Stock Name: Haier Smart Home **Stock Code:** 600690 **No.:** L2020-【】

Haier Smart Home Co., Ltd.

Announcement on Replying to the *Inquiry Letter on Information Disclosure of the Material Asset Purchase cum Related Party Transaction Report of Haier Smart Home Co., Ltd.* from Shanghai Stock Exchange

The Board of Directors of the Company and all members of the Board warrant that there are no false representations, misleading statements and material omissions in this announcement, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

Haier Smart Home Co., Ltd. (hereinafter referred to as the "Company") received the *Inquiry Letter on Information Disclosure of the Material Asset Purchase cum Related Party Transaction Report of Haier Smart Home Co., Ltd.* (Shang Zheng Gong Han【2020】No. 2447) (hereinafter referred to as the "Inquiry Letter") issued by the Shanghai Stock Exchange on 14 August 2020, and made the disclosure to the Inquiry Letter as mentioned above on 14 August 2020.

According to the requirements of the *Inquiry Letter*, the Company has analyzed and implemented the relevant issues carefully with the intermediary agencies and then finished the reply to the *Inquiry Letter*. At the same time, the revision and the supplementary disclosure were made for the *Material Asset Purchase cum Related Party Transaction Report (Draft) of Haier Smart Home Co., Ltd.* and other relevant documents, and indicated in bold italics in accordance with the requirements of the *Inquiry Letter*.

The terms or abbreviations mentioned in this reply shall have the same meanings with those stipulated in the definition of the *Material Asset Purchase cum Related Party Transaction Report (Draft) of Haier Smart Home Co., Ltd.*, unless the context otherwise requires.

The specific replies are as follows:

1. The Restructuring Report disclosed that HSH intends to private the HEG to make the HEG delist from the Hong Kong Stock Exchange in the transaction；HSH intends to issue the H shares and to be listed on the Hong Kong Stock Exchange by way of introduction, and the targets of the issuance include the Scheme Shareholders of HEG except HSH and Hong Kong Haier.

HSH is required to supplement the following disclosure:

(1) To further explain the rationality and necessity of the transaction from the perspectives of corporate strategy, resource allocation, business collaboration, market competition and operating performance;

(2) The specific effect of the transaction on HSH’s governance structure, personnel arrangement, related-party transactions, business integration of various sectors, HSH’s specific integration measures, plans and arrangements to be conducted, and expected results to be achieved in the above areas. Please give advice by the financial advisors.

Reply:

I. To further explain the rationality and necessity of the transaction from the perspectives of corporate strategy, resource allocation, business collaboration, market competition and operating performance;

The further explanations of the rationality and necessity of the transaction from the perspectives of corporate strategy, resource allocation, business collaboration, market competition and operating performance are as follows:

1. Corporate strategy

Currently, backed by development of technologies like IoT, big data, cloud computing and AI, and responding to the consumer’s increasing aspiration for a better life, household appliance players are committed to turning the appliances into an ecosystem to embrace the consumers’ pursuit of the serialized, intelligent and scenario-based appliances integrating with the home. The household appliance industry has undergone stages of development from a standalone physical appliance, a network device, scenario-based appliance to an appliance ecosystem. Eventually, products are replaced by scenarios and the industry is covered by ecosystems.

Haier has now entered the sixth strategic development stage - IoT-based smart home ecosystem brand strategy. HSH and HEG achieved one category leadership at the appliance/network device level in their respective business categories, are now leading in the complete-set smart home solutions, and will further lead in scenario and ultimately lead in ecosystem, so as to provide users with a consistent, full-process, sustainable and iterating smart home experience across all categories.

With the transaction, HSH and HEG will further deepen cross-category and full-process integration and coordination, share the smart home business development platform, and increase the strategic value. On the one hand, they will further deepen integration and coordination of products in different categories to develop the competitiveness of smart home solutions and user experience. On the other hand, backed by development of technologies like IoT, big data, cloud computing and AI, they will continue to develop smart home APP and experimental cloud platform to further strengthen online and offline integration, improve users' convenience and interaction and provide users with a consistent, full-process, sustainable and iterating smart home experience throughout all categories. The Company expects to improve the proportion of smart home complete-set products sales and looks forward to lifetime users with the principle of designing a home, implementing a home and serving a home for users.

2. Resource allocation

At present, under the separate operation mode, HSH and HEG, two independent listed companies, are lack of efficiency to some extent, which limits the Company's ability to effectively allocate resources and strengthen all-round competitive advantages. In terms of management and operation, each of these two listed companies independently operates different categories of products, brands and channels. Overseas businesses covering all categories fall within HSH's business, therefore, there are potential constraints on business development caused by peer competition and related party transactions. In terms of capital utilization and dividend payment, the current shareholding structure limits the overall capital management efficiency of the two listed companies, and also limits their ability to pay back their shareholders with a cash dividend.

The transaction will allow HSH and HEG to effectively improve their management and shareholding structures, so as to achieve optimized allocation of resource, including: Firstly, unified management and resource allocation in respect of research and development, procurement, manufacturing, channel, service, brand, user and ecosystem partner resource; secondly, strengthen the in-depth integration of the global market, achieve unified planning, layout and resource allocation for global businesses and improve global coordination; thirdly, improve the ability and level of returns to shareholders reasonably through the unified management and planning of funds to optimize the allocation of funds in HSH.

3. Business collaboration

As the domestic major home appliances industry enters a mature stage of development and the industry concentration continues to increase, share increase and structural upgrade have become the key growth drivers for leading companies. Channel ecosystem has been increasingly diversified. The traditional channel is facing challenges and pressure from e-commerce channel, driving the appliance enterprises to improve the full-process efficiency and organizational transformation and realize the transition from distributor-based channel to retail channel. As living standards continue to improve and new categories continue to emerge, the Company needs to focus its resources on cultivating new business growth points.

With the completion of the Company’s global presence and the improvement of the operation system, the Company has demonstrated advantages in product leadership in the global market, large-scale local production, brand cluster, operational efficiency, with a growth rate higher than the industry in the world's major markets in recent years, increasing market share, and overseas markets becoming an important source of the Company’s future growth.

In the face of market challenges and development opportunities, the Company needs to proactively strengthen business integration and collaboration under “all-category integration”: Firstly, establishing a unified planning, research and development, marketing and service system under the smart home solution and fully integrating complete-set solutions with improving user experience as the core; secondly, accelerating the integration of global R&D facilities to promote cross-product categories and cross-border cooperation and forming general technology and module patent sharing to improve the efficiency of new product research and development; thirdly, creating a more transparent and efficient channel network with continued efforts, so as to promote the digital transformation of channels and online and offline integration and realize the collaborative marketing of all categories; fourthly, continue to promote the digital transformation of the Company and continue to build and improve the front-end platform, middle-end platform and back-end platform capability of the "digital Haier" to optimize processes; fifthly, it will enhance the competitive advantage of its global businesses by optimizing resource allocation globally (research and development, procurement, manufacturing, channel, service, brand, customer and ecosystem partner resources), applying the accumulated successful market experience, and increasing the value of the full-process platform, and accelerate overseas market expansion. For example, HEG's washing machines, water heaters, water purifiers and other categories can make use of HSH's overseas business platform to more efficiently promote its internationalization strategy, and benefit from the integration of HSH's R&D, procurement, production and distribution channels.

4. Market competition

Firstly, backed by development of technologies like IoT, big data, cloud computing and AI, and responding to the consumer's increasing aspiration for a better life, household appliance players are committed to turning the appliances into an ecosystem to embrace the consumers' pursuit of the serialized, intelligent and scenario-based appliances integrating with the home. This requires home appliance enterprises to provide complete-set solutions, therefore industry competition barriers have also shifted from a single product hardware competition to a full range of software and hardware integration, interconnection capabilities and industry ecological integration capabilities competition. Various home appliance enterprises have followed the market development trend. For example, Midea Group Co., Ltd. (the "Midea Group") has cultivated the ability of full-suite home scenario design and launched full-suite products; and one of the reasons for its merging of Wuxi Little Swan Company Limited (the "Little Swan") is also to break through the bottleneck of the Little Swan single category's global expansion and promote Midea Group's overall transformation to "smart home products plus smart manufacturing".

According to Euromonitor, in 2019, the retail volume ranking and market share of the Company's products across all categories in China are shown in the following table:

Category	Retail volume ranking	Retail volume market share	Total retail volume market share of the top three in the industry
Refrigeration appliances	First	42.0%	68.1%
Laundry appliances	First	43.9%	78.4%
Water heaters	First	22.0%	52.1%
Large kitchen appliances	Third	9.0%	35.2%
Air conditioners	Third	12.0%	68.5%

Through the transaction, HSH and HEG can integrate categories originally operated by the two listed companies. By systematic development and integration of different categories, they will establish a unified planning, research and development, marketing and service system on top of smart home complete-set solutions, and continue to expand smart home solutions, which is conducive to drive the sales of the Company's complete-set products and consolidate and improve market position of all categories of products. After the transaction, HSH will enhance smart home solutions to embrace the complete-set trend of the industry by leveraging on its experience including leading consumer identification and multiple categories coverage and personalized life scenarioes within living space like sitting room, kitchen, bedroom, bathroom and balcony.

Secondly, with the rise of e-commerce channels and their constant penetration of lower tier market, demand for medium- and low-end products has been partially released, resulting in intensified price competition. According to Euromonitor, in 2019, the overall average price of major home appliances in China represented a downward trend, a decrease of 3.0% on a year-on-year basis. Among which, the online and offline average prices of refrigerators and washing machines declined while the offline average prices increased. The online and offline average prices of air conditioners, kitchen appliances and water heaters have shown a downward trend. Under the pressure of some small and medium enterprises choosing to capture market share through price competition, some leading home appliance enterprises' focus have shifted towards the high-end home appliance market. HSH and HEG conduct the transaction with the hope of accelerating global collaborative research and development, increasing the proportion of high-end products, promoting the high-end transformation of product structure, leading the high-end market through technology research and development and coping with the risk of price competition in the industry through unique innovation.

Thirdly, according to Euromonitor, the retail volumes of major home appliances (excluding air conditioning equipment) on e-commerce platforms in 2019 increased by 3.9% on a year-on-year basis, accounting for 38.5% of the total retail volumes on such platforms. E-commerce platforms became the mainstream sales channel second only to electrical appliances stores and posed a threat on traditional offline channels. Due to the saturation for the home appliances market in the first and second tier cities, the gradual decline in benefits from internet and the increased proportion of internet users in third and fourth tier cities, e-commerce platforms have accelerated the deployment of offline networks in the fourth and below tiers cities, improved the networks and logistical infrastructure in small-town and rural markets and strengthened online and offline integration. On the other hand, the traditional offline channels still play an important role in the major home appliances industry with the cooperation of dealers. Especially in lower tier cities, the sales channels are also significant currently as the local traditional dealers are familiar with local market demand and accommodate to the effect of local human relations marketing. Facing the downward trend of channels in the industry, HSH and HEG expect to establish more transparent and efficient channel networks, promote the digital transformation of channels and online and offline integration, further implement “unified warehousing and distribution” in the lower tier cities and advance the transformation from distribution system to retail system in the transaction.

5. Operating performance

Prior to the transaction, HSH and its wholly-owned subsidiary held the 1,286,820,592 shares of HEG in total, representing 45.68% of the issued shares of HEG. HEG has been included in the HSH consolidated statements.

According to the 2019 Annual Report of listed company and the *Review Report on Pro Forma Consolidated Financial Statements of Haier Smart Home Co., Ltd.* (He

Xin Shen Zi (2020) No.000512) issued by Hexin, after the completion of the transaction, the equity and profit and loss of other Shareholders of HEG except HSH will be converted into HSH's equity attributable to the owners of the Parent Company and the net profit attributable to the owners of the Parent Company, respectively. The equity attributable to the Parent Company in the Pro Forma Consolidated Financial Statements of HSH Co., Ltd. at the end of 2019 and the net profit attributable to the owners of the Parent Company in 2019 have increased significantly. With the synergy effect from the integration between HSH and HEG in the future, the Company will have better operational efficiency and development prospects subsequently.

II. The specific effect of the transaction on HSH's governance structure, personnel arrangement, related-party transactions, business integration of various sectors, HSH's specific integration measures, plans and arrangements to be conducted, and expected results to be achieved in the above areas

The further explanations of the effect of the transaction on HSH, HSH's specific integration measures, plans and arrangements, and expected integration results from the aspects of the governance structure, personnel arrangement, related-party transactions and business integration of various sectors are as follows:

1. Governance structure

(1) Specific effect

At present, HSH and HEG are under the separate operation mode as independent listed companies and have two sets of governance systems. Major business decisions are relating to two listed companies, which caused the waste of time and efforts of management, and caused a certain efficiency loss, while in turn affects the implementation of smart home eco brand strategy as well as restrictions to the long-term development of the two listed companies. The transaction will optimize the equity and management structure of HSH, eliminate the effect of the two sets of governance systems from the two companies at present on decision-making efficiency, and improve corporate governance.

