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Haier

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

ANNOUNCEMENT FIRST GRANT OF THE 2021 A SHARE OPTIONS TO THE PARTICIPANTS

Reference is made to the announcement of Haier Smart Home Co., Ltd. (the “**Company**”) dated 29 July 2021, the circular dated 31 August 2021 (the “**Circular**”) and the poll results announcement dated 15 September 2021 in relation to, among others, the proposed adoption of the 2021 A Share Option Incentive Scheme (the “**Incentive Scheme**”). Unless otherwise defined in this announcement, capitalized terms used herein shall have the same meanings as those defined in the Circular.

1. PARTICULARS OF THE OPTION GRANT

Based on the enquires made by the Board, none of the events as disclosed in the Circular under which the Participants may not be granted the share options has occurred to the Company and the Participants. The conditions for the grant under the Incentive Scheme has been fulfilled. The grant particulars under the Incentive Scheme are as follows:

- 1) First Grant Date: 15 September 2021
- 2) First Grant Amount: 46,000,000 options
- 3) Number of Participants of First Grant: 400 people
- 4) Exercise Price of the First Grant: RMB25.63 per share (please refer to paragraph 2 of this section for more details)

Closing price of shares on the first Grant Date: closing price on the first Grant Date of the Company's A shares was RMB26.02 per share and H shares was HKD27.55 per share

- 5) Source of Shares: ordinary A shares to be directly issued to the Participants by the Company
- 6) Validity Period, Vesting Period and exercise arrangement of the Incentive Scheme

The share options granted will be valid for a maximum period of 72 months commencing from the first Grant Date to the date of full exercise or cancellation of all share options granted to the Participants.

Upon the expiry of the 12-month period from the first Grant Date of share options first granted under the Incentive Scheme, and subject to the satisfaction of the Exercise Conditions, the Participants may exercise the options in five phases, with specific exercise arrangement as follows:

Exercise arrangement	Exercise schedule	Proportion of exercisable Options to granted Options
First Exercise Period of the first grant of Share Options	Commencing from the first trading day upon the expiry of 12 months from the first Grant Date to the last trading day before the expiry of 24 months from the first Grant Date	20%
Second Exercise Period of the first grant of Share Options	Commencing from the first trading day upon the expiry of 24 months from the first Grant Date to the last trading day before the expiry of 36 months from the first Grant Date	20%
Third Exercise Period of the first grant of Share Options	Commencing from the first trading day upon the expiry of 36 months from the first Grant Date to the last trading day before the expiry of 48 months from the first Grant Date	20%
Fourth Exercise Period of the first grant of Share Options	Commencing from the first trading day upon the expiry of 48 months from the first Grant Date to the last trading day before the expiry of 60 months from the first Grant Date	20%
Fifth Exercise Period of the first grant of Share Options	Commencing from the first trading day upon the expiry of 60 months from the first Grant Date to the last trading day before the expiry of 72 months from the first Grant Date	20%

7) List of Participants and particulars of the grant

The Company granted 46,000,000 share options, representing 90.20% of the total number of share options proposed to be granted under the Incentive Scheme and approximately 0.490% of the total number of shares of the Company as at the date of the announcement of the Incentive Scheme. The allocation of the share options granted to the Participants is as follows.

Name	Position	Number of share options granted ('000)	Percentage to the total number of share options granted (including the first grant and the reserved portion)	Percentage to the existing share capital
Liang Haishan	Chairman	913.9	1.79%	0.010%
Li Huagang	Director, Chief Executive Officer	913.9	1.79%	0.010%
Xie Juzhi	Vice Chairman	913.9	1.79%	0.010%
Li Pan	Vice-president	457.0	0.90%	0.005%
Gong Wei	Chief Financial Officer, Vice-president	457.0	0.90%	0.005%
Huang Xiao Wu	Vice-president	457.0	0.90%	0.005%
Wu Yong	Vice-president	228.5	0.45%	0.002%
Li Yang	Vice-president	457.0	0.90%	0.005%
Guan Jiangyong	Vice-president	228.5	0.45%	0.002%
Wang Li	Vice-president	457.0	0.90%	0.005%
Other management personnel and core technical (business) backbone staff (390 people)		40,516.3	79.44%	0.431%
Total (400 people)		46,000	90.20%	0.490%

