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Haier Smart Home Co., Ltd.*

海爾智家股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 6690

**CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENTS**

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the listing document of the Company dated 16 November 2020 in relation to, among other things, the Services Supply Framework Agreement, the Services Procurement Framework Agreement, the Products and Materials Sales Framework Agreement, and the Products and Materials Procurement Framework Agreement entered into between our Company and Haier Group as well as the annual caps for the period from the Listing Date to 31 December 2022 which were set in respect of these agreements.

Given that these agreements and their proposed annual caps will expire on 31 December 2022 and our Company will continue to conduct such transactions subsequent to 31 December 2022, our Company and Haier Group entered into the New Continuing Connected Transactions Framework Agreements on 28 April 2022 in respect of these agreements for a term of three years commencing from 1 January 2023 to 31 December 2025, subject to the consideration and approval by the internal competent authority of the Company and Haier Group.

IMPLICATIONS OF THE HONG KONG LISTING RULES

As at the date of this announcement, as Haier Group holds, directly and indirectly, approximately 34% of the voting rights in the Company, therefore, Haier Group is the Controlling Shareholder of the Company and a Connected Person of the Company. Consequently, the transactions contemplated under the New Continuing Connected Transactions Framework Agreements constitute Continuing Connected Transactions under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the Hong Kong Listing Rules, in respect of the proposed annual caps of the New Services Supply Framework Agreement, the New Services Procurement Framework Agreement and the New Products and Materials Sales Framework Agreement, as the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) for the transactions contemplated under these agreements are higher than 0.1% but less than 5%, the transactions contemplated under these agreements are subject to the requirements of reporting, announcement and annual review under Chapter 14A of the Hong Kong Listing Rules, but are exempt from the requirements of Independent Financial Adviser's opinions and Independent Shareholders' approval.

Although under the Hong Kong Listing Rules, the transactions contemplated under the New Services Procurement Framework Agreement are exempt from compliance with Independent Financial Advisors' opinions and Independent Shareholders' approval requirements, according to the Rules Governing the Listing of Shares on the Shanghai Stock Exchange, the New Services Procurement Framework Agreement shall be submitted to the general meeting for consideration. To provide Shareholders with more comprehensive information, the Company has appointed the Independent Financial Advisor to advise Independent Shareholders on the transactions contemplated under the New Services Procurement Framework Agreement and their proposed annual caps.

Pursuant to the Hong Kong Listing Rules, in respect of the proposed annual caps of the New Products and Materials Procurement Framework Agreement, as the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) for the transactions contemplated under the agreement are higher than 5% but less than 25%, the transactions contemplated under the agreement are subject to the requirements of reporting, announcement, annual review, Independent Financial Advisor's opinions, and Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

AGM

The Company will convene an AGM to consider and approve the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps for 2023, 2024 and 2025. At the AGM, Haier Group and its associates will abstain from voting on the resolutions of the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps. As at the date of this announcement, to the best of the Directors' knowledge and belief, having made all reasonable enquiries, no Shareholder other than those disclosed in this announcement is required to abstain from voting on the above resolutions. The above resolutions will be passed by way of ordinary resolution and voted on by way of poll.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps for 2023, 2024 and 2025. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matter.

A circular containing, among other things, the details of the New Services Framework Procurement Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser and a notice convening the AGM will be despatched to the Shareholders of the Company in due course, for which the Company will need time to make various preparations, resulting in the expected despatch date of the circular being 15 business days after the publication of this announcement.

I. CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENT

1. Background

Reference is made to the listing document of the Company dated 16 November 2020 in relation to, among other things, the Services Supply Framework Agreement, the Services Procurement Framework Agreement, the Products and Materials Sales Framework Agreement, and the Products and Materials Procurement Framework Agreement entered into between our Company and Haier Group as well as the annual caps for the period from the Listing Date to 31 December 2022 which were set in respect of these agreements.

Given that these agreements and their proposed annual caps will expire on 31 December 2022 and our Company will continue to conduct such transactions subsequent to 31 December 2022, our Company and Haier Group entered into the New Continuing Connected Transactions Framework Agreements on 28 April 2022 in respect of these agreements for a term of three years commencing from 1 January 2023 to 31 December 2025, subject to the consideration and approval by the internal competent authority of the Company and Haier Group.

2. New Services Supply Framework Agreement

Date: 28 April 2022

Parties: Haier Group (as service recipient); and
The Group (as service provider).

