately 2.0 times. To avoid distortion of our analysis, we have excluded the above ratio as an outlier from the above table and the analysis below.*

As shown above, the proposed maximum daily deposit balances of the Precedent Companies represent approximately 7.9% to 198.2% of their respective Cash Balance, with a mean and median of approximately 69.6% and 49.5% respectively. The Deposit Services Caps represent approximately 62.8% of the Group's total cash balances as at 31 December 2022, which is above the median but below the mean of the Precedent Companies. As mentioned above, the Group proposes to maintain the Deposit Services Caps at RMB34.0 billion in the coming three years despite the anticipated increase in business scale and cash level, which is expected to achieve a gradually reducing proportion of deposits with Haier Finance Company. We consider such expected reduction in cash proportion to be beneficial to the Group's capital risk diversification and management, and in the interest of the Company and its Shareholders as a whole, from the perspective of risk diversification.

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, such interest rate 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. As advised by the management of the Group, for the year 2022, the interest rate of domestic and oversea RMB deposits placed by the Group with Haier Finance Company ranged from approximately 0.39% to 3.50% per annum, while the interest rate of foreign currency deposits ranged from approximately 0.0001% to 4.31%, depending on the type and duration of deposits. Provided that the maximum



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## LETTER FROM SOMERLEY CAPITAL LIMITED

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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.

### *Loan services*

In assessing the reasonableness of the proposed annual caps for the loan services (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 discussed above, and (ii) the expected steady growth in loan demands of the Group.

As explained earlier, the Group continued to grow its global business in recent years and such upward momentum is expected to continue to the next three years. Therefore, the Group may have financing needs from time to time to satisfy its business development plans and growth profile, including the short-term funds to meet the capital expenditure requirements, such as construction to expand production lines and investment and mergers and acquisition plans. Moreover, the changes in the complicated international environment and the exchange rate fluctuations, as well as the continuous global interest rate hikes have also put pressure on the Group’s offshore financing costs. In particular, we note that the Federal Reserve of the United States raised the target federal funds rate by 5.00%, from 0.00% to 0.25% in the first quarter of 2022 to 5.00% to 5.25% as at the Latest Practicable Date, and the European Central Bank raised its key interest rates (including rates on main refinancing operations, marginal lending facility and deposit facility) by 3.75% since the third quarter of 2022 up to the Latest Practicable Date. Based on the Company’s 2022 annual report that as at 31 December 2022, the Group had interest-bearing borrowing of approximately RMB26.1 billion, and approximately 74.7% of which were denominated in the US dollar and the Euro, which may be affected by the substantial increase in benchmark rates.

As stated in the letter from the Board, the domestic and overseas financing needs of the Group are expected to be approximately RMB4.5 billion and RMB5.5 billion respectively, catering for the capital expenditures as discussed above and the possible loans refinancing, for each of the coming three years. As a result, the Company intends to maintain the Loan Services Caps of RMB10 billion for the years 2024 to 2026, at the same level as the existing one for the year 2023. In our opinion, the loan services could be seen as additional financing facility potentially available to the Group to fund its business expansion plans, as discussed above, 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 4.0% based on the maximum daily outstanding balance of loans granted to the Group. As advised by the management of the Group, such interest rate 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, taking into account the offshore financing interest rate hike and 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 2022 annual report that the interest rate of loans extended to the Group by Haier Finance Company ranges from approximately 1.8% to 4.5% per annum in 2022, while the effective interest rate for the Group's unsecured bank loans ranges from approximately 0.85% to 8.0%. As advised by the management of the Group, for the similar type of loans with comparable 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.

*Other financial services*

In assessing the reasonableness of the proposed annual caps for the other financial services (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 discussed above, and (ii) the expected demands of the Group for global financial services.

The Group has conducted a series of overseas acquisitions in prior years, and has been strengthening its global business performance. According to the letter from the Board, the Group's foreign exchange transactions amounted to approximately RMB7.7 billion for the year 2022, and the maximum daily trading balance of foreign exchange derivative products between the Group and Haier Finance reached RMB4.4 billion in 2020. We note from the Company's annual reports that overseas revenue of the Group exhibited an increasing trend during the past three years, from approximately

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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RMB100.6 billion in 2020 to approximately RMB113.7 billion in 2021, and further increased to approximately RMB125.4 billion in 2022, accounting for approximately 51.5% of total revenue. Having considered the Group's growing overseas business scale and the continued instability in the global markets as affected by, among others, the rising interest rates by major economies and the geopolitical conflicts, the Company expects an increasing demand for global financial services, especially the foreign exchange derivative products, which may be used by the Group to hedge its foreign exchange risks exposure as it deems appropriate. As a result, the Company expects the trading of foreign exchange derivative products with Haier Finance Company to grow, and intends to maintain the Other Financial Services Caps of RMB5.5 billion, at the same level as the existing one for the year 2023 for the coming three years, such that the utilisation rates of the future annual caps are expected to increase.

When determining the proposed annual caps for service fees, mainly consist of handling fees for bill issuance and acceptance services and non-financing letter of guarantee services, 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, due to the surge in prices of commodities, such as steel and non-ferrous metals, in recent years, the amount of the Group's purchases of raw material increased accordingly. The higher amount of purchases alone with the Group's business development and growth, the higher amount of service fees for other financial services. In addition, the Group plans to strengthen cooperation with Haier Finance Company, utilising more financial services in different areas. In our view, a stable 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. Despite the above, given the proposed annual cap of RMB80.0 million represents considerably less than 0.5% of the Group's consolidated profit before tax in 2022, 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 interests of the Company and the Shareholders as a whole, the Company has adopted a number of guidelines and principles in monitoring the financial services transactions under the New Financial Services Framework Agreement. A series of measures and policies are also in place 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 Existing Financial Services Framework Agreement, and we have been confirmed by the management of the Group that the relevant measures and procedures have been, and will continue to be, carried out during the term of the New Financial Services Framework Agreement. As confirmed by the management of the Group that there is a proper and clear delineation of responsibilities between the parties, and other than Ms. Shao and Mr. Gong, there are no common staff, senior management or director between the Group and Haier Finance Company, that no representatives of Haier Group and any of its associates will be involved in the internal control and risk management procedures of the Group. Below are the key controls and procedures summarised from the letter from the Board:

- 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 at least twice a year; 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 underlying 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 listing rules, including but not limited to providing financial and other data and/or documents within seven Business Days, giving written or verbal explanations to queries raised by the Group and issue explanatory notes for certain facts or circumstances;

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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- (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 and listing compliance respectively, in accordance with the provisions of the relevant governing regime of the Company, and judging and approving related transactions, specifically:
- (a) the finance department and securities department of the Company will, on a quarterly basis, obtain deposit interest rates announced by the Comparable Banks and offered by three major commercial banks or financial institutions that the Group has established business relationships (in respect of domestic RMB deposits); and/or the interest rates offered by three major commercial banks or financial institutions that the Group has established business relationships (in respect of overseas RMB deposits and foreign currency deposits), and compare those with the interest rates offered by Haier Group and its associates. As confirmed by the management of the Group, in the event that the domestic RMB deposit benchmark interest rate is adjusted by the PBOC, the Group will obtain adjusted interest rates for the domestic RMB deposit from the Comparable Banks.

If the interest rates 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. If the interest rate is consistent with the abovementioned pricing principles, the securities department of the Company and its head will carry out the review process and final approval of the transaction following the approval of the finance department of the Company; and

- (b) before obtaining a loan from, or using other financial services provided by, Haier Group and its associates, the Company will compare the interest rates offered or fee charged by Haier Group and its associates with those offered or charged by three major commercial banks or financial institutions that the Group has established business relationships; if the interest rate or fee offered by Haier Group and its associates for the same types of loans or financial services is not the more favourable one among others, the Group will negotiate with Haier Group and its associates to adjust the proposed interest rate or fee in compliance with the abovementioned pricing principles.

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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If the interest rate or fee is consistent with the abovementioned pricing principle, the securities department of the Company and its head will carry out the review process and final approval of the transaction following 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 Group's daily outstanding balance of deposits placed does not exceed the caps. Haier Group and its associates shall provide necessary cooperation;
- (iv) the representatives appointed by the Group at the board of directors of Haier Finance Company are also chairlady and/or members of the risk management committee and the audit committee of Haier Finance Company. The Group can therefore access the financial and operational information of Haier Finance Company and monitor its operation risks on a real time basis, thereby enhancing the safety of the deposits placed;
- (v) the internal audit department of the Company is responsible for supervising and ensuring the effective implementation of internal control procedures and conducts a compliance 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 appropriate and effective; and
- (vi) the Group will assess Haier Finance Company and the services it provides on a semi-annual basis and review the transactions with Haier Finance Company, summarise the experiences and supplement any inadequacies on an annual basis. Such assessment and review are submitted to the Board for reference at the relevant time.

Pursuant to the New Financial Services Framework Agreement, Haier Finance Company undertakes shall monitor its credit risks at all times and take measures to avoid or contain any loss, and Haier Finance Company undertakes to take the following measures to control the capital risks:

- (i) Haier Finance Company will give a written notice to the Company within three Business Days after having acknowledged the occurrence of the following situations or circumstances: (a) Haier Finance Company breaches or may breach the law, regulations, or the terms of the New Financial Services Framework Agreement, and (b) any other circumstances that may cause serious concerns on the security of the deposits placed by the Group with Haier Finance Company, such as default on any payments due, occurrence of operational risks and breaches of regulatory requirements. Members of the Group have the right to immediately withdraw its deposits (including any accrued interests);

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## LETTER FROM SOMERLEY CAPITAL LIMITED

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- (ii) Haier Finance Company will provide its (a) quarterly financial statements, and (b) 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;
- (iii) 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, perform an assessment on the completeness and effectiveness of internal control measures, and provide an evaluation report on the effectiveness of implementation of the internal control measures to the Group on an annual basis;
- (iv) Haier Finance Company will provide to the Group within three Business Days after submission to the CBIRC 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;
- (v) 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, including the capital adequacy ratio and current ratio, prepared based on its quarterly management accounts, will be provided to the Group for its review of Haier Finance Company's compliance with the major risk monitoring indicators on a quarterly basis; and
- (vi) 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 its credit rating, so that the Group will be informed of the latest credit rating status of Haier Finance Company.