(2) Integration measures and plans and arrangements

After the transaction, HSH and HEG will have the unified governance system and the governance structure will be more rational so as to improve the efficiency loss as mentioned above based on the simplified equity structure and integrated platform for listed companies.

On the one hand, in terms of the arrangement of the management, HEG was the non wholly-owned subsidiary of HSH before the transaction, and HEG will be delisted from the Hong Kong Stock Exchange and become the wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes effective) after completion of the transaction. The employees of HEG will continuously work at HEG according to the employment agreements and labor contracts entered into with HEG, therefore, the management of HEG will be stable. In terms of the arrangement of the board, both HSH and HEG will reserve the right to make changes after completion of the transaction. It is expected that the integration will reduce the costs related to independent listing of the two companies. In the future, the structure of the board of directors of the listed company will continuously meet the regulatory requirements for listing in the three places. The information disclosure will be fulfilled in a timely manner if there are adjustment arrangements.

On the other hand, HEG shall conduct relevant procedures in compliance with *Listing Rules of the Stock Exchange* and the requirements of Memorandum and Articles of Association of HEG for decision-making matters of HEG before the transaction. In addition, HSH shall also conduct relevant procedures in compliance with *Listing Rules of Shanghai Stock Exchange* and the requirements of *Articles of Association*, given that HEG is a majority-owned subsidiary of HSH. Through the transaction, the implementation of relevant procedures will be unified at the level of HSH, and HSH will conduct relevant procedures according to *Listing Rules of Shanghai Stock Exchange* and *Articles of Association*, to simplify decision-making process and improve decision-making efficiency.

(3) Expected results

By optimizing the internal organization and management structure, the transaction will further enhance management synergy and operational efficiency, optimize the decision-making process, shorten the full-process effect cycle, and thereby improve corporate governance.

2. Personnel Arrangement

(1) Specific effects

Currently, as independent listing companies, HSH and HEG have respectively set up management teams and institutions. There is certain loss of efficiency because significant business decision involved respective management teams of the two listed companies. Through the transaction, it will unify management team and institution settings of HSH and HEG. Staff arrangement is not involved in the transaction currently.

(2) Integration measures

After completion of the transaction, on the one hand, with the delisting of HEG and (assuming that the EB-to-CB Proposal becomes effective) becoming a wholly-owned subsidiary of HSH, unified management team and management institution will manage HEG more efficiently. On the other hand, staff arrangement is not involved in the transaction. The employees of HSH will continuously work at HSH according to the employment agreements or labor contracts entered into by them and HEG. As HEG continues to be a subsidiary of HSH, the employees of HEG will continuously work at HEG according to the employment agreements and labor contracts entered into by them and HEG. In the future, the information disclosure will be fulfilled in a timely manner if there are adjustment arrangements of the board of the directors.

(3) Expected results

The transaction will unify the management and institution settings currently belonging to the two listed companies, hence further promote management synergy and improve management efficiency.

3. Related party transactions

(1) Specific effects

At present, as HSH and HEG have certain overlap in business division, there is a certain scale of related party transactions between the two listed companies due to intersection of service line. From 2017 to 2019, the related party transactions of HEG purchased form HSH and its associates accounted for over 70% of its sales costs, and related party transactions that HEG conducted sale matters to HSH and its associates accounted for 2% to 4% of its sales revenue. However, higher related party transactions have brought additional management and compliance costs, which has effect on the operating efficiency and partly limits business development. The transaction has no effect on transaction scale between HSH and HEG. After completion of the transaction, with the delisting of HEG and (assuming that the EB-to-CB Proposal becomes effective) becoming a wholly-owned subsidiary of HSH, there will be no need for HEG to comply with regulatory requirements and decision-making process of related party transactions of listed companies in terms of its related party transactions with HSH. Its business development will no longer be restricted by related party transactions of listed companies, which benefits the integration of all categories.

The transaction has no effect related party transactions between HSH as a whole (including HEG) and related parties of HSH. Before completion of the transaction, HEG had been a controlling subsidiary of HSH and had been included in the scope of merger of HSH, and the related party transactions of HSH had covered the transactions between HEG and the related parties of HSH. After the completion of the transaction, HEG will still be included in the scope of merger of the HSH. Therefore, the transaction will not expand the scope of related party transactions between HSH and its related parties.

(2) Integration measures

After completion of the transaction, there will be no longer need for the transactions between HEG and HSH to fulfill regulatory requirements and decision-making process of related party transactions of listed companies with delisting of HEG. The business development of HEG will be no longer restricted by related party transactions of listed companies, which helps HEG to integrate all categories. The transaction will have no effect on transactions between HSH and its related parties.

(3) Expected results

After completion of the transaction, there is no need for HEG to fulfill regulatory requirements and decision-making process of listed companies, which reduces the additional management and compliance costs and benefits efficiency improvement arising from simplified decision-making process, and further boosts the confidence of capital market in integrated HSH. In addition, the transaction is helpful to optimize re-use of technology of HSH and HEG originally involved in related party transactions, which is more beneficial to the unity and efficient development of interconnected systems of products for each other.

4. Business integration

(1) Specific effect

At present, HEG operates business of washing machines, water heaters, water purifiers and channel services, while HSH operates business of refrigerators and freezers, air conditioners, kitchen appliances and small home appliances. Some product categories, brands and channels are scattered in the two listed companies. the transaction will incorporate the categories, brands and channels originally operated by the two listed companies, which will speed up the transformation of management model that integrates all categories and full-process, achieve enhanced integration and synergy and enlarge the market value.

(2) Integration measures

In recent years, listed companies continuously promote business integration of various sectors and have made certain fruits. However, in terms of management and decision-making of relevant business sectors, the operating decision of relevant business sectors of HEG shall fulfill management and decision-making process of HEG before the transaction; the relevant business sectors belonging to HEG and HSH will be integrated and unified to HSH to perform unified management and decision-making process after completion of the transaction. After completion of the transaction, HSH will further integrate product categories by unified governance structure and listing platform to achieve planning, R&D, marketing and services systems and Smart Home Experience Cloud Platform shared by all categories, thereby further deepen and expand solutions of smart home over all scenarios, strengthen in-depth “all-category integration” and business system transformation of "all-industry chain digitalization" under scenarios of smart home.

(3) Expected results

Unified operating platform and data platform of smart home and more complete and systematical solutions of smart home will be helpful to continuously expand solutions of smart home and ecological business of smart home.

After completion of the transaction, with the delisting of HEG and (assuming that the EB-to-CB Proposal becomes effective) becoming a wholly-owned subsidiary of HSH, the transaction is helpful to simplify business decision-making process of HEG from the perspective of its own management as a listed company. After completion of the transaction, operation decision-making of relevant business sector of HEG can be overall considered and planned based on overall development strategy and appeal of relevant business sector of HSH, which is more helpful for business integration. Taking washing machine business of HEG as an example, its business planning is mainly based on development planning and management requirements before the transaction and after completion of the transaction it can be overall planned based on overall strategy layout of global washing machine business of HSH, thereby allocate resources more efficiently.

In summary, the transaction is conducive to: 1) optimize internal organization and management structure and decision-making process, and improve cooperate governance; 2) unify the management and institution settings currently belonging to the two listed companies to enhance management synergy and improve management efficiency; 3) reduce the additional management and compliance costs caused by this with there is no longer need for HEG to comply with regulatory requirements and decision-making process of related party transactions of listed companies; 4) integrate product categories and strengthen in-depth “all-category integration” and business system transformation of "all-industry chain digitalization" under scenarios of smart home.

III. Supplementary Disclosure

The Company has supplemented the disclosed that the transaction is reasonable and necessary in terms of the Company’s strategy, resource allocation, business coordination, market competition in “I. Background and reasons of the transaction” of “Section I The transaction scheme” of Restructuring Report. HSH has also supplemented the disclosure that the transaction has positive influence on governance structure, personnel arrangement, related party transactions, and business integration of various sectors, and the listed company has formulated integration measures and planning arrangements in the above areas in “IV Impact of the transaction on the listed company/(III) Impact of the integration of the transaction on the listed company" of "Section X Management Discussion and Analysis" of Restructuring Report.

IV. Verification Opinions of the Intermediaries

After verification, the independent financial adviser and the financial adviser are of the view that the transaction is reasonable and necessary in terms of the Company's strategy, resource allocation, business coordination, market competition and operating performance. The transaction has positive influence on governance structure, personnel setting, related party transactions, and business integration of various sectors, and the listed company has formulated integration measures and planning arrangements in the above areas.

2. The Restructuring Report disclosed that in the transaction, HSH, as the offeror, proposed to Scheme Shareholders to privatize HEG. The Scheme shareholders will obtain HSH's newly issued H Share as consideration for privatization, with a share exchange ratio of 1:1.60, at the same time HEG will pay the Scheme Shareholders of HK$1.95 per share in cash. According to the *H Share Valuation Report* issued by Platinum, the estimated value of the H Share of HSH ranged from RMB16.45 per share to RMB-16.90 per share, and the theoretical total value of the H Share and cash payment that the Scheme Shareholders may receive is approximately between RMB42.979 billion and RMB-44.073 billion

HSH is required to supplement the following disclosure:

(1)The main considerations for the privatization of HEG through issuing H Share by the Company and paying cash by HEG;

(2)Analyzing and explaining the determination process and share basis of the exchange ratio and the amount of cash payment per share;

(3)Based on the impact of cash payment by HEG to Scheme Shareholders on the Company's issuance of H Share or the overall value of HEG, and combined with HEG' asset and liability structure, please explain its impact on ability to pay and subsequent daily operations;

(4)The valuation method of the *H Share Valuation Report* on the value of HSH, the Selection basis for comparable companies or valuation parameters, the valuation results and the determination method, the difference in current market value of the company and the reasons;

(5)The difference between the theoretical total value of HEG under the privatization proposal and the current market value of HEG as determined based on the estimated scope of H Share issued by the above-mentioned companies, share conversion ratio, and cash payment amount;

(6) Quantitative analysis of the specific impact of the transaction on the Company's basic earnings per share and basic earnings per share (net of non-occurring profit or loss). Please give advice by the financial advisors.

Reply:

I. The main considerations for the privatization of HEG through issuing H Share by Company and paying cash by HEG

The privatization of HEG under the transaction will be conducted by means of issuance of H shares by HSH and cash payment by HEG. Almost all theoretical total value to be received by the Scheme Shareholders under the transaction will be the H Shares of HSH, representing 93.73% to 93.89% of the theoretical total value to be obtained by the Scheme Shareholders. The theoretical total value will mainly be the H Shares of HSH, which is primarily attributable to the following factors: the Scheme Shareholders will share the synergy under the transaction through holding H shares issued by HSH and share the returns to shareholders of HSH as a larger high-quality leading white good listed platform after the completion of the transaction.

Meanwhile, HEG will make cash payment (representing 6.11% to 6.27% of the theoretical total value to be obtained by the Scheme Shareholders) to the Scheme Shareholders in the transaction and such arrangement aims to satisfy the possible liquidity demands of the Scheme Shareholders.

Among them, the main consideration for cash payment by HEG instead of HSH is as follows: according to Hong Kong securities regulatory requirements, cash payment should be paid in Hong Kong dollars. Based on the actual situation, the transaction needs to be financed overseas to meet the capital requirements for Cash Payment. Since HEG is an entity registered overseas, it is more convenient for HEG to carry out debt financing and make cash payment overseas, which is more conducive to the efficient and smooth progress of the transaction.

II. Analyzing and explaining the determining process and basis of the share exchange ratio, the amount of cash payment

The share exchange ratio and cash payment for the transaction were determined based on a fair and reasonable commercial principle after taking into account the following factors:

1. The estimated theoretical total value of the H Shares of HSH and the cash payment that the Scheme Shareholders may receive for each Scheme Share under the

Privatization Proposal is attractive;

2. The historical business and financial performance of HSH and HEG;

3. The share price level of HSH and HEG and the valuations of related global comparable companies during the current and past periods;

4. The business development potential of listed Company after completion of this transaction, as well as the potential benefits that the Introduction and the Privatization Proposal will bring to HSH and HEG;

5. The core components of the Proposal, including: the H Shares newly issued by HSH will be a consideration for privatization, and HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes effective). The Scheme Shareholders will become H Shareholders of HSH, thereby continuing to benefit from the performance of HEG indirectly;

6. The Cash Payment will provide a certain level of liquidity to the Scheme Shareholders, and HSH can still retain sufficient capital to support its future business operations and development upon completion of the transaction.

So far as the above factors are concerned, in particular, the attractiveness of the theoretical total value per Scheme Share and the core components of the Proposal (including the H Shares newly issued by HSH and the Scheme Shareholders will become HSH H Shareholders), the liquidity obtained by the Scheme Shareholders and the adequacy of the working capital to be retained by HSH, the premium rate of the theoretical total value assigned to each Scheme Share to the stock market price of HEG, the effect of the transaction plan on the dilution and increment of earnings per share of HSH and HEG, and capital situation of HSH and HEG are analyzed comprehensively in determining the Share Exchange Ratio and the amount of cash payment.