Principal terms:

In accordance with the New Services Supply Framework Agreement, the Group will provide certain sales-related services and other services to Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the New Services Supply Framework Agreement, the sales-related services to be provided by the Group to Haier Group and its associates mainly include after-sale services and value-added services, such as installation, calibration, consultation, repair and maintenance and technical support.

Subject to the consideration and approval by the internal competent authority of the Company and Haier Group, the New Services Supply Framework Agreement is valid for a term commencing from 1 January 2023 to 31 December 2025. The Group has an option, in its entire discretion, to renew the New Services Supply Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the New Services Supply Framework Agreement. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Services Supply Framework Agreement.

Reasons for and benefits of the transaction:

The provision of sales-related services under the New Services Supply Framework Agreement fully leverages the Group's capabilities of customer services and technical support, such as installation, calibration, consultation, repair and maintenance and technical support, and provides Haier Group with a one-stop solution in relation to its demands for Products and Materials from the Group, which is beneficial for strengthening the Group's capabilities of customer services.

Our Directors believe that the enhancement of purchase experience of Haier Group through provision of sales-related services helps the Group maintain a stable and quality business relationship with Haier Group and is in the interests of the Group and the Shareholders as a whole.

Pricing policy:

Pricing for the after-sale and value-added services provided by the Group to Haier Group and its associates pursuant to the New Services Supply Framework Agreement varies taking into account the type and nature of each type of service, and pricing will increase when a higher degree of technicality or costs are involved for the required service. Each type of service shall be provided on terms no less favourable to the Group than those prevailing in the PRC market for the services of the same or comparable type, nature and quality and at the similar time, with reference to market prices or normal commercial terms of this type of transactions with Independent Third Parties.

In determining the prevailing market price, the Group will collect the relevant market information, review and compare the transactions conducted or quotes of the same or similar type and quality entered into between the Independent Third Parties and the Group on a regular basis, and consider the historical prices charged by the Group on Independent Third Parties in supplying services of similar type and nature. The exact service fees charged by the Group and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the New Services Supply Framework Agreement.

Historical amount:

The total transaction amount of the above services provided by the Group to Haier Group and its associates for each of the two years ended 31 December 2021 and the three months ended 31 March 2022 were approximately RMB308 million, RMB214 million and RMB52.5 million, respectively.

Proposed annual caps and basis of determination:

The annual caps for the transactions under the New Services Supply Framework Agreement for the three years ending 31 December 2025 shall not exceed:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2023	2024	2025
Annual caps for the transactions	260	280	310

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

- (i) The annual caps under the New Services Supply Framework Agreement for each of the three years ending 31 December 2025 are estimated with reference to the historical increase of the annual transaction amount, taking into account the expected growth trend of transaction amounts under the New Products and Materials Sales Framework Agreement. The increase in the annual caps for 2023–2025 is a reasonable estimate.

The transaction amount of RMB52.5 million was recorded for the first quarter of 2022. The Company expects that, taking into account the various upcoming shopping festivals, the need for sales related services will further increase, and the growth rate of transaction amount in the second half of 2022 will also be higher than that in the first quarter of 2022.

- (ii) the anticipated increase in demand for the sales-related and other services by Haier Group and its associates to meet up with its future growth prospects, and the anticipated increase in the amount of connected transactions arising from the increase in revenue. Our Company expects that consumer’s long-term demand for the Group’s services is not expected to be significantly affected by the COVID-19 pandemic; and
- (iii) other factors including but not limited to the expected increase in costs and expenses relating to raw materials, labour and others as well as market trends, and the Haier Group and its associates are expected to purchase other comprehensive services in addition to sales-related services.

3. New Services Procurement Framework Agreement

Date: 28 April 2022

Parties: Haier Group (as service provider); and
The Group (as service recipient).

Principal terms:

In accordance with the New Services Procurement Framework Agreement, the Group will purchase certain services from Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the New Services Procurement Framework Agreement, the services to be provided by Haier Group and its associates to the Group mainly include:

- logistics services;
- advertising, promotional and marketing services; and

- other comprehensive services, mainly including:
 - (1) utilities services, such as the supplies of water and electricity, energy supply supporting services;
 - (2) technical supporting services, such as software development, R&D assistance, property furnishing, landscaping and sanitation; and
 - (3) other miscellaneous services.

(collectively “**Other Comprehensive Services**”)

Subject to the consideration and approval by the internal competent authority of the Company and Haier Group, the New Services Procurement Framework Agreement is valid for a term commencing from 1 January 2023 to 31 December 2025. The Group has an option, in its entire discretion, to renew the New Services Procurement Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the New Services Procurement Framework Agreement. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Services Procurement Framework Agreement.

