

China International Capital Corporation Limited

Special Inspection Report on the Deposit and Use of Raised Funds by Haier Smart Home Co., Ltd. in 2019

As the sponsor institution and lead underwriter of the public issuance of convertible corporate bonds in 2018 of Haier Smart Home Co., Ltd. (originally known as “Qingdao Haier Co., Ltd.”, hereinafter referred to as “Haier Smart Home” or the “Company”), China International Capital Corporation Limited (hereinafter referred to as “CICC” or the “Sponsor Institution”) conducted prudent inspection over issues such as the deposit and use of raised funds by the Company in 2019 in accordance with relevant laws and regulations and rules of standardized documents such as *Measures for the Administration of the Sponsor Business of Securities Issuance and Listing, Listing Rules for Stocks in Shanghai Stock Exchange* (Revised in April 2019), *Administrative Measures for Raised Funds by Listed Companies of Shanghai Stock Exchange* (Revised in 2013), *Regulatory Directives for Listed Companies No.2---Regulatory Requirements for Management and Use of Raised Funds by Listed Companies*, and expressed the following inspection opinions:

I. Basic Information of the Raised Funds

(I) Information on actual amount and availability of Raised Funds

As approved by the *Reply on Approving the Public Issuance of Convertible Corporate Bonds by Qingdao Haier Co., Ltd.* (Zheng Jian Xu Ke [2018] No. 1912) of the China Securities Regulatory Commission (hereinafter referred to as the “CSRC”) and agreed by the Shanghai Stock Exchange, the Company was approved to issue convertible corporate bonds of RMB3,007.49 million in a par value of RMB100 each, and the total number of bonds issued is 30,074,900 and the Issue Price for each bond is RMB100, with a term of 6 years. After deducting sponsoring and underwriting fees (including value-added tax) from the raised funds of convertible corporate bonds in this Issuance of RMB23,909,500, the balance was RMB2,983,580,500. The paid-in raised funds, after deducting lawyers, accountants, credit rating, information disclosure, registration services and issuance handling fees, totaled RMB3,555,700,

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

while the net amount of actually raised funds was RMB2,980,024,800. Shandong Hexin Certified Public Accountants LLP (currently known as “Hexin Certified Public Accountants LLP”) has verified the remittance of the raised funds and issued a *Capital Verification Report* (Hexin Yan Zi. (2018) No. 000090), and as verified by which the above-mentioned raised funds have been fully put in place.

(II) Amount used and balance of raised funds in 2019

As of 31 December 2019, the used raised funds amounted to RMB1,676.65 million, and the balance amounted to RMB1,355.06 million (the account balance includes the income generated from the Company's wealth management products, interest on demand deposits, exchange gains and losses, and raised funds not yet invested).

II. Information on Management of Raised Funds

(I) Information on management regulations of raised funds

In order to regulate the management and application of raised funds, improve the efficiency of its use and protect the rights and interests of investors, the *Management Regulations of Raised Funds of Haier Smart Home Co., Ltd.* (hereinafter referred to as the “*Management Regulations of Raised Funds*”) is hereby formulated by Haier Smart Home in accordance with the *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, *Listing Rules for Stocks in Shanghai Stock Exchange* (Revised in April 2019), *Administrative Measures for the Issuance of Securities by Listed Companies*, *Regulatory Directives for Listed Companies No.2---Regulatory Requirements for Management and Use of Raised Funds by Listed Companies*, *Administrative Measures for Raised Funds by Listed Companies of Shanghai Stock Exchange* (Revised in 2013) and other relevant laws as well as the requirements of the *Articles of Association*, and subject to the actual situation of the Company, which clearly stipulates the storage, management, use and supervision of the Company's raised funds.

