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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

**ANNOUNCEMENT
GRANT OF THE RESERVED SHARE OPTIONS UNDER
THE 2021 A SHARE OPTION INCENTIVE SCHEME
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 announcement dated 15 September 2021 in relation to, among others, the adoption of the 2021 A Share Option Incentive Scheme (the “**Incentive Scheme**”) and the first grant of 2021 A Shares Options to the Participants contemplated thereunder by the Company. Unless otherwise defined in this announcement, capitalized terms used herein shall have the same meanings as those defined in the Circular.

On 15 December 2021, the board of directors of the Company (the “**Board**”) considered and approved the “Resolution of Haier Smart Home Co., Ltd. on the Grant of the Reserved Share Options under the 2021 A Share Option Incentive Scheme to the Participants” and agreed to grant 4,525,214 Share Options to 18 eligible Participants on 15 December 2021 as the grant date (the “**Reserved Grant Date**”) (the “**Reserved Grant**”) at an Exercise Price of RMB25.63 per Share.

1. PARTICULARS OF THE RESERVED 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 Reserved Share Options has occurred to the Company and the Participants. The conditions for the grant under the Incentive Scheme have been fulfilled. The particulars of the Reserved Grant under the Incentive Scheme are as follows:

- 1) Reserved Grant Date: 15 December 2021
- 2) Number of the Reserved Grant: 4,525,214 Share Options
- 3) Number of Participants of the Reserved Grant: 18 people
- 4) Exercise Price: RMB25.63 per Share

In accordance with the relevant provisions of the Incentive Scheme and the Company's 2020 annual interest distribution, the Company has adjusted the Exercise Price of the 2021 Share Option Incentive Scheme (first grant entitlement and reserved entitlement) from RMB25.99 per Share to RMB25.63 per Share.

Save for the above, the relevant particulars of the Reserved Grant are the same as those 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.

Closing price of Shares on the Reserved Grant Date: closing price on the Reserved Grant Date of the Company's A Shares was RMB29.40 per Share and H Shares was HKD32.25 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 Reserved Share Options granted will be valid for a maximum period of 72 months commencing from the Reserved 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 Reserved Grant Date of the Share Options reserved 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 Reserved Grant of Share Options	Commencing from the first trading day upon the expiry of 12 months from the Reserved Grant Date to the last trading day before the expiry of 24 months from the Reserved Grant Date	20%
Second Exercise Period of the Reserved Grant of Share Options	Commencing from the first trading day upon the expiry of 24 months from the Reserved Grant Date to the last trading day before the expiry of 36 months from the Reserved Grant Date	20%
Third Exercise Period of the Reserved Grant of Share Options	Commencing from the first trading day upon the expiry of 36 months from the Reserved Grant Date to the last trading day before the expiry of 48 months from the Reserved Grant Date	20%
Fourth Exercise Period of the Reserved Grant of Share Options	Commencing from the first trading day upon the expiry of 48 months from the Reserved Grant Date to the last trading day before the expiry of 60 months from the Reserved Grant Date	20%
Fifth Exercise Period of the Reserved Grant of Share Options	Commencing from the first trading day upon the expiry of 60 months from the Reserved Grant Date to the last trading day before the expiry of 72 months from the Reserved Grant Date	20%

7) List of Participants and particulars of the Reserved Grant

The Company granted 4,525,214 Share Options under the Reserved Grant, representing 90.50% of the total number of the Reserved Share Options under the Incentive Scheme and approximately 0.048% of the total number of Shares of the Company as at the date of this announcement. The allocation of the Reserved Share Options granted to the Participants is as follows:

Name	Position	Number of Reserved Share Options granted (Share Options)	Percentage to the total number of Reserved Share Options	Percentage to the existing total number of Shares
	General Manager and Department Manager, etc. of subordinate business divisions of the Company (18 people)	4,525,214	90.50%	0.048%
	Total (18 people)	4,525,214	90.50%	0.048%

Notes:

1. The total Shares of the Company to be granted under the Share Incentive Scheme within the Validity Period to any one of the above-mentioned Participants will not exceed 1% of the total number of Shares of the Company. The total underlying Shares of the Company involved under the fully effective incentive scheme will not exceed 10% of the total number of Shares of the Company as at the date of the announcement of the Incentive Scheme.
2. The Participants under the Incentive Scheme exclude the Company's Directors, Supervisors, chief executive, substantial shareholders or any of their associates (as defined under the Hong Kong Listing Rules).
3. The remaining Reserved Share Options under the Incentive Scheme will not be further granted.
4. Any discrepancy arising in the decimal figures between the above total number and the direct summation of breakdown figures is due to the effect of rounded figures.