Among them, the dilution and increment of earnings per share of HSH and HEG as a result of the transaction plan is affected by the Share Exchange Ratio of the transaction. Under the current share exchange ratio, according to the 2019 Annual Report of HSH and the *Review Report on Pro Forma Consolidated Financial Statements of HSH Co., Ltd.* (He Xin Shen Zi (2020) No. 000512) issued by Hexin, the basic earnings per share of HSH after deducting non-recurring profit and loss in

2019 will decrease by 4.87% upon the completion of the transaction. According to the 3.5 Announcement, based on HEG's 2019 audited consolidated financial report under the International Financial Reporting Standards and the unaudited pro forma financial information of HSH Group under the International Financial Reporting Standards, HEG's basic earnings per share from continuing operations for the year of 2019 will rise 9.9% corresponding to the Scheme Share upon the completion of the transaction. With the synergy effect from the integration between HSH and HEG in the future, the listed company will have better operational efficiency and development prospects subsequently.

The premium rate of the theoretical total value assigned to each Scheme Share to the stock market price of HEG is impacted by the share exchange ratio and cash payment of the transaction. According to the 3.5 Announcement, based on the median value of the estimated range of the H Share of HSH in the *H Share Valuation Report* issued by Platinum and the fact that Scheme Shareholders will receive 1.60 H Share issued by HSH and a cash payment of HK$1.95 for each Scheme Share cancelled, the theoretical total value of H Share of HSH and cash payment for each Scheme Share under the privatization plan is approximately HK$31.51, corresponding to the premium rates of HEG's average stock closing price for the 1 trading day and 30 trading days period prior to the transaction announcement were 17.35% and 28.34%, respectively. According to the *Valuation Report* issued by the independent valuation agency Zheshang Securities, based on the premium rate[1] of the share exchange privatization transaction of the Hong Kong Stock Exchange from 1 January 2008 to July 30, 2020, the premium rate of the transaction is reasonable and fair.

III. Based on the impact of cash payment by HEG to Scheme shareholders on the Company's issuance of H Share or the overall value of HEG, and combined with HEG' asset and liability structure, the following will explain its impact on ability to pay and subsequent daily operations

The transaction represents the privatisation of HEG by way of a scheme of arrangement using the newly issued H Share of HSH as the privatisation consideration.

[1] Based on the case of share exchange privatization transactions on the Hong Kong Stock Exchange from 1 January 2008 to 31 July 2020 (excluding those transactions which involved a distribution in specie or a cash consideration option), the mean value of premium rates of the offer price in comparison with the closing price on the day before the first announcement, and the average closing price of the previous month are 13.50% and 24.84%, and the median values are 15.89% and 25.47% respectively.

Meanwhile, as a part of the Privatisation Proposal, within seven business days from the date on which the scheme of arrangement becomes effective, HEG will make a cash payment in cash to the Scheme Shareholders at HK$1.95 per share. According to the *H Share Valuation Report* issued by Platinum, as of the date of the *H Share Valuation Report*, the estimated value of the H Share of HSH ranged from RMB16.45 per share to RMB-16.90 per share (equivalent to approximately HK$18.23 per share to HK$-18.72 per share). Based on the above valuation, share exchange ratio and the amount of cash payment, as well as the number of Scheme Shares as of the announcement date of the transaction, the theoretical total value of the H Share and cash payment of HSH that the Scheme Shareholders may receive under the Privatisation Proposal is approximately between RMB42.979 billion and RMB-44.073 billion (equivalent to approximately HK$47.608 billion to HK$48.818 billion). Among them, based on the number of Scheme Shares on the announcement date of the transaction, the cash payment amount is approximately HK$2.984 billion, accounting for 6.11% to 6.27% of the theoretical total value of privatization. In the transaction, the Company does not consider the impact of the amount of cash payment in respect of the price of H Share and HEG's stock price. This is because cash payment has no substantial impact on the premium rate to be obtained by Scheme Shareholders in the transaction. The reason is as follows: current premium rate to be received by Scheme Shareholders includes the increase in the theoretical total value as a result of cash payments; conversely, if the H Share price and Scheme Share price exclude cash payments, the increase in the theoretical total value to be brought by cash payments should not be considered when calculating the premium rate.

The total amount of cash payment in the transaction is approximately HK$2,984 million. The proportions of cash payment in the net assets and market value attributable to parent company of HEG and HSH are as follows, respectively:

Proportion in the net assets of HEG attributable to parent company[1]	**Proportion in the market value of HEG**[2]	**Proportion in the net assets of HSH attributable to parent company**[3]	**Proportion in the market value of HSH** [4]
9.09%	3.78%	5.48%	1.79%

Note 1: The net assets of HEG attributable to parent company are calculated using the data as of 30 June 2020

Note 2: The market value of HEG is calculated based on the closing price on 28 August 2020

Note 3: HSH has not announced the interim report, so the net assets of HSH attributable to parent company are calculated using the data as of 31 March 2020

Note 4: The market value of HSH is calculated based on the closing price on 28 August 2020

Based on the above data, the amount of cash payment made by HEG to Scheme Shareholders in the transaction accounts for a small proportion of the net assets and market value attributable to shareholders of parent company of HEG and HSH. Therefore, the impact of the cash payment on the issuance of H Share by HSH and the overall value of HEG is trivial.

Based on HEG' audited consolidated financial statements under the International Financial Reporting Standards, as of 30 June 2020, the analysis of the impact of HEG' cash payment for the transaction on related indicators of solvency is as follows:

Items	30 June 2020/January 2020 to June 2020	
	Before the transaction	Assuming upon the cash payment
Cash on book (RMB million)[1]	17,045	14,351
Wealth management products (RMB million)[2]	2,414	2,414
Interest-bearing liabilities (RMB million)[3]	141	141
Debt to assets ratio[1]	38.0%	40.3%
EBITDA interest coverage ratio[4]	627.84	627.84
Liquidity ratio[5]	1.97	1.81
Quick ratio[5]	1.52	1.36

Note 1：Assuming that after the transaction, HEG will make cash payment at HK$1.95 per share to Scheme Shareholders in cash on book, at an exchange rate of 0.90278 of Hong Kong dollars to RMB, and the total cash payment is approximately RMB2,694 million

Note 2：Including short-term wealth management products in financial assets held for trading and long-term wealth management products in other non-current assets

Note 3：Including short-term borrowings, long-term borrowings and lease liabilities

Note 4：EBITDA interest coverage ratio = EBITDA/interest expenses, EBITDA = Operating income - operating costs - administrative expenses - sales expenses + Depreciation and Amortization from continuing operations

Note 5：Liquidity ratio = current assets/current liabilities; quick ratio = (current assets – inventories)/current liabilities

Before the transaction, HEG had healthy long-term and short-term solvency indicators and strong cash payment capabilities. As of 30 June 2020, HEG had cash on book of RMB17,045 million, wealth management products of RMB2,414 million, interest-bearing liabilities of RMB141 million, debt to assets ratio of 38.0%, EBITDA interest coverage ratio of 627.84 times, liquidity ratio of 1.97, and quick ratio of 1.52.

As a part of the Privatization Proposal, within seven business days from the effective date of the Scheme of Arrangement, HEG will pay the Scheme Shareholders a cash payment of HK$1.95 per share. Assuming that HEG pays the above-mentioned cash payment with cash on book, HEG' cash on book will drop to RMB14,351 million, the debt to assets ratio will increase to 40.3%, and the liquidity ratio and quick ratio will drop to 1.81 and 1.36, respectively.

In general, the transaction has no significant impact on HEG' long-term and short-term solvency indicators. HEG' solvency is guaranteed and there is no solvency risk. the transaction will have no material impact on subsequent daily operations and future development.

IV. The valuation method of the *H Share Valuation Report* on the value of HSH, the Selection basis for comparable companies or valuation parameters, the valuation results and the determination method, the difference in current market value of the company and the reasons

1. Valuation method of *H Share Valuation Report*

The *H Share Valuation Report* issued by Platinum determined the market approach as the most appropriate valuation method for the newly issued H Share of HSH based on the following considerations:

(1) There is adequate and sufficient financial information (both audited and unaudited) publicly available in relation to both HSH and HEG as they have been in compliance of the relevant regulatory disclosure requirements under the Shanghai Stock Exchange, the Frankfurt Stock Exchange and the Stock Exchange respectively;

(2) There are a sufficient number of companies comparable to HSH within the global home appliance industry that have been listed with financial information publicly available.

Based on the above background and the historical trading price movements of the shares of HSH and HEG, the respective businesses, financial performances and prospects of HSH and HEG, the *H Share Valuation Report* applied market approach to analyze: (1) HSH's global comparable companies including HEG; (2) sum of the parts valuation by taking the market value of HSH's equity interest in HEG and the remaining part valued through global comparable valuation; and (3) HEG as a direct comparable to HSH based on the HEG' similarity to HSH in terms of business and financial profile.

2. Selection basis for comparable companies or valuation parameters

The basis for selecting comparable companies in the *H Share Valuation Report* is: (1) listed on global stock exchanges; (2) engaged in the manufacture and/or sale of electrical appliances and other related products, with global revenue from Asia, Europe and North America; (3) market value exceeded RMB5 billion. According to above selective criteria and available data, the *H Share Valuation Report* selects all ten comparable companies that meet the criteria, as shown in the following table. In determining the H Share valuation of HSH, taking into account the Company's stable profitability in recent years and the differences in financial leverage of comparable companies, the *H Share Valuation Report* adopts the respective P/E ratios and EV/EBITDA ratios of the comparable companies as the valuation benchmark:

Company	**Stock Code**	**Average market capitalisation of the past 30 trading days prior to and including the Latest Practicable Date (RMB million)**	**Average closing price of the past 30 trading days prior to and including the Latest Practicable Date (RMB)**	**P/E ratio (Note1) (x)**	**EV/EBITDA ratio (Note 2) (x)**
Midea Group Co	000333.SZ	443,503	63.19	18.3	14.9
Daikin	6367.JP	353,627	1206.45	31.1	15.2
Gree Electric Appliances	000651.SZ	350,390	58.25	14.2	7.6
Haier Electronics	01169.HK	62,434	22.16	15.2	10.5
Whirlpool Corporation	WHR.NY	60,016	965.46	10.1	6.8
A.O. Smith Corporation	AOS.NY	55,122	342.07	21.3	14.1
AB Electrolux	ELUX.ST	36,830	131.91	25.4	7.2
Robam	002508.SZ	32,785	34.55	20.6	15.6

Hisense Home Appliances	0921.HK	14,257	7.98	7.9	6.8
	000921.SZ		11.72		
ArcelikA.S.	ARCLK.TI	13,262	19.63	14.4	6.3
Average				17.9	10.5
Median				16.8	9.0

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

Note 2： Enterprise value-to-EBITDA ratio ("EV/EBTIDA") is calculated by using the enterprise value, derived from the average closing prices of the companies of the past 30 trading days prior to and including the date of issue of the *H Share Valuation Report*, fully diluted shares outstanding and equity value to enterprise value bridge divided by EBITDA for the twelve-month trailing period ended 31 December 2019, from their annual report and Bloomberg

Note 3：The calculation of net profit from continuing operations attributable to shareholders of the company and EBITDA are consistent with calculation methods of HSH and HEG

The P/E ratio of the comparable companies range from approximately 7.9 times to approximately 31.1 times, with an average of approximately 17.9 and a median of approximately 16.8 times. The EV/EBITDA ratio of the comparable companies range from approximately 6.3 times to approximately 15.6 times, with an average of approximately 10.5 times and a median of approximately 9.0 times.

Given the significant contribution from HEG within HSH's overall business and financial position, the *H Share Valuation Report* estimates the value of H Share of HSH by applying the sum of the parts approach, and detaches the value of HSH into two parts: the value of HSH's equity in HEG's and value of HSH's equity in non-HEG. With respect to the value of HSH's equity of HEG, the *H Share Valuation Report* have multiplied the proportion of shareholding of HSH within HEG on the benchmark date of *H Share Valuation Report*, which is approximately 45.68%, by the average market capitalization of HEG over the last 30 trading days, which is approximately RMB62,434 million, and arrived at a valuation of RMB28,520 million. With respect to the value of HSH's non-HEG, the *H Share Valuation Report* have used the net profit from continuing operation attributable to shareholders of HSH from its stand-alone business (i.e. excluding the portion contributed by HEG) and applied a P/E ratio derived from a specific set of comparable companies suitable for such portion. Among global comparable companies, A.O. Smith mainly operates in water heater and water purifier business, which has a similar business nature with HEG. Thus, it has a relatively low relevancy to non-HEG portion of HSH. Hence, in determining the specific set of comparable companies suitable for such non-HEG portion, the *H Share Valuation Report* has removed HEG and A.O. Smith from Global comparable companies given their relatively low relevancy to non-HEG portion.