(II) Information on management of raised funds

Pursuant to the relevant provisions of the *Management Regulations of Raised*

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Funds, the Company stores the raised funds at the special account of Raised Funds and opens special accounts of Raised Funds at banks. On 28 December 2018, the Company has entered into the *Trilateral Deposit Regulation Agreement for Special Account of Raised Funds* with the Sponsor Institution CICC, China Construction Bank Corporation Haier Road Branch (hereinafter referred to as “CCB Haier Road Branch”) and Bank of China Limited Qingdao Sub-branch (hereinafter referred to as “BOC Qingdao Branch”); on 12 July 2019, the Company has entered into the *Tetragonal Supervision Agreement on Special-account Deposits of Raised Funds* with the implementing entity of raised funds project, the Sponsor Institution CICC, CCB Haier Road Branch, BOC Qingdao Branch, Bank of China (Hong Kong) Hochiminh City Sub-branch (hereinafter referred to as “BOC Hochiminh City Sub-branch”) and Industrial and Commercial Bank of China (Moscow) Limited (hereinafter referred to as “ICBC Moscow Sub-branch”); on 11 September 2019, the Company has entered into the *Tetragonal Supervision Agreement on Special-account Deposits of Raised Funds* with the implementing entity of raised funds project, the Sponsor Institution CICC, Industrial and Commercial Bank of China, Mumbai Branch (hereinafter referred to as the “ICBC Mumbai Branch”). There is no significant difference between such agreements and the Trilateral Deposit Regulation Agreement for Special Account of Raised Funds (~~Model~~[Sample](#)) of the Shanghai Stock Exchange, and the Company has strictly followed such agreements when using the raised funds.

(III) Information on deposit of raised funds at special account

As of 31 December 2019, the deposit of Raised Funds from the public issuance of convertible corporate bonds in 2018 of the Company is shown as follows:

Unit of amount: RMB (if not specified)/yuan			
Account-opening Unit	Bank of Deposit	Account No.	Balance as of 31 December 2019
Haier Smart Home Co., Ltd.	CCB Haier Road Branch	37150198551000000640	24,908,005.13
Haier Smart Home Co., Ltd.	BOC Qingdao Branch	244237870606	5,851,758.52
Haier Russia Washing Machine Co., Ltd.	ICBC Moscow Sub-branch	40702840500000010918 (US\$)	8,526,346.55
		40702810200000010918 (RUB)	3,115,917.42
Hefei Haier Air Conditioning Electronics Co., Ltd.	CCB Haier Road Branch	37150198551000000669	11,783,114.18

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Account-opening Unit	Bank of Deposit	Account No.	Balance as of 31 December 2019
Qingdao Haier (Jiaozhou) Air-conditioning Co., Limited	BOC Qingdao Branch	235138702712	4,226,274.08
Qingdao Haier Technology Co., Ltd.	BOC Qingdao Branch	228639313388	1,124,565.06
Qingdao Haier Special Refrigerating Appliance Co., Ltd.	BOC Qingdao Branch	210438496214	14,977,223.34
AQUA Electrical Appliances Vietnam Co., Ltd	BOC Hochiminh City Sub-branch	100000600301527 (US\$)	5,759,825.57
Qingdao Haier Smart Kitchen Appliance Co., Ltd.	BOC Qingdao Branch	227338455528	2,682,803.35
Hefei Haier Air-conditioning Co., Limited	CCB Haier Road Branch	37150198551000000672	6,777,728.86
Laiyang Haier Smart Kitchen Appliance Co., Ltd.	CCB Haier Road Branch	37150198551000000674	7,304,220.36
Zhengzhou Haier Air-conditioning Co., Ltd.	CCB Haier Road Branch	37150198551000000670	1,917,970.30
Haier Appliances (India) Private Limited	ICBC Mumbai Branch	0166000100000164728 (Rupee)	4,287,521,401.83
		0166000100000169238 (US\$)	16,420,921.20
Subtotal of balance of raised funds (amount converted into RMB)			716,038,702.85
The amount of idle raised funds for cash management			639,018,078.00
Total			1,355,056,780.85

III. Information on Use of Capital for Investment Projects Financed by Proceeds

For the details on actual use of raised funds in 2019, please refer to the “Comparative Table on Use of Raised Funds”.

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Comparative Table on Use of Raised Funds

(Unit of amount: RMB'0'000)

Total Raised Funds				298,358		Total Raised Funds Invested during the Year					167,665	
Total Repurposed Raised Funds				66,045		Total Raised Funds Invested Cumulatively					167,665	
Proportion of Total Repurposed Raised Funds				22.14%								
Committed Investment Project	Repurposed Project, including partially repurposed project (if any)	Total Committed Investment Amount	Total Adjusted Investment Amount	Committed Investment Amount by the End of the Period (1)	Investment Amount during the Year	Cumulative Investment Amount by the End of the Period (2)	Difference between Cumulative Investment Amount by the End of the Period and the Committed Investment Amount (3) = (2)-(1)	Investment Progress by the End of the Period (%) (4) = (2)/(1)	Date when Project Reaches the Scheduled Availability	Return Benefits Realized during the Year	Whether the expected benefits <u>return</u> have been achieved or not[Note 1]	Whether the feasibility of the project has changed significantly
Annual production of 500 thousand	No	52,420	52,420	52,420	43,929	43,929	8,491	84	June 2019	2,499	[Note 2]	No