Reasons for and benefits of the transaction:

The Group and Haier Group have a long-term and stable business relationship. Haier Group is familiar with the Group’s business process and needs, quality standards and operational requirements, and is able to supply relevant services to the Group needed on a constant basis. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate the Group’s current and future business operations.

In terms of the logistics services provided by Haier Group and its associates to the Group, Gooday Supply Chain, a subsidiary of Haier Group, has been serving as a key logistics services provider to the Group. With its experience in the logistics sector, Gooday Supply Chain is capable of continuously providing to the Group quality services including all-category, omni-channel, full-process and integrated logistics and warehousing services for customers and users in the industry. Given its long history of providing services to the Group, Gooday Supply Chain has an in-depth understanding of the Group’s development strategy, development goals and business model, and has formed a mature supply chain system and established reliable capabilities to cater to the Group’s needs. The continuing services by Gooday Supply Chain allow the Group to avoid significant costs incurred from switching service suppliers.

In terms of the research support and R&D services, Haier Group is capable of providing the Group with us specialised product research and development solutions through its exposure and access to new and existing technology both domestically and overseas, thereby enhancing the efficiency of the product research and development for the Group. For instance, Haier Information Technology (Shenzhen) Co., Ltd. (海爾信息科技(深圳)有限公司), a subsidiary of Haier Group, is an experienced electrical appliances developer in the PRC with respected expertise in the field of IoT-related research and development, which can provide consulting services in support of our expansion of IoT product portfolios.

The advertising, promotional and marketing services provided by Haier Group and its subsidiaries to the Group pursuant to the New Services Procurement Framework Agreement enable the Group to leverage the extended promotion platform hosted by Haier Group and to benefit from participating in the concerted marketing and promotion efforts of Haier Group in promoting our products. For instance, Qingdao Rendanheyi Venture Service Co., Ltd. (青島人單合一創業服務有限公司) and Qingdao Lanwei Coastal Network Technology Co., Ltd. (青島藍微海岸網絡科技有限公司), subsidiaries of Haier Group, are capable of providing the Group with comprehensive packages of promotion services, ranging from data analytics and brand positioning to marketing events, thereby lowering our overall costs in this aspect.

In terms of provision of Other Comprehensive Services by Haier Group and its associates, the New Services Procurement Framework Agreement allows the Group to enjoy resources of Haier Group on a more cost-efficient basis with lower costs and better terms offered by centralised general services procurement platform of Haier Group.

Based on the Group's previous experience in business dealings with Haier Group and its associates, we believe that the Group and Haier Group and its associates are capable of effectively satisfying our demands for the relevant services in a stable and quality manner, which is in the interests of the Group and the Shareholders as a whole.

Pricing policy:

The fees to be paid by the Group to Haier Group and its associates pursuant to the New Services Procurement Framework Agreement shall be determined with reference to market prices or normal commercial terms of this type of transaction with Independent Third Parties, or negotiated by the parties on an arm's-length basis by taking into consideration factors including but not limited to actual costs and expenses and market conditions. The prices and terms shall be no less favourable than those offered to the Group by Independent Third Parties. In determining the prevailing market price, the Group will consider the historical prices paid by the Group to Independent Third Parties in procuring services of similar type and nature. In addition, the Group will collect and review quotes offered by at least two other Independent Third Parties for services of the same or similar type, nature and quality on a regular basis for comparison. In the event that there are no appropriate Independent Third Parties providing similar services for comparison and referencing purpose, Haier Group and its associates agree to provide referencing information about the fees, terms, service costs and market prices of the same or similar services provided by Haier Group and its associates to Independent Third Parties acceptable to both parties for comparison and referencing purpose.

The exact service fees paid by the Group and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the New Services Procurement Framework Agreement.

Historical amount:

The total transaction amount of the above services provided by Haier Group and its associates to the Group for each of the two years ended 31 December 2021 and the three months ended 31 March 2022 were approximately RMB4,808 million, RMB5,477 million and RMB1,519 million, respectively.

Proposed annual caps and basis of determination:

The annual caps for the transactions under the New Services Procurement Framework Agreement for the three years ending 31 December 2025 shall not exceed:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2023	2024	2025
Annual caps for the transactions	7,160	8,190	9,380

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

- (i) the historical amounts and growth trends of the transactions between the Group and Haier Group and its associates in respect of the provision of relevant services by Haier Group and its associates, taking into account the incurred transaction amount of RMB1,519 million for the three months ended 31 March 2022.

