

**HAIER SMART HOME CO., LTD.****ANNOUNCEMENT ON THE MANAGEMENT OF FOREIGN CURRENCY  
USING DERIVATIVE INSTRUMENTS**

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

Haier Smart Home Co., Ltd. (hereinafter referred to as the "Company") convened the 17th Meeting of the Tenth Session of the Board of Directors on 30 March 2021, at which the Resolution of Haier Smart Home Co., Ltd. on the management of foreign currency using derivative instruments was considered and approved. These business does not constitute related party transactions, and the resolution has to be submitted to the general meeting for consideration.

In 2020, the overseas revenue of the Company accounted for 48%. There were substantial amount of receipts and payments as well as deposits and loans in foreign currencies, and there was increasing impact of exchange rate fluctuations on the operating results of the Company. It is expected that the Company will continue to expose to increasing fluctuations of exchange rate or interest rate in 2021. In order to hedge the exchange rate and interest rate risks in the asset and liability business, the Company intends to conduct the foreign exchange fund derivatives business with a transaction balance of no more than USD6.5 billion in 2021. The details are as follows:

**I. Overview and Necessity of Foreign Exchange Fund Derivatives Transactions**

1. Foreign exchange fund derivatives are financial hedging products approved by the People's Bank of China. The transaction principle is to enter into forward foreign exchange purchase agreements, foreign exchange settlement agreements and swap agreements with banks to agree on the foreign exchange currency, amount, term and exchange rate for foreign exchange purchases and settlements in the future. When the agreements expire, foreign exchange purchases and foreign exchange settlements will be dealt with at the currency, amount and exchange rate stipulated in these agreements to lock the cost of foreign exchange purchases and foreign exchange settlement in the current period.

2. The purpose of using derivative instruments is to hedge and prevent the exchange rate risks faced by the Company due to international trade business, and reduce the impact of exchange rate fluctuations on the performance of the Company. The cost of exchange transaction can be locked at a certain level in advance, which can effectively hedge unexpected risks arising from the substantial fluctuations in exchange rates.

3. The scale of the derivative instruments used by the Company, without speculative operation, is commensurate with the actual volume of import and export business and the scale of overseas assets/liabilities of the Company. With continuous expansion of the Company's overseas business scale, in order to secure sustained and robust development of the Company and accelerate the management and business integration and synergy between the Company and its new overseas subsidiaries, the Company takes it necessary to hedge the exchange rate risks by using derivative instruments.

## **II. Summary of proposed foreign exchange fund derivatives transactions**

### **1. Forward foreign exchange settlement/purchase business**

For the import and export business of the Company, we enter into forward foreign exchange settlement/purchase contracts with banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law) to lock the foreign exchange settlement/purchase exchange rate of foreign exchange against RMB in the future and eliminate the impact of exchange rate fluctuations.

### **2. Currency swap business**

In light of the different short-term and long-term demands for cash flow of the Company, we enter into swap contracts with banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law) to avoid the impact of exchange rate fluctuations.

### **3. Risk-controllable arbitrage portfolio business**

This business is conducted to tackle the difference between foreign currency foreign currency receipts and payments of the Company, and there is difference between the foreign currency forward exchange rate difference due to market fluctuations and the exchange rate difference arising from the theoretical spread may result in an arbitrage situation. We intend to appropriately operate the arbitrage businesses under controllable risks to cover the hedging costs, such as spot foreign exchange purchase plus forward foreign exchange settlement, foreign currency loan spot foreign exchange settlement plus forward foreign exchange purchase, etc.

### **4. Other NDF (Non-deliverable Forwards), currency futures and options business**

The Company is exposed to increasingly diversify currency risks and increasing fluctuations in exchange rate, such as the Euro, Japanese yen, Indian rupee, Russian ruble, Thai baht, etc. There is no normal deliverable for some currencies locally or the cost of hedging is extremely high. In order to enhance hedging measures and effectively hedge exchange rate risks, the Company will attempt to use other NDF, currency futures and option portfolios as supplementary and backup hedging methods.

### **5. Currency, interest rate swaps and other businesses**

With the Company operates internationally, the scale of overseas business, assets and liabilities are keep on increasing. In order to effectively hedge the exchange rate and interest rate fluctuation risks faced by overseas assets and liabilities, the Company intends to hedge exchange rate and interest rate fluctuation risks by using currency and/or interest rate swaps.