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

high-end special refrigerator project												
Air-conditioner production base smart manufacturing upgrading project of Haier (Zhengzhou) innovation industrial park	No	7,800	7,800	7,800	2,687	2,687	5,113	34	December 2020	NA	NA	No
Air-conditioner smart manufacturing upgrading project of Haier Jiaozhou innovation industrial park	No	8,800	8,800	8,800	3,414	3,414	5,386	39	December 2020	NA	NA	No
Newly increased 2 million sets of energy-saving environment	No	20,864	20,864	20,864	12,334	12,334	8,530	59	December 2018	2,901	Yes	No

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

protection air-conditioner project of Hefei Haier Air-conditioner Co., Ltd.												
Annual production of 1.5 million air-conditioner project of High-end central air-conditioning	No	37,314	37,314	37,314	14,277	14,277	23,037	38	December 2018	1,798	No	No
PCBA computer board Tianjin Plant construction project	Yes	5,395	-	-	-	-	-	/	December 2019	NA	NA	No
PCBA computer board Hefei plant construction project	Yes	18,529	-	-	-	-	-	/	December 2020	NA	NA	No

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Haier kitchen appliance new plant project	No	30,110	30,110	30,110	19,936	19,936	10,174	66	June 2018	9,691	Yes	No
Haier kitchen appliance Laiyang new plant project	No	27,620	27,620	27,620	20,409	20,409	7,211	74	August 2019	-1,652	[Note 3]	No
Russia Front Loading Washing Machine Manufacturing Base Project	No	34,058	34,058	34,058	28,872	28,872	5,186	85	December 2019	-1,052	[Note 4]	No
Vietnam Front Loading Washing Machine Production Center Project	No	12,751	12,751	12,751	9,013	9,013	3,738	71	July 2019	187	Yes	No
Haier North India Industrial Park Project (Phase I)	Yes	-	66,045	66,045	12,598	12,598	53,447	19	October 2020	NA	NA	No
Advanced	Yes	10,621	-	-	-	-	-	/	December	NA	NA	No

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

research and development laboratory construction project of smart home appliance									2020			
Industrial smart research institute construction project	Yes	31,500	-	-	-	-	-	/	December 2020	NA	NA	No
Smart home operating system (U+) project based on natural interaction and cloud brain construction project	No	2,967	2,967	2,967	196	196	2,771	7	June 2021	NA	NA	No
Total		300,749	300,749	300,749	167,665	167,665	133,084	—	—		—	—

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Reasons for failing to reach planed schedule or expected return (by specific investment project financed by proceeds)	<u>Annual</u> production of 1.5 million air-conditioner project of High-end central air-conditioning: In 2019, the expected target of the overall order has <u>been</u> fulfilled, but the actual order number of high-end products with strong profitability is different from the plan, which affects the annual revenue. In the future, it is planned to optimize the product structure to improve the overall project profitability.
Illustrations for material changes of <u>project</u> feasibility of project	NA
Initial investment and replacement of investment projects with raised funds	<p>On 24 January 2019, <i>the Proposal on Using Capital Raised to Replace Self-raised Funds Pre-Invested in Investment Projects Financed by Proceeds</i> was considered and approved at the 26th Meeting of the Ninth Session of the Board of Directors and the 22nd Meeting of the Ninth Session of the Supervisory Committee, pursuant to which as of 31 December 2018, the amount pre-invested in fund-raising investment project with raised funds that the Company intended to replace was RMB996,331,200 in total.</p> <p>On 29 April 2019, <i>the Proposal on Using Capital Raised to Replace Self-raised Funds Pre-Invested in Investment Projects Financed by Proceeds</i> was considered and approved at the 27th Meeting of the Ninth Session of the Board of Directors and the 23rd Meeting of the Ninth Session of the Supervisory Committee, pursuant to which from 1 January 2019 to 18 October 2019, the amount pre-invested in fund-raising investment project (Overseas emerging markets' manufacturing base construction projects which layout the "One Belt, One Road") with self-raised funds that the Company intended to replace was RMB102.52 million in total.</p>

