

**Stock Code: 600690**

**Stock Name: Haier Smart Home**

## **Haier Smart Home Co., Ltd.**

### **2019 Internal Control Assessment Report**

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

In accordance with the relevant requirements of the *Basic Standards for Enterprise Internal Control* and its supporting guidelines, and other internal control regulatory requirements ( hereinafter referred to as the “Standards System for Enterprise Internal Control”), combining with the internal control system and assessment methods of Haier Smart Home Co., Ltd. (hereinafter referred to as the “Company”), and based on the daily supervision and special supervision of internal control, we have assessed the effectiveness of the internal control of the Company for the year ended 31 December 2019 (the base date of the internal control assessment report).

#### **I. IMPORTANT STATEMENT**

It is the responsibility of the Board of Directors of the Company to establish, improve and implement effectively internal control, to evaluate its effectiveness and to truthfully disclose the internal control assessment report in accordance with the requirements of the Standards System for Enterprise Internal Control. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors. The management is responsible for organizing and leading the daily operation of internal control of enterprise. The Board of Directors and Board of Supervisors of the Company and the directors, supervisors and senior management officers ensure that there are no false representations, misleading statements or material omissions in this report, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

The target of the Company’ s internal control is to ensure the legal compliance of operation and management, assets security, the authenticity and completeness of financial reports and related information, to improve operational efficiency and operating results and to boost the achievement of development strategies.

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Since the internal control has inherent limitations, it can only provide reasonable assurance for achieving the above objectives. Moreover, as changes in circumstances may render internal control inappropriate or reduce the degree of compliance with control policy or procedures, it is risky, to a certain extent, to predict the effectiveness of internal control in the future based on the results of an internal control assessment.

## **II. Conclusion of the assessment on internal control**

### **1. Whether the Company has material defects in the internal control over financial reports as at the base date of the internal control assessment report**

☐Yes ☒No

### **2. Conclusion of assessment on internal control over financial reports**

☒Effective ☐Ineffective

According to the identification of material defects in the internal control over financial reports of the Company, as at the base date of the internal control assessment report, there is no material defects in the internal control over financial reports. The Board of Directors of the Company is of the view that, the Company has maintained effective internal control over financial reports in all material aspects in compliance with the Standards System for Enterprise Internal Control and relevant requirements.

### **3. Whether material defects in internal control over non-financial reports were identified**

☐Yes ☒No

According to the identification of material defects in the internal control over non-financial reports of the Company, as at the base date of the internal control assessment report, the Company did not find any material defects in internal control over non-financial reports.

### **4. Factors affecting the assessment conclusion of internal control effectiveness from the base date of the internal control assessment report to the issuance date of the internal control assessment report**

☐Applicable ☒Not Applicable

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No factor affecting the assessment conclusion of internal control effectiveness has occurred from the base date of the internal control assessment report to the issuance date of the internal control assessment report.

**5. Whether the audit opinion on internal control was consistent with the assessment conclusion on internal control effectiveness over financial reports of the Company**

☒ Yes ☐ No

**6. Whether the disclosure of material defects in the internal control over non-financial reports in the audit report on internal control was consistent with that in the internal control assessment report of the Company**

☒ Yes ☐ No

### **III. Assessment on internal control**

**(I) The scope of internal control assessment**

The Company determines the main units, business, events and the high-risk areas included in the scope of the assessment in accordance with the risk-oriented principle.

- 1. The main units included in the scope of the assessment:** 244 corporations are included in the internal control and self-assessment scope of 2019, including Haier Smart Home Co., Ltd., Qingdao Haidayuan Procurement Service Co., Ltd., Qingdao Haidarui Procurement Service Co., Ltd., Chongqing Haier Electronics Sales Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Overseas Electric Appliance Co., Ltd., Qingdao Haier Special Refrigerator Co., Ltd., Chongqing Haier Refrigeration Appliance Co., Ltd., Hefei Haier Washing Machine Co., Ltd., Qingdao Haier Strauss Water Equipment Co., Ltd., Chongqing Goodaymart Electric Appliance Service Co., Ltd, Haier digital technology (Shanghai) Co., Ltd., Qingdao Haier Technology Co., Ltd., Haier U+smart Intelligent Technology (Beijing) Co., Ltd., Qingdao Blue Whale Technology Co., Ltd., Haier Group E-Commerce Co., Ltd.(海尔集团电子商务有限公司), Haier Singapore Investment Holding Pte. Ltd., Haier electric (India) Co., Ltd., Haier Asia Co., Ltd. (海尔亚洲株式会社), GEA, FPA, Candy, etc.