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 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 Group's daily outstanding balance of deposits placed 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 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 whether 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;
- (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);



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## LETTER FROM SOMERLEY CAPITAL LIMITED

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- (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 Provision of Financial Services 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 Provision of Financial Services 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 fifteen years of experience in the corporate finance industry.*

# Haier Smart Home Co., Ltd.

## Internal Control Audit Report

Hexin Shen Zi. (2023) No. 000367

<u>Contents</u>	<u>Pages</u>
I. Internal Control Audit Report	1-2



**Hexin Certified Public Accountants LLP**

30 March 2023

# INTERNAL CONTROL AUDIT REPORT

Hexin Shen Zi. (2023) No. 000367

## 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 2022.

### 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

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**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 2022 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: Li Xiang Zhi**

**30 March 2023**



## I. SUMMARY OF THE GUARANTEES

In order to meet the production and operation capital requirements and business development needs of the Company, its wholly-owned subsidiaries and the holding subsidiaries (hereinafter referred to as the “**subsidiaries**”), the Company intends to provide guarantees to the subsidiaries, guarantees to each other by its subsidiaries and guarantees to the Company by its subsidiaries, when the Company and its subsidiaries apply for comprehensive credit granting from the financial institution in 2023, with a cap amount of RMB30,800 million.

The aforesaid guarantees include but are not limited to the guarantees provided for the actual amount incurred by the Company and its subsidiaries when they apply for comprehensive credit granting from the banks and other financial institutions, and applicable for the settlement of accounts payable to the suppliers, and the Company undertakes joint guarantee for liabilities with the financial institutions such as the guarantees by way of capital increase for banks granting borrowings to the subsidiaries, but exclude guarantees in which the Company and its subsidiaries pledge their assets or rights to carry out the aforesaid activities. The term of guarantee commences on the date of approval in the 2022 Annual General Meeting, and ends on the date of consideration of the estimated guarantees amounts to be provided to the Company and its subsidiaries in the next annual general meeting.

Pursuant to laws and regulations such as the Company Law of People’s Republic of China, Self-regulatory Guidelines for Listed Companies on the Shanghai Stock Exchange No. 1 — Regulation of Operations (《上海證券交易所上市公司自律監管指引第1號 — 規範運作》) and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, and the relevant requirements under the Articles of Association of Haier Smart Home Co., Ltd. (hereinafter referred to as the “**Articles of Association**”), the Company convened the 4th meeting of the 11th session of the Board of Directors on 30 March 2023, considered and approved the Proposal on Anticipated Guarantees’ Amounts for the Company and its Subsidiaries in 2023 of Haier Smart Home Co., Ltd. (with 9 voted for it, 0 voted against it and 0 voted abstaining), agreed with the above prediction the provision of guarantees for the year, and will submit such proposal to the general meeting of shareholders of the Company for consideration.

## II. THE ANTICIPATED PROVISION OF GUARANTEES IN 2023

Based on the development needs and budget on capital need of the subsidiaries in 2023, the Company intends to provide guarantees of no more than RMB30,800 million in aggregate to the following subsidiaries (the guaranteed parties) in the guarantee period. Particulars of the relevant subsidiaries and estimated guarantee amounts are as follows:

No.	Company name	Percentage of shareholding (%)	Registered capital (RMB'000)	Legal representative	Principal business	Estimated quota on the provision of guarantee (RMB'000)
1	Qingdao Haier Special Refrigerator Co., Ltd.	100	26,245.9	LI Weijie	Production of special fluorine-free refrigerators and their after-sales service	250,000
2	Hefei Haier Refrigerator Co., Ltd.	100	4,900	LI Weijie	Electrical, electronic products and related accessories manufacturing	500,000
3	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	100	95,764	FU Songhui	Air conditioners, refrigeration equipment research and development, production, sales and after-sales service	300,000
4	Haier Electronics Group Co., Ltd.	100	/	/	Holding company	500,000
5	Qingdao Haier HVAC Equipment Co., Ltd.	100	40,000	FU Songhui	Refrigeration, air conditioning equipment manufacturing	230,000
6	Qingdao Haier Cooling Appliances Co., Ltd.	100	30,000	LI Weijie	Household appliance manufacturing	200,000
7	Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd.	100	12,000	GUAN Jiangyong	Design, development, production and sales of water heaters	300,000
8	Haier Singapore Investment Holding Pte. Ltd.	100	/	/	Procurement, wholesale, retail, import and export of household appliances	600,000
9	Haier New Zealand Investment Holding Company Limited	100	/	/	Holding company	200,000
<b>Total</b>						<b>3,080,000</b>

Subject to the approval of the above-mentioned guarantees by the General Meeting of shareholders, the Board of Directors authorizes the president office to decide the particular issues on each of the above guarantees provided 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 execute 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 the adjustment of above-mentioned guarantees amounts for subsidiaries. If the actual amount incurred and the status of performance has changed, the Company will disclose the progress as required.

## III. GENERAL INFORMATION ON THE GUARANTEED PARTIES

Unit: RMB

No.	Company name	Total assets	Total liabilities	Current liabilities	Bank borrowings	Net assets	Gearing ratio	Operating revenue
1	Qingdao Haier Special Refrigerator Co., Ltd.	2,404,244,564.11	1,056,767,678.88	1,018,071,768.66		1,347,476,885.23	44%	6,067,017,464.65
2	Hefei Haier Refrigerator Co., Ltd.	2,644,769,213.87	1,863,192,885.87	1,794,456,611.72		781,576,328.00	70%	9,494,602,183.28
3	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	6,778,578,412.27	3,474,303,891.43	3,072,839,548.58		3,304,274,520.84	51%	5,445,474,810.48
4	Haier Electronics Group Co., Ltd.	37,359,233,073.63	30,561,466,782.09	29,773,293,816.71	2,327,580,000.00	6,797,766,291.54	82%	26,700,034,075.61
5	Qingdao Haier HVAC Equipment Co., Ltd.	593,333,864.67	198,858,815.91	179,465,230.91		394,475,048.76	34%	
6	Qingdao Haier Cooling Appliances Co., Ltd.	379,144,843.57	81,671,537.56	81,671,537.56		297,473,306.01	22%	
7	Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd.	4,428,884,096.58	705,411,892.43	676,455,007.91		3,723,472,204.15	16%	2,844,218,932.83
8	Haier Singapore Investment Holding Pte. Ltd.	22,383,854,456.75	12,905,830,365.17	9,071,124,747.11	9,114,132,488.88	9,478,024,091.58	58%	16,203,085,746.61
9	Haier New Zealand Investment Holding Company Limited	6,986,976,233.80	3,267,217,008.33	1,510,744,162.35	1,023,288,825.00	3,719,759,225.47	47%	7,366,646,122.76

## IV. PARTICULARS OF THE ANTICIPATED PROVISION OF GUARANTEES FOR THE YEAR

The Company and its subsidiaries have not entered into guarantee contracts or agreements with related parties such as banks yet, and the actual guarantee amount will subject to the signed and effected guarantee contracts. The guarantor, each guarantee amount and term of the guarantee will be stipulated separately in the specific contracts.

The Company will 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 conducts 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. THE STATUS IN 2022

As of 31 December 2022, the balance of guarantees provided by the Company and its subsidiaries to the subsidiaries amounted to RMB12,843,820,000, representing 13.7% of the latest audited net assets of the Company, and 5.5% of the latest audited total assets of the Company. Apart from that, there is no other external guarantee or past-due guarantees provided by the Company and the subsidiaries.

To sum up, 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 control and prevent the risks on these guarantees. 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 on such guarantees, the validity of which is subject to the conventions under the agreements entered into between the subsidiaries and the counter-parties.

The year of 2022, overseas revenue of the Company accounted for a fairly large proportion, and the foreign currency receipts and payments, foreign currency deposits and loans were large, and the impact of exchange rate fluctuations on the Company's operating results was significant. It is expected that the Company will continue to face the risk of increasing exchange rate or interest rate fluctuations in 2023, and in order to avoid risks on exchange rate and interest rate of asset and liability business, the Company intends to conduct foreign exchange funds derivatives business with a balance not exceeding USD6.5 billion in 2023 to hedge and prevent exchange rate risks and reduce the impact of exchange rate fluctuations on the Company's results. The particulars are set out below:

**I. OVERVIEW AND NECESSITY OF FOREIGN EXCHANGE FUND DERIVATIVES TRANSACTIONS**

1. Foreign exchange fund derivatives 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 conducting the foreign exchange funds derivatives business by the Company is to avoid and prevent the risk of exchange rate on international trading business that the Company is exposed to, and to minimize the influence of exchange rate fluctuation on the Company's performance. Foreign exchange derivative transactions fix the trading cost of exchange on a certain level in advance, so as to avoid the unforeseeable risks caused by sharp fluctuation on exchange rates.
3. The scale of the foreign exchange funds derivatives business of the Company is in line with the actual business volume of imports and exports, and the scale of the overseas assets/liabilities of the Company, without any speculative operation. Given that the scale of the Company's overseas business is expanding, in order to ensure that the Company continues developing steadily and to accelerate the integration and synergy of the operational management and business between the Company and the newly established offshore subsidiaries, the Company is of the view that it is necessary to avoid risk of exchange rate through foreign exchange funds derivatives business.