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

	<p>On 30 October 2019, <i>the Proposal on Using Capital Raised to Replace Self-raised Funds Pre-Invested in Investment Projects Financed by Proceeds</i> was considered and approved at the 4th Meeting of the Tenth Session of the Board of Directors and the 4th Meeting of the Tenth Session of the Supervisory Committee, pursuant to which from 30 April 2019 to 18 October 2019, the amount invested in fund-raising investment project with raised funds that the Company intended to replace Haier North India Industrial Park Project (Phase I) was RMB63.51 million in total.</p>
Information of temporarily supplementing circulating capital with idle raised funds	<p>On 29 August 2019, <i>the Proposal in relation to the Temporary Replenishment of Working Capital with Part of Idle Raised Funds of Haier Smart Home Co., Ltd.</i>, was considered and approved at the 3th Meeting of the Tenth Session of the Board of Directors and the 3th Meeting of the Tenth Session of the Supervisory Committee, pursuant to which, it decided to temporarily replenish the working capital with part of Idle Raised Funds which does not exceeding RMB35 million <u>and</u> within 12 months from the date of consideration and approval by the Board of Directors.</p>
Utilisation of idle raised funds for cash management by investing in financial products	<p>On 24 January 2019, <i>the Proposal in relation to the Use of Idle Raised Funds for Cash Management of Qingdao Haier Co., Ltd.</i>, was considered and approved at the 26th Meeting of the Ninth Session of the Board of Directors , <u>and</u> pursuant to which, it <u>was</u> agreed that the Company uses idle raised funds up to RMB1,500 _,000,000 <u>million</u> for cash management on the condition that the normal implementation of the investment project financed by raised funds will not be affected.</p> <p>As of the balance sheet date, the Company used temporary idle raised funds to purchase principal-guaranteed wealth management products with the amount of RMB639.02 million.</p>

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Utilisation of excess raised funds for permanent replenishment of working capital or repayment of bank loans	NA
Amount of balance of raised funds and the reasons for its formation	NA
Information of other uses of raised funds	NA

[Note 1]: “~~Return Realized during the Year~~~~Realized return of this year~~” represents the net profit from the investment projects financed by proceeds realized for the current period, the measurement and method of calculation is the same as that of the committed return.

[Note 2]: The Company disclosed in the “Feasibility Analysis Report on the Use of Raised Funds of Qingdao Haier’s Public Issuance of Convertible Corporate Bonds (Revised Draft)”that the net profit of the annual production of 500 thousand high-end special refrigerator project could be RMB60.7433 million in the first year after the construction period and the project reached its intended use in June 2019, which is less than one accounting year.

[Note 3]: The Company disclosed in the “Feasibility Analysis Report on the Use of Raised Funds of Qingdao Haier’s Public Issuance of Convertible Corporate Bonds (Revised Draft)”that the net profit of Haier kitchen appliance Laiyang new plant project could be RMB69.9666 million in the first year after the construction period and the project reached its intended use in August 2019, which is less than one accounting year.

[Note 4]: The Company disclosed in the “Feasibility Analysis Report on the Use of Raised Funds of Qingdao Haier’s Public Issuance of Convertible Corporate Bonds (Revised Draft)”that the net profit of Russia Front Loading Washing Machine Manufacturing Base Project could be RMB48.2134 million in the first year after the construction period and the project reached its intended use in December 2019, which is less than one accounting year.

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

IV. Information on Changes of Some Investment Projects Financed by Proceeds

In order to give full play to the efficiency and return of raised funds, and considering the actual situation of investment projects financed by the raised funds and the needs of the Company, ~~some~~ raised funds with an amount of RMB 660.45 million, which were originally intended to be but not yet used in the sub-project “Construction Project on the Home Appliances Intelligent Control Module Factory” under “Project on Leading Consumption Upgrade and Intelligent Manufacturing Upgrade of Production Lines such as Refrigerators and Air-conditioners”, as well as the sub-projects “Construction Project on Advanced R&D Laboratory of Intelligent Home Appliances” and “Construction Project on Research Institute of Industrial Intelligence” under “Project on Improving Innovation Capability, Construction of Advanced R&D Laboratory, COSMOPlat Industrial Internet Platform and U+ Smart Life Platform” (the above projects are collectively referred to as “original investment projects financed by proceeds”), were used in the new project “Haier North India Industrial Park Project (Phase I)”.