Compared with other comparable companies in the above-mentioned global comparable companies, HEG provides a unique perspective when evaluating the H shares of HSH to be issued: (1) as the main subsidiary of HSH, HEG accounted for about 40% of HSH's total historical revenue, and its financial statements were consolidated by HSH; (2) HEG and HSH's businesses overlap to a large extent in terms of product mix, customer coverage and distribution channels; (3) HSH' A shares and the share prices of HEG have shown a high correlation in the past; and (4) HEG is currently one of the very few listed home appliance companies on the Hong Kong Stock Exchange (H shares of HSH will be listed on the Hong Kong Stock Exchange). Therefore, the *H Share Valuation Report* also uses HEG's P/E ratio and EV/EBITDA ratio as one of the benchmarks for the valuation of the H shares to be issued of HSH.

3. Evaluation results and determination methods

The estimated value range of H shares of HSH based on the above valuation methods is as follows: (1) based on the comparable company's valuation: RMB105,429 million (or RMB16.02 per share) to RMB 116,302 million (or RMB17.68 per share) (equivalent to HK$17.75 and HK$19.58 per share, respectively); (2) sum-of-the-parts valuation: RMB107,852 million (or RMB16.39 per share) to RMB114,553 million (or RMB17.41 per share) (equivalent to HK$18.16 and HK$19.29 per share, respectively); and (3) direct comparable company valuation: RMB102,265million (or RMB15.54 per share) to RMB114,264 million (or RMB17.37 per share) (equivalent to HK$17.22 and HK$19.24 per share respectively). The figures are summarized in the following table:

Valuation methods	Valuation range		RMB Per Share	HK$ Per Share
	Lower end (RMB/million)	**upper end (RMB/million)**		
Global comparable valuation	105,429	116,302	16.02–17.68	17.75–19.58

Valuation methods	Valuation range		RMB Per Share	HK$ Per Share
	Lower end (RMB/million)	**upper end (RMB/million)**		
Sum-of-the-parts valuation	107,852	114,553	16.39–17.41	18.16–19.29
Direct comparable valuation	102,265	114,264	15.54–17.37	17.22–19.24

When determining the valuation conclusion, the *H Share Valuation Report* has chosen as far as possible a comprehensive range that can reflect the valuation range obtained by the three methods; in addition, the *H Share Valuation Report* has considered the following factors, including: (1) HSH is the leader in the global smart home appliance market; (2) As a direct comparable company of HSH, HEG has greater relevance; and (3) The *H Share Valuation Report* implied H shares discount of HSH. In view of the three range distributions derived from the market data as of the base date of the *H Share Valuation Report*, the method of selecting the range of valuation conclusions in the *H Share Valuation Report* is: The lower end is the lowest among the three medians of the range obtained by the three valuation methods, The upper end is the highest among the three median values of the three valuation methods. Therefore, the *H Share Valuation Report* concluded that the estimated value of HSH ranges from RMB108,264 million to RMB111,202 million (or RMB16.45 per share to RMB16.90 per share) (equivalent to each HK$18.23 per share to HK$18.72 per share, respectively).

4. Differences from and reasons for the current market value of the Company

The *H Share Valuation Report* concluded that the estimated value of HSH ranges from RMB108,264 million to RMB111,202 million (or RMB16.45 per share to RMB16.90 per share), with the median value of RMB109,733 million (or RMB16.68 per share).

The closing price of HSH's stock in the 3-month period of the trading day prior to the announcement of the transaction (i.e. April 29 to July 29, 2020) corresponds to the low-end of the market value of RMB98,496 million (or RMB14.97 per share), the high-end is RMB123,827 million (or RMB18.82 per share), the median is RMB110,208 million (or RMB16.75 per share), and the average is RMB110,365 million (or RMB16.77 per share). Therefore, the estimated value range of HSH derived from the *H Share Valuation Report* is within the range of HSH's market value before the announcement of the transaction, and the median of the estimated value range is the same as that of HSH within a period of time before the announcement of the transaction, for which there is no significant difference.

In summary, the selection of comparable companies in this *H Share Valuation Report* is complete and representative, and the valuation method is reasonable, which is consistent with the median market value of HSH within 3 months before the announcement date of the transaction. These comparable companies are consistent, slightly lower than the market value of HSH on the trading day before the announcement date of the transaction, due to short-term fluctuations in the secondary market stock price.

V. The difference between the theoretical total value of HEG under the Privatization Proposal as determined based on the estimated scope of H Shares issued by the above-mentioned companies, share conversion ratio, and cash payment amount and the current market value of HEG

The *H Share Valuation Report* evaluates the value of the H Shares of HSH and determines that the value range is from RMB108,264 million to RMB111,202 million (or RMB16.45 per share to RMB16.90 per share, which is equivalent to from approximately HK$18.23 to HK$18.72 per share). According to this valuation and based on the situation that Scheme Shareholders will receive 1.60 H shares of HSH and HK$1.95 in cash payment for each cancellation of the Scheme Shares, each Scheme Share of the H Shares of HSH under the Privatization Proposal and cash payment of the total theoretical value are between HK$31.11 and HK$31.90. According to the sum of the theoretical value of the H shares of HSH and the cash payment under the scheme and based on the median of the estimated value range of the *H Share Valuation Report*, the total theoretical value of each Scheme Share is HK$31.51. According to all issued shares on the date of announcement of the transaction, the valuation corresponding to HEG is approximately HK$88,759 million.

The above-mentioned theoretical total value of HEG under the Privatization Proposal has a certain premium compared to the transaction price and market value of HEG before the announcement of the transaction. The specific premium rate is as follows:

(1) Compared with the closing price of HK$26.85 per share of HEG on the Hong Kong Stock Exchange on the last trading day before the announcement of the transaction, the market value of HK$75,636 million represents a premium of approximately 17.35%;

(2) Compared with the average closing price of approximately HK$24.55 per Share of HEG based on the daily closing price of the 30 trading days up to and including the last trading day before the announcement of the transaction, the corresponding market value of HK$69,157 million represents a premium of about 28.34%.

The theoretical total value of HEG's Scheme Shares per share in the transaction is within a reasonable range compared with the premium rate of HEG' closing price before the announcement of the transaction and the premium rate of Hong Kong Stock Exchange's historical stock exchange transaction. The premium rate levels of the completed share swap privatization transactions (excluding transactions of distributions in specie and cash consideration options) announced on the Hong Kong Stock Exchange from 1 January 2008 to 29 July 2020 are as follows:

First announcement day	**Target company**	**Acquirer**	**Premium rate**	
			Closing price of 1 trading day before the first announcement	**Average closing price of 30 trading days before the first announcement**
2017/9/8	CNMC	CNBM	19.19%	31.18%
2014/12/30	CNR	CSR	13.30%	23.85%
2010/5/19	DENWAY	GAC	18.47%	27.09%
2008/6/2	CHINA NETCOM	CHINA UNICOM	3.02%	17.25%
Mean			**13.50%**	**24.84%**
Median			**15.89%**	**25.47%**

The daily closing price of HEG reported by the Hong Kong Stock Exchange in the 3-month interval of the trading day before the announcement of the transaction (i.e. April 29 to July 29, 2020) corresponds to the median market value of HK$64,720 million (or HK$22.98 per share), with a mean of HK$64,741 million (or HK$22.98

per share). Therefore, compared with the above theoretical total value of HEG under the privatization proposal, the premium rate corresponding to the median market value of the daily closing price of HEG quoted in the Hong Kong Stock Exchange in the 3-month period of the trading day prior to the announcement of the transaction is 37.14%, and the mean premium rate is 37.10%.

VI. Quantitative analysis of the specific impact of the transaction on the Company's basic earnings per share and basic earnings per share (net of non-occurring profit or loss)

According to the 2019 annual report of HSH and the *Review Report on the Pro forma Consolidated Financial Statements of HSH Co., Ltd.* (He Xin Shen Zi (2020) No. 000512) issued by Hexin, the specific information of the Company’s basic earnings per share and basic earnings per share (net of non-occurring profit or loss) before and after the transaction is shown in the following table:

Item	Before the Transaction	After the Transaction	Rate of change (range)
Basic earnings per share (RMB/ per share)	1.286	1.375	6.92%
Basic earnings per share (net of non-occurring profit or loss) (RMB/ per share)	0.903	0.859	-4.87%

The difference between basic earnings per share and the basic earnings per share (net of non-occurring profit or loss) is mainly due to HEG’s divestiture of logistics business and the large amount of non-recurring gains and losses in 2019.

VII. Supplementary disclosure

The Company has supplemented the disclosure that the main considerations for Privatization Proposal of HEG are reasonable in choosing to issue H Shares by HSH and pay cash by HEG in “VIII. Payment for the transaction” under “the Significant Risk Warning” of the Restructuring Report and “VIII. Payment for the transaction” under “Section I of the transaction proposal”.

The Company has supplemented the disclosure that the determination of the share exchange ratio and the cash payment amount per share have taken into account multiple factors and balanced the interests of both parties as a whole in “I. The main content of the transaction plan / (II) The share exchange ratio and cash payment of the transaction” under “Significant Risk Warning” of the Restructuring Report in, “II. the transaction plan / (II) The share exchange ratio and cash payment of the transaction” under “Section I the transaction plan”.

The Company has supplemented the disclosure that the cash payment made by HEG to the Scheme Shareholders has little impact on the issuance of H Shares of HSH and the overall value of HEG, that HEG has a strong cash payment ability, and that the transaction does not constitute a material impact on the subsequent daily operations in “II. Valuation and transaction price of the underlying assets” under “the Significant Risk Warning” of the Restructuring Report, “III. Valuation and transaction prices of the underlying assets” of “Section One The transaction proposal”, “the transaction complies with the provisions of Article 11 of the *Restructuring Measures”* under “Section IX Compliance analysis of the transaction / (III) The pricing principle of the transaction is fair and does not harm the listed company and its shareholders’ legitimate rights and interests”, “V. Impact of the transaction on HEG” under “Section X Management Discussion and Analysis”.

The Company has supplemented the disclosure that the *H Share Valuation Report* on valuation methods, the selection of comparable companies or valuation parameters, the valuation results and the determination methods of the HSH value are reasonable, and that there is no significant difference in listed company’s market value within a period of time before the announcement of the transaction in “III. Price, pricing principle, basis and rationality analysis of issuing Shares” under “Section VI The Situation of issuing Shares” of the Restructuring Report. The theoretical total value of HEG under the Privatization Proposal and the current HEG’s market value have a narrow difference between the premium rate and the historical comparable transaction level, which is within a reasonable range.

The Company has supplemented the disclosure on reasons for the difference between the basic earnings per share of the listed company in 2019 and the basic earnings per share(net of non-occurring profit or loss) after the transaction in “IV. The impact of the transaction on the listed company/(III) The impact on the main financial indicators of the listed company” under “Significant Risk Warning” of the Restructuring Report, “X. The impact of the transaction on listed companies/(III) The impact on the main financial indicators of listed companies” under “Section I The

Transaction scheme", "IV. The impact of the transaction on listed companies/(IV) The analysis of the impact of the transaction on financial indicators and non-financial indicators of listed companies" under "Section X Management Discussion and Analysis".

VIII. Verification opinions of intermediary agencies

After verification, the independent financial adviser and financial adviser believe that (1) the main considerations for Privatization Proposal of HEG are reasonable in choosing to issue H Shares by HSH and pay cash by HEG; (2) the determination of the share exchange ratio and the cash payment amount per share have taken into account multiple factors and balanced the interests of both parties as a whole; (3) the cash payment made by HEG to the Scheme Shareholders has little impact on the issuance of H Shares of HSH and the overall value of HEG, HEG has a strong cash payment ability, and the transaction does not constitute a material impact on the subsequent daily operations; (4) the *H Share Valuation Report* on valuation methods, the selection of comparable companies or valuation parameters, the valuation results and the determination methods of the HSH value are reasonable, and that there is no significant difference in listed company's market value within a period of time before the announcement of the transaction; (5) The theoretical total value of HEG under the Privatization Proposal and the current HEG's market value have a narrow difference between the premium rate and the historical comparable transaction level, which is within a reasonable range.; (6) The transaction has increased the basic earnings per share of the listed company in 2019, and slightly diluted basic earnings per share (net of non-occurring profit or loss) in 2019.

3. The Restructuring Report disclosed that HSH intends to implement exchangeable bonds (hereinafter referred to as "EB") proposal, that is, the exchangeable bonds issued by HSH, through its overseas subsidiary Harvest, are changed into convertible bonds issued by HSH, through its overseas subsidiary Harvest, that can be converted into H Shares newly issued by HSH (hereinafter referred to as "CB").

