

Stock Name: Qingdao Haier

Stock Code: 600690

No.: L2019- 019

Bond Name: Haier Convertible Bonds

Bond Code: 110049

Qingdao Haier Co., Ltd.

Announcement on Conducting Foreign Exchange Funds 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 are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

Qingdao Haier Co., Ltd. (hereinafter referred to as the “Company”) convenes the 27th meeting of the 9th session of the Board of Directors of the Company on 29 April 2019, on which considers and approves the *Proposal on Conducting Foreign Exchange Funds Derivatives Business of Qingdao Haier Co., Ltd.*. Such business does not constitute related-party transaction, and the proposal is subject to be submitted to the general meeting of shareholders for consideration.

In 2018, the overseas businesses of the Company accounted for more than 42%, with revenue in foreign currency accounting for a large percentage, but the costs are composed mostly of domestic currency, namely RMB. The mismatch of currency between revenue and expenses led to large influence of the exchange rate fluctuation on the Company’s profit. Based on the imports and exports and operational budgets of the Company, as well as the need to avoid risks on exchange rate and interest rate of asset and liability business, the Company intends to conduct foreign exchange funds derivatives business with a balance not exceeding USD6.5 billion in 2019. The

particulars are set out below:

I. Summary of the foreign exchange funds derivatives transactions and the necessity thereof

1. Foreign exchange funds derivatives belong to the currency hedging financial products approved by the People's Bank of China. Its trading principle is to enter into agreements on forward purchase and settlement of foreign exchange and swap, stipulating the currency, amount, term and exchange rate of the foreign exchange on the future purchase and settlement of foreign exchange, conducting purchase and settlement of foreign exchange business pursuant to the stipulated currency, amount and exchange rate in agreements, and fixing the costs on the current purchase and settlement of foreign exchange.

2. The purpose of conducting the foreign exchange funds derivatives business by the Company is to avoid and prevent the risk of exchange rate on international trading business that the Company is exposed to, and to minimize the influence of exchange rate fluctuation on the Company's performance. Foreign exchange derivative transactions fix the trading cost of exchange on a certain level in advance, so as to avoid the unforeseeable risks caused by sharp fluctuation on exchange rates.

3. The scale of the foreign exchange funds derivatives business of the Company is in line with the actual business volume of imports and exports, and the scale of the overseas assets/liabilities of the Company, without any speculative operation. Given that the scale of the Company's overseas business is expanding, in order to ensure that the Company continues developing steadily and to accelerate the integration and synergy of the operational management and business between the Company and the newly established offshore subsidiaries, the Company is of the view that it is necessary to avoid risk of exchange rate through foreign exchange funds derivatives business.

II. Summary of the intention on conducting foreign exchange funds derivatives transactions

1. Forward settlement/purchase of foreign exchange

Entering into contracts for forward settlement/purchase of foreign exchange with banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws) on the import and export businesses of the Company, so as to fix the exchange rates of the future settlement/purchase of foreign exchange from foreign currency to RMB, and eliminate the influence of exchange rate fluctuation.

2. Currency swap business

Entering into swap contracts with banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws) based on the different needs of the Company on the proximal and distal cash flows, so as to avoid the influence of exchange rate fluctuation.

3. Risk-controllable interest arbitrage business portfolio

Such business aims at the difference between income and expenses in foreign currency of the Company, and the interest arbitrage space arising from the difference between the differential in forward exchange rates affected by the market fluctuation and the differential in rates calculated based on the theoretical spreads. The Company intends to carry out interest arbitrage business to a degree that is appropriate to make up for the hedging costs under the controllable risks, such as current purchase plus forward settlement of foreign exchange, and current settlement plus forward purchase of foreign exchange of foreign currency loan.

4. Other NDF (namely non-deliverable forwards), currency futures and options businesses

The currencies for which the Company is exposed to risks are getting more and more diversified and the fluctuation of exchange rates is getting sharper and sharper, such as EURO, JPY, INR, RUB, THB. Some of the currencies do not have local common forward settlement/purchase that can be delivered in usual course, or the hedging costs can be too high. In order to increase hedging measures and avoid exchange rate risk effectively, the Company will try products such as other NDF, currency futures and options portfolio as complementary and alternative hedging measures.

5. Businesses such as currency swap and interest rate swap

The scale, assets and liabilities of overseas business is increasing along with the Company's international operation. In order to hedge effectively the fluctuation risk of exchange rate and interest rate that the overseas assets and liabilities are exposing to, the Company intends to carry out currency and/or interest rate swap business so as to avoid fluctuation risk of exchange rate and interest rate.