**2. The proportion of units included in the scope of assessment:**

Indicators	Proportion (%)
The ratio of total assets included in the scope of the assessment to the total assets in the consolidated financial statements of the Company	86
The ratio of total operating income included in the scope of the assessment to the total operating income in the consolidated financial statements of the Company	88

**3. The principal business and events included in the scope of the assessment include:**

Strategic aspects: corporate governance, strategy achievement, social responsibility, M & A and  
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reorganization; financial aspects: accounting and financial report, budget and control, fund management, investment management, capital operation and exchange rate management, tax management, asset management; operational aspects: product life cycle management, sales and collections, purchases and payments, supply chain management, product quality and after-sales, human resources management, IT and information system management; legal compliance aspects: international trade compliance, anti-money laundering management, personal data and privacy protection, intellectual property protection, etc.

**4. High risk areas on which main focus was placed include:**

1). supply chain management, IT and information system management, legal compliance management; 2). accounting and financial report, related party transactions, guarantee management, fund management, investment management, capital operation and exchange rate management, asset security and period-end valuation, M & A and reorganization management; 3). sales and collection, purchase and payment, expense and cost management, R & D management, quality and after-sales.

**5. Whether material omissions exist in the above units, business and events as well as the high-risk areas included in the scope of the assessment covering the major aspects of the Company's management**

☐Yes ☒No

**6. Whether statutory exemption exists**

☐Yes ☒No

**7. Other explanations**

None

**(II). Internal control assessment basis and identification standards on defects in the internal control**

The Company based on the *Basic Standards for Enterprise Internal Control* issued by Five Ministries and its supporting guidelines and the *Internal Control Manual* and *Practice Guideline on Internal Control Tests* to organize and conduct internal control assessment.

**1. Whether there is any adjustment in specific identification criteria for internal control defects as compared to the previous years**

☐Yes ☒No

The Board of Directors of the Company distinguished between internal control over financial reports and internal control over non-financial reports, researched and determined the applicable identification criteria on internal control defects which are consistent with the previous year according to the identification requirements for material defects, major defects and general defects in the System for Enterprise Internal Control, 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.*

combining factors such as the Company's scale, industry characteristics, risk appetite and risk tolerance etc.

## 2. Identification criteria for defects in the internal control over financial reports

The quantitative criteria for assessment on internal control defects over financial reports determined by the Company is as follows:

Indicator name	Quantitative criteria for material defects	Quantitative criteria for major defects	Quantitative criteria for general defects
Potential misstatement on total profit	Potential misstatement $\geq 5\%$ of profit before tax	5% of profit before tax $>$ potential misstatement $\geq 2\%$ of profit before tax	Potential misstatement $< 2\%$ of profit before tax
Potential misstatement of total assets	Potential misstatement $\geq 1\%$ of total assets	1% of total assets $>$ potential misstatement $\geq 0.5\%$ of total assets	Potential misstatement $< 0.5\%$ of total assets
Potential Misstatement of operating income	Potential misstatement $\geq 1\%$ of operating income	1% of operating income $>$ potential misstatement $\geq 0.5\%$ of operating income	Potential misstatement $< 0.5\%$ of operating income
Potential misstatement of Owners' equity	Potential misstatement $\geq 1\%$ of owners' equity	1% of owners' equity $>$ potential misstatement $\geq 0.5\%$ of Owners' equity	Potential misstatement $< 0.5\%$ of owners' equity

The qualitative criteria for assessment on internal control defects over financial reports determined by the Company is as follows:

Nature of defects	Qualitative criteria
Material defects	1. Ineffectiveness of environment control, such as frauds of the directors, supervisors and senior management of the Company, identified major defects do not be rectified after a reasonable period, etc; 2. Restatement of previous financial reports to rectify material misstatement; 3. Material misstatement in the financial statements identified by the external auditing which is not identified by the operation of internal control; 4. Ineffective supervision of the audit committee on the financial reports and the relevant internal control of the Company
Major defects	1. Misunderstanding on selection of Generally Accepted Accounting Principles and application of accounting policies which is not identified in time; 2. Failure to establish anti-fraud procedures and control measures; 3. Failure to set up corresponding control mechanism or to implement and set up corresponding compensatory control for irregular or special transactions
General defects	Other internal control defects not constituting material defects and major defects