2. ADJUSTMENT TO THE EXERCISE PRICE OF THE 2021 A SHARE OPTIONS

1) The Adjustment

Reference is made to the circular of the 2020 annual general meeting of the Company dated 4 June 2021 and the poll results announcement dated 25 June 2021 in relation to, among others, the approval of the 2020 Profit Distribution Plan by the 2020 annual general meeting of the Company to distribute cash dividend for the year ended 31 December 2020 on the basis of RMB3.66 per 10 shares (tax inclusive). The implementation of the A share interests distribution plan was completed on 23 August 2021, details of which are set out in the Company's overseas regulatory announcement dated 16 August 2021. On 15 September 2021, the Board of the Company considered and approved the "Resolution on Adjustment to the Exercise Price of the 2021 A Share Option Incentive Scheme".

2) Adjustment Method

According to the relevant requirements of 2021 A Share Option Incentive Scheme (draft) of Haier Smart Home Co., Ltd., in the event of, among others, any dividend distribution of the Company during the period starting from the date of the announcement of the Incentive Scheme to the completion date of the registration of the shares issued upon the exercise of share options by Participants, an adjustment to the Exercise Price of share options shall be made by the Company accordingly, provided that the adjustment does not result in the Exercise Price becoming lower than the par value of the share. The adjustment method is as follows:

$$P = P_0 - V$$

Where: P_0 represents the Exercise Price before the adjustment; V represents the dividend per share; P represents the adjusted Exercise Price. P shall be greater than 1 after the dividend distribution.

Based on the above, the Exercise Price of the Company's 2021 A Share Option Incentive Scheme, including the first grant entitlement and the reserved entitlement, was adjusted from RMB25.99 per share to RMB25.63 per share.

Save the adjustment to the Exercise Price as mentioned above, the grant particulars are same as in the Incentive Scheme as considered and approved by the Company's second extraordinary general meeting of 2021 and the third A shares/D shares/H shares class meeting of 2021.

3) Impact of the Adjustment on the Company

The adjustment to the Exercise Price of the Company's 2021 Share Option Incentive Scheme will not have any material impact on the Company's financial position and results of operations.

4) Opinions of the Supervisory Committee

After consideration, the Supervisory Committee is of the view that the adjustment method and adjustment procedures in relation to the Exercise Price of the 2021 A Share Option Incentive Scheme of the Company are in compliance with the Administrative Measures for Share Incentives of Listed Companies and 2021 A Share Option Incentive Scheme (draft) of Haier Smart Home Co., Ltd. and other relevant regulations, and are conducive to the sustainable development of the Company without prejudice to the interests of the Company and all shareholders, and it is agreed that the exercise price of the 2021 A Share Option Incentive Scheme shall be adjusted from RMB25.99 per share to RMB25.63 per share.

5) Opinions of the Independent Non-executive Directors

1. The Company has completed the annual profit distribution for 2020 on 23 August 2021, and in accordance with the 2021 A Share Option Incentive Scheme (draft) of Haier Smart Home Co., Ltd. and other relevant regulations, the Company shall adjust the exercise price of the 2021 A Share Option Incentive Scheme accordingly;
2. The method of adjustment and the consideration procedures for the adjustment are in compliance with the Administrative Measures for Share Incentives of Listed Companies and other relevant laws, regulations and regulatory documents, as well as relevant provisions in the Articles of Association of the Company, which are conducive to the sustainable development of the Company without prejudice to the interests of the Company and all shareholders.

Based on the above, the independent non-executive directors of the Company have agreed that the exercise price of the Company's 2021 A Share Option Incentive Scheme (first grant and reserved portion) shall be adjusted from RMB25.99 per share to RMB25.63 per share.

3. OPINIONS OF THE SUPERVISORY COMMITTEE

In accordance with the relevant provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures for Share Incentives of Listed Companies and other relevant laws, regulations and regulatory documents, as well as the Articles of Association of Haier Smart Home Co., Ltd. and the 2021 Share Option Incentive Scheme (draft) of Haier Smart Home Co., Ltd., the Supervisory Committee of the Company issued the following verification opinion with reference to the results of the verification on the list of Participants:

- 1) The Participants of the first grant under the Incentive Scheme meet the conditions and employment requirements of an incentive participant as stipulated in the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures for Share Incentives of Listed Companies and other relevant laws, regulations and regulatory documents as well as the Articles of Association of Haier Smart Home Co., Ltd. There is no circumstance where a Participant is forbidden to become an incentive participant as stipulated in Article 8 of the Administrative Measures for Share Incentives of Listed Companies, and the conditions to participate in the Incentive Scheme are met and the conditions for the grant of share options to the Participants under the Incentive Scheme have been fulfilled.
- 2) It is agreed that the Company shall determine the first Grant Date as 15 September 2021 and grant a total of 46,000,000 share options to 400 eligible Participants at an exercise price of RMB25.63 per share.
- 3) The grant by the Company is beneficial to the Company's sustainable development without obvious prejudice to the interests of the Company and all shareholders.