The annual caps under the New Services Procurement Framework Agreement for each of the three years ending 31 December 2025 are estimated based on a 14% year-on-year increase in the transaction amount, which is a conservative estimation;

- (ii) the increasing demand for relevant services by the Group to meet up with our future growth prospects, especially our increasing demands for logistic services from Haier Group and its associates (such as Gooday Supply Chain), which accounts for more than 90% of the proposed annual caps for each of the three years ending 31 December 2025, considering that (a) our Company expects that there will be long-term consumer demand for the Group's products, and the more material impact of the COVID-19 pandemic will be temporary. However, the amount of logistic service procurement will increase due to an increase in sales revenue, while the ongoing COVID-19 pandemic is expected to bring about an increase in the demand for logistic services, resulting in higher procurement costs; (b) to ensure quality distribution and enhance our brand image, the demand for logistic services from Haier Group and its associates is expected to increase to support our unified warehousing and distribution system, which provides warehousing and channel distribution for our specialty stores throughout the PRC at the rural level; (c) the seasonal patterns for purchases of the Group's products in PRC market, partly due to the impact of major holidays and shopping events. In the Chinese market, the Group will typically experience sales peaks taking place in the second half of the year,

such as during the period of or prior to major Chinese festivals, including the Mid-Autumn Festival, National Day and 11.11 global shopping festival, which rapidly raise the Group's demands for logistics services according to past experiences.

- (iii) other factors including but not limited to the expected increase in costs and expenses relating to raw materials, labour and others as well as market trends.

4. New Products and Materials Sales Framework Agreement

Date: 28 April 2022

Parties: Haier Group (as purchaser); and
The Group (as supplier).

Principal terms:

In accordance with the New Products and Materials Sales Framework Agreement, the Group will provide certain products and materials (the “**Products and Materials for Sale**”) to Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the New Products and Materials Sales Framework Agreement, the Products and Materials for Sale to be provided by the Group to Haier Group and its associates mainly include:

- products;
- components and raw materials for production use; and
- full-suite smart home solutions, including ancillary products and services.

Subject to the consideration and approval by the internal competent authority of the Company and Haier Group, the New Products and Materials Sales Framework Agreement is valid for a term commencing from 1 January 2023 to 31 December 2025. The Group has an option, in its entire discretion, to renew the New Products and Materials Sales Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the New Products and Materials Sales Framework Agreement. Both parties and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Products and Materials Sales Framework Agreement.

Reasons for and benefits of the transaction:

The Group and Haier Group have a long-term and stable business relationship. The Group is familiar with Haier Group's business process and needs, quality standards and operational requirements, and is able to supply the products and materials needed by Haier Group on a constant basis and provides the Group with a stable income. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate the Group's current and future business operations.

In addition, the Group is able to leverage the centralised procurement platforms to source the components and materials requested by Haier Group from time to time at a relatively lower cost and profit from the spread offered, thereby enjoying benefits from economies of scale. For instance, the Group's subsidiaries, Qingdao Haidarui Procurement Service Co., Ltd. (青島海達瑞採購服務有限公司) and Qingdao Haidayuan Procurement Service Co., Ltd. (青島海達源採購服務有限公司), serves as centralised platforms for procurement of electrical products and components, allowing the Group to procure components and materials at preferential prices and terms over the market.

Based on the Group's previous experience in business dealings with Haier Group and its associates, we believe that the Group is capable of effectively satisfying the demands of Haier Group and its associates for the sales of Products and Materials for Sale at prices and terms no less favourable to those we offered to Independent Third Parties, which is in the interests of the Group and the Shareholders as a whole.

Pricing policy:

The fees to be charged for the Products and Materials for Sale to be sold by the Group to Haier Group and its associates pursuant to the New Products and Materials Sales Framework Agreement shall be at such prices to be agreed between the parties, in particular:

- The prices of sales of products and the smart home solutions will be determined taking into account the type of products and solutions, retail volume, market conditions and others, and will be not lower than the price of products and solutions of the similar nature, type and quality provided by the Group to at least two other comparable Independent Third Parties in the market.

- The prices of sales of components and materials will be determined based on the actual price of sales of the components and materials plus a commission rate of not more than 1.25% (which is used for covering the related operating and administrative expenses incurred by members of the Group in the provision of the components and materials) or based on the market price, whichever is higher.