**II. SUMMARY OF THE INTENTION ON CONDUCTING FOREIGN EXCHANGE FUNDS DERIVATIVES TRANSACTIONS****1. Forward settlement/purchase of foreign exchange**

Entering into contracts for forward settlement/purchase of foreign exchange with banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws) on the import and export businesses of the Company could fix the exchange rates of the future settlement/purchase of foreign exchange from foreign currency to RMB, and eliminate the influence of exchange rate fluctuation.

**2. Foreign exchange swap business**

Entering into swap contracts with banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws) based on the different needs of the Company on the recent and future cash flows could avoid the influence of exchange rate fluctuation.

**3. NDF (namely non-deliverable forwards) and options businesses**

The currencies for which the Company is exposed to risks are getting more and more diversified and the fluctuation of exchange rates is getting sharper and sharper, such as INR, RUB and THB. Some of the currencies do not have local common forward settlement that can be delivered in usual course, or the hedging costs can be too high. In order to increase hedging measures and avoid exchange rate risk effectively, the Company will try products such as other NDF, currency futures and options portfolio as complementary and alternative hedging measures.

**4. Businesses such as currency swap and interest rate swap**

The scale, assets and liabilities of overseas business is increasing along with the Company's international operation. In order to effectively hedge the fluctuation risk of exchange rate and interest rate that the overseas assets and liabilities are exposed to, the Company intends to carry out currency and/or interest rate swap business so as to avoid fluctuation risk of exchange rate and interest rate.

Based on the imports and exports and operational budgets of the Company, the intended operational balance in 2023 of the above business 1–3 does not exceed USD5 billion for avoiding exchange rate fluctuation risks arising from import and export businesses; and the intended operational balance in 2023 of business 4 does not exceed USD1.5 billion for avoiding exchange rate and interest rate risks arising from assets and liabilities businesses. The Company will adjust the actual operational amount of the business 1–4 within the total balance of USD6.5 billion according to the actual business needs.

**III. PRINCIPAL TERMS OF THE INTENDED FOREIGN EXCHANGE HEDGING  
TRANSACTIONS**

1. **Contract term:** The terms of the foreign exchange funds businesses involved in the daily operational activities carried out by the Company are mostly less than one year. The currency/interest rate swap businesses under assets and liabilities involved are between 1–5 years.
2. **Counterparty:** Banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws). However, within the scope of foreign exchange derivatives businesses involved in this proposal, the counterparties of the Company and the subsidiaries exclude Haier Group Finance Co., Ltd. or other entities under Haier Group Corporation permitted to carry out relevant businesses in accordance with the laws.
3. **Liquidity arrangement:** All the foreign exchange funds businesses are in line with the normal and reasonable backgrounds of import and export businesses, and match the time of receipt and payment, thus would not influence the liquidity of the Company.

**IV. MANAGEMENT SYSTEM RELATED TO FOREIGN EXCHANGE FUNDS  
BUSINESSES**

For the operation standards of foreign exchange funds businesses, the Company carries out foreign exchange derivatives businesses strictly in compliance with the relevant requirements under Management Policy on Foreign Exchange Risks and Management System on Foreign Exchange Derivatives Trading Business of Haier Smart Home Co., Ltd.

**V. RISK ANALYSIS OF FOREIGN EXCHANGE DERIVATIVES TRADING**

The Company and its holding subsidiaries conduct foreign exchange derivatives business in accordance with the principle of stability, and do not conduct the foreign exchange transaction for speculative purposes. All foreign exchange funds businesses are based on normal production and operation and rely on specific business operations to avoid and prevent exchange rate risks. However, there are also certain risks in conducting foreign exchange funds business:

**1. Market risk**

Forward settlement of foreign exchange: the Company will determine whether to sign a forward contract based on the cost of the product (basically consisting of RMB) and market risk. Signing the contract equals to fixing the price of currency exchange. It is effective to resist market fluctuation risk and ensure a reasonable and stable profit level of the Company through forward settlement of foreign exchange.

Forward purchase of foreign exchange: according to the import contract entered with the customer and exchange rate risk, the future currency exchange cost will be fixed through the unilateral forward purchase of foreign exchange. Although there is a certain risk of loss, the forward purchase of foreign exchange will effectively reduce the market fluctuation risk and fix procurement costs.

Other NDF and options businesses are mainly carried out when failed to sign the ordinary forward settlement/purchase of foreign exchange or the costs are too high, only serving as the supplement of the above businesses.

Exchange rate fluctuation risk in currency swap business is avoided by adjusting the currency of assets and liabilities in order to match the currency of the assets with the currency of liabilities. Interest rate fluctuation risk in interest rate swap business is avoided by transfer the floating-rate business to fix-rate business or transfer the fixed-rate business to floating-rate business when the rate is going downward to reduce the costs. All of the above businesses have a real business background and there is no speculation.

## **2. Exchange rate fluctuation risk**

After the Company fixing the forward exchange rate according to the foreign exchange management strategy, if the actual trend of the foreign exchange rate deviates significantly from the direction of the Company's fixed exchange rate fluctuation, the cost of the Company after fixing the exchange rate expenditure may exceeds the cost of not fixing the exchange rate, thus forming a loss of the Company. When the foreign exchange rate changes greatly, if the fluctuating direction of the Company's fixed foreign exchange hedging contract is inconsistent with that of the foreign exchange rate, the foreign exchange loss will be formed; if the exchange rate does not fluctuate in the future, the vast deviation from the foreign exchange hedging contract will also form a foreign exchange loss.

## **3. Internal control risk**

The foreign exchange derivatives business is highly specialized and complex so it may cause risks due to imperfect internal control systems.

## **4. Transaction default risk**

In the event of a default in the counterparty of foreign exchange derivative transaction, the Company would not be able to obtain hedging profits as agreed to hedge the Company's actual exchange losses, resulting in a loss of the Company.

**5. Customer default risk**

The overdue of customer's accounts receivable and the customer's order adjustment will make the actual payment inconsistent with the expected payment, which may result in the actual cash flow could not match the carried out foreign exchange derivative business term or amount completely, leading to a loss of the Company.

**VI. PROPOSED RISK CONTROL MEASURES TAKEN BY THE COMPANY**

1. The Company may not engage in any foreign exchange derivative transactions except those carried out for the purpose of avoiding exchange rate risks, and only for foreign exchange operations related to the Company's import and export business and overseas asset/liability management.
2. The Company implemented approval process in strict compliance with the Foreign Exchange Risk Management Policy and the Foreign Exchange Derivatives Transaction Management Rules. The general meeting of shareholders of the Company and the Board of Directors delegate the President/President Office to take responsibility for the operation and management of the foreign exchange derivatives business, the Treasury Department shall act as the handling department, and finance department shall act as the daily review department.
3. The Company conducts foreign exchange derivatives business with financial institutions such as large banks with legal qualifications. The financial department timely tracks the changes in the transaction and strictly controls the occurrence of closing default risk.
4. The Company conducts foreign exchange derivatives business must base on the Company's cautious forecast on the foreign currency receipts and payments and actual business exposure. The delivery date of the foreign exchange derivatives business must match with the Company's predicted receipt time, deposit time or payment time of the foreign currency, or match with the corresponding redemption term of the foreign currency bank borrowing.

**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 will be fundamentally determined in accordance with the prices quoted by or obtained from pricing service institutions such as banks. The Company measures and recognizes the fair values on a monthly basis.

**VIII. ACCOUNTING POLICIES AND PRINCIPLES**

The Company shall adopt accounting methods for its foreign exchange funds transaction in accordance with the Accounting Standards for Business Enterprises. In accordance with the relevant requirements of the Accounting Standard for Enterprises No. 22 — Recognition and Measurement of Financial Instruments, the Accounting Standard for Enterprises No. 24 — Hedging Accounting, the Accounting Standard for Enterprises No. 37 — Presentation of Financial Instruments, and the Accounting Standard for Enterprises No. 39 — Fair Value Measurement and the guidelines of the Ministry of Finance, the Company arranges corresponding audits on the foreign exchange funds businesses that have already been carried out and the same will be reflected in the relevant items in the balance sheet and the statement of profit or loss.

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## APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE OF H SHARES

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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

As at the Latest Practicable Date, the total issued capital of the Company was RMB9,446,598,493, comprising 2,867,031,866 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.

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 2023 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 Share Class Meeting, the D Share Class Meeting and the H Share Class Meeting of the Company, 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 2,867,031,866 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 286,703,186 H Shares being repurchased by the Company according to the repurchase mandate during the Relevant Period.

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## APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE OF H SHARES

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### 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 2022 results announcement of the Company dated 30 March 2023) 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 <i>HK\$</i>	Lowest Trading Price <i>HK\$</i>
<b>2022</b>		
May	30.60	25.40
June	29.15	24.30
July	29.10	24.85
August	26.00	22.95
September	26.65	23.15
October	26.25	19.52
November	25.80	19.70
December	27.40	24.45
<b>2023</b>		
January	31.55	25.85
February	30.35	27.70
March	28.90	24.15
April	25.60	23.15
May (up to the Latest Practicable Date)	25.80	22.25

### 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.

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## **APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE OF H SHARES**

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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 34% 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 has been made but the Company has made repurchases of 17,292,900 A Shares and 6,103,600 H Shares during the six months prior to the Latest Practicable Date.



