

Haier Smart Home Co., Ltd.
Qingdao, Province of Shandong, People's Republic of China

The company's annual general meeting of 18 June 2019 resolved to distribute, for each registered ordinary D share, a

dividend per share in the amount of €0.0450240 gross
dividend per share in the amount of €0.0405216 less 10% withholding tax in China
payable as of 8 August 2019

for the 2018 financial year. Shareholders entitled to dividends are those for whom shares in the company will be recorded on 7 August 2019 (**record date**).

The exchange rate of EUR 1 = RMB 7.79584 is based on the average exchange rate of the last 5 business days prior to the general meeting.

The company's shares will be listed "**ex dividend**" in the sub-segment of the regulated market with additional post-admission obligations on the Frankfurt Stock Exchange (Prime Standard) on 8 August 2019.

The dividend will be paid out via Clearstream Banking AG subject to a deduction of Chinese withholding tax of 10%. The Chinese withholding tax is generally creditable against German income tax (*Einkommensteuer*) on Chinese income or may be deducted when determining the income.

A German entity paying out the investment income (i.e. the respective custodian) will generally pay out the dividends of a company domiciled in the People's Republic of China to shareholders who are subject to unlimited tax liability in Germany after deduction of German investment income tax (*Kapitalertragsteuer*) (final withholding tax (*Abgeltungsteuer*)). The tax deduction generally amounts to 25% plus solidarity surcharge (*Solidaritätszuschlag*) at a rate of 5.5% (the effective tax rate thus being 26.375%) and church tax (*Kirchensteuer*), if applicable. The assessment base for investment income tax is the gross dividend.

As a general rule, the obligation to deduct investment income tax always applies to the custodian, unless the shareholders have submitted a non-assessment certificate (*Nichtveranlagungs-Bescheinigung*) or an exemption certificate (*Freistellungsauftrag*). Whether the dividend is actually taxable for the shareholder is irrelevant for the deduction of investment income tax. An exemption from tax deduction is therefore possible if, for example,

- the creditor of the investment income is an individual subject to unlimited tax liability who proves to the German custodian by means of a non-assessment certificate that he is not expected to be assessed for income tax;
- the creditor of the investment income is an individual subject to unlimited tax liability who has issued an exemption certificate. An exemption certificate is the creditor's private written instruction to the withholding agent not to deduct any investment income tax up to a tax-free maximum amount of €801 (or €1,602 in the case of spouses/life partners assessed jointly);
- the creditor of the investment income is a tax-exempt corporate body (*Körperschaft*) or a German legal entity under public law (*juristische Person des öffentlichen Rechts*) (for the individual prerequisites, see section 44a paras. 4, 7 and 8 of the German Income Tax Act (*Einkommensteuergesetz – EStG*);
- the investment income is part of the investment income's creditor's operating income and the investment income tax payable by such creditor would, in the long term, be higher than the total income tax or corporate income tax (*Körperschaftsteuer*) to be assessed due to the nature of his transactions. This is to be proved by a certificate issued by the tax office competent for the creditor;
- the creditor of the investment income is a corporate body, association of persons (*Personenvereinigung*) or estate (*Vermögensmasse*) subject to unlimited tax liability in Germany which serves tax-privileged purposes. This may apply to clubs (*Vereine*), for example. Proof of the preferred taxation must be furnished by means of a certificate issued by the tax office competent for the creditor.

If it is not possible to refrain from the investment income tax deduction, the withholding agent, i.e. the German custodian, is to check whether the Chinese withholding tax levied in the amount of the withholding tax right under the German-Chinese double taxation treaty can be credited directly against the investment income tax in the deduction procedure. This is only possible to the extent the dividends are deemed as income from capital assets, which is particularly the case with individuals holding shares as non-business assets (section 43a para. 3 sentence 1 of the German Income Tax Act; German Federal Ministry of Finance (BMF), 18 January 2016, Federal Tax Gazette (*BStBl.*) I 2016, p. 85, para. 202). According to the overview issued by the German Federal Tax Office (*Bundeszentralamt für Steuern – BZSt*) regarding the rates of creditable foreign withholding tax, the creditable Chinese withholding tax amounts to 10% if no exemption exists.¹ If the Chinese withholding tax is credited against the investment income tax by the custodian, the investment income tax is only levied at a rate reflecting the difference to a tax deduction of 25%. If it is not possible for the custodian to credit the Chinese withholding tax against the German investment income tax, the foreign tax may be credited in the assessment procedure instead of the deduction procedure.

