

## Haier Smart Home Co., Ltd.

# Announcement on the Conduct of Foreign Exchange Fund Derivatives Business

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 accept legal responsibility for the authenticity, accuracy and completeness of the content herein.

Haier Smart Home Co., Ltd. (hereinafter referred to as the “Company”) convened the 9th meeting of the 11th session of the Board of Directors of the Company on 27 March 2024, on which considered and approved the *Proposal on the Conduct of Foreign Exchange Fund Derivatives Business of Haier Smart Home Co., Ltd.*. Such businesses do not constitute related-party transaction, and the proposal is required to be submitted to the general meeting of shareholders for consideration.

In 2023, the overseas revenue of the Company accounted for a large proportion, and there was significant impact of exchange rate fluctuations on the operating results of the Company. It is expected that the Company will continue to be exposed to increasing fluctuations of exchange rate or interest rate in a large proportion in 2024. In order to reduce the impact of 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 US\$6.5 billion in 2024, so as to mitigate and reduce exchange rate risks, reduce the impact of exchange rate fluctuations on the performance of the Company. The details are as follows:

### I. OVERVIEW AND NECESSITY OF THE FOREIGN EXCHANGE FUND DERIVATIVES TRANSACTIONS

1. Foreign exchange fund derivatives are foreign exchange hedging financial 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 the Company's such foreign exchange fund derivatives business 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 transactions can be locked at a certain level in advance by conducting foreign exchange derivatives transactions, which can effectively hedge unexpected risks arising from the substantial fluctuations in exchange rates.

3. The scale of the foreign exchange fund derivatives business of the Company is commensurate with the actual volume of import and export business and the scale of overseas assets/liabilities of the Company, and there is no speculative operation. In the context of the continuous expansion of the overseas business scale of the Company, in order to ensure the sustained and robust development of the Company, accelerate the management and business integration and synergy between the Company and its new overseas subsidiaries, the Company believes that it is necessary to hedge the exchange rate risks by conducting foreign exchange fund derivatives business.

## **II. SUMMARY OF PROPOSED FOREIGN EXCHANGE FUND DERIVATIVES TRANSACTIONS**

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

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

exchange rate fluctuations.

## 2. Foreign exchange swap business

In light of the different short-term and long-term demands for cash flow of the Company, the Company 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. NDF (Non-deliverable Forwards Foreign Exchange Transaction) and options business

The Company is exposed to increasingly diversify currency risks and increasing fluctuations in exchange rate, such as the Indian rupee, Russian ruble, Thai baht, etc. There is no normal forwards 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 and others as supplementary and backup hedging measures.

## 4. Currency, interest rate swaps and other businesses

With the Company international operation, the scale of overseas business, assets and liabilities are keeping 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 – 3 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\$5 billion in 2024; for item 4, 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\$1.5 billion in 2024. The Company will adjust the actual transaction amounts of the above-mentioned items 1 – 4 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 daily operational activities of the Company is generally within one year. Currency/interest rate swap business 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 Finance Co., Ltd. or other business entities under Haier Group Corporation that are permitted to engage in related business according to law.

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

## **IV. MANAGEMENT SYSTEM FOR FOREIGN EXCHANGE FUND BUSINESS**

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

## **V. RISK ANALYSIS OF FOREIGN EXCHANGE DERIVATIVES TRANSACTION**

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 businesses 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 businesses:

## 1. Market risk

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

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 forward foreign exchange purchase business will effectively reduce the risk of market fluctuations by locking procurement costs.

Other NDF, options and other derivative instruments are mainly conducted when failing to enter into normal forward settlement/purchase of foreign exchange business or the cost is extremely high, which only serve as the supplements to the above business.

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.

## 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

foreign exchange hedging contract is inconsistent with the direction of the exchange rate substantial fluctuations, thereby causing exchange losses impact. 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 specialised 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 derivatives transactions is for the purpose of avoiding exchange rate risks, and limited to foreign exchange operations 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 *Foreign Exchange Derivatives Transaction Management Rules*, we implement the approval process where the Company's general meeting and Board of Directors authorize the President/President 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 business 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 business conducted by the Company must be based on the prudent forecast of foreign currency receipts (payments) of the Company and the actual business exposure. The delivery date of the foreign currency derivative business 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 recognises 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 — Hedge Accounting*, *Accounting Standard for Enterprises No. 37 — Presentation of Financial Instruments*, and the *Accounting Standard for Enterprises No. 39—Fair Value Measurement* 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 statement and Statement of Profit or Loss.

## **IX. OPINIONS OF THE BOARD OF SUPERVISORS**

The Board of Supervisors is of the view that the Company carries out foreign exchange fund business according to its actual business requirements, and its decision-making procedures comply with requirements of the national laws, regulations and the *Articles of Association* which is benefit to prevent the fluctuation risk of interest rate and exchange rate to reduce the impact of interest rate fluctuation on the Company, and does not impair the Company's and the minority interests. Therefore, the Board of Supervisors agrees the Company to conduct the foreign exchange fund business.

## **X. OPINIONS OF THE INDEPENDENT DIRECTORS**

On the basis of normal production and operation and relying on specific business operations, and on the premise of ensuring normal production and operation, the Company has utilized foreign exchange fund derivatives to reduce exchange rate risks, minimize exchange losses and control operational risks, and there are no circumstances that would prejudice the interests of the Company and all shareholders, in particular the small and medium shareholders; the Company has formulated a management system for foreign exchange derivatives transactions, and has formulated specific operational procedures for engaging in foreign exchange fund derivatives business; the relevant decision-making procedures for the Company and its holding subsidiaries to engage in foreign exchange fund derivatives business are in compliance with relevant national laws and regulations and the *Articles of Association* of the Company. Therefore, the Independent Directors' Special Meeting agreed that the Company should, on the premise of ensuring that normal operating capital requirements and capital safety will not be affected, commence the foreign exchange capital derivatives business in a timely manner in accordance with the provisions of the relevant system in the light of the business development needs.

## **XI. DOCUMENTS FOR INSPECTION**

1. Resolutions of the 9th meeting of the 11th session of the Board of Directors of Haier Smart Home Co., Ltd.;
2. Resolutions of the 9th meeting of the 11th session of the Board of Supervisors of Haier Smart Home Co., Ltd.;



3. Opinions of Independent Directors on Matters Relating to the 9th meeting of the 11th session of the Board of Directors of Haier Smart Home Co., Ltd.

It is hereby notified the above.

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

27 March 2024