Based on the Company's import and export business and operating budget, the above items 1-4 are to hedge the risk of exchange rate fluctuations in the import and export business with the proposed transaction balance of not more than US\$4.0 billion in 2021; for item 5, it is to hedge the exchange rate and interest rate risk in assets and liabilities business with the proposed transaction balance of not more than US\$2.5 billion in 2021. The Company will adjust the actual transaction amounts of the above-mentioned items 1-5 within the range of total balance US\$6.5 billion according to actual business needs.

## **III. Principal terms of proposed foreign exchange hedging transactions**

1. Contract term: The term of the foreign exchange fund transaction during the ordinary course of the Company is generally within one year. The term of currency/interest rate swap transaction in the assets and liabilities business ranges from 1 to 5 years.

2. Counterparty: Banks (or other financial institutions that are permitted to engage in related businesses in accordance with the law, but for such businesses that fall within the scope of the foreign exchange derivatives business in this resolution, the counterparties of the Company and its subsidiaries do not include Haier Group Finance Co., Ltd. or other entities under Haier Group that are permitted to engage in related business according to law.

3. Liquidity arrangement: All foreign exchange fund transactions shall depend on normal and reasonable import and export business and match with the time of receipts and payments, and shall not affect the Company's liquidity.

#### **IV. Management system for foreign exchange fund transactions**

In respect of the transaction norms of foreign exchange fund transactions, the Company conducts foreign exchange derivatives business in strict accordance with the relevant provisions of the Foreign Exchange Risk Management Policy and Foreign Exchange Derivatives Transaction Management Rules of Haier Smart Home Co., Ltd.

#### **V. Risk analysis of foreign exchange derivatives transactions**

The Company and its holding subsidiaries adopt the principle of conservatism when conducting foreign exchange derivatives business, and shall not conduct foreign exchange transactions for speculation purposes. All foreign exchange fund business are conducted on the premise of normal production and operations and specific business operations to avoid and prevent exchange rate risks. However, there are still certain risks exist in conducting foreign exchange fund business:

##### **1. Market risk**

Unilateral forward foreign exchange settlement business: The Company will determine whether to enter into a forward contract based on the product cost (basically denominated in RMB) and market risk. By entering into the contract, we will lock the exchange rate price, and the unilateral forward foreign exchange settlement business will effectively protect against the market volatility risk, ensuring the Company secures reasonable and sound profit.

Unilateral forward foreign exchange purchase business: According to the import contract entered into with customers and the exchange rate risk, this business enables us to lock foreign exchange cost in the future. Although there is a certain risk of loss exists, the unilateral forward foreign exchange purchase business will effectively reduce the risk of market fluctuations by locking procurement costs.

Other NDF, currency futures and options businesses are mainly conducted when failing to enter into normal unilateral forward settlement/purchase of foreign exchange business or the cost is extremely high, which only serve as a supplement to the above unilateral business.

When conducting the arbitrage business, its return to maturity has been determined and there is no risk of market fluctuations.

Currency swap business is mainly designed to adjust the currency of assets or liabilities to match the currencies of assets and liabilities to avoid exchange rate fluctuation risks; interest rate

swap business is to convert floating interest rate business to fixed interest rate business to avoid interest rate fluctuation risk, or in the case of a downward interest rate, convert fixed interest rate to floating interest rate to reduce costs. All of the above businesses have authentic transactions, and there is no speculation exists.

## 2. Exchange rate fluctuation risk

After the Company has locked the forward exchange rate based on the foreign exchange management strategy, if the actual trend of the foreign exchange rate significantly deviates from the direction of the Company's locked exchange rate fluctuations, the cost of the Company after the exchange rate is locked may exceed the cost when the exchange rate is not locked, thereby causing losses of Company. When the foreign exchange rate fluctuates significantly, the direction of the Company's locked exchange rate fluctuations is inconsistent with the direction of the foreign exchange hedging contract, thereby causing exchange losses. If the exchange rate does not fluctuate in future, a relatively greater deviation from the foreign exchange hedging contract will also result in exchange losses.

## 3. Internal control risks

The foreign exchange derivatives business is highly specialized and highly complicated, and may cause risks due to unsound internal control systems.

## 4. Transaction default risk

In the event of a breach of contract by the counterparty of a foreign exchange derivative transaction, the Company will not be able to obtain hedging profits in accordance with the agreement to hedge against the actual exchange losses of the Company, thereby resulting in losses by the Company.

## 5. Customer default risk

Overdue customer accounts receivable, adjustment of orders by customers, etc. will cause the actual payment of a transaction to be inconsistent with the expected payment, which may make the actual cash flow unable to fully match the term and amount of foreign exchange derivative transactions, thus resulting in losses by the Company.