The taxation of dividends for persons subject to unlimited tax liability in Germany can be summarised as follows:

1. Individuals holding the shares as non-business assets for tax purposes:

- As a general rule, the gross dividend is subject to the special final withholding tax rate (25% plus solidarity surcharge at a rate of 5.5% and church tax, if applicable). The tax liability is deemed to have been settled by the proper deduction of investment income tax.
- In the context of the tax assessment, the taxable person may opt to pay tax on the gross dividend at the statutory (*tariflich*) tax rate as part of a favourable tax treatment (*Günstigerprüfung*). In this case, the German investment income tax reduced in accordance with section 43 para. 3 sentence 1 of the German Income Tax Act is to be credited without limitation against income tax within the scope of section 36 of the German Income Tax Act. The Chinese withholding tax taken into account in the deduction of investment income tax according to section 43 para. 3 sentence 1 of the German Income Tax Act is to be credited against the additional statutory income tax applicable to the additional capital income (section 32d para. 6 sentence 2 of the German Income Tax Act).
- Actual income-related expenses are not deductible. Instead, the shareholder is granted a saver's lump sum of €801 or, in the case of spouses/life partners assessed jointly, €1,602.

2. Individuals holding the shares as business assets for tax purposes or through a commercial partnership:

- Under the partial income taxation method (*Teileinkünfteverfahren*), 60% of the gross dividends are subject to income tax. 60% of any related operating expenses may be deducted.
- The German investment income tax levied is creditable against income tax without limitation; even a refund is possible, unless income tax applies (section 36 para. 4 of the German Income Tax Act).
- Within the limits of section 34c of the German Income Tax Act, the Chinese withholding tax, to which no further claim for reduction exists, is to be credited against the income tax payable on foreign income from China (per-country-limitation, section 68a of the German Income Tax Implementation Regulation (*Einkommensteuer-Durchführungsverordnung – EStDV*)). As a result, operating expenses incurred in an economic connection with the dividend reduce the amount to be credited. If no income tax applies (e.g. due to losses incurred in Germany), the Chinese withholding tax is not creditable; a refund is not possible. Upon application, a tax deduction instead of a credit may be applied when determining the income.
- For trade tax purposes, dividends are to be recorded at 100% if the shareholding was less than 15% at the beginning of the assessment period (1 January).

3. Corporate taxable entities (including corporations and companies liable to pay corporate income tax):

- In the case of corporate taxable entities, the gross dividend is generally fully subject to corporate income tax, unless the shareholding amounted to 10% or more at the beginning of

¹ See https://www.bzst.de/SharedDocs/Downloads/DE/EU_OECD/anrechenbare_ausl_quellensteuer_2019.pdf?__blob=publicationFile&v=2 (accessed on 26 July 2019)

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the calendar year. If the shareholding amounts to 10% or more, 95% of the gross dividends are exempt from corporate income tax.

- Operating expenses in connection with the dividends can generally be taken into account.
- German investment income tax may always be credited against corporate income tax; even a refund is possible, unless corporate income tax is levied (section 36 para. 4 of the German Income Tax Act).
- Within the limits of section 26 of the German Corporate Tax Act (*Körperschaftsteuergesetz – KStG*) and section 34c of the German Income Tax Act, the Chinese withholding tax, to which no further claim for reduction exists, is to be credited against the corporate income tax payable on foreign income from China (per-country-limitation, section 68a of the German Income Tax Implementation Regulation). As a result, operating expenses incurred in an economic connection with the dividend reduce the amount to be credited. If no corporate income tax applies (e.g. due to losses incurred in Germany), the Chinese withholding tax is not creditable; a refund is not possible. Upon application, a tax deduction instead of a credit may be applied when determining the income.
- For trade tax purposes, dividends are to be recorded at 100% if the shareholding was less than 15% at the beginning of the assessment period (1 January).

In the case of non-resident shareholders, the Chinese withholding tax of 10% may be credited against a tax payable on the dividend in the respective country in accordance with the national tax provisions of that respective country or the provisions of a corresponding double taxation treaty.

We would like to point out that the above information merely serves as an overview and that exceptions not explained in detail may apply in individual cases due to special circumstances.

Investors are advised to seek advice from a member of the tax advisory profession on the specific tax consequences of their investment.

Frankfurt am Main, August 2019

On behalf of **Haier Smart Home Co., Ltd.**

**Deutsche Bank
Aktiengesellschaft**