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**APPENDIX IV EXPLANATORY STATEMENT FOR THE REPURCHASE OF H SHARES**

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**REPURCHASE OF A SHARES**

Date of repurchase	No. of shares repurchased	Repurchase price per share		Aggregate consideration paid (RMB)
		Highest price paid (RMB)	Lowest price paid (RMB)	
30 November 2022	400,000	24.45	24.43	9,779,931
28 December 2022	100,000	24.96	24.93	2,494,500
29 December 2022	250,000	24.65	24.55	6,150,500
3 January 2023	50,000	24.10	24.10	1,205,000
12 January 2023	100,000	25.70	25.70	2,570,000
17 January 2023	300,000	26.85	26.73	8,037,308
18 January 2023	180,000	26.60	26.55	4,785,200
30 January 2023	82,900	26.40	26.38	2,187,732
16 May 2023	2,000,000	22.36	22.25	44,580,000
17 May 2023	1,050,000	22.25	22.09	23,302,727
18 May 2023	1,200,000	22.20	22.10	26,563,084
19 May 2023	100,000	21.95	21.89	2,191,311
24 May 2023	1,400,000	22.50	22.30	31,371,000
25 May 2023	1,880,000	22.37	22.15	41,835,986
29 May 2023	4,500,000	22.50	22.05	100,150,000
30 May 2023	3,700,000	22.00	21.45	80,286,972

**REPURCHASE OF H SHARES**

Date of repurchase	No. of shares repurchased	Repurchase price per share		Aggregate consideration paid (HK\$)
		Highest price paid (HK\$)	Lowest price paid (HK\$)	
12 December 2022	500,000	26.40	25.90	13,144,750
13 December 2022	520,000	26.30	26.15	13,656,150
16 December 2022	323,600	26.55	26.00	8,527,920
20 December 2022	500,000	26.00	25.60	12,899,750
9 May 2023	500,000	24.50	23.90	12,113,830
10 May 2023	550,000	24.50	24.05	13,379,250
11 May 2023	530,000	24.20	23.70	12,693,670
15 May 2023	540,000	23.80	23.25	12,726,370
17 May 2023	550,000	23.60	22.80	12,785,350
19 May 2023	530,000	23.70	22.75	12,380,790
24 May 2023	520,000	23.85	23.30	12,234,470
25 May 2023	540,000	23.30	22.90	12,433,370

**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.

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## APPENDIX V EXPLANATORY STATEMENT FOR THE REPURCHASE OF D SHARES

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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

As at the Latest Practicable Date, the total issued capital of the Company was RMB9,446,598,493, comprising 2,867,031,866 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.

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 2023 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 Share Class Meeting, the D Share Class Meeting and the H Share Class Meeting of the Company, 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 2022 results announcement of the Company dated 30 March 2023) 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:

<b>Month</b>	<b>D Shares</b>	
	<b>Highest Trading Price</b>	<b>Lowest Trading Price</b>
	<i>EUR</i>	<i>EUR</i>
<b>2022</b>		
May	1.3622	1.1300
June	1.1992	1.0392
July	1.1696	1.0806
August	1.1630	1.0502
September	1.1600	1.0512
October	1.0900	0.8918
November	1.0748	0.9020
December	1.1500	1.0600
<b>2023</b>		
January	1.3210	1.1000
February	1.3560	1.2600
March	1.3000	1.1656
April	1.2198	1.1506
May (up to the Latest Practicable Date)	1.2426	1.1082

**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 34% 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 has been made but the Company has made repurchases of 17,292,900 A Shares and 6,103,600 H Shares during the six months prior to the Latest Practicable Date. Please refer to Appendix IV to this circular for details.

**2023 A Share Core Employee Stock  
Ownership Plan  
Of  
Haier Smart Home Co., Ltd.  
(Draft)**

**April 2023**

# **2023 A Share Core Employee Stock Ownership Plan Of Haier Smart Home Co., Ltd. (Draft)**

## **Salient Points**

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

1. The ESOP is formulated by the Company in accordance with the Company Law, the Securities Law, the Guiding Opinions and other relevant laws, administrative regulations, rules, normative documents of China, as well as the Articles of Association of the Company and Draft ESOP for 2021–2025.
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. The total number of the Participants of the ESOP shall not exceed 2,400. The board of directors of the Company may authorize the Management Committee to adjust the list of employees participating in the ESOP and the distribution proportion according to the changes and assessment results of employees.
4. The source of funds of the ESOP shall be the incentive funds withdrawn by the Company in the amount of RMB565.50 million.
5. The source of shares of the ESOP shall be the repurchased A shares of the Company.
6. Duration, lock-up period and vesting period of the ESOP

The duration of the ESOP shall not exceed 60 months, calculated from the date when the Company announces that the Underlying Shares obtained in the last time are recorded to the ESOP. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors.

The total number of shares held under those established and existing ESOPs (including H-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 ESOP shall establish a lock-up period of 12 months from the date of disclosure of the announcement on completion of transfer of the repurchased shares of the Company from the repurchase special account.

After the end of the lock-up period, the Participants of the ESOP shall be appraised according to the performance appraisal system of the Company. The appraisal period is two years, upon the expiration of the lock-up period of the ESOP, 40% and 60% of the corresponding Underlying Shares shall be vested to the Participants in two phases. The specific vesting time shall be determined by the Management Committee upon the expiration of the lock-up period.

7. After the establishment of the ESOP, it shall be managed by the Company itself or entrusted to a third-party organization or managed by other methods permitted by laws and administrative regulations.
8. Shareholders holding more than 5% of the shares and the actual controller shall not participate in the ESOP.
9. 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.
10. 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.
11. 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.
12. The ESOP shall be implemented after it is approved by the board of directors upon deliberation.



TABLE OF CONTENTS

I. Interpretation ..... 112

II. Purpose of the ESOP ..... 114

III. Basis for Determining the Participants and Scope of the ESOP ..... 114

IV. Source of Funds ..... 115

V. Source and Number of Shares ..... 115

VI. Status of the Participants and Shares Allocation ..... 115

VII. Duration, Lock-up Period, Vesting Period and  
Change and Termination of the ESOP ..... 116

VIII. Vesting and Disposal of the Interests of the Shares under the ESOP ..... 120

IX. Participants’ Meeting, Responsibilities of the Management Committee,  
Convening and Voting Procedures ..... 121

X. Management Mode, Selection of Asset Management Institution,  
and Management Agreement ..... 126

XI. Main Provisions of the Management Rules ..... 127

XII. Procedures for Implementing the ESOP ..... 128

XIII. Disposal Measures when the Circumstances of the Company and  
the Participants Change ..... 129

XIV. Supplementary Provisions ..... 131

**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 for 2021–2025	refer(s) to	A Share Core Employee Ownership Plan of Haier Smart Home Co., Ltd. (for Years 2021–2025) (Draft)
ESOP	refer(s) to	2023 A Share Core Employee Ownership Plan of Haier Smart Home Co., Ltd. (Draft)
Participants	refer(s) to	participators of the ESOP
Senior Officer	refer(s) to	the president, vice president, secretary of the board of directors, chief financial officer 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 the ESOP
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 the ESOP
Asset Management ESOP	refer(s) to	the asset management plan which is set up by the Asset Management Institution under the ESOP and which is specially used for core employee share vesting A shares of the Company
Company’s Shares	refer(s) to	A shares of the Company
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 Limited
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 the 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 drive employees to undertake the Company's development strategic objectives, and promote the Company to achieve industry leadership.

- 2. To enhance corporate governance mechanism and create shareholders' value**

Core management team and core employees' holding of shares or relevant interests of the Company through the ESOP is conducive to the improvement 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 the 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 the 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 source of funds of the ESOP shall be the incentive fund withdrawn by the Company in the amount of RMB565.50 million.

#### **V. SOURCE AND NUMBER OF SHARES**

##### **(I) Source of the ESOP shares**

The source of shares for the ESOP shall be the repurchased shares of the Company in the repurchase special account. If the Company adopts the ways of allotment of shares for financing, the ESOP shall have the right to participate in the subscription fairly.

##### **(II) Number of Underlying Shares involved in the ESOP**

The total amount of funds to be withdrawn for the ESOP shall be RMB565.50 million, and the shares shall be sourced from the repurchased shares of the Company in the repurchase special account. The transfer price of such shares shall be determined according to the average price of all the shares repurchased in the repurchase account (the average price shall be determined according to the total price of shares repurchased in the repurchase account divided by the total number of shares in the repurchase account), and the specific quantity shall be determined according to the average transaction price of the shares repurchased at that time. 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 shall be independent of other ESOP, 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.

There should be no more than 2,400 employees participating in the ESOP. The total amount of funds to be used to participate in the ESOP shall be RMB565.50 million (inclusive), with “shares” as the subscription unit, and each share is RMB1. There are 14 directors, supervisors and senior officers, including LI Huagang, SHAO Xinzhi, GONG Wei, LIU Dalin, MA Yingjie, YU Miao, XIE Juzhi, LI Pan, ZHAO Yanfeng, LI Yang, SONG Yujun, GUAN Jiangyong, WU Yong, LIU Xiaomei, with a total share of RMB31.42 million, accounting for 5.6% of the ESOP. There are 2,386 core technical (business) personnel of the Company and its subsidiaries, with a total share of RMB534.08 million, accounting for 94.4% of the ESOP.

## **VII. DURATION, LOCK-UP PERIOD, VESTING PERIOD AND CHANGE AND TERMINATION OF THE ESOP**

### **(I) Duration of the ESOP**

The duration of the ESOP shall not exceed 60 months, calculated from the date when the Company announces that the Underlying Shares obtained in the last time are recorded to the ESOP. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors.