(I) Reasons for the change

According to the Company's market plan, India has an important strategic significance ~~forin~~ the Company's global layout. As one of the BRIC countries, India's economy is ~~inat~~ a stage of rapid growth and, ~~low~~ penetration rate of household appliances, ~~andwith~~ a huge user base and great potential for, ~~whose~~ industrial development potential is huge. In recent years, the Company's business in India has achieved rapid growth with the income of 2016-2018 increased by 26%, 40% and 41%, respectively. Based on the current capacity, there will be a capacity gap in the Company in India by 2020. When the public issuance ~~program~~project of the Company's convertible corporate bonds was launched in September 2017, the “Haier Industrial Park Project in North India” was still in the process of demonstration and did not fully meet the reporting ~~conditions~~requirements of the investment projects financed by proceeds, thus the project was not included in the investment projects financed by proceeds. On 30 August 2018, the 18th meeting of the 9th session of the Board of Directors of the Company considered and approved the Proposal on Newly Constructing Industrial Park Project in North India of Qingdao Haier Co., Ltd., and

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

the Company intended to implement the new “Haier North India Industrial Park Project” to further increase production capacity output and,—order response speed, save transportation and material costs, and strengthen the Company's local market competitiveness.

Now considering that the demand for funds in India’s project is more urgent, and the construction period of the original part of investment projects financed by proceeds is relatively long whose need can be meet by using the self-owned/self-raised funds, the Company intends to use the proceeds of RMB660.45 million which were planned to be used in original part of investment projects financed by proceeds for the “Haier North India Industrial Park Project (Phase I)” to better match the capital demand cycle of the Company's various projects and improve the efficiency of capital use and optimizebetter fulfill the Company's overall business development needs.

(II) Decision-making procedures

The matters on changing part of the investment projects financed by raised funds have been considered and approved at the 27th Meeting of the Ninth Session of the Board of Directors, the 23rd Meeting of the Ninth Session of the Supervisory Committee, the First Bondholders Meeting in 2019, and the 2018 Annual General Meeting of the Company, where the Independent Directors of the Company have expressed unanimous opinions on the above matters, and the supervisors of the Company has expressed explicit agreements.

(III) Information on investment of raised funds after the change

Unit: RMB0'000

Project name	Raised funds intended to be invested
Project on Leading Consumption Upgrade and Intelligent Manufacturing Upgrade of Production Lines such as Refrigerators and Air-conditioners	127,198
Project on Practicing Big Kitchen Appliance Strategy and Capacity Layout of Whole-set Smart Kitchen Appliances	57,730
Project on “the Belt and Road” Layout and Construction of Manufacturing Base in Overseas Emerging Market	112,854
Project on Improving Innovation Capability, Construction of Advanced R&D Laboratory, COSMOPlat Industrial Internet Platform and U+ Smart Life	2,967

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Project name	Raised funds intended to be invested
Total	300,749

V. Problems in Usage and Disclosure of Raised Funds

After verification, the Company disclosed the relevant information in a timely, truthful, accurate and complete manner, and there is no significant circumstance in which raised funds were used in violation of regulations; the use of raised funds has been fully disclosed, and there are no significant information disclosure issues.

VI. Inspection Opinions of Sponsor Institution

After verification, the sponsor institution CICC believes that the deposit and usage of raised funds by Haier Smart Home Co., Ltd. in 2019 conform to the requirements of the *Listing Rules for Stocks in Shanghai Stock Exchange* (Revised in April 2019), *Administrative Measures for Raised Funds by Listed Companies of Shanghai Stock Exchange* (Revised in 2013), *Regulatory Directives for Listed Companies No.2---Regulatory Requirements for Management and Use of Raised Funds by Listed Companies* and other relevant regulations, ~~the~~ The raised funds is deposited at a special account and used for special purposes, and there is no circumstance of changing investments of raised funds in a disguised form nor harm of interests of shareholders, and there is no circumstance in which the use of the raised funds were ~~used~~ in violation of relevant regulations. .

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

(There is no formal text in this page, and it is the signing and stamp page for *Special Inspection Report of China International Capital Corporation Limited on the Deposit and Use of Raised Funds by Haier Smart Home Co., Ltd. in 2019*)

Sponsor representative (signature): _____
Sun Lei Li Yang

China International Capital Corporation Limited

DD/MM/YY

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.