The sales (including the applied discount rates and commission fee rates) shall be on terms no less favourable to the Group than those prevailing in the PRC market for products, components and materials of the same or comparable type, nature and quality and at similar time as well as those offered by the Group to Independent Third Parties. In determining the prevailing market price, the Group will collect the relevant market information, review quotes offered by at least two other Independent Third Parties (for sales of products) and compare the transactions conducted or quotes offered in the last three years (for sales of components and materials) of the same or comparable type, nature and quality entered into between the Independent Third Parties and the Group. In the event that there are no appropriate Independent Third Parties providing products and materials of the same or similar quality, the Group will refer to the fees and terms of products of the same or similar quality provided by Haier Group and its associates to Independent Third Parties (and Haier Group and its associates agree to provide such information), cost of products and materials, estimated value and market prices for comparison and referencing purpose.

The exact sales prices charged by the Group and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the New Products and Materials Sales Framework Agreement.

Historical amount:

The total transaction amount of the above Products and Materials for Sale provided by the Group to Haier Group and its associates for each of the two years ended 31 December 2021 and the three months ended 31 March 2022 were approximately RMB3,153 million, RMB2,955 million and RMB800 million, respectively.

Proposed annual caps and basis of determination:

The annual caps for the transactions under the New Products and Materials Sales Framework Agreement for the three years ending 31 December 2025 shall not exceed:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2023	2024	2025
Annual caps for the transactions	3,480	3,720	3,940

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

- (i) the historical amounts of the transactions between the Group and Haier Group and its associates in respect of our provision of Products and Materials. The annual cap under the New Products and Materials Sales Framework Agreement for the year ending 31 December 2025 is estimated with reference to the average transaction amount of RMB3,788 million for the three years ended 31 December 2021, taking into account the incurred transaction amount of RMB800 million for the three months ended 31 March 2022;
- (ii) the increasing demand for the products and materials by Haier Group and its associates to meet up with its future growth prospects. Our Company considers that there will be long-term consumer demand for the Group's products, and the more material impact of the COVID-19 pandemic is expected to be temporary, as well as the expected development trend of domestic demand for electricity, water and home appliance products in the PRC, and the increase in the amount of connected transactions arising from the increase in revenue. For instance, certain housing decoration subsidiaries of Haier Group have been purchasing the Group's home appliances for their increasing volume of provision of full-suite housing solutions to customers; and
- (iii) other factors including but not limited to the expected increase in unit price of the Products and Materials for Sale of the Group as a result of the increase in costs and expenses relating to raw materials, labour and others as well as market trends.

5. New Products and Materials Procurement Framework Agreement

Date: 28 April 2022

Parties: Haier Group (as supplier); and
The Group (as purchaser).

Principal terms:

In accordance with the New Products and Materials Procurement Framework Agreement, the Group will procure certain products and materials (the “**Products and Materials Procured**”) from Haier Group and its associates on a non-exclusive basis, from time to time.

Pursuant to the New Products and Materials Procurement Framework Agreement, the products and materials to be purchased by the Group from Haier Group and its associates mainly include:

- products for internal consumption and resale use, including but not limited to televisions and computers manufactured or sourced by Haier Group and its associates, together with relevant supporting services such as products warranty services;
- production and experimental equipment used, idled, procured and/or tailor-made by Haier Group and its associates for the Group’s internal consumption use; and
- raw materials and parts required for the Group’s production.

Subject to the consideration and approval by the internal competent authority of the Company and Haier Group, the New Products and Materials Procurement Framework Agreement is valid from 1 January 2023 to 31 December 2025. The Group has an option, in its entire discretion, to renew the New Products and Materials Procurement Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the New Products and Materials Procurement Framework Agreement. Both parties and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Products and Materials Procurement Framework Agreement.

Reasons for and benefits of the transaction:

The Group and Haier Group have a long-term and stable business relationship. Haier Group is familiar with the Group's business process and needs, quality standards and operational requirements, and is able to supply the products and materials needed by the Group on a constant basis. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate the Group's current and future business operations.

In terms of the purchase of products from Haier Group and its associates, the New Products and Materials Procurement Framework Agreement allows the Group to secure the supply of products manufactured and sourced by Haier Group for the Group's internal consumption and resale purpose, and solidifies the basis on which the Group may continue to develop its sales operations. Upon acquiring the relevant products from Haier Group, the Group may distribute the products utilising its global channelling capabilities via both international and domestic distribution channels.

In terms of the purchase of equipment, the Group is allowed to utilise the resources, design and production advantages of Haier Group and its associates to obtain the relevant equipment for production and development of the Group's own products and related components at preferential prices and terms, and to utilise the import and export platform of Haier Group and its associates for procurement of imported equipment.

In terms of the purchase of material, the Group is allowed to leverage the scale and efficiency of the centralised procurement platform of Haier Group and its associates for its production operations of different segments, such as the laundry appliances and water heater manufacturing segments, thereby lowering the Group's procurement costs.