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

1. The ESOP shall establish a lock-up period of 12 months from the date of disclosure of the announcement on completion of transfer of the repurchased shares of the Company from the repurchase special account.
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 appraisal system of the Company. The appraisal period is 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 will be vested to the Participants in two phases. After the end of the lock-up period of the ESOP, 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 as follows:

1. Where the Participants under the ESOP are the directors, president, supervisors and platform personnel of the Company, the appraisal rules for 2023 and 2024 are based on a weighted average of the completion rate of the compound growth rate of net profit attributable to the parent company after non-recurring items and the completion rate of return on equity (hereinafter “Comprehensive Completion Rate”). The specific appraisal objectives and rules are as follows:

	<b>Net profit attributable to the parent company after non-recurring items</b>	<b>Return on equity (Note)</b>
<b>Performance appraisal indicators for 2023</b>	Growth rate of audited net profit attributable to the parent company after non-recurring items for 2023 over net profit attributable to the parent company after non-recurring items for 2022 not less than 15% (inclusive)	Audited return on equity (ROE) for 2023 not less than 16.8% (inclusive)
<b>Performance appraisal indicators for 2024</b>	Compound growth rate of audited net profit attributable to the parent company after non-recurring items for 2024 over net profit attributable to the parent company after non-recurring items for 2022 not less than 15% (inclusive)	Audited return on equity (ROE) for 2024 not less than 16.8% (inclusive)
<b>Appraisal weighting</b>	50%	50%

*Note:* Return on equity (ROE) refers to the weighted average return on equity. If the Company raises fund through capital market such as a public offering or issuance of shares to specific targets during the term of the ESOP that may have an impact on the Company's net assets and ROE, the impact of such actions shall be excluded from the calculation of ROE attributable to shareholders of the listed company for each appraisal year, and the appraisal indicators in relation to ROE in each year's appraisal criteria shall be adjusted accordingly. The details of the adjustment plan will be considered by the Remuneration and Appraisal Committee and submitted to the board of directors for approval before implementation.

**Comprehensive Completion Rate** = 50%\*completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items + 50%\*completion rate of return on equity

Of which:

**Completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items** = compound growth rate of audited net profit attributable to the parent company after non-recurring items for the year over net profit attributable to the parent company after non-recurring items for 2022/15%

**Completion rate of return on equity** = audited return on equity for the year/16.8%

(1) Appraisal indicators and vesting for 2023

If the results of the Management Committee's appraisal of such Participants in 2023 are up to the standard, and the Comprehensive Completion Rate in 2023 is more than 1 (inclusive), 40% of the interests of the Underlying Shares under the ESOP shall be vested to the Participants.

If the Comprehensive Completion Rate is between 0.8 (inclusive) to 1:  
① for the completion rates of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity exceeding 0.8 (inclusive), 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;  
② for any of the completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity below 0.8 (exclusive), vesting shall be made after the proportion of vesting is determined by the Remuneration and Appraisal Committee and submitted to the board of directors for approval.

If the Comprehensive Completion Rate is less than 0.8 (exclusive), 40% of the Underlying Shares under the ESOP will not be vested.



(2) Appraisal indicators and vesting for 2024

If the results of the Management Committee's appraisal of such Participants in 2024 are up to the standard, and the Comprehensive Completion Rate in 2024 is more than 1 (inclusive), 60% of the interests of the Underlying Shares under the ESOP shall be vested to the Participants.

If the Comprehensive Completion Rate is between 0.8 (inclusive) to 1:

- ① for the completion rates of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity exceeding 0.8 (inclusive), 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;
- ② for any of the completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity below 0.8 (exclusive), vesting shall be made after the proportion of vesting is determined by the Remuneration and Appraisal Committee and submitted to the board of directors for approval.

If the Comprehensive Completion Rate is less than 0.8 (exclusive), 60% of the Underlying Shares under the ESOP will not be vested.

2. Where the Participants under the ESOP 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 2023 and 2024 are up to the standard.

**(IV) Change of the ESOP**

During the duration, changes to the ESOP must be approved by more than two-thirds (inclusive) of the shares held by the Participants attending the Participants' meeting, and submitted to the Company's board of directors for review and approval.

**(V) Termination of the ESOP**

1. The 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 the 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.

- (VI) **During the duration of the ESOP, when the Company finances by means of allotment, issuance and convertible bonds, the Management Committee shall decide the funding solutions and whether to participate in the same, 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 lock-up 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 Management Committee applies to the CSDC to vest the shares to the individual accounts of the Participants;
  2. To entrust the Management Committee to sell the Underlying Shares purchased for the ESOP during the duration of the ESOP;
  3. To entrust the Management Committee to continue to hold the Underlying Shares during the duration of the ESOP;

The vesting period under the ESOP is two years, 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 (if any) 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) 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 and their derivatives or the date of entry into decision-making procedures to the date of disclosure in accordance with 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 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.

### **(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 relevant competent authorities and other regulatory authorities.
2. The first Participants' meeting of the ESOP shall be convened and presided over by the chairman of the board of directors or his authorized person of the Company. After the directors of the Management Committee of the ESOP is elected and appointed, 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 chairman 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 ESOP 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 chairman of the meeting or after the expiry of the prescribed time limit for voting, the votes shall not be counted;
  - (4) The chairman of the meeting shall announce the result of voting on the spot. Unless otherwise stipulated by the Participants' meeting and the 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% (inclusive) or more of the 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% (inclusive) or more of the ESOP shares may propose to hold a Participants' meeting.

## **(II) Management Committee**

1. The Management Committee shall be elected by the 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 for their selection and handover work (if any);
  - (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, if the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants).The Management Committee can entrust its duty of the asset management to a third party for management (such as the selection of the Asset Management Institution), 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 ESOP;

- (12) Authorize the director of the Management Committee to exercise the shareholder' rights of the shares held in the ESOP before the liquidation and distribution of the 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 unless otherwise provided for in the ESOP. 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 in person. 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.

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

**(I) Management mode and Selection of Asset Management Institution of the ESOP**

The ESOP can be self-managed, or it can be entrusted to a professional institution with asset management qualifications (hereinafter referred to as “Asset Management Institution”) to manage. If the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants); if the ESOP entrusts an Asset Management Institution to carry out investment operations and daily management, the Participants’ meeting of the ESOP or Management Committee will select an appropriate Asset Management Institution to manage the ESOP, and the management fee, custody fee and other related expenses will be paid by the Company, subject to the relevant final agreement signed.

The Management Committee or Asset Management Institution shall manage the ESOP in accordance with relevant laws, regulations and the agreement of the ESOP to ensure that the ESOP purchases and holds the Underlying Shares in a manner 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 (of any) 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 ESOP can be self-managed, or it can be entrusted to a professional institution with asset management qualifications (hereinafter referred to as “Asset Management Institution”) to manage. If the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants); If the ESOP entrusts an Asset Management Institution to carry out investment operations and daily management, the Participants’ meeting of the ESOP or Management Committee will select an appropriate Asset Management Institution to manage the ESOP, and the management fee, custody fee and other related expenses will be paid by the Company, subject to the relevant final agreement signed.
- (II) The Management Committee or Asset Management Institution shall manage the ESOP in accordance with relevant laws, regulations and the agreement of the ESOP to ensure that the ESOP purchases and holds the Underlying Shares in a manner permitted by laws and regulations.

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 or other assets without vesting objects for various reasons such as employee turnover and assessment.

Assets under the ESOP shall be independent of other ESOPs 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 the 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 distribution of the ESOP assets.
2. Upon the expiration of the lock-up period of the ESOP and prior to the expiration of the duration of the ESOP, the Asset Management Institution shall sell the Underlying Shares held in the ESOP or determine the vesting of relevant shares according to the written authorization of the Management Committee.
3. When all the assets of the 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 ESOP are sold and the ESOP assets are liquidated and allocated completely according to the provisions of the preceding paragraph, the 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 expires and is 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 preparation of the ESOP and the list of the ESOP personnel.
- (II) The congress of workers and staff shall solicit opinions from the staff.
- (III) The board of directors shall review the 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 engage 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) A Participants' meeting shall be held to elect the Management Committee and define the specific matters concerning the implementation of the ESOP.
- (VIII) 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 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, departure 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. *Departure***

Except in the case of departure due to reaching the retirement age, regardless of the reasons for departure, the Management Committee shall dispose of the ESOP shares granted to but not vested in the Participants from the date of departure, 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 departure 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 departure.

**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. 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 board of directors 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*

April 27, 2023

**2023 H Share Core Employee Stock  
Ownership Plan  
of  
Haier Smart Home Co., Ltd.  
(Draft)**

**April 2023**

# **2023 H Share Core Employee Stock Ownership Plan Of Haier Smart Home Co., Ltd. (Draft)**

## **Salient Points**

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

1. The ESOP is formulated by the Company in accordance with the Company Law, the Securities Law, the Guiding Opinions and other relevant laws, administrative regulations, rules, normative documents of China, as well as the Articles of Association of the Company and Draft ESOP for 2021–2025.
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) and senior officers of the Company, and core technical (business) personnel of the Company and its subsidiaries. The total number of the Participants of the ESOP shall not exceed 34. The board of directors of the Company may authorize the Management Committee to adjust the list of employees participating in the ESOP and the distribution proportion according to the changes and assessment results of employees.
4. The source of funds of the ESOP shall be the incentive funds withdrawn by the Company in the amount of RMB70.50 million.
5. The source of shares of 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 duration of the ESOP shall not exceed 60 months, calculated from the date when the Company announces that the last of Underlying Shares obtained are recorded to the ESOP. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors.

The total number of shares held under those established and existing ESOPs (including A share ESOP etc.) 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.