HSH is required to supplement the following disclosure:

(1) The conversion price and determination basis of CB, the conversion ratio between CB and EB, and the analysis of the consideration for the relevant bondholders to obtain H Shares issued by HSH before and after the above proposals change;

(2) EB's early redemption clauses, including but not limited to triggering condition and timing, redemption price, possible redemption amount, and redemption clauses for CB after the above proposals change;

(3) If the above proposals are not approved or implemented in the end, whether HSH has plans or arrangements to acquire HEG' shares that EB or EB bondholders will subsequently exchange;

(4) Whether the above proposals are beneficial to protect the interests of HSH and small and medium investors, please fully remind the relevant risks. Please give advice by the financial advisors.

Reply:

I. The conversion price and the determination base of CB, the conversion ratio between CB and EB, and the analysis of the consideration for the relevant bondholders to obtain H Shares issued by HSH before and after the above proposals change

1. The conversion price and the determination base of CB

Since the original EB exchange asset of HSH is the shares of HEG, the EB-to-CB Proposal and the future conversion price of CB are determined based on the following principles as a whole: (1) Enable EB holders to obtain the same economic benefits as Scheme Shareholders under the Privatization Proposal; and (2)

The price adjustment formula related to the EB-to-CB Proposal is consistent with the price adjustment formula under the original EB clause.

In the arrangement of the Agreement, for every 1 cancelled Scheme Shares, Scheme Shareholders will receive 1.60 newly issued H Shares of HSH and 1.95 Hong Kong dollars in cash payment from HEG. Therefore, the EB-to-CB Proposal which is intended to proposal by HSH converts each HEG's shares of the original exchange assets under the original EB into 1.60 newly issued H Shares of HSH and obtains the same economic benefits as the cash payment of HK$1.95 paid by HEG (the economic benefit corresponding to this part of cash will be reflected by adjusting the CB conversion price instead of paying cash directly. The formula of price adjustment will be consistent with the way that the bondholders under the original EB clause adjust the conversion formula after HEG's cash dividend).

As of the reply date of the announcement, the EB conversion price is approximately HK$31.35 (the conversion price is expressed in units of the nearest Hong Kong cents); after the completion of privatization and before the completion of cash payment (according to the *Takeover Code*, cash payment is required to be settled within 7 working days after the completion of privatization). The initial CB conversion price determined in accordance with the foregoing principles will be the current EB conversion price divided by the conversion ratio of 1.60 for the privatization transaction, which is approximately HK$19.60 (the initial conversion price is calculated by dividing the total EB's par value of HK$8 billion by the sum of HSH's H Shares corresponding to the underlying shares; among which HK$19.60 is only an approximate figure if four decimal places are retained); after the cash payment is completed, the CB conversion price will be further adjusted to the then EB conversion price divided by (the privatization conversion ratio of 1.60 + 1.95 HKD/R), where R is the average closing price of H Shares of HSH for 10 trading days after the cash payment.

In addition, during the duration of the bonds, when the relevant stocks of underlying shares receive cash distributions (such as annual dividends), the conversion price of EB and CB will be adjusted by the following mechanisms. It should be noted that EB and CB are two similar products with different structures: EB's underlying shares are issued shares and total number of underlying shares is the reference benchmark for EB (i.e. what is the total number of shares underlying corresponding to the par value of HK$8 billion); the conversion price of EB is derived from dividing the EB principal amount by the total number of underlying shares. Based on this, when cash dividend is paid, the adjustment will be done with reference to the number of underlying shares, and the adjusted conversion price as a result of the cash dividend is derived from dividing the EB principal amount by the total number of underlying shares after the adjustment (i.e. "implied conversion price"). On the other hand, CB's underlying shares are to be issued upon CB conversion and the conversion price is the reference benchmark for CB; when cash dividend is paid in respect of the underlying shares, the conversion price will be adjusted. The specific information is as follows:

(1) Under the original EB terms, the adjustment method of the conversion price of the underlying shares of HEG' stocks after receiving the cash distribution is as follows:

The par value of EB is HK$8 billion. Assuming that the number of HEG' stocks corresponding to EB before the cash distribution is X shares, the implied conversion price of EB is HK$C0 = HK$8 billion/X. If HEG receives a cash distribution of HK$a per share , and the arithmetic average closing price of HEG for 10 trading days after the cash distribution payment date (excluding) is HK$P, then the amount of HK$8 billion EB corresponding to HEG' shares will be adjusted to $Y = X + X * a / P$ shares, and then the EB implied conversion price will be adjusted to the total par value of EB divided by the number of HEG' shares corresponding to the adjusted EB.

(2) If the conversion of EB to CB becomes effective, the adjustment method of the conversion price of the H Shares of HSH after receiving the cash distribution under the CB clause is as follows:

Assuming that the CB conversion price before the cash distribution is c0, the CB conversion price after the cash distribution is $c1 = c0 * (A-B) / A$. Among which, A refers to the total market value of HSH on the date of the cash distribution announcement (i.e., the sum of the value of H Shares, A Shares and D Shares market); B refers to the total cash distribution of HSH (i.e. the sum of the cash distribution amount of H shares, A Shares and D Shares) .

The conversion price adjustment mechanisms for EB and CB during the duration as a result of cash dividend is structurally different in certain aspects, which mainly because EB and CB are different in nature as two different financing products. The aforementioned conversion price adjustment mechanisms for EB and CB are in line with market conventions and are reasonable.

2. Conversion ratio of CB and EB

Compared with the original EB scheme, the issuance scope of CB will remain, and will still be less than HK$8 billion (if no EB investors convert their EB to CB before the EB-to-CB Proposal takes effect, the CB issuance scale will be HK$8 billion), that is, every HK$1 million EB currently held by the bondholder will be converted into HK$1 million CB.

3. The respective considerations for the relevant bondholders to obtain HSH's issued H Shares before and after the change of the EB-to-CB Proposal

The respective considerations for the relevant bondholders to obtain the HSH's issued H Shares before and after the change of the EB-to-CB Proposal are the same. The following is a specific explanation in combination with relevant data:

Assuming that the reference price R of the H Shares of HSH mentioned in the aforementioned formula is the median of HK$18.47 in valuation range of per H Shares in the *H Share Valuation Report* issued by Platinum, the CB conversion price will be approximately HK$18.38 after the cash payment is completed (the conversion price is expressed in units of the nearest Hong Kong cents).

For the EB with a par value of HK$1,000,000, based on the current conversion price of approximately HK$31.35, the corresponding HEG's shares are 31,894.1813 shares. If the EB holder converts the EB into HEG's shares under the privatization, they can (1) obtain 51,030.6902 H Shares at the ratio of 1.60 H Shares per HEG's share, and (2) obtain HK$62,193.6537 in cash at the ratio of HK$1.95 in cash per HEG's share. On this basis, assuming that EB holders purchase H Shares with the cash equivalent of (2) at the price of R (i.e., HK$18.47), the number of H Shares obtained by items (1) and (2) above substantially totals 54,397.2493 shares.

For the CB with a par value of HK$1,000,000, based on the conversion price of approximately HK$18.38, the corresponding H shares of HSH are 54,397.2493 shares.

Given all that, the final number of H Shares obtained by EB and CB with a same par value is equivalent, which also implies that the EB holders and the CB holders respectively obtain the same consideration for the HSH's H Shares.

II. The early redemption clauses of EB include, among which, triggering conditions and timing, redemption price, possible redemption amount, and the corresponding redemption clauses of CB after the above proposals change

Before and after the proposals change, the relevant clauses of the early redemption of bonds remain basically unchanged (there are slight differences in terms of details only due to structural changes in the product itself), which is specified as follows:

1. Under the original clauses of EB, there are two main cases of early redemption, that is, the early redemption required by HSH and the early redemption of required by EB investors (i.e., the EB investors require HSH to perform early redemption).

(1) The initiative of the early redemption in HSH

After 21 November 2020 (inclusive), when the value of the exchanged assets during 20 of the 30 consecutive trading days exceeds 130% of the early redemption amount, HSH can redeem the bonds at the early redemption amount; the specific redemption amount depends on the redemption time (the investors may also perform conversion at their options if HSH chooses to exercise the early redemption right at this time).

The early redemption amount represents the amount equivalent to achieve 1% annualized bond yield from the date of issuance of EB to the date of early redemption (the interest is calculated on a half-year basis, and the date includes the issuance date but the redemption date; it is calculated on the basis of 360 days per year, 12 months and 30 days per month). Assuming the redemption would take place on 21 November 2020, the aggregate maximum amount of the early redemption is HK$8 billion * (1 + 1% / 2) ^ (360 * 3 / 180) equals approximately HK$8.243 billion.

(2) The initiative of the early redemption in EB investors

① On 21 November 2020, bondholders have the right to sell back unconverted exchangeable bonds at a price of 103.04% of the principal amount, which is a maximum of approximately HK$8.243 billion based on the same calculation method as the above “(1) The initiative of the early redemption in HSH”.

② When HEG is delisted from the market or has change of control events (including the following events: (1) Haier Group no longer directly or indirectly controls HSH; (2) HSH no longer directly or indirectly holds 100% equity of Harvest (the issuer of EB) and Haier (Hong Kong); (3) Haier (Hong Kong) no longer directly or indirectly holds 100% equity of Harvest(the issuer of EB); (4) HSH and Haier Group together no longer directly or indirectly control HEG; (5) HSH consolidates or merges with another party, or sells or transfers all or substantially all of its assets to another party, unless HSH is a surviving company after the consolidation or merger, or another party is directly or indirectly controlled by Haier Group), or is prohibited from trading or suspended on the Hong Kong Stock Exchange for more than 30 consecutive trading days (inclusive), bondholders have the right to sell back unconverted exchangeable bonds at early redemption amount. The specific redemption amount depends on the time of delisting or change of control events or being prohibited trading or suspended for more than 30 consecutive trading days (inclusive).

The early redemption amount represents the amount equivalent to achieve 1% annualized bond yield from the date of issuance of EB to the date of early redemption (the interest is calculated on a half-year basis, and the date includes the issuance date but the redemption date; it is calculated on the basis of 360 days per year, 12 months and 30 days per month). Assuming that on 31 December 2020, HEG is delisted from the market or has change of control events, or is prohibited from trading or suspended for more than 30 consecutive trading days (inclusive) (indicative assumption) and HSH pays the early redemption amount on the same date, the aggregate maximum amount of early redemption is HK$8 billion * (1 + 1% / 2) ^ ((360 * 3 + 39) / 180) equals approximately HK$8.252 billion.

2. If the EB-to-CB Proposal is passed, under the CB clauses, there are also two main cases of the early redemption, namely, the initiative of the early redemption in HSH and the initiative of the early redemption in CB investors (that is, the CB investors require HSH to perform early redemption).

(1) The initiative of the early redemption in HSH

After 21 November 2020 (inclusive), when the price of H Shares during 20 of the 30 consecutive trading days exceeds 130% of incremental conversion price (incremental conversion price equals to the early redemption amount divided by the CB conversion ratio, and the CB conversion ratio equals to the total par value of the CB divided by the CB conversion price at right time), HSH can redeem the bonds at the early redemption amount; the specific redemption amount depends on the redemption time (the investors may also perform conversion at their options if the Company chooses to exercise the early redemption right at this time); the specific redemption amount depends on the redemption time (the investors may also perform conversion at their options if the Company chooses to exercise the early redemption right at this time).

The early redemption amount represents the amount equivalent to achieve 1% annualized bond yield from the date of issuance of original EB to the date of early redemption (the interest is calculated on a half-year basis, and the date includes the issuance date but the redemption date; it is calculated on the basis of 360 days per year, 12 months and 30 days per month). Assuming the redemption would take place on 21 November 2020, the aggregate maximum amount of early redemption is HK$8 billion * (1 + 1% / 2) ^ (360 * 3 / 180) equals approximately HK$8.243 billion. (It is only an indicative calculation in the event that there is no redemption on 21 November 2020 if the EB-to-CB Proposal takes effect after 21 November 2020.)

(2) The initiative of the early redemption in CB investors

①If the EB-to-CB Proposal takes effect before 21 November 2020 (inclusive), on 21 November 2020, bondholders have the right to sell back unconverted exchangeable bonds at a price of 103.04% of the principal amount, representing approximately HK$8.243 billion, which is based on the same calculation method as the above "(1) The initiative of the early redemption in HSH". If the EB-to-CB Proposal takes effect after 21 November 2020 (exclusive), bondholders haven't this right.

② When the H shares of HSH is delisted from the market or has change of control events (including the following events: (1) Haier Group no longer directly or indirectly controls HSH; (2) HSH no longer directly or indirectly holds 100% equity of Harvest (the issuer of CB); (3) HSH combines, consolidates or merges with another party, or sells or transfers all or substantially all of its assets to another party, unless HSH is a surviving company after the combination or consolidation, or another party is directly or indirectly controlled by Haier Group), or is prohibited from trading or suspended on the Hong Kong Stock Exchange for more than 30 consecutive trading days (inclusive) (if any, the time is earlier than 21 November 2020, the maturity date of CB), bondholders have the right to sell back unconverted exchangeable bonds at early redemption amount. The specific redemption amount depends on the time of delisting from the market or change of control events or being prohibited trading or suspended for more than 30 consecutive trading days (inclusive). The calculation rule is consistent with the aforementioned situation of EB.