Based on the Group's previous experience in business dealings with Haier Group and its associates, we believe that Haier Group and its associates are capable of effectively satisfying the Group's demands for relevant stable and quality products, equipment and materials, which is in the interests of the Group and the Shareholders as a whole.

Pricing policy:

The procurement amount to be charged by Haier Group and its associates for the relevant products shall be negotiated by the parties at arm's length basis on terms no less favourable than those offered to the Group by Independent Third Parties. In determining the prevailing market price, the Group will collect and review quotes offered by at least two other Independent Third Parties for products of the same or similar quality for comparison. In the event that there are no appropriate Independent Third Parties providing products and materials of the same or similar quality, the Group will refer to the fees and terms of products of same or the similar quality provided by Haier Group and its associates to at least two other Independent Third Parties (and Haier Group and its associates agree to provide such information), cost of products and materials, estimated value and market price for comparison and referencing purpose.

The procurement amount to be charged by Haier Group and its associates for the relevant equipment will be determined based on arm's length negotiation after taking into account various factors such as the sources, depreciation, and net asset values of such equipment, relevant cost and expense (such as purchase price of such equipment, relevant operational and administrative expenses, etc.), with reference to the estimated values and market prices, which is determined based on the historical prices paid by the Group to Independent Third Parties in procuring the equipment of similar type and quality, and the quotes from at least two other Independent Third Parties collected and reviewed by the Group for equipment of similar type and quality on a regular basis for comparison.

The procurement amount to be charged by Haier Group and its associates for the relevant materials will be determined based on the actual cost (for example, prices obtained by Haier Group and/or its associates through bidding process (if applicable) or other actual purchase prices) plus a commission fee rate (which is for the purpose of covering the relevant operational and administrative expenses of Haier Group and its associates in providing the materials) of no more than 1.25%, or based on market prices, whichever is lower.

The Group will obtain quotes from Independent Third Parties for similar transactions for comparison and reference and in any event, the consideration terms for such procurement shall be no less favourable than terms offered by Independent Third Parties to the Group with regard to the same quantity and quality of comparable products, equipment and materials at the similar time.

Historical amount:

The total transaction amount of the above procurement by the Group from Haier Group and its associates for each of the two years ended 31 December 2021 and the three months ended 31 March 2022 were approximately RMB19,115 million, RMB19,197 million and RMB4,440 million, respectively.

Proposed annual caps and basis of determination:

The annual caps for the transactions under the New Products and Materials Procurement Framework Agreement for the three years ending 31 December 2025 shall not exceed:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2023	2024	2025
Annual caps for the transactions	19,090	20,040	20,000

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

- (i) the historical amounts of the transactions between the Group and Haier Group and its associates in respect of our purchase of the Products and Materials Procured. The annual cap under the Products and Materials Procurement Framework Agreement for the three years ending 31 December 2025 is estimated with reference to the average transaction amount of RMB19,430 million for the three years ended 31 December 2021, taking into account the incurred transaction amount of RMB4,440 million for the three months ended 31 March 2022. Furthermore, the Company expects the need for sales related services will further increase.
- (ii) the increasing demand for the Products and Materials Procured by the Group to meet up with our future growth prospects as well as the expected development trend of retail volume. For instance, the Group's demand for relevant production and experimental equipment from Haier Group and its associates is expected to increase due to the plans of intelligent upgrading and new plant establishment of the Group's existing production lines;
- (iii) the proposed annual cap for 2023 represents a slight decrease compared to that for 2021, primarily due to the increase in procurement amount arising from the increase in sales revenue, while the Group reduces connected procurement amount by measures such as the acquisition of equity interests in connected parties and optimisation of business model; and

- (iv) other factors including but not limited to the expected increase in unit price of the products, equipment and materials and parts as a result of the increase in labour and other costs and expenses as well as market trends.

6. Internal Control Measures

In order to ensure the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable or no less favourable than terms available to or from Independent Third Parties and are carried out under normal commercial terms or better, which are in line with the interests of our Company and our Shareholders as a whole, our Company has adopted the following guidelines and principles in monitoring the transactions between the Group and our connected parties, namely:

- our Company will report the transactions under the relevant agreements with our connected parties to the independent non-executive Directors during the audit committee meeting (if necessary) according to the Audit Committee meeting agenda each year;
- our Company will review the transactions with our connected parties to identify any continuing connected transactions that may be at risk of exceeding the proposed annual caps, and any measures to be taken in respect of such continuing connected transactions. The Group has established a series of measures to ensure that such continuing connected transactions will be conducted in accordance with the terms of the relevant agreements. These measures include:
 - (1) our Company will have specifically designated personnel from the relevant departments to monitor the transactions under the relevant agreements and will report to the management of the Company regularly in relation to the transactions; and
 - (2) the Group will conduct random internal checks to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective.