2. OPINIONS OF THE SUPERVISORY COMMITTEE

In accordance with the relevant provisions of the Company Law, the Securities Law, the Administrative Measures and other relevant laws, regulations and regulatory documents, as well as the Articles of Association 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 Reserved Grant under the Incentive Scheme meet the conditions and employment requirements of an incentive participant as stipulated in the Company Law, the Securities Law, the Administrative Measures and other relevant laws, regulations and regulatory documents as well as the Articles of Association. 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 Reserved Grant Date as 15 December 2021 and grant a total of 4,525,214 Share Options to 18 eligible Participants at an Exercise Price of RMB25.63 per Share.
- 3) The Reserved Grant by the Company is beneficial to the Company's sustainable development without obvious prejudice to the interests of the Company and all Shareholders.

Given the above, we concur that the Reserved Grant Date of the Company for the Reserved Grant is 15 December 2021 and agree to grant 4,525,214 Share Options to 18 Participants at the price of RMB25.63 per Share.

3. 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 Options 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 Options on the Grant Date.

Methodology of accounting treatment

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 shares;
- 6) risk-free rate of the option within the validity period.

Estimation of the total cost of the Reserved Share Options

1) *The Company uses the B-S Model to determine the fair value of the Reserved 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. Changes in these 6 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): RMB29.40 per Share (the closing price of A Shares on the Reserved Grant Date, i.e. 15 December 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 2.30% for the first year, 2.49% for the second year, 2.58% for the third year, 2.64% for the fourth year and 2.70% 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 Reserved Grant Date to the first date of exercise for each respective period).
- (v) Historic Volatility (σ): 0.4040 (1 year); 0.4098 (2 years); 0.3891 (3 years); 0.3827 (4 years); 0.3584 (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): 1.2449%, based on the dividend yield from Bloomberg on the Valuation Date (i.e. 15 December 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 4,525,214 Options granted under the Incentive Scheme is RMB41 million, representing the cost of the Share Options to be amortized is RMB41 million, which will be amortized over the Vesting Period of the Incentive Scheme. The Company granted Reserved Share Options on 15 December 2021 and the amortization of the costs of Reserved Share Options for 2021–2026 would be as follows (in RMB'00 million):

Number of the Reserved Share Options granted (0'000 Share Options)	Total cost to be amortized						
		2021	2022	2023	2024	2025	2026
452.5214	0.41	0.01	0.16	0.11	0.07	0.04	0.02

Notes:

- 1) The above results do not represent the final accounting costs. Apart from the Reserved Grant Date, the grant price and the number of grant, 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) Any discrepancy arising in the decimal figures between the above total number and the direct summation of breakdown figures is due to the effect of rounded figures.

4. OPINIONS OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

In relation to the grant of Reserved 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 and other laws and regulations. The Company is qualified to implement the share incentive scheme.
- 2) The Participants granted with the Reserved Share Options have satisfied the employment requirements as required by the Company Law, the Securities Law and other laws, regulations and regulatory documents as well as the Articles of Association, and there is no circumstance where a Participant is forbidden to become an incentive participant as stipulated in the Administrative Measures. 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 as a Participant are legal and valid.
- 3) The Reserved Grant Date of the Incentive Scheme meets the relevant regulations of the Administrative Measures 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.

Given the above, we concur that the Reserved Grant Date of the Company for the Reserved Grant is 15 December 2021 and agree to grant 4,525,214 Share Options to 18 Participants at the price of RMB25.63 per Share.

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

The funds used by the Participants for the subscription of Reserved 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. 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 Reserved Grant by the Company have been met, the necessary approval and authorization at this stage for the Reserved Grant have been obtained; the number of grant and grantees of the Reserved Grant are in compliance with the Administrative Measures and other relevant laws and regulations and Articles of Association, 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 Reserved Grant.

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

Qingdao, the PRC
15 December 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