Based on the imports and exports and operational budgets of the Company, the intended operational balance in 2019 of the above business 1-4 does not exceed USD4.5 billion for avoiding exchange rate fluctuation risks arising from import and export businesses; and the intended operational balance in 2019 of business 5 does not exceed USD2.0 billion for avoiding exchange rate and interest rate risks arising from assets and liabilities businesses. The Company will adjust the actual operational amount of the business 1-5 within the total balance of USD6.5 billion according to the actual business needs.

III. Principal terms of the intended foreign exchange hedging transactions

1. Contract term: The terms of the foreign exchange funds businesses involved in the daily operational activities carried out by the Company are mostly less than one year, and the currency/interest rate swap businesses under assets and liabilities involved are between 1-5 years.

2. Counterparty: Banks (or other financial institutions permitted to carry out relevant businesses in accordance with the laws. However, within the scope of foreign exchange derivatives businesses involved in this proposal, the counterparties of the Company and the subsidiaries exclude Haier Group Finance Co., Ltd. or other entities

under Haier Group Corporation permitted to carry our relevant businesses in accordance with the laws (hereinafter referred to as “ Haier Group Finance Co., Ltd. and the other entities”). For the amount and other information of foreign exchange derivatives businesses that may be traded with Haier Group Finance Co., Ltd. and the other entities, please refer to the relevant contents in *Announcement on Prediction on Daily Related-party Transaction in 2019 of Qingdao Haier Co., Ltd.*(Announcement No.: L2019-017) published on the same date with this announcement).

3. Liquidity arrangement: All the foreign exchange funds businesses are in line with the normal and reasonable backgrounds of import and export businesses, and match the time of receipt and payment, thus would not influence the liquidity of the Company.

IV. Management system related to foreign exchange funds businesses

For the operation standards of foreign exchange funds businesses, the Company carries out foreign exchange derivatives businesses in strict compliance with the relevant requirements under *Management Policy on Foreign Exchange Risks* as well as *Management System on Foreign Exchange Derivatives Transactions of Qingdao Haier Co., Ltd.*.

V. Risk analysis of foreign exchange derivatives trading

The Company and its holding subsidiaries conduct foreign exchange derivatives business in accordance with the principle of stability, and does not conduct the foreign exchange transaction for speculative purposes. All foreign exchange funds businesses are based on normal production and operation and rely on specific business operations

to avoid and prevent exchange rate risks. However, there are also certain risks in conducting foreign exchange funds business:

1. Market risk

Unilateral forward settlement of foreign exchange: the Company will determine whether to sign a forward contract based on the cost of the product (basically consisting of RMB) and market risk. Signing the contract equals to fixing the price of currency exchange. It is effective to resist market fluctuation risk and ensure a reasonable and stable profit level of the Company through unilateral forward settlement of foreign exchange.

Unilateral forward purchase of foreign exchange: According to the import contract entered with the customer and exchange rate risk, the future currency exchange cost will be fixed through the unilateral forward purchase of foreign exchange. Although there is a certain risk of loss, the unilateral forward purchase of foreign exchange will effectively reduce the market fluctuation risk and fix procurement costs.

Other NDF, currency futures and options businesses are mainly carried out when failed to sign the ordinary unilateral forward settlement/purchase of foreign exchange or the costs are too high, serving as the supplement of the above unilateral businesses.

The income of the interest arbitrage business upon maturity has been determined when carrying out, thus there is not any market fluctuation risk.

Exchange rate fluctuation risk in currency swap business is avoided by adjusting the currency of assets and liabilities in order to match the currency of the assets with

the currency of liabilities. Interest rate fluctuation risk in interest rate swap business is avoided by transfer the floating-rate business to fix-rate business or transfer the fix-rate business to floating-rate business when the rate is going downward to reduce the costs. All of the above businesses have a real business background and there is no speculation.

2. Exchange rate fluctuation risk

After the Company fixing the forward exchange rate according to the foreign exchange management strategy, if the actual trend of the foreign exchange rate deviates significantly from the direction of the Company's fixed exchange rate fluctuation, the cost of the Company after fixing the exchange rate expenditure may exceeds the cost of not fixing the exchange rate, thus forming a loss of the Company. When the foreign exchange rate changes greatly, if the fluctuating direction of the Company's fixed exchange rate is inconsistent with that of the foreign exchange hedging contract, the foreign exchange loss will be formed; if the exchange rate does not fluctuate in the future, the vast deviation from the foreign exchange hedging contract will also form a foreign exchange loss.