- Our independent non-executive Directors will review the continuing connected transactions under the relevant agreements annually to check and confirm in the annual reports of our Company whether such continuing connected transactions have been conducted in the ordinary and usual course of business of our Company, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by our Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policy set out in the relevant agreements.

The Directors are of the view that the above internal control and risk management procedures adopted by the Group are appropriate and sufficient, and that the procedures and measures give assurance to the Independent Shareholders that the occurrence of the above continuous connected transactions between the Company and Haier Group will be appropriately monitored. In addition, the internal control measures and procedures would be carried out during the valid term of the New Continuing Connected Transactions Framework Agreements.

7. Implications of the Hong Kong Listing Rules

As at the date of this announcement, as Haier Group holds, directly and indirectly, approximately 34% of the voting rights in the Company, therefore, Haier Group is the Controlling Shareholder of the Company and a Connected Person of the Company. Consequently, the transactions contemplated under the New Continuing Connected Transactions Framework Agreements constitute Continuing Connected Transactions under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the Hong Kong Listing Rules, in respect of the proposed annual caps of the New Services Supply Framework Agreement, the New Services Procurement Framework Agreement and the New Products and Materials Sales Framework Agreement, as the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) for the transactions contemplated under these agreements are higher than 0.1% but less than 5%, the transactions contemplated under these agreements are subject to the requirements of reporting, announcement and annual review under Chapter 14A of the Hong Kong Listing Rules, but are exempt from the requirements of Independent Financial Adviser's opinions and Independent Shareholders' approval.

Although under the Hong Kong Listing Rules, the transactions contemplated under the New Services Procurement Framework Agreement are exempt from compliance with Independent Financial Advisors' opinions and Independent Shareholders' approval requirements, according to the Rules Governing the Listing of Shares on the Shanghai Stock Exchange, the New Services Procurement Framework Agreement shall be submitted to the general meeting for consideration. To provide Shareholders with more comprehensive information, the Company has appointed the Independent Financial Advisor to advise Independent Shareholders on the transactions contemplated under the New Services Procurement Framework Agreement and their proposed annual caps.

Pursuant to the Hong Kong Listing Rules, in respect of the proposed annual caps of the New Products and Materials Procurement Framework Agreement, as the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) for the transactions contemplated under the agreement are higher than 5% but less than 25%, the transactions contemplated under the agreement are subject to the requirements of reporting, announcement, annual review, Independent Financial Advisor's opinions, and Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

8. Information of Parties to the Transactions

Information of the Company

The Company is a joint stock company incorporated in the PRC with limited liability, whose A Shares are listed on the Shanghai Stock Exchange, whose D Shares are listed on the Frankfurt Stock Exchange, and whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange. The Company is the leading provider of home appliances and smart home solutions in the world. The Company's main businesses include the R&D, production and sales of smart home appliances such as refrigerators/freezers, washing machines, air conditioners, water heaters, kitchen appliances, small home appliances, and smart home scenario solutions. It creates whole scenario smart life experience with rich product, brand and solution package to meet the needs of users for a better life.

Information of Haier Group

Haier Group, a company incorporated under the laws of the PRC, was established in 1984 and is the Controlling Shareholder of the Group, and its scope of operation is: technology development, technology consultancy, technology transfer, technology services, including industrial internet, etc.; data processing; engaged in digital technology, intelligent technology, software technology; research and development, sales and after-sales services of robots and automation equipment products; logistics information services; the research and development and sales of intelligent household equipment and solution system software technology (方案系統軟件技術); the production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and robots for industrial purpose; domestic commercial (excluding national restricted, licensed and controlled commodities) wholesale and retail; export and import business (refer to foreign enterprise confirmation certificate for details); economic technology consultancy; and research, development and transfer of technological achievements; lease of self-owned properties. Haier Group is an urban collective ownership enterprise. According to the Regulations on Urban Collective Ownership Enterprises of the People's Republic of China promulgated by the State Council, which was revised in February 2016, all property under the urban collective ownership belongs to the working people collectively and the worker representative organization is its governing body.