Where the lock-up period of the Underlying Shares acquired under the ESOP is the Underlying Shares purchased through the secondary market or by means of allotment of shares, the lock-up period is 12 months, calculated from the date when the Company announces that the last of Underlying Shares purchased are recorded in the ESOP.

After the end of the lock-up period, the Participants of the ESOP shall be assessed according to the performance assessment system of the Company. The assessment period is for two years, and upon the expiration of the lock-up period of the ESOP, 40% and 60% of the corresponding Underlying Shares shall be vested to the Participants in two phases. The specific vesting time shall be determined by the Management Committee upon the expiration of the lock-up period.

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 board of directors.
8. After the establishment of the ESOP, it shall be managed by the Company itself or entrusted to a third-party organization or managed by other methods permitted by laws and administrative 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, 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, senior officers and other Participants of the ESOP.
11. 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.
12. 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.
13. The ESOP shall be implemented after it is approved by the board of directors upon deliberation.



TABLE OF CONTENTS

<b>I.</b>	<b>Interpretation</b> .....	136
<b>II.</b>	<b>Purpose of the ESOP</b> .....	138
<b>III.</b>	<b>Basis for Determining the Participants and Scope of the ESOP</b> .....	138
<b>IV.</b>	<b>Source of Funds</b> .....	139
<b>V.</b>	<b>Source and Number of Shares</b> .....	139
<b>VI.</b>	<b>Status of the Participants and Shares Allocation</b> .....	140
<b>VII.</b>	<b>Duration, Lock-up Period, Vesting Period and Change and Termination of the ESOP</b> .....	140
<b>VIII.</b>	<b>Vesting and Disposal of the Interests of the Shares under the ESOP</b> .....	144
<b>IX.</b>	<b>Participants' Meeting, Responsibilities of the Management Committee, Convening and Voting Procedures</b> .....	145
<b>X.</b>	<b>Management Mode, Selection of Asset Management Institution, and Management Agreement</b> .....	150
<b>XI.</b>	<b>Main Provisions of the Management Rules</b> .....	151
<b>XII.</b>	<b>Procedures for Implementing the ESOP</b> .....	152
<b>XIII.</b>	<b>Disposal Measures when the Circumstances of the Company and the Participants Change</b> .....	153
<b>XIV.</b>	<b>Supplementary Provisions</b> .....	155

**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 for 2021–2025	refer(s) to	H Share Core Employee Ownership Plan of Haier Smart Home Co., Ltd. (for Years 2021–2025) (Draft)
ESOP	refer(s) to	2023 H Share Core Employee Ownership Plan of Haier Smart Home Co., Ltd. (Draft)
Participants	refer(s) to	participators of the ESOP
Senior Officer	refer(s) to	the president, vice president, secretary of the board of directors, chief financial officer 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 the ESOP
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 the ESOP
Asset Management ESOP	refer(s) to	the asset management plan which is set up by the Asset Management Institution under the ESOP and which is specially used for core employee share vesting
Company's Shares	refer(s) to	H shares of the Company
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

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**APPENDIX VII 2023 H SHARE CORE EMPLOYEE STOCK OWNERSHIP PLAN (DRAFT)**

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SEHK	refer(s) to	The Stock Exchange of Hong Kong Limited
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 the 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 drive employees to undertake the Company's development strategic objectives, and promote the Company to achieve industry leadership.

2. **To enhance corporate governance mechanism and create shareholders' value**

Core management team and core employees' holding of shares or relevant interests of the Company through the ESOP is conducive to the improvement 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 the 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) 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 the 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 in the amount of RMB70.50 million.

#### **V. SOURCE AND NUMBER OF SHARES**

##### **(I) Source of the ESOP shares**

The source of shares of the ESOP shall be H shares of the Company purchased from the secondary market through the Shanghai-Hong Kong Stock Connect. The ESOP shall complete the purchase of the Underlying Shares within 6 months after the approval of the board of directors.

##### **(II) Number of Underlying Shares involved in ESOP**

The total amount of funds to be used to participate in the ESOP shall be RMB70.50 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 is still uncertain.

The ESOP shall be independent of other ESOPs, but the total number of shares held by 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, totaling 34. The total amount of funds to be used to participate in the ESOP shall be RMB70.50 million (inclusive), with “shares” as the subscription unit, and each share is RMB1. There are 11 directors and senior officers, including LI Huagang, SHAO Xinzhi, GONG Wei, XIE Juzhi, LI Pan, ZHAO Yanfeng, LI Yang, SONG Yujun, GUAN Jiangyong, WU Yong, HUANG Xiao Wu, with a total share of RMB33.19 million, accounting for 47.1% of the ESOP. There are 23 other core management personnel of the Company, with a total share of RMB37.31 million, accounting for 52.9% of the ESOP.

## VII. DURATION, LOCK-UP PERIOD, VESTING PERIOD AND CHANGE AND TERMINATION OF THE ESOP

### (I) Duration of the ESOP

The duration of the ESOP shall not exceed 60 months, calculated from the date when the Company announces that the Underlying Shares obtained in the last time are recorded to the ESOP. After the expiration of the duration, the ESOP shall be terminated, or may be extended after being approved by the board of directors.

### (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 are recorded in the ESOP.
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 for 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 will be vested to the Participants in two phases. After the end of the lock-up period of the ESOP, 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 are as follows:

- Where the Participants under the ESOP are the directors, president, supervisors and platform personnel of the Company, the appraisal rules for 2023 and 2024 are based on a weighted average of the completion rate of the compound growth rate of net profit attributable to the parent company after non-recurring items and the completion rate of return on equity (hereinafter “Comprehensive Completion Rate”). The specific appraisal objectives and rules are as follows:

	<b>Net profit attributable to the parent company after non-recurring items</b>	<b>Return on equity (<i>Note</i>)</b>
<b>Performance appraisal indicators for 2023</b>	Growth rate of audited net profit attributable to the parent company after non-recurring items for 2023 over net profit attributable to the parent company after non-recurring items for 2022 not less than 15% (inclusive)	Audited return on equity (ROE) for 2023 not less than 16.8% (inclusive)
<b>Performance appraisal indicators for 2024</b>	Compound growth rate of audited net profit attributable to the parent company after non-recurring items for 2024 over net profit attributable to the parent company after non-recurring items for 2022 not less than 15% (inclusive)	Audited return on equity(ROE)for 2024 not less than 16.8% (inclusive)
<b>Appraisal weighting</b>	50%	50%

*Note:* Return on equity (ROE) refers to the weighted average return on equity. If the Company raises fund through capital market such as a public offering or issuance of shares to specific targets during the term of the ESOP that may have an impact on the Company's net assets and ROE, the impact of such actions shall be excluded from the calculation of ROE attributable to shareholders of the listed company for each appraisal year, and the appraisal indicators in relation to ROE in each year's appraisal criteria shall be adjusted accordingly. The details of the adjustment plan will be considered by the Remuneration and Appraisal Committee and submitted to the board of directors for approval before implementation.

**Comprehensive Completion Rate** = 50%\*completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items + 50%\*completion rate of return on equity

Of which:

**Completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items** = compound growth rate of audited net profit attributable to the parent company after non-recurring items for the year over net profit attributable to the parent company after non-recurring items for 2022/15%

**Completion rate of return on equity** = audited return on equity for the year/16.8%

(1) Appraisal indicators and vesting for 2023

If the results of the Management Committee's appraisal of such Participants in 2023 are up to the standard, and the Comprehensive Completion Rate in 2023 is more than 1 (inclusive), 40% of the interests of the Underlying Shares under the ESOP shall be vested to the Participants.

If the Comprehensive Completion Rate is between 0.8 (inclusive) to 1:  
① for the completion rates of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity exceeding 0.8 (inclusive), 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;  
② for any of the completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity below 0.8 (exclusive), vesting shall be made after the proportion of vesting is determined by the Remuneration and Appraisal Committee and submitted to the board of directors for approval.

If the Comprehensive Completion Rate is less than 0.8 (exclusive), 40% of the Underlying Shares under the ESOP will not be vested.



(2) Appraisal indicators and vesting for 2024

If the results of the Management Committee's appraisal of such Participants in 2024 are up to the standard, and the Comprehensive Completion Rate in 2024 is more than 1 (inclusive), 60% of the interests of the Underlying Shares under the ESOP shall be vested to the Participants.

If the Comprehensive Completion Rate is between 0.8 (inclusive) to 1:

- ① for the completion rates of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity exceeding 0.8 (inclusive), 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;
- ② for any of the completion rate of compound growth rate of net profit attributable to the parent company after non-recurring items and return on equity below 0.8 (exclusive), vesting shall be made after the proportion of vesting is determined by the Remuneration and Appraisal Committee and submitted to the board of directors for approval.

If the Comprehensive Completion Rate is less than 0.8 (exclusive), 60% of the Underlying Shares under the ESOP will not be vested.

2. Where the Participants under the ESOP 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 2023 and 2024 are up to the standard.

**(IV) Change of the ESOP**

During the duration, changes to the ESOP must be approved by more than two-thirds (inclusive) of the shares held by the Participants attending the Participants' meeting, and submitted to the Company's board of directors for review and approval.

**(V) Termination of the ESOP**

1. The 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 the 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.

- (VI) **During the duration of the ESOP, when the Company finances by means of allotment, issuance and convertible bonds, the Management Committee shall decide the funding solutions and whether to participate in the same, 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 lock-up 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 Management Committee to sell the Underlying Shares purchased for the ESOP during the duration of the ESOP;
  2. To entrust the Management Committee to continue to hold the Underlying Shares during the duration of the ESOP;

The vesting period under the ESOP is two years, 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 (if any) 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) 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 and their derivatives or the date of entry into decision-making procedures to the date of disclosure in accordance with 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 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.