3. Internal control risk

The foreign exchange derivatives business is highly specialized and complex so it may cause risks due to imperfect internal control.

4. Transaction default risk

In the event of a default in the counterparty of foreign exchange derivative transaction, the Company would not be able to obtain hedging profits as agreed to

hedge the Company's actual exchange losses, resulting in a loss of the Company.

5. Customer default risk

The overdue of customer's accounts receivable and the customer's order adjustment will make the actual payment inconsistent with the expected payment, which may result in the actual cash flow could not match the carried out foreign exchange derivative business term or amount completely, leading to a loss of the Company.

VI. Proposed risk control measures taken by the Company

1. The Company may not engage in any foreign exchange derivative transactions except those carried out for the purpose of avoiding exchange rate risks, and only for foreign exchange operations related to the Company's import and export business and overseas asset/liability management.

2. The Company implemented approval process in strict compliance with the *Management Policy on Foreign Exchange Risks* and the *Management System Regarding the Foreign Exchange Derivatives Transactions*. The general meeting of shareholders of the Company and the Board of Directors delegate the general manager/the general manager office to take responsibility for the operation and management of the foreign exchange derivatives business, the fund department shall act as the handling department, and finance department shall act as the daily review department.

3. The Company conducts foreign exchange derivatives business with financial institutions such as large banks with legal qualifications. The financial department

timely tracks the changes in the transaction and strictly controls the occurrence of closing default risk.

4. The Company conducts foreign exchange derivatives business must based on the Company's cautious forecast on the foreign currency receipts and payments. The delivery date of the foreign exchange derivatives business must match with the Company's predicted receipt time, deposit time or payment time of the foreign currency, or match with the corresponding redemption term of the foreign currency bank borrowing.

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 will be fundamentally determined in accordance with the prices quoted by or obtained from pricing service providers such as banks. The Company measures and recognizes the fair values on a monthly basis.

VIII. Accounting policies and principles

The Company shall adopt accounting methods for its foreign exchange funds transaction in accordance with the *Accounting Standards for Business Enterprises*. In accordance with the relevant requirements of the *Accounting Standard for Enterprises No. 22 — Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Enterprises No. 24 — Hedging*, and the *Accounting Standard for Enterprises No. 37 — Presentation of Financial Instruments* and the guidelines of the Ministry of Finance, the Company arranges corresponding audits on the foreign exchange funds businesses that have already been carried out and the same will be

reflected in the relevant items in the balance sheet and the statement of profit or loss.

IX. Opinions of the independent directors

The independent directors are of the view that the relevant decision-making procedures of the Company and its holding subsidiary regarding the foreign exchange derivatives business comply with requirements of the relevant national laws, regulations and the *Articles of Association*. Based on the normal production and operation and rely on the specific operation businesses, the Company applies the foreign exchange funds derivatives instruments to reduce the exchange rate risk and the exchange loss as well as control the operation risk under the normal production and operation, and does not impair the Company's and all shareholders' interests (especially the minority interests). The Company has made the *Management System of Qingdao Haier Co., Ltd. Regarding the Foreign Exchange Derivatives Transactions* and specific operating procedures for the Company engaging in foreign exchange funds derivatives business by strengthening the control and implementing risk prevention measures. It is feasible for the Company to conduct foreign exchange funds derivatives business and the risks can be controlled. It is agreed that the Company shall conduct foreign exchange funds derivatives business appropriately in accordance with the relevant requirements pursuant to the needs of business development without prejudicing the capital requirements of normal operation and capital security. We agree this session of the Board of Directors of the Company submits the above resolutions to the 2018 Annual General Meeting of the Company for consideration.

X. Opinions of the Board of Supervisors

The Board of Supervisors is of the view that the Company carries out foreign exchange funds 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 mutually agrees the Company to conduct the foreign exchange funds business.

XI. Documents available for inspection

1. Resolutions of the 27th meeting of the 9th session of the Board of Directors of Qingdao Haier Co., Ltd.;
2. Resolutions of the 23th meeting of the 9th session of the Board of Supervisors of Qingdao Haier Co., Ltd.;
3. Opinions of independent directors of Qingdao Haier Co., Ltd. regarding the relevant matters of the 27th meeting of the 9th session of the Board of Directors.

It is hereby notified the above.

The Board of Directors of Qingdao Haier Co., Ltd.

29 April 2019