9. Opinions of the Board

After taking into consideration the above pricing policy, basis of determining the proposed annual caps, reasons and benefits as well as internal control measures, the Directors (including the independent non-executive Directors) believed the terms of the transactions contemplated under the New Continuing Connected Transactions Framework Agreements and the proposed annual caps thereunder were determined on normal commercial terms in the ordinary and usual business course of the Company, and are fair, reasonable and in the interests of the Company and the Shareholders of the Company as a whole. Meanwhile, the Directors (including the independent non-executive Directors) was of the opinion that sufficient mechanism, internal control measures and external regulatory measures have been put in place to ensure the Continuing Connected Transactions are in compliance with and in strict accordance with relevant regulatory guidance and the terms of the New Continuing Connected Transactions Framework Agreements.

As LIANG Haishan, XIE Juzhi and LI Huagang, Directors of the Company, have relevant interests in the Haier Group, consequently, they have abstained from voting on the resolution of the Board for approving the New Continuing Connected Transactions Framework Agreements and its proposed annual caps. Save as disclosed above, other Directors did not have any material interests in such transactions and they were not required to abstain from voting on the resolutions of the Board for considering and approving the New Continuing Connected Transactions Framework Agreements and its proposed annual caps.

II. AGM

The Company will convene an AGM to consider and approve the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps for 2023, 2024 and 2025. At the AGM, Haier Group and its associates will abstain from voting on the resolutions of the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps. As at the date of this announcement, to the best of the Directors' knowledge and belief, having made all reasonable enquiries, no Shareholder other than those disclosed in this announcement is required to abstain from voting on the above resolutions. The above resolutions will be passed by way of ordinary resolution and voted on by way of poll.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps for 2023, 2024 and 2025. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matter.

A circular containing, among other things, the details of the New Services Procurement Framework Agreement, the New Products and Materials Procurement Framework Agreement and their proposed annual caps, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser and a notice convening the AGM will be despatched to the Shareholders of the Company in due course, for which the Company will need time to make various preparations, resulting in the expected despatch date of the circular being 15 business days after the publication of this announcement.

III. DEFINITIONS

Unless the context otherwise defines, the following terms shall have the following meanings in this announcement.

“AGM”	the annual general meeting of 2021 to be held by the Company
“associate(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“Company”	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC with limited liability, whose A Shares are listed on the Shanghai Stock Exchange (stock code: 600690), whose D Shares are listed on the China Europe International Exchange AG D Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D), and whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 6690)
“Connected Person(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Continuing Connected Transactions”	has the meaning as ascribed under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning as ascribed under the Hong Kong Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Haier Group”	Haier Group Corporation
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Independent Board Committee”	the independent committee under the Board comprising all Independent Non-executive Directors, namely Mr. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi. The Committee has been established to advise the Independent Shareholders on the relevant agreements and their proposed annual caps
“Independent Financial Advisor”	Somerley Capital Limited, a licensed corporation to carry on Type 1 (Dealing in securities) and Type 6 (Advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	the Shareholders of the Company other than Haier Group and its associates
“Independent Third Party(ies)”	party(ies) not connected with the Group within the meaning of the Hong Kong Listing Rules as far as the Directors are aware after having made all reasonable enquiries
“New Continuing Connected Transactions Framework Agreements”	the New Services Supply Framework Agreement, the New Services Procurement Framework Agreement, the New Services Procurement Framework Agreement and the New Products and Materials Sales Framework Agreement entered into by the Company and Haier Group on 28 April 2022
“New Services Supply Framework Agreement”	the New Services Supply Framework Agreement entered into by the Company and Haier Group on 28 April 2022
“New Services Procurement Framework Agreement”	the New Services Procurement Framework Agreement entered into by the Company and Haier Group on 28 April 2022
“New Products and Materials Sales Framework Agreement”	the New Products and Materials Sales Framework Agreement entered into by the Company and Haier Group on 28 April 2022

“New Products and Materials Procurement Framework Agreement”	the New Products and Materials Procurement Framework Agreement entered into by the Company and Haier Group on 28 April 2022
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“subsidiary(ies)”	has the meaning as ascribed under the Hong Kong Listing Rules
“%”	per cent

By order of the Board
Haier Smart Home Co., Ltd.*
LIANG Haishan
Chairman

Qingdao, the PRC
28 April 2022

As at the date of this announcement, the executive Directors of the Company are Mr. LIANG Haishan, Mr. LI Huagang and Mr. XIE Juzhi; the non-executive Directors are Mr. WU Changqi, Mr. LIN Sui, Mr. YU Hon To, David and Ms. Eva LI Kam Fun; and the independent non-executive Directors are Mr. CHIEN Da-Chun, Mr. WONG Hak Kun, Mr. LI Shipeng and Mr. WU Qi.

* For identification purpose only