### **(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 first Participants' meeting of the ESOP shall be convened and presided over by the chairman of the board of directors or his authorized person of the Company. After the directors of the Management Committee of the ESOP is elected and appointed, 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 chairman 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 chairman of the meeting or after the expiry of the prescribed time limit for voting, the votes shall not be counted.
  - (4) The chairman of the meeting shall announce the result of voting on the spot. Unless otherwise stipulated by the Participants' meeting and the 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% (inclusive) or more of the 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% (inclusive) or more of the ESOP shares may propose to hold a Participants' meeting.

**(II) Management Committee**

1. The Management Committee shall be elected by the 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 for their selection and handover work (if any);
  - (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, if the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants).The Management Committee can entrust its duty of the asset management to a third party for management (such as the selection of the Asset Management Institution), 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 ESOP;

- (12) Authorize the director of the Management Committee to exercise the shareholder' rights of the shares held in the ESOP before the liquidation and distribution of the 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, unless otherwise provided for in the ESOP. 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 in person. 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.

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

**(I) Management mode of the ESOP**

The ESOP can be self-managed, or it can be entrusted to a professional institution with asset management qualifications (hereinafter referred to as “Asset Management Institution”) to manage. If the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants); if the ESOP entrusts an Asset Management Institution to carry out investment operations and daily management, the Participants’ meeting of the ESOP or Management Committee will select an appropriate Asset Management Institution to manage the ESOP, and the management fee, custody fee and other related expenses will be paid by the Company, subject to the relevant final agreement signed.

The Management Committee or Asset Management Institution shall manage the ESOP in accordance with relevant laws, regulations and the agreement of the ESOP to ensure that the ESOP purchases and holds the Underlying Shares in a manner 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 ESOP can be self-managed, or it can be entrusted to a professional institution with asset management qualifications (hereinafter referred to as “Asset Management Institution”) to manage. If the ESOP is self-managed, the Management Committee, as the management party, is responsible for the daily management of the ESOP (including but not limited to reducing shares of the Company held under the ESOP after the end of the lock-up period, and allocating income and cash assets to Participants); If the ESOP entrusts an Asset Management Institution to carry out investment operations and daily management, the Participants’ meeting of the ESOP or Management Committee will select an appropriate Asset Management Institution to manage the ESOP, and the management fee, custody fee and other related expenses will be paid by the Company, subject to the relevant final agreement signed.
- (II) The Management Committee or Asset Management Institution shall manage the ESOP in accordance with relevant laws, regulations and the agreement of the ESOP to ensure that the ESOP purchases and holds the Underlying Shares in a manner permitted by laws and regulations.

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 or other assets without vesting objects for various reasons such as employee turnover and assessment.

Assets under the ESOP shall be independent of other ESOPs 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 the 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 distribution of the ESOP assets.
2. Upon the expiration of the lock-up period of the ESOP and prior to the expiration of the duration of the ESOP, the Asset Management Institution shall sell the Underlying Shares held in the ESOP or determine the vesting of the relevant shares according to the written authorization of the Management Committee.
3. When all the assets of the 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 ESOP are sold and the ESOP assets are liquidated and allocated completely according to the provisions of the preceding paragraph, the 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 expires and is 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 Assessment Committee under the board of directors shall be responsible for the preparation of the ESOP and list of the ESOP personnel.
- (II) The congress of workers and staff shall solicit opinions from the staff.
- (III) The board of directors shall review the 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 engage 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) A Participants' meeting shall be held to elect the Management Committee and define the specific matters concerning the implementation of the ESOP.
- (VIII) 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 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, departure 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. *Departure***

Except in the case of departure due to reaching the retirement age, regardless of the reasons for departure, the Management Committee shall dispose of the ESOP shares granted to but not vested in the Participants from the date of departure, 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 departure 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 departure.

**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. 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 board of directors 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*

April 27, 2023

## 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. INTERESTS OF DIRECTORS AND SUPERVISORS

- (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 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:

Names	Positions	Class of Shares held	Number of Shares 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. LI Huagang	Chairman of the Board, Executive Director and Chief Executive Officer	A Share	814,245	Beneficial owner	0.0129%	0.0086%
		H Share	812,145	Beneficial owner	0.0283%	0.0086%
Mr. GONG Wei	Executive Director, Vice President and Chief Financial Officer	A Share	1,943,498	Beneficial owner	0.0308%	0.0206%
Ms. SHAO Xinzhi	Vice Chairman of the Board, Non-Executive Director	H Share	1,045,056	Beneficial owner	0.0365%	0.0111%
Mr. YU Hon To, David	Non-Executive Director	H Share	810,000	Beneficial owner	0.0283%	0.0086%
Ms. Eva LI Kam Fun	Non-Executive Director	H Share	355,200	Beneficial owner	0.0124%	0.0038%
Mr. LIU Dalin	Chairman of the Board of Supervisors	A Share	11,470	Beneficial owner	0.0002%	0.0001%
		H Share	21,355	Beneficial owner	0.0007%	0.0002%
Ms. MA Yingjie	Supervisor	A Share	7,045	Beneficial owner	0.0001%	0.0001%
Mr. YU Miao	Supervisor	A Share	2,479	Beneficial owner	0.0000%	0.0000%

\* The percentage is calculated on the basis that the share capital of the Company as at the Latest Practicable Date totalling 9,446,598,493 comprise 6,308,552,654 A Shares, 271,013,973 D Shares and 2,867,031,866 H Shares, representing approximately 66.78%, 2.87% and 30.35% of the total share capital of the Company, respectively.

Apart from above, the following Directors, Supervisors and chief executive are also the grantees of the A Share ESOP and H Share ESOP of the Company:

Names	Positions	Class of Shares	Number of outstanding shares of ESOP (Year of granted)	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. LI Huagang	Chairman of the Board, Executive Director and Chief Executive Officer	A Shares	87,300 (2021) 173,306 (2022)	0.0014% 0.0027%	0.0009% 0.0018%
		H Shares	100,320 (2021) 194,347 (2022) 59,300 (vested)	0.0035% 0.0068% 0.0021%	0.0011% 0.0021% 0.0006%
Mr. GONG Wei	Executive Director, Vice President and Chief Financial Officer	A Shares	53,553 (2021) 93,061 (2022)	0.0008% 0.0015%	0.0006% 0.0010%
		H Shares	62,213 (2021) 104,359 (2022) 36,627 (vested)	0.0022% 0.0036% 0.0013%	0.0007% 0.0011% 0.0004%
Mr. LIU Dalin	Chairman of the Board of Supervisors	A Shares	19,936 (2021) 41,404 (2022)	0.0003% 0.0007%	0.0002% 0.0004%
Ms. MA Yingjie	Supervisors	A Shares	4,745 (2021) 8,675 (2022)	0.0001% 0.0001%	0.0000% 0.0001%
Mr. YU Miao	Supervisor	A Shares	3,746 (2021)	0.0001%	0.0000%
			6,704 (2022)	0.0001%	0.0001%

Long positions in underlying shares of the Company pursuant to share options:

Names	Positions	Class of Shares	Number of share options granted and not yet exercised	Approximate percentage of shareholding interest in the relevant class of Shares upon exercise of share options	Approximate percentage of shareholding interest in the total share capital of the Company upon exercise of share options
Mr. LI Huagang	Chairman of the Board, Executive Director and Chief Executive Officer	A Shares	731,152	0.0116%	0.0077%
Mr. GONG Wei	Executive Director, Vice President and Chief Financial Officer	A Shares	365,576	0.0058%	0.0039%

*Note:* The exercise price of each of the above A Share options is RMB25.63 for subscription of one share. The exercisable period is from 15 September 2022 to 15 September 2027.



The Company entered into the Placing Agreement with the Placing Agent on 11 January 2022 for the placing of new H Shares of the Company under the General Mandate. A total of 41,413,600 H Shares were placed to five placees. All of placees and their ultimate beneficial owners are independent third parties who are independent of and not connected with the Company and/or its connected person. The Placing Price is HK\$28.00 per H Share. Certain directors and supervisors of the Company have indirectly invested in the structured notes issued by one of the placees, Golden Sunflower, through a trust and asset management scheme. Details of their capital contributions are as follows:

<b>Name</b>	<b>Position</b>	<b>Amount contributed (in HK\$ million)</b>	<b>Number of Placing Shares</b>
Mr. LI Huagang	Chairman of the Board, Executive Director and Chief Executive Officer	18.35	655,305
Mr. GONG Wei	Executive Director, Vice President and Chief Financial Officer	9.17	327,652
Ms. SHAO Xinzhi	Non-Executive Director	11.01	393,183
Mr. LIU Dalin	Supervisor	4.89	174,629

- (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 2022 (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 close 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 <sup>Notes 1 to 4</sup>	A Share	2,637,339,206	Beneficial owner Interest in controlled corporation Interest through voting rights entrustment arrangement	41.81%	27.92%
	H Share	538,560,000	Interest in controlled corporation	18.78%	5.70%
	D Share	58,135,194	Interest in controlled corporation	21.45%	0.62%
Haier COSMO Co., Ltd. <sup>Notes 1 and 2</sup>	A Share	1,258,684,824	Beneficial owner	19.95%	13.32%
HCH (HK) Investment Management Co., Limited <sup>Note 3</sup>	H Share	538,560,000	Beneficial owner	18.78%	5.70%
Haier International Co., Limited <sup>Note 4</sup>	D Share	58,135,194	Beneficial owner	21.45%	0.62%
Other H Class Shareholders <sup>Note 5</sup>					
Other D Class Shareholders <sup>Note 6</sup>					

*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., one of its subsidiaries and (iii) 133,791,058 A Shares through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), 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 279,805,329 H Shares, representing approximately 9.75% of the total number of H Shares. BlackRock, Inc. held 155,573,017 H Shares, representing approximately 5.43% of the total number of H Shares.
6. Silk Road Fund Co., Ltd. held 54,007,663 D Shares, representing approximately 19.93% of the total number of D Shares; Morgan Stanley held 13,672,315 D Shares, representing approximately 5.04% of the total number of D Shares.