In the event of the aforementioned early redemption (refer to the above calculation results for the specific redemption amount), HSH will repay with internal funds and/or external borrowing arrangements.

III. If the above proposals are not passed or implemented in the end, whether HSH have plans or arrangements to acquire shares of HEG that EB or EB bondholders would subsequently exchange

The prerequisites for the EB-to-CB Proposal to take effect are as follows:

(1) It is approved by the EB holders meeting;

(2) It is considered and approved by the General Meeting of HSH, General Meeting of A Share class shareholders of HSH and General Meeting of D Share class shareholders of HSH;

(3) The prerequisites for proposing the privatization plan and the conditions and terms of the privatization plan are met;

(4) Privatization takes effect;

(5) The China Securities Regulatory Commission's approval for the EB-to-CB Proposal and the application/approval of other Chinese regulatory agencies (if applicable) are realized;

(6) The Hong Kong Stock Exchange approves the listing of H Shares of HSH

(including underlying shares of CB);

(7) It satisfies the prerequisites proposed by the Hong Kong Stock Exchange for the EB-to-CB Proposal.

As of the announcement date of this reply, the condition that has been met is (1) It is approved by the EB holders meeting.

If the EB-to-CB Proposal is not passed or implemented in the end, the following two situations may exist:

1. If the overall plan for privatization and H shares listing is not passed, EB holders can continue to hold EB, and the underlying shares of EB are still the current stocks of HEG listed on the Hong Kong Stock Exchange, with no changes in the underlying interests of bondholders.

2. If the overall plan for privatization and H Shares listing is passed while the EB-to-CB Proposal is not passed, bondholders have the following options:

(1) Disposing EB in the bond market;

(2) Exercising the Put-Back Option at the end of 3 years on 21 November 2020;

(3) Exercise the Put-Back Option of HEG delisting;

(4) Exercising the conversion rights in accordance with the existing clauses of EB, and converting EB into HEG shares under the participation of the privatization transaction;

(5) After the privatisation is completed, the EB will be exchanged into the stocks of the HEG after the delisting;

(6) Holding the stocks of the HEG after the delisting as the underlying EB until they are redeemed by HSH at a price of 105.11% on the maturity date (21 November 2022).

It shall be noted that although the above option (5) may exists theoretically, HEG's shares will be non-listed company shares at right time with no liquidity and a clear exit path. Therefore, rational EB holders are less likely to choose the option (5) from an economic and commercial perspective. In the case of option (2) and option (3), if the total par value of EB held by the EB holders who have not exercised the conversion rights is less than 10%, HSH will have the right to exercise the right of clearance to compulsorily repurchase the remaining bonds so as to avoid the situation where a small number of EB holders still hold a small amount of unprocessed EB. In addition, the EB-to-CB Proposal has been approved at the bondholders' meeting held on 28 August 2020. The voting results also objectively reflect the positive willingness of EB holders to convert EB to CB.

All in all, having considered the lower possibility of option (5) and other alternative paths for EB holders, HSH currently has no special plan for option (5). If necessary, HSH will further consider the follow-up arrangements based on the final situation.

IV. Whether the above proposals are conducive to protecting the interests of HSH and small and medium investors, please fully remind the relevant risks

In the process of transaction design and execution, HSH, as a listed company, needs to comprehensively consider the interests of shareholders and other types of investors (including bond investors), and make fair arrangements for all parties based on overall consideration.

For bond investors: in November 2017, HSH obtained financing with low cost through the issuance of HK$8 billion of EB (the EB is zero-coupon and has a higher conversion price), which provides the necessary funds for its overseas operations and development. When bondholders initially subscribed for EB with zero-coupon and high conversion premium, the stocks (as a listed stocks) appreciation space of HEG is one of its core considerations. In the case that EB has more than two years to mature, for instance, if a privatization transaction occurs, the EB investor loses the ability to convert bonds into securities that can be traded under the original terms, which will deviate from the original intention of bondholders. HSH, as a listed company, needs to comprehensively consider the interests of shareholders and bondholders, maintain and consolidate its image as a responsible issuer in the capital market in order to maximize HSH's future financing flexibility. HSH believes that the current EB-to-CB Proposal will effectively protect the interests of EB holders.

For shareholders: under the original clauses of EB, EB investors themselves can convert the original EB into HEG's shares under privatization by way of conversion and obtain the same number of H shares and cash payment of HK$1.95 as the Scheme

Shareholders. Moreover, EB-to-CB Proposal does not provide EB investors and existing shareholders of HSH with additional and unfair preferential treatment, respectively. In addition, except for the EB-to-CB Proposal is for bondholders to require HSH to redeem the bonds in advance on 21 November 2020 and when HEG delists, providing the option of EB-to-CB will help HSH continue to enjoy low-cost financing to support overseas business development, promote the HSH's overall strategic development and create greater returns for shareholders.

To sum up, the above-mentioned proposal is conducive to protecting the interests of HSH and small and medium investors.

For the related risks of the EB handling proposal, if the EB-to-CB Proposal is not passed (as mentioned above, the condition that has been met is (1) It is approved by the EB holders meeting; if the other EB-to-CB conditions mentioned above are not met, the EB-to-CB Proposal has not been passed), EB holders may require HSH to redeem the EB held by them, which will cause a certain degree of financial pressure on HSH; if the EB-to-CB Proposal is passed and implemented, CB holders are likely to perform conversion (it depends on a variety of factors, including the comparison of the price of H Shares and the conversion price of CB at that time) before the maturity date of CB, being 21 November 2022. In such case, HSH will need to issue new H Shares for the converted CB, which will cause certain dilution effect on existing interests of shareholders.

V. Supplementary disclosure

HSH has supplemented the disclosure in relation to the conversion price of CB and the basis for determination, the conversion ratio of CB and EB, the respective considerations for the relevant bondholders to obtain the H Shares of HSH before and after the above proposals change, and the early redemption clauses of EB in "IX. HSH has issued EB Proposal" under the "Section II Basic information of the listed company" in the Restructuring Report. If the above proposals are not passed or implemented in the end, HSH's plans or arrangements for the subsequent exchange of shares of HEG by EB or EB bondholders, and the above proposals are conducive to protecting the interests of HSH and small and medium investors.

Meanwhile, HSH has supplemented the disclosure in relation to relevant risks of EB-to-CB Proposal in "I. Risks related to the transaction/(VIII) The related risks of the EB-to-CB Proposal" of the "Significant Risk Warning" and "I. Risks related to the transaction/(VIII) The related risks of the EB-to-CB Proposal" under the "Section XIII Risk Factors" in the Restructuring Report.

VI. Verification opinions from intermediary agencies

After verification, the independent financial advisors and financial advisors believe that (1) according to the determination basis of the conversion price of CB, the respective considerations for the relevant bondholders to obtain the H Shares of HSH before and after the EB-to-CB Proposal changes are consistent; (2) the relevant clauses of early redemption of bonds remain basically unchanged before and after the proposal changes; (3) if the EB-to-CB Proposal is ultimately not passed or implemented, bondholders have different options for handling EB in different cases, and the listed companies will further consider subsequent arrangements based on the final situation; (4) the EB-to-CB Proposal comprehensively considers the interests of shareholders and other types of investors (including bond investors), which is conducive to protecting the interests of listed companies and small and medium investors.

4. The Restructuring Report disclosed that HEG are principally engaged in: the R&D, manufacturing and sale of washing machines, water heaters and water purifiers under Haier Group brands (including “Haier”, “Casarte” and “Leader”), the distribution of electronics products of Haier Group in the PRC; that investment in the large-scale logistics service business developed in China under the brand of Goodaymart.

HSH is required to supplement the following disclosure:

（1）Listing the upstream and downstream conditions, production and sales, as well as financial data such as operating income, operating costs, and gross profit margins corresponding to different business segments of HEG, and analyzing the industry status;

（2）After the completion of the transaction, HEG will be delisted from the Hong Kong Stock Exchange, whether it will affect its daily business development. Please give advice by the financial advisor.

Reply:

I. Listing the upstream and downstream conditions, production and sales, as well as financial data such as operating income, operating costs, and gross profit margins corresponding to different business segments of HEG, and analyzing the industry status

1. The upstream and downstream conditions, production and sales of each business segments

During the reporting period, the upstream and downstream conditions for the corresponding different business segments of HEG are as follows:

Business Segments	**Operation Scope**	**Upstream**	**Downstream**
Washing Machine Business	• R&D, manufacturing and sales of washing machines	• Purchasing materials from suppliers of bulk raw materials for home appliances such as motors and bulk raw materials suppliers such as plastics, hardware, and hot-dip galvanized coils through the HSH	• Domestic sales: Selling washing machine products to end consumers through national appliance chain companies such as Gome, Suning, and HEG’s channel

Business Segments	Operation Scope	Upstream	Downstream
		raw material procurement platform	service business segment (including local and regional appliance chains and stores, specialty stores, and e-commerce platforms) • Export: Sell washing machine products to large retailers, regional stores and e-commerce platforms through HSH's export platform
Water Heater and Water Purifier Business	• R&D, manufacture and sales of water heater and water purifier	• Water heater：Purchase from suppliers of special raw materials for home appliances such as motors and bulk raw materials suppliers such as plastics, hardware and hot dipped galvanized steels through HSH raw material procurement platform. • Water purifiers: produce water purifier products by OEM manufacturers	• Domestic sales: Selling water heater and water purifier products to end consumers through national appliance chain companies such as Gome, Suning, and HEG's channel service business segment (including local and regional appliance chains and stores, specialty stores, and e-commerce platforms) • Export: Selling water heater and water purifier products to large retailers, regional stores and e-commerce platforms through HSH's export platform

Business Segments	Operation Scope	Upstream	Downstream
			• Overseas: Selling hot flat plate collector and other products to brands and system suppliers in European subsidiaries
Channel Services Business	• The distribution of electronics products of Haier Group in the PRC	• Purchasing home appliances from HSH's refrigerators, air conditioners, kitchen appliances and other industries, HEG's washing machines, water appliances and other industries, Haier Group's color TVs and other industries, and purchasing home appliances and other products from a small number of social customers	• Distributing home appliances to local and regional home appliance chains and stores, specialty stores, JD, Tmall, etc. • After-sales service: providing after-sales service for various industries and social customers of Haier Group
Logistics Business	• logistics services under the name of "Gooday mart" in the PRC for large format items, including home appliances, furniture and fitness equipment	• Procurement of basic logistics services from specific logistics service undertaking units	• Provide large-scale logistics services to customers in the home appliance, household and other industries. Among them, in 2018 and 2019, the proportions of large-size logistics services provided to various home appliance industries of Haier Corporation were 38% and 41%, respectively, and the proportions of large-size logistics services provided to third parties were 62% and 59%, respectively

During the reporting period, the production and sales of HEG's home appliances business segment are as follows:

Number: unit

Business Segments	January to June 2020		2019		2018	
	Production	**Sales**	**Production**	**Sales**	**Production**	**Sales**
Washing Machine Business	7,660,750	7,846,160	19,201,289	18,530,833	17,086,775	16,860,287
Water Heater and Water Purifier Business	4,521,176	4,961,566	10,477,518	10,061,490	9,019,998	8,657,350

2. Financial information of each business segment

According to the audited financial information from January to June 2020 under the International Financial Reporting Standards, the financial information of different business segments of HEG in the first half of 2020, such as operating revenue, operating costs and gross profit margin, is as follows:

Unit: RMB0'000

January to June 2020	Operating revenue	Operating cost	Gross profit margin
Washing Machine Business	963,361.75	722,510.22	25.00%
Water Heater and Water Purifier Business	394,554.48	252,461.60	36.01%
Channel Services Business	3,121,647.92	2,815,163.32	9.82%

According to the audited financial information of 2018 and 2019 under the Accounting Standards for Business Enterprises, the financial information of different business segments of HEG in the past two years, such as operating revenue, operating costs, and gross profit margin, is as follows:

Unit: RMB0'000

Business	2019	2018

	Operating revenue	**Operating cost**	**Gross profit margin**	**Operating revenue**	**Operating cost**	**Gross profit margin**
Washing Machine Business	2,340,388.81	1,647,751.23	29.59%	2,148,942.90	1,496,983.46	30.34%
Water Heater and Water Purifier Business	875,586.08	527,536.74	39.75%	805,039.52	482,684.91	40.04%
Logistics Business [Note]	490,781.05	446,098.44	9.10%	1,014,430.52	939,698.64	7.37%
Channel Services Business	6,646,689.81	5,899,631.56	11.24%	6,803,507.62	6,051,730.98	11.05%

Note: HEG has disposed its logistics business in 2019

3. Position of each business segment in the industry

（1）Washing machine business

According to the CMM’s statistics, in the Chinese domestic market, HEG's washing machine business ranked first in terms of the online and offline market share by sales amount in 2019, with a market share of 36.3% in both online and offline channels. In the first half of 2020, the market share of HEG's washing machine business has been further consolidated and improved, with online and offline retail sales accounting for 39.3% and 39.2% respectively.