## 3. Identification criteria for defects in the internal control over non-financial reports

The quantitative criteria for assessment on internal control defects over non-financial reports determined

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by the Company is as follows:

Indicator name	Quantitative criteria for material defects	Quantitative criteria for major defects	Quantitative criteria for general defects
Potential misstatement on total profit	Potential misstatement $\geq$ 5% of profit before tax	5% of profit before tax $>$ potential misstatement $\geq$ 2% of profit before tax	Potential misstatement $<$ 2% of profit before tax
Potential misstatement of total assets	Potential misstatement $\geq$ 1% of total assets	1% of total assets $>$ potential misstatement $\geq$ 0.5% of total assets	Potential misstatement $<$ 0.5% of total assets
Potential Misstatement of operating income	Potential misstatement $\geq$ 1% of operating income	1% of operating income $>$ potential misstatement $\geq$ 0.5% of operating income	Potential misstatement $<$ 0.5% of operating income
Potential misstatement of Owners' equity	Potential misstatement $\geq$ 1% of owners' equity	1% of owners' equity $>$ potential misstatement $\geq$ 0.5% of Owners' equity	Potential misstatement $<$ 0.5% of owners' equity

The qualitative criteria for assessment on internal control defects over non-financial reports determined by the Company is as follows:

Nature of defects	Qualitative criteria
Material defects	1. Breach of laws and regulations of PRC; 2. The Company incurs loss in consecutive years and the going concern is challenged; 3. Lack of systematic control or systematic ineffectiveness of the systems of the principal business; 4. Lack of decision-making procedures in the material decision of the Company or material irrationality of the procedures leading to material fault; 5. Frequent publication of the Company's negative news by the media, which has a wide coverage and continuing adverse impacts
Major defects	1. Lack of systematic control or systematic ineffectiveness of the systems of the general business; 2. High turnover rate of the management and the personnel of the key positions; 3. Major or general defects on internal control over non-financial reports do not be rectified after a reasonable period
General defects	Other internal control defects not constituting material defects and major defects

### (III). Identification and rectification of internal control defects

#### 1. Identification and rectification of internal control defects over financial reports

##### 1.1. Material defects

Whether the Company had any material defect over the financial reports during the reporting period

☐Yes ☒No

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### **1.2. Major defects**

Whether the Company had any major defect over the financial reports during the reporting period

☐Yes ☒No

### **1.3. General defects**

None

### **1.4. After the above rectification, as at the base date of the internal control assessment report, whether the Company had any material defect in the internal control over financial reports of which the rectification had not been completed**

☐Yes ☒No

### **1.5. After the above rectification, as at the base date of the internal control assessment report, whether the Company had any major defect in the internal control over financial reports of which the rectification had not been completed**

☐Yes ☒No

## **2. Identification and rectification of internal control defects over non-financial reports**

### **2.1. Material defects**

Whether the Company had any material defect over non-financial reports during the reporting period

☐Yes ☒No

### **2.2. Major defects**

Whether the Company had any major defect over non-financial reports during the reporting period

☐Yes ☒No

### **2.3. General defects**

None

### **2.4. After the above rectification, as at the base date of the internal control assessment report, whether the Company had any material defect in the internal control over non-financial reports of which the rectification had not been completed**

☐Yes ☒No

### **2.5. After the above rectification, as at the base date of the internal control assessment report, whether the Company had any major defect in the internal control over non-financial reports of which the rectification had not been completed**

☐Yes ☒No

## **IV. Explanations on other significant events in relation to internal control**

### **1. Rectification of internal control defects of the previous year**

☐Applicable ☒Not applicable

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**2. The operation of the internal control during the year and the improvement direction in the next year**

☐Applicable ☒Not applicable

**3. Explanations on other significant events**

☐Applicable ☒Not applicable

Chairman of the Board of Directors (Authorized by the Board of Directors): Liang Haishan

Haier Smart Home Co., Ltd.

28 April, 2020

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