4. IMPACT ON THE FINANCIAL POSITION OF THE COMPANY AFTER THE GRANT OF ENTITLEMENT

In accordance with the requirements of the Accounting Standards for Enterprises No.11 — Share-based Payment and the Accounting Standards for Enterprises No.22 — Recognition and Measurement of Financial Instrument issued by the Ministry of Finance, the Company shall, on each balance sheet date during the Vesting Period, adjust the estimated number of share opinion that may be exercised in accordance with the latest number of the Participants who have fulfilled the exercise conditions and the performance indicators, and recognize the services received during the period as the relevant costs or expenses and capital reserve in accordance with the fair value of the shares option on the Grant Date.

In accordance with the following accounting treatment, the Company shall measure and account for the cost of the Incentive Scheme of the Company:

- 1) Accounting treatment on the Grant Date: Since the share options cannot be exercised on the Grant Date, no related accounting treatment is required. The Company will use the Black-Scholes Model (“**B-S Model**”) to determine the fair value of the share options on the Grant Date.
- 2) Vesting Period Accounting Treatment: The Company includes the services for the current period in costs or expense on each balance sheet date during the Vesting Period based on the best estimate of the number of exercisable share options and the fair value of the share options on the Grant Date and recognize in “Capital reserve — other capital reserve”.
- 3) Subsequent to Exercisable Date Accounting Treatment: No adjustment shall be made to the relevant costs or expense, and the total amount of the owner’s equities, which have been recognized.
- 4) On the Exercisable Date Accounting Treatment: Based on the Exercise of the Share Options, share capital and share premium shall be recognized and the “Capital reserve-other capital reserve” recognized during the Vesting Period shall be transferred to “Capital reserve — capital premium”.

For granted options and other equity instruments with an active market, the fair value of the equity instruments is determined at the active market quotations. For granted Options and other equity instruments with no active market, an Option pricing model shall be used to determine the fair value of the equity instruments. Factors as follows shall at least be taken into account using Option pricing models:

- 1) the exercise price of the option;
- 2) the Validity Period of the option;
- 3) the current market price of the underlying shares;
- 4) the expected volatility of the share price;
- 5) predicted dividend of the Share;
- 6) risk-free rate of the option within the Validity Period.

Estimation of the total cost of the share options

1) *The Company uses the B-S Model to determine the fair value of the share options*

The B-S Model is based on 6 variables: the current market price of the underlying shares (S), the exercise price of the option (K), risk-free rate (r), the Validity Period of the option (t), the expected volatility of the share price (σ) and the dividend yield of the underlying shares (i). Changes in these six variables affect the change in the value of the share options. The option pricing formula of the B-S Model is as follows:

$$C(S, K, r, t, \sigma) = Se^{-it} \phi(d_1) - Ke^{-rt} \phi(d_2)$$

$$d_1 = \frac{\ln\left(\frac{S}{K}\right) + \left(r + \frac{1}{2}\sigma^2\right)t}{\sigma\sqrt{t}}$$

$$d_2 = d_1 - \sigma\sqrt{t}$$

2) *Selected parameters for calculating the value of the share options of the Company*

- (i) Share Price (S): RMB26.02 per share (the closing price of A Shares on the Grant Date, i.e. 15 September 2021).
- (ii) Exercise Price (K): RMB25.63 per share.
- (iii) Risk-free Rate (r): Based on the yield to maturity of the Chinese government bond from Bloomberg, the risk-free yield is 2.40% for the first year, 2.54% for the second year, 2.59% for the third year, 2.67% for the fourth year and 2.74% for the fifth year, where the risk-free yield for the fourth year is the arithmetic average of the risk-free yields of the third year and the fifth year.
- (iv) Validity Period of the Option (t): 1 year, 2 years, 3 years, 4 years and 5 years, respectively (the period from the Grant Date to the first date of exercise for each respective period).