# **VI. Risk control measures to be adopted by the Company**

1. The foreign exchange derivative transactions is for the purpose of avoiding exchange rate risks, and limited to be related to the import and export business and overseas asset/liability management of the Company, the Company shall not engage in foreign exchange derivative transactions for other purposes and outside of this scope.

2. By strictly following the Foreign Exchange Risk Management Policy and Management Rules of Foreign Exchange Derivatives Transaction, we implement the approval process where the Company's general meeting and Board of Directors authorize the general manager/general manager office to be responsible for the operation and management of the foreign exchange derivatives transaction, and the Treasury Department serves as the department in charge of the conducting the transaction, and the Finance Department as the daily audit department.

3. The Company conducts foreign exchange derivatives transactions with large-scale banks and other financial institutions with legal qualifications, and the financial department keeps track of the changes in transaction in a timely manner, and strictly controls the occurrence of delivery

default risks.

4. The foreign exchange derivatives transactions conducted by the Company must be based on the prudent forecast of foreign currency receipts (payments) of the Company. The delivery date of the foreign currency derivative must match the forecasted foreign currency receipt, deposit time or foreign currency payment time of the Company, or match the corresponding repayment term of bank borrowings in foreign currency.

## **VII. Analysis of Fair Values**

The Company recognizes and measures fair values in accordance with Chapter 7 “Determination of Fair Values” of the Accounting Standard for Enterprise No. 22 - Recognition and Measurement of Financial Instruments, and the fair values are generally determined in accordance with the prices provided by or obtained from banks and other pricing service institutions. The Company measures and recognizes the fair values on a monthly basis.

## **VIII. Accounting policy and accounting principles**

The accounting principles for the foreign exchange fund transactions carried out by the Company are based on the Accounting Standard for Enterprises. In accordance with the relevant requirements of the Accounting Standard for Enterprises No. 22 - Recognition and Measurement of Financial Instruments, Accounting Standard for Enterprises No. 24 - Hedging, and Accounting Standard for Enterprises No. 37 - Presentation of Financial Instruments and the guidelines of the Ministry of Finance, the Company conducts corresponding accounting treatments for its foreign exchange fund transaction business to reflect the relevant items in the balance sheet and income statement.

## **IX. Opinions of Independent Directors**

The independent directors is of the view that the relevant decision-making procedures of the Company and its controlling subsidiaries to carry out foreign exchange fund derivatives business are in compliance with the requirement of the relevant national laws, regulations and the relevant provisions of the Articles of Association. Based on normal production and operation, the Company relies on specific business operations, applies foreign exchange fund derivatives to reduce exchange rate risks, lower exchange losses, and control operating risks under the premise of ensuring normal production and operation. There is no prejudice to the Company and all the shareholders, especially the minority shareholders. The Company has formulated the Foreign Exchange Derivatives Transaction Management System of Haier Smart Home Co., Ltd., and the specific operating procedures for the foreign exchange capital derivatives business by strengthening control and implementing risk prevention measures. It is feasible for the Company to develop the foreign exchange fund derivatives business, and the risks are controllable. Therefore, we agreed to the Company to carry out foreign exchange derivatives business appropriately according to business needs, in accordance with the relevant system requirements and under the premise of ensuring that it does not affect the normal operating capital requirements and capital safety. We agreed to the Board of Directors to submit the resolution related to the above issues to the 2020 Annual General Meeting for consideration.

## **X. Opinions of the Supervisory Committee**

The Supervisory Committee is of the view that the Company conducts foreign exchange fund transaction business based on actual business needs, and its decision-making procedures are in compliance with the requirements of the relevant national laws, regulations and the relevant provisions of the Articles of Association, which are conducive to preventing against interest rate

and exchange rate fluctuation risks, reducing the impact of interest rate fluctuations on the Company, and is not prejudiced to the Company, especially the minority shareholders. Thus, the Supervisory Committee unanimously agreed that the Company can conduct foreign exchange fund transaction business.

**XI. Documents Available for Inspection**

1. Resolutions of the 17<sup>th</sup> Meeting of the Tenth Session of Board of Directors of Haier Smart Home Co., Ltd
2. Resolutions of the 13<sup>th</sup> Meeting of the Tenth Session of the Supervisory Committee of Haier Smart Home Co., Ltd
3. Opinions of Independent Directors of Haier Smart Home Co., Ltd. On The Relevant Matters Relating to the 17<sup>th</sup> Meeting of the Tenth Session of Board of Directors.

The announcement is hereby given.

The Board of Directors  
Haier Smart Home Co., Ltd.

30 March 2021

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