**Short positions and Lending pools:**

JPMorgan Chase & Co. had a short position of 25,285,636 H Shares, representing approximately 0.88% of the total number of H Shares; and had a lending pool of 38,088,032 H Shares, representing approximately 1.32% of the total number of H Shares. BlackRock, Inc. had a short position of 1,272,200 H Shares, representing approximately 0.04% of the total number of H Shares.

Morgan Stanley had a short position of 11,767,545 D Shares, representing approximately 4.34% 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. EXPERT'S DISCLOSURE OF INTEREST AND CONSENT

The following is the qualification of the expert who has given opinion, which is contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Somerley	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (1) As at the Latest Practicable Date, the above expert 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, the above expert did not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited consolidated accounts of the Company were made up.
- (3) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they appear.

**9. DOCUMENTS ON DISPLAY**

A copy of the New Financial Services Framework Agreement, the Letter from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholder, and the written consent of Somerley for the issue of this circular will be published on the websites of the Stock Exchange and the Company for inspection within 14 days from the date of this circular, both days inclusive.

**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 2022, 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 Science and Technology Innovation Ecological Park (originally known as Haier Information Industry Park), Laoshan District, Qingdao, Shandong Province, the PRC.
- (3) The share registrar of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, 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**

## **REVISED NOTICE OF THE ANNUAL GENERAL MEETING OF 2022**

**REVISED NOTICE IS HEREBY GIVEN** that the annual general meeting of 2022 (the “AGM”) of Haier Smart Home Co., Ltd. (the “Company”) will be held at 2:00 p.m. on 26 June 2023 (Monday) at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC for the purpose of considering and, if thought fit, approving the resolutions (of which, resolutions No.18 and No.19 were added according to the provisional proposals by Haier Group Corporation, which individually or in aggregate holds 34.12% of the shares of the Company, special resolutions are marked with<sup>#</sup>) by the shareholders of the Company set out below:

1. To Consider and Approve 2022 Financial Statements
2. To Consider and Approve 2022 Annual Report and Annual Report Summary
3. To Consider and Approve 2022 Report on the Work of the Board of Directors
4. To Consider and Approve 2022 Report on the Work of the Board of Supervisors
5. To Consider and Approve 2022 Audit Report on Internal Control
6. To Consider and Approve 2022 Profit Distribution Plan
7. To Consider and Approve Resolution on the Re-appointment of PRC Accounting Standards Auditor
8. To Consider and Approve Resolution on the Re-appointment of International Accounting Standards Auditor
9. To Consider and Approve Resolution on Renewal of the Financial Services Framework Agreement and its Expected Related-Party Transaction Limit with Haier Group Corporation and Haier Group Finance Co., Ltd.
10. To Consider and Approve Resolution on the Anticipated Guarantees' Amounts for the Company and its Subsidiaries in 2023
11. To Consider and Approve Resolution on the Conduct of Foreign Exchange Fund Derivatives Business

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## REVISED NOTICE OF THE 2022 AGM

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12. To Consider and Approve Resolution on Purchase of Liability Insurance for Directors, Supervisors, and Senior Management of the Company
13. #To Consider and Approve Resolution on the General Meeting to Grant a General Mandate to the Board of Directors on Additional Issuance of A Shares of the Company
14. #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
15. #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
16. #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
17. #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
18. #To Consider and Approve the 2023 A Share Core Employee Stock Ownership Plan (Draft) and its Summary
19. #To Consider and Approve the 2023 H Share Core Employee Stock Ownership Plan (Draft) and its Summary

In addition, the AGM will listen to independent directors' report on their work in 2022.

By Order of the Board  
**Haier Smart Home Co., Ltd.\***  
**LI Huagang**  
Chairman

Qingdao, the PRC  
17 May 2023

*As at the date of this notice, the executive directors of the Company are Mr. LI Huagang and Mr. GONG Wei; the non-executive directors are Mr. YU Hon To, David, Ms. Eva LI Kam Fun and Ms. SHAO Xinzhi; and the independent non-executive directors are Mr. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi.*

\* For identification purpose only

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## REVISED NOTICE OF THE 2022 AGM

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*Notes:*

### **1. CLOSURE OF REGISTER OF MEMBERS, ELIGIBILITY FOR ATTENDING THE AGM**

In order to determine the shareholders who are eligible to attend and vote at the AGM, the register of members for H Shares will be closed from 19 June 2023 (Monday) to 26 June 2023 (Monday) (both days inclusive). Shareholders whose names appear on the register of members of the Company on 26 June 2023 (Monday) are entitled to attend and vote at the AGM. Holders of H Shares 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on 16 June 2023 (Friday).

### **2. ARRANGEMENT ON DIVIDEND DISTRIBUTION**

The board of directors of the Company has recommended the distribution of a cash dividend for the year ended 31 December 2022 of RMB5.66 (inclusive of tax) per 10 shares, totaling approximately RMB5.30 billion based on the current total issued capital, net of repurchased shares but not yet cancelled. Where the total share capital of the Company changes before the registration date for the implementation of the equity distribution, it is expected to maintain the total distribution unchanged and adjust the distribution ratio per share accordingly. 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 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 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 revised form of proxy must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 25 June 2023 (Sunday)) or not less than 24 hours before any adjournment thereof (as the case may be). Completion and return of the revised form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof. In this case, the form of proxy will be deemed to have been revoked.



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## REVISED NOTICE OF THE 2022 AGM

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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.

If a shareholder has not yet returned the proxy form (the “**Original Proxy Form**”) dated 30 March 2023 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 revised proxy form. In this case, the shareholder shall not submit the Original Proxy Form. If a shareholder has already returned the Original Proxy Form to the Company in accordance with the instructions printed thereon, he/she should note that:

- (1) If no revised proxy form is returned by the shareholder in accordance with the instructions thereon, the Original Proxy Form will be treated as a valid proxy form lodged by the shareholder if duly completed. The proxy appointed under the Original Proxy Form 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 set out in this revised notice) properly put to the AGM.
- (2) If the revised proxy form is returned by the shareholder in accordance with the instructions thereon at or before 2:00 p.m. on 25 June 2023, the revised proxy form will be treated as a valid proxy form lodged by the shareholder if duly completed.
- (3) If the revised proxy form is returned by the shareholder after the closing time (being at 2:00 p.m. on 25 June 2023) set out in this revised notice, the revised proxy form will be deemed invalid. It will not revoke the Original Proxy Form previously lodged by the shareholder. The Original Proxy Form will be treated as a valid proxy form lodged by the shareholder if duly completed. The proxy appointed under the Original Proxy Form 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 set out in this 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 day. Shareholders and proxy who attend the AGM shall be responsible for their own travel and accommodation expenses.
- (iii) Please refer to the Company’s announcement dated 27 April 2023 for the full text of the 2023 A Share Core Employee Stock Ownership Plan and the 2023 H Share Core Employee Stock Ownership Plan. There is no change to such particulars as at the date of this notice. The AGM circular will be despatched to the shareholders of the Company in due course.



**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 FIRST H SHARE CLASS MEETING OF 2023**

**NOTICE IS HEREBY GIVEN** that the First H Share Class Meeting of 2023 (the “**H Share Class Meeting**”) of Haier Smart Home Co., Ltd. (the “**Company**”) will be held on 26 June 2023 (Monday) at Rendanheyi Research Center, Haier Science and Technology Innovation Ecological Park, Laoshan District, Qingdao, PRC immediately after the AGM of 2022, the First A Share Class Meeting and the First D Share Class Meeting of 2023 for the purpose of considering and, if thought fit, approving the resolution by the shareholders of the Company set out below:

### **SPECIAL RESOLUTIONS**

1. 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
2. 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

By Order of the Board  
**Haier Smart Home Co., Ltd.\***  
**LI Huagang**  
*Chairman*

Qingdao, the PRC  
30 March 2023

*As at the date of this notice, the executive directors of the Company are Mr. LI Huagang and Mr. GONG Wei; the non-executive directors are Mr. YU Hon To, David, Ms. Eva LI Kam Fun and Ms. SHAO Xinzhi; and the independent non-executive directors are Mr. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi.*

\* For identification purpose only

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## NOTICE OF THE FIRST H SHARE CLASS MEETING OF 2023

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*Notes:*

### **1. CLOSURE OF REGISTER OF MEMBERS, ELIGIBILITY FOR ATTENDING THE H SHARE CLASS MEETING**

In order to determine the shareholders who are eligible to attend and vote at the H Share Class Meeting, the register of members for H Shares will be closed from 19 June 2023 (Monday) to 26 June 2023 (Monday) (both days inclusive). For shareholders whose names appear on the register of members of the Company on 26 June 2023 (Monday) are entitled to attend and vote at the H Share Class Meeting. Holders of H Shares of the Company who wish to attend the H Share 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on 16 June 2023 (Friday).

### **2. PROXY**

Shareholders entitled to attend and vote at the H Share 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the H Shareholders) not less than 24 hours prior to the holding of the H Share Class Meeting (i.e. no later than 2:00 p.m. on 25 June 2023 (Sunday)) or not less than 24 hours before 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 Share 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 Share 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 Share 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 Share 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 Share 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 Share Class Meeting is expected to take less than half a day. Shareholders and proxy who attend the meeting shall be responsible for their own travel and accommodation expenses.