In terms of exporting business, based on ChinaIOL, according to sales statistics in 2019, the market share of HEG's washing machine by sales volume in 2019 reached 9.3%, ranking third. According to sales volume in the first half of 2020, the market share reached 9.3%, ranking second.

（2）Water heater and water purifier business

According to the CMM’s statistics, in the Chinese domestic market, the offline market share of HEG's water heater business by sales and sales volume in 2019 reached 20.5% and 21.4%, respectively. In the first half of 2020, offline market share of HEG's water heaters business achieved 23.5% and online market share achieved 25.8%, ranking first and second in the industry respectively. HEG's water heater export business is small, accounting for less than 5%.

According to the CMM's statistics, in the Chinese domestic market, the online and offline market share of HEG's water purifier business by sales amount in 2019 reached 13.0% and 7.0%, respectively. In the first half of 2020, according to sales amount, the online market share of HEG's water purifier business reached 13.6%, and the offline market share reached 10.0%. HEG has no exporting business for water purifiers.

（3）Channel service business

HEG's channel service business mainly serves the home appliance industries within Haier Group, with a relatively small proportion of social customers. In addition to KA (such as Gome and Suning) channels, HSH's home appliance product sales are basically conducted through HEG's channel service business.

Based on the capabilities of the home appliance and smart home business, HEG has developed channel service business, mainly distributing various electrical products of the Haier Group in the Chinese market. Among them, the revenue scope of providing channel services for third-party brands is insignificant and is not the core business of HEG.

（4）Logistics business

According to the *2019 Logistics Enterprise Internet Index TOP100* issued by *China Internet Week* and eNet Research Institute, Qingdao Gooday Logistics Co., Ltd., the main business entity of HEG's logistics business, ranked eighth[2] in China Logistics Enterprise (Internet Index) in 2019. In 2019, HEG has divested logistics business.

II. After the completion of the transaction, HEG will be delisted from the Hong Kong Stock Exchange. whether it will affect HEG's daily business development

Before the transaction, HEG is not only a Hong Kong listed company, it is also a business segment under HSH, a listed company of A Shares and D Shares. Upon completion of the transaction, HEG will be delisted from the Hong Kong Stock

[2] Source：http://www.enet.com.cn/article/2019/0628/A20190628943998.html

Exchange; the H Shares of HSH will be listed on the Hong Kong Stock Exchange; HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes effective); each business segment of HEG will continue to operate as the business under the HSH listed platform on the A Shares, H Shares and D Shares markets, and HEG will be under the continuous supervision of the regulatory authorities, investors and the public. Therefore, upon the completion of the transaction, HEG’s delisting from the Hong Kong Stock Exchange will not have a negative impact on its daily business development or capital operation.

In addition, HEG now has a relatively large-scale related party procurement from HSH. Upon HEG’s delisting from the Hong Kong Stock Exchange, the transaction between the two parties will no longer be a related party transaction subject to the supervision by the Hong Kong Stock Exchange. HEG will benefit from the efficiency improvement brought by the simplified decision-making process; in terms of capital utilization, the capital transactions between HEG and HSH will no longer be subject to the regulatory restrictions by the Hong Kong Stock Exchange, which will help improve the efficiency of capital use and optimize the allocation of resources.

III. Supplementary disclosure

The Company has supplemented the disclosure on the corresponding upstream and downstream situations, production and sales and financial information (including operating revenue, operating costs and gross profit margin) of different business segments of HEG in the “I. Summary of main business” under “Section V the business and technology of underlying assets” in the Restructuring Report; and has supplemented disclosure on the industry position of HEG in the “III. The discussion and analysis of industry features of underlying assets under the transaction / (VI) Core competitiveness and industry position” under “Section X Management Discussion and Analysis” in the Restructuring Report; as well as has supplemented disclosure that the delisting of HEG from the Hong Kong Stock Exchange will not have a negative impact on its daily business development in the “V. The impact of the transaction on HEG” under “Section X Management Discussion and Analysis” in the Restructuring Report.

IV. Verification opinions of the intermediaries

After verification, the independent financial adviser and the financial adviser are of the view that, HSH has supplemented the disclosure on the corresponding upstream and downstream situations, production and sales, industry position and financial information (including operating revenue, operating costs and gross profit margin) of different business segments of HEG; and the delisting of HEG from the Hong Kong Stock Exchange will not have a negative impact on its daily business development.

5. According to the disclosure in the Restructuring Report, for the year of 2018-2019, HEG had achieved net profit attributable to the parent company of RMB3.844 billion and RMB7.351 billion respectively, representing an increase of 83.48%. Such increase are mainly due to the asset swap between HEG and its subsidiaries and Haier Group and its subsidiaries previously, to acquire 51% equity interest in Qingdao HSW with the payment consideration of 55% equity interest held by itself in Bingji Company, which incurred profit and loss on disposal of equity interest of RMB 3.827 billion. HEG's long-term equity investment amounted to RMB 5.719 billion at the end of 2019, representing an increase of 3,117.67% year-on-year, of which long-term equity investment in Goodaymart Investment Company was RMB 5.474 billion.

HSH is required to supplement the following disclosure:

(1) the main business, products, main financial data and position in the industry of Qingdao HSW and Bingji Company, as well as details of the above asset swap plan, combining with changes in the industry to demonstrate the main considerations to the above asset swap conducted by HEG, whether the aforesaid have impacts on daily business operation of HEG;

(2) the background and accounting process of the Company's long-term equity investment in Goodaymart Investment Company and the impact on financial data of the Company;

(3) explanation for the specific impact of the above asset swap transaction on the valuation of HEG. Please give advice by the financial advisors.

Reply:

I. the main business, products, main financial data and position in the industry of Qingdao HSW and Bingji Company, as well as details of the above asset swap plan, combining with changes in the industry to demonstrate the main considerations to the above asset swap conducted by HEG, whether the aforesaid have impacts on daily business operation of HEG;

1. Profile of Qingdao HSW

(1) Main business and products

Qingdao HSW mainly engages in R&D, installation, sales and maintenance of water treatment equipment and accessories, as well as the import and export business of relevant products and technologies.

(2) Main financial data

The main financial data of Qingdao HSW in the past two years is as follows:

Unit: RMB

Items	31 December 2019/2019	31 December 2018/2018
Total assets	1,201,930,338.56	990,232,877.47
Net assets	532,817,315.87	412,250,823.66
Net assets attributable to owners of the parent company	524,644,813.64	412,250,823.66
Operating revenue	1,173,314,821.52	1,035,206,308.99
Net profit	141,518,286.49	108,783,623.14
Net profit attributable to owners of the parent company	144,310,864.26	108,783,623.14

（3）Position in the industry

Qingdao HSW is engaged in R&D and sale of household water purification solutions, with an ambition to be leader in the PRC water purifier market. According to China Market Monitor’s offline statistics, Qingdao HSW ranked No. 5 in terms of offline sales value in water purifier market of mainland China for the first half of 2018. As a result of its continuous R&D efforts, Qingdao HSW has taken up the largest market share in the PRC nanofiltration purifier market segment.

2. Profile of Bingji Company

（1）Main business and products

Bingji Company is an investment holding company and indirectly controls Qingdao Haier Goodaymart Logistic Co., Ltd. (hereinafter referred to as "Goodaymart"). Goodaymart focuses on providing customers with end-to-end full-process supply chain services solution in the field of large-item logistics.

（2）Main financial data

The main financial data of Bingji Company in the past two years is as follows:

Unit: RMB

Items	31 December 2019/2019	31 December 2018/2018
Total assets	10,705,597,176.59	9,679,172,214.74
Net assets	4,767,892,537.68	4,449,276,865.98
Operating revenue	10,438,934,842.68	9,926,188,894.24
Net profit	343,073,346.63	283,023,125.09
Net profit attributed to owners of the parent company	61,037,970.58	52,162,727.94

（3）Position in the industry

According to the *2019 Logistics Enterprise Internet Index TOP100* released by *China Internet Week* and eNet Research Institute, Qingdao Haier Goodaymart Logistic Co., Ltd. ranked eighth[3] among China logistics enterprises (Internet Index) in 2019.

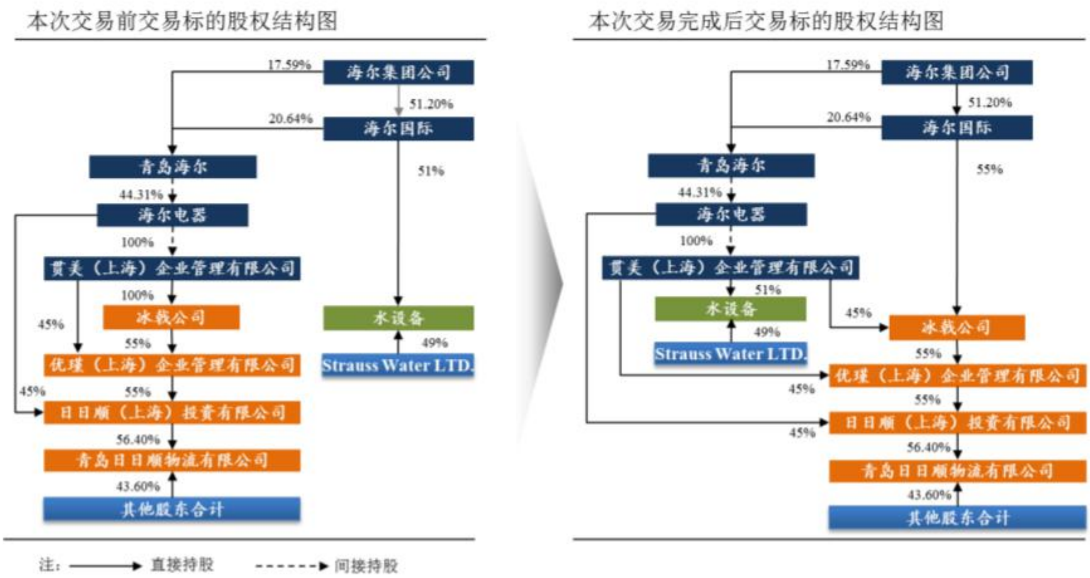
3. The main content of the swap plan

In order to further clarify the positioning of HEG's "water appliances + healthy home platform" and enhance HEG's long-term development potential, achieve strategic synergy through integrated management of the acquired water purifier business and water heater business, and dispose logistics business to achieve the optimisation and efficient use of resources, thereby improving overall operating efficiency, on 30 August 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd. (hereinafter referred to as "Guanmei Company"), a wholly-owned subsidiary of HEG, entered into an *Asset Swap Agreement* with Haier Electric Appliances International, a subsidiary of Haier Group, pursuant to which Guanmei Company intended to swap a 55% equity interest held by itself in Bingji Company with a 51% equity interest in Qingdao HSW held by Haier Electric Appliances International. The price of the swap transaction is based on the *Asset Appraisal Report* of Bingji Company (Dong Zhou Ping Bao Zi 【2018】]No. 0950) issued by Shanghai Dongzhou Appraisal Co., Ltd. Company on 30 June 2018 as the assessment base date and the *Asset Valuation Report* of Qingdao HSW (Lu Zheng Xin Ping Bao Zi (2018) No. 0090) by Shandong Zheng Yuan He Xin Asset Appraisal Co., Ltd. on 30 June 2018 as the base date of the

3 Source: http://www.enet.com.cn/article/2019/0628/A20190628943998.html

assessment. The 55% equity of Bingji Company held by Guanmei Company (hereinafter referred to as "disposed assets") has an appraisal value of RMB 1,070,674,203.44, and the 51% equity of Qingdao HSW held by Haier International (hereinafter referred to as "acquired assets") has an appraisal value of RMB 1,073,523,786.00. Both parties confirm that the transaction price of the acquired assets and disposed assets is 1,073,523,786.00, that is, the acquired assets and disposed assets are exchanged in equal amounts, without any compensation of the difference.

The equity structure of the transaction target before and after the completion of the asset swap transaction is as follows:



本次交易前交易标的股权结构图	The underlying equity structure chart of the transaction before asset swap transaction
本次交易完成后交易标的股权结构图	The underlying equity structure chart of the transaction after the completion of the transaction
海尔国际	Haier International
海尔电器	HEG
海尔集团公司	Haier Corp

青岛海尔	Qingdao Haier
贯美（上海）企业管理有限公司	Guanmei (Shanghai) Enterprise Management Co., Ltd.
冰戟公司	Bingji Company
水设备	Water Equipment
优瑾（上海）企业管理有限公司	Youjin (Shanghai) Corporate Management Co., Ltd.
青岛日日顺物流有限公司	Qingdao Haier Goodaymart Logistics Co., Ltd.
其他股东合计	Total shareholding of other shareholders
注：直接持股 间接持股	Note: Direct shareholding Indirect shareholding
日日顺（上海）投资有限公司	RRS (Shanghai) Investment Co., Ltd.