- (v) Historic Volatility (σ): 0.4050 (1 year); 0.3983 (2 years); 0.3864 (3 years); 0.3784 (4 years); 0.3568 (5 years). In calculating the historical volatility, the selected range is the Company's continuous closing price for the last 5 years. Meanwhile, the respective historical volatility for the past 1, 2, 3, 4 and 5 years is calculated based on the difference during the Vesting Period.
- (vi) Dividend Yield (i): 1.4066%, based on the dividend yield from Bloomberg on the Valuation Date (i.e. 15 September 2021), calculated by dividing dividends per Share by the closing price on the Grant Date.

Based on the above pricing model, the total theoretical value of the Company's 46,000,000 options granted under the Incentive Scheme is RMB308 million, representing the cost of the share options to be amortized is RMB308 million, which will be amortized over the Vesting Period of the Incentive Scheme. The Company granted options on 15 September 2021 and the amortization of the share options costs for 2021–2026 would be as follows (in RMB million):

Number of the Share Options granted (000)	Total cost to be amortized						
		2021	2022	2023	2024	2025	2026
46,000	308	36	111	74	48	28	11

Notes:

- 1) The above results do not represent the final accounting costs. Apart from the Grant Date, the grant price and the number of grants, the actual accounting costs will also depend on the actual effective and lapsed quantities.
- 2) The final result of the impact of the above on the Company's operating results will be subject to the annual audit report issued by the accounting firm.
- 3) In the above table, the numbers may not add up due to rounding adjustments.

5. FUNDING ARRANGEMENT FOR THE SUBSCRIPTION OF SHARE OPTIONS AND PAYMENT OF INDIVIDUAL INCOME TAX BY THE PARTICIPANTS

The funds used by the Participants for the subscription of share options and payment of individual income tax shall be derived from their own funds. In respect of the subscription of relevant share options in accordance with the Incentive Scheme, the Company undertakes not to provide loans to the Participants, nor any other financial aids, such as providing guarantee for their loans.

6. OPINIONS OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

In relation to the first grant of share options to the Participants under the 2021 A Share Option Incentive Scheme, the independent non-executive directors believe that:

- 1) There is no circumstance under which the Company is forbidden to implement the Share Incentive Scheme as prescribed in the Administrative Measures for Share Incentives of Listed Companies and other laws and regulations. The Company is qualified to implement the Share Incentive Scheme.
- 2) The Participants granted with the share options have satisfied the employment requirements as required by the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and other laws, regulations and regulatory documents as well as the Articles of Association of Haier Smart Home Co., Ltd., and there is no circumstance where a person is forbidden to become an incentive participant as stipulated in the Administrative Measures for Share Incentives of Listed Companies. The Participants meet the Participant conditions as stipulated in the 2021 A Share Option Incentive Scheme of Haier Smart Home Co., Ltd. (draft), and their qualifications in the Scheme as a subject are legal and valid.
- 3) The Grant Date of the Incentive Scheme meets the relevant regulations of the Administrative Measures for Share Incentives of Listed Companies and the 2021 A Share Option Incentive Scheme of Haier Smart Home Co., Ltd. (draft).
- 4) The Company has no plan or arrangement to provide loans, guarantee for loans or financial assistance in any other form to the Participants.
- 5) The implementation of the Share Incentive Scheme by the Company is conducive to the following: optimizing the corporate governance structure and enhancing the value of the Company and its shareholders; innovating the remuneration system of the Company and further attracting talents; motivating the enthusiasm of the Participants and achieving business development across cycles; undertaking the long-term development strategic objectives of the Company and achieving industry leadership; and promoting the sustainable development of the Company, without any obvious prejudice to the interests of the Company and all shareholders.

7. CONCLUSIVE VIEWS OF THE LEGAL OPINION

Beijing Zhonglun Law Firm is of the view that, as at the date of the legal opinion, the conditions for the grant by the Company have been met, the necessary approval and authorization at this stage for the adjustment and grant have been obtained; relevant particulars relating to the adjustment, Grant Date and Grantees of the grant are in compliance with the Administrative Measures and other relevant laws and regulations and articles of association of the Company, as well as the relevant provisions of the Incentive Scheme; the Company is subject to relevant procedures such as information disclosure, registration and announcement regarding the grant.

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

Qingdao, the PRC
15 September 2021

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*