4. Main considerations for the asset swap

（1）Water purifier market

Drinking water consumption structure in the PRC has been undergoing major changes in recent years, with considerable increase in the consumption level of water processed by purifiers. The percentage of using water processed by purifiers has increased from 11.3% in 2013 to 29.0% in 2017 and is expected to further increase to 56.3% in 2022, taking up over half of total water consumption in the PRC, with an estimated volume of 650.4 billion liter in 2022, according to Frost & Sullivan. Such increase is primarily driven by the consumption upgrade in the PRC, the increasing urbanization rate and per capita disposable income of urban households, the rising level of health awareness and the gradually decreasing cost of using water purifiers. The penetration rate of water purifiers in the PRC is low compared with developed countries/regions, implying huge future growth potential. Riding on the consumption upgrade trend and benefited from rising health awareness and increasing demand from middle-class consumers, it is expected that the penetration rate of water purifiers in the PRC will reach 37.9% in 2022, according to Frost & Sullivan’s forecast. In line with the growing demand as well as the increasing penetration rate, the PRC water purifier market has experienced rapid growth and is expected to keep the robust growth trend in the coming years. According to Frost & Sullivan’s forecast, the total size of the PRC water purifier market in terms of sales value will reach RMB233.2 billion in 2022. In order to further diversify product portfolio and capture growth momentum, HEG plans to acquire new business line with potential synergy, strong profitability and sustainable growth, which will reinforce the focus on its core business of home appliance.

（2）Logistics market

The logistics market in the PRC has growth prospects but is also facing increasingly competitive pressure. For the first half of 2018, revenue from the HEG’s logistics services segment increased by 15.4% over corresponding period in 2017, slowing down from that of 21.3% recorded in the first half of 2017. In order to maintain leadership in competitive landscape, HEG is expected that Gooday will adopt a series of long-term growth strategies that entail dedicated management with clear focus, capital investments and strong execution. Prior to the swap transaction, HEG is a combination of two distinct businesses with different investment attributes, namely businesses of home appliance manufacturing and logistics service supported by strong channeling services, which present a diversified investment theme to equity market that seeks simplicity and transparency. The above assets swap will enable HEG to focus on consumer appliance business and simplify its investment story and provide clarity to professional investors interested in relevant stocks of consumption sectors. Besides, the logistics segment is already operating independently with its own well-established financial system, IT system and human resource system. The separation of logistics business from HEG will not bring in adverse impact on existing business of both parties. At last, prior to the swap transaction, being a part of a listed company that primarily focuses on home appliance may not enable Gooday to effectively develop business with third-party home appliance customers.

5. Impact of assets replacement on HEG’ daily operation

In terms of strategies, the acquisition of Qingdao HSW will help HEG to establish a complete smart home water ecosystem, clarify its positioning of "Water appliances + healthy home platform", and promote its development into green service platform by providing all-round water solutions.

In terms of business, Qingdao HSW’s water purification business is in the early stage of the product life cycle. Through Haier Group’s early investment over the years, it has achieved the top 5 market position in the industry. The acquisition of HEG will help HEG find new growth points, and enhance its growth potential and profitability.

In terms of management, with the expansion of integrated logistics companies and the addition of new entrants supported by capital, industry competition in the logistics industry has intensified. At the same time, labor costs and real estate rental costs continue to increase. By disposal of the logistics business, it helps to reduce the cost of managing the logistics business.

In terms of organization, the newly merged water purification business and the original water heater business will be integrated and managed. By leveraging internal customers, sales channels and channel service resources, strategic synergy effects can be achieved, thus collaboration between each other and overall operating efficiency can be improved

After the completion of the swap transaction, the cooperative relationship between HEG’ and Goodaymart's logistics business will not change, and will not affect the development of HEG’ home appliance business. With regard to the cooperation with Gooday Logistics after the completion of the replacement transaction, HEG and HSH have performed the corresponding decision-making procedures of related party transaction.

II. Formation background and accounting process of HSH's Long-term equity investment in Goodaymart Investment Company and impacts on HSH's Financial Data

1. Formation background of HSH's long-term equity investment in Goodaymart Investment Company

According to the *Asset Swap Agreement* entered into between Guanmei Company, a wholly-owned subsidiary of HEG, and Haier Electric International, a subsidiary of Haier Group on 30 August 2018, Guanmei Company agreed to acquire and Haier Electric International agreed to dispose of 51% of Qingdao HSW's equity interests at a consideration of RMB1.074 billion. Guanmei Company agreed to transfer its 55% equity interest in Bingji Company to Haier Electric Appliances International at the same consideration. Bingji Company is an investment holding company and indirectly controls Goodaymart. Since Bingji Company and its subsidiary Youjin (Shanghai) Corporate Management Co., Ltd. are mainly holding companies and have no substantive business, Goodaymart's business is mainly concentrated on the consolidation level of Goodaymart (Shanghai) Investment Co., Ltd. (hereinafter referred to as "Goodaymart Investment"). After the completion of the asset swap, HEG directly held 45% equity interests in Goodaymart Investment, and lost control of Goodaymart Investment, thus forming a long-term equity investment in Goodaymart Investment; in addition, through its subsidiary Guanmei Company, HEG indirectly enjoys 38.36% equity interests in Goodaymart Investment, with a total of 83.36% of Goodaymart Investment.

2. Accounting Process of HSH's Long-term Equity Investment in Goodaymart Investment Company and Impacts on the Company's Financial Data

After the completion of the asset swap transaction, Goodaymart Investment was converted from a subsidiary of HEG to an associated company with significant influence. According to the *Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements*, in the event of the loss of control of the investee due to disposal of part of equity investments or other reasons, in the preparation process of consolidated financial statements, the remaining equity shall be remeasured at the fair value on the date of the loss of control. The difference from the sum of consideration obtained from the disposal of the equity and the fair value of the remaining equity, less the sum of the share of net assets owned in the original subsidiary measured in proportion of the shareholdings from the acquisition date or consolidation date shall be included in investment income generated from the loss of control in the current period and would offset goodwill. Other comprehensive income in relation to the equity investments of the original subsidiary should be transferred to investment income in the current period when lose such control. As a result of the asset swap, HEG confirmed the net disposal income of approximately RMB3.162 billion, which was calculated based on the sale consideration of RMB1.074 billion plus the fair value of the remaining equity held by HEG of RMB5.377 billion, deducting the total nominal amount of net assets attributable to parent company of RMB2.625 billion and income tax of RMB0.665 billion on 30 June 2019.

III. Explanations for the specific impact of the above asset swap transaction on the valuation of HEG

On the one hand, the swap transaction price is based on the assessed value of the acquired asset and the disposed asset, both of which are RMB1,073,523,786.00, which meant that the acquired assets and the disposed assets were swapped at equal amounts, without any impact on the valuation of HEG.

On the other hand, the valuation analysis of HEG in the transaction was based on its net profit from continuing operation attributable to parent company of HEG, therefore the impact of the above asset swap transaction on the profit and loss of HEG had been eliminated.

IV. Supplementary disclosure

In the “II. Basic information of HEG/(XVII) Accounting policies and related accounting treatments during the reporting period” in “Section IV Basic information of underlying assets” of the Restructuring Report, HSH has supplemented the disclosure of the overview of the situation of Qingdao HSW and Bingji Company, the main content of the asset swap plan, the main considerations of asset swap, the impact of asset swap on HEG’s daily operations and the impact of asset swap on HEG’s valuation; and has supplemented the disclosure of Formation Background and

Accounting Process of HSH’s Long-term Equity Investment in Goodaymart Investment Company and Impacts on the HEG’s Financial Data in “2. Analysis of the financial condition and operating results related to HEG before the transaction/(1) Analysis of the financial condition of the subject company” under “Section 10 Management Discussion and Analysis” of the Restructuring Report.

V. Verification opinions from intermediary agencies

After verification, the independent financial advisors and the financial advisors are of the view that the aforementioned asset swap of HEG is based on a reasonable industry background and its own development demands; and the accounting treatment of the asset swap complies with the provisions of the Accounting Standards for Business Enterprises and has no impact on the valuation of HEG in the transaction.

6. The Restructuring Report disclosed that the houses and buildings of HEG amounted to RMB1.087 billion, representing a decrease of 46.34% on a year-on-year basis and the machinery equipment of HEG amounted to RMB2.329 billion, representing an increase of 86.78% on a year-on-year basis at the end of 2019.

The supplementary disclosure which shall be made for the Company include: the specific reasons and backgrounds as well as the rationality of the changes in the houses and buildings and machinery equipment as mentioned above, and whether the changes would have an adverse effect on the structure of production capacity of HEG. The financial advisors shall express his opinions.

Reply:

I. The specific reasons and backgrounds as well as the rationality of the changes in the houses and buildings and machinery equipment as mentioned above, and whether the changes would have an adverse effect on the structure of production capacity of HEG

The specific reasons for the changes in the houses and buildings and machinery equipment of HEG at the end of 2019 compared to that at the end of 2018 are as follows:

1. The amount of the houses and buildings of HEG at the end of 2019 was RMB1.087 billion, representing a decrease of RMB0.939 billion or 46.34% compared to that at the end of 2018. The major changes, except the normal provision of depreciation, include: (1) Bingji Company and its subsidiaries has become the associates of HEG from its subsidiaries as a result of the assets swap transactions of HEG in 2019, and has not been included in the consolidated statements, which have caused the decrease of RMB1.381 billion for the net value of the houses and buildings; (2) the net value of the houses and buildings decreased approximately RMB0.053 billion as result of the relocation of the two washing machine factories of HEG in Qingdao; (3) the amount of the houses and buildings increased approximately RMB0.588 billion as a result of the transfer from the construction in progress to fixed assets as the construction of part of HEG's new factories are ready for its intended use.

2. The amount of the machinery equipment of HEG at the end of 2019 was RMB2.329 billion, representing an increase of RMB1.082 billion or 86.78% compared to that at the end of 2018. The major changes, except the normal provision of depreciation, include: (1) the amount of the machinery equipment increased approximately RMB1.496 billion as a result of the transfer from the construction in progress to fixed assets as the construction of part of HEG's new factories are ready for its intended use; (2) the amount of the machinery equipment decreased RMB0.044 billion as Bingji Company and its subsidiaries has not been included in the consolidated statements; (3) the amount of the machinery equipment decreased approximately RMB0.194 billion as result of the relocation of the two washing machine factories of HEG in Qingdao.

The decreases in the houses and buildings as mentioned above were mainly due to the disposal of Bingji Company and its subsidiaries by HEG in order to focus on the white goods as the main business; and the changes in the machinery equipment were mainly due to the increase of the machinery equipment of HEG's new factories, which is beneficial to improve the production capacity of the white goods as the main business for HEG.

As of the end of 2019, HEG had 10 factories in the domestic for the washing machine business with the total production capacity of more than 25 million; and had 7 factories in the world for the water heaters business with the total production capacity of more than 14 million. HEG's production capacity increased 3.4 million for the washing machine business and increased 1.2 million for the water heaters business compared to that on 31 December 2018.

The main reasons for the production capacity's increase for the washing machine business in 2019 as a whole were that the three washing machine factories in Qingdao, Hefei and Tianjin of HEG were ready for its intended use in January 2019, January 2019, and September 2019, respectively, which has increased the production capacity of washing machine; and at the same time, the consolidated effect on the production capacity of washing machine was decreased as a result of the relocation of the two washing machine factories of HEG in Qingdao. The main reason for the production capacity's increase for the water heaters business in 2019 was that the water heaters factories in Qingdao were ready for its intended use in October 2019, which has increased the production capacity of water heaters.

In summary, the main reasons for the changes in the houses and buildings and machinery equipment as mentioned above are that a series of the operations related to focusing on the white goods as the main business by HEG was rational, which has not caused an adverse effect on the structure of production capacity of HEG.

II. Supplementary disclosure

The Company has made the supplementary disclosure for the specific reasons of the changes in the houses and buildings and machinery equipment of HEG at the end of 2019 compared to the end of 2018, which set out in “2. Analysis of the financial condition and operating results related to HEG before the transaction/(I) Analysis of the financial condition of the subject company” under “Section X Management Discussion and Analysis” of the Restructuring Report.

III. Verification opinions from intermediary agencies

After verification, the independent financial advisors and financial advisors believe that the reasons of the changes in the houses and buildings and machinery equipment of HEG at the end of 2019 was rational, which has not caused an adverse effect on the structure of production capacity of HEG.

It is hereby notified the above.

Haier Smart Home Co., Ltd.

31 August 2020