Haier 海尔

Haier Electronics Group Co., Ltd.
海爾電器集團有限公司*

Stock Code: 01169

2019
ANNUAL REPORT

*for identification purpose only

Contents

Corporate Profile

Haier Electronics Group Co., Ltd. (Stock code: 01169) (the "Company"), a subsidiary of Haier Group Corporation ("Haier Corp"), is listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries (the "Group") are principally engaged in: the research, development, manufacture and wholesale of washing machines and water heaters under Haier Corp brands ("Haier", "Casarte" and "Leader"); and the distribution of electronics products of Haier Corp in the People's Republic of China ("PRC"). It also invested in logistics services business which provides services under the name of "Gooday" in the PRC for large-format items, including but not limited to home appliances, furniture and fitness equipment.

Founded in 1984, Haier Corp is headquartered in Qingdao, Shandong Province, the PRC, and is one of the world's leading white goods home appliance manufacturers engaging in the research, development, production and sale of a wide variety of household appliances (including the white goods) and consumer electronic goods in the PRC today. The products of Haier Corp are now sold in over 100 countries. According to the data published by Euromonitor International, Haier has once again been named as the number one major appliances brand in the world. This is the eleventh consecutive year that Haier Corp has received the accolade.

Simplified Business Structure

Haier 海尔

Haier Electronics Group Co., Ltd.

White Goods Manufacturing and Sales

Channel Services

Water Heater and Water Purifer

Washing Machine

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHOU Yun Jie *(Chairman)*
Mr. XIE Ju Zhi *(Chief Executive Officer)*
(appointed with effect from 27 March 2019)
Mr. LI Hua Gang *(appointed with effect from 27 March 2019)*
Mr. SUN Jing Yan *(retired with effect from 27 March 2019)*

Non-executive Directors

Mr. LIANG Hai Shan
Mr. YANG Guang
Ms. TAN Li Xia *(retired with effect from 27 March 2019)*
Dr. WANG Han Hua *(retired with effect from 27 June 2019)*

Independent Non-executive Directors

Mr. YU Hon To, David
Mrs. Eva CHENG LI Kam Fun
Mr. GONG Shao Lin
Dr. John Changzheng MA
(appointed with effect from 29 August 2019)

PRINCIPAL BOARD COMMITTEES

Audit Committee

Mr. YU Hon To, David *(Committee Chairman)*
Mrs. Eva CHENG LI Kam Fun
Mr. GONG Shao Lin *(appointed with effect from 27 March 2019)*
Ms. TAN Li Xia *(retired with effect from 27 March 2019)*

Remuneration Committee

Mrs. Eva CHENG LI Kam Fun *(Committee Chairman)*
Mr. YU Hon To, David
Mr. ZHOU Yun Jie

Nomination Committee

Mr. YU Hon To, David *(Committee Chairman)*
Mrs. Eva CHENG LI Kam Fun
Mr. ZHOU Yun Jie

Strategic Committee

Mr. ZHOU Yun Jie *(Committee Chairman)*
Mr. YANG Guang
Mr. GONG Shao Lin

COMPANY SECRETARY

Mr. NG Chi Yin

LEGAL ADVISORS

As to Hong Kong Law

DLA Piper Hong Kong
Jeffrey Mak Law Firm

As to Bermuda Law

Conyers Dill & Pearman

PRINCIPAL BANKER IN HONG KONG

Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank (Asia) Corporation Limited
DBS Bank (Hong Kong) Limited
Mizuho Bank, Ltd.

PRINCIPAL BANKER IN THE PRC

China Construction Bank Corporation

AUDITORS

Ernst & Young

FINANCIAL CALENDAR

Six-month interim period end	:	30 June
Financial year end	:	31 December

REGISTERED OFFICE
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Bermuda

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Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC
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Qingdao, the PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tricor Tengis Limited
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Chairman's Letter

26 December 2019 marked the 35th birthday of Haier. Over the last 35 years, the culture of innovation has been instilled in the blood of every employee of Haier. Innovation has become part of our DNA. From a small collective factory facing insolvency and bankruptcy to a world's leading enterprise, Haier Group has always leveraged on its culture of innovation. This culture enables every employee to transform themselves during the process of creating user value, which in turn enhances their self-worth and maximize our shareholders' value. People are the essence of an enterprise. The most precious asset of Haier lies with every maker on our platform, who has helped to define our glorious foundation throughout the last decades, and will certainly create infinite possibilities in the future.

In 2019, Haier was ranked as the world's top white goods brand for the 11th consecutive year, and was recognized as one of the BrandZ Top 100 Most Valuable Global Brands. We are the only enterprise ever selected as an IoT ecosystem brand in the history of the rankings. This is a recognition from the world on Haier's IoT transformation. We held fast to our original mission of transforming into an IoT enterprise, and our determination to become a leading enterprise in the age of IoT is becoming stronger.

In 2019, China experienced a drop in the overall market demand for home appliances and a rapid plunge in growth of property sales, along with an across-the-board price war in the air conditioner market. However, these issues have caused no disruption to the development of Haier Electronics. We insisted on creating the best experience for our users through innovative technologies, innovative organizations and innovative systems. Although our growth was under pressure during the process of transformation with a 0.6% dip in annual revenue year-on-year, our net profit attributable to the owners of the Company has soared by 91.2%. Excluding the non-cash disposal gain of Gooday Logistics, our net profit growth still reached 9%.

Not every enterprise can excel in IoT technologies, nor can every product connected to the internet be regarded as IoT enabled. IoT application requires the ability to acquire the core technology and advanced manufacturing experiences, as well as the access to global user base and support from ecological chains such as global R&D resources. Compared to internet companies emerged in recent years, Haier is more solid and robust in our construction of ecological chains. After 35 years of embracing market challenges, Haier has not only taken flight on the accumulation of necessary industry knowledge and experience on IoT development over the decades, but also threaded a path with innovative models and kept up with the pace of globalization. We have no interests in producing short-lifespan, fast and cheap products, which would be able to attract users but tarnish the brand and undermine the experiences. We need to grasp the beat of our times and create our own rhythm. Haier does not only aim to build a successful century-old brand, we also want to let our users, our stakeholders to see a world-class company that can truly create the best full experiences for users. From a high-end brand, to a scenario-based brand, to an ecosystem brand, this is the way an IoT enterprise must go through.

Brand-building is the prerequisite condition of an IoT enterprise. An enterprise that fails to create even one well-recognized brand can hardly be a convincing IoT enterprise. Haier Electronics strategically launched Casarte ten years ago. After a decade of polishing and perfecting, Casarte has become a shining star among high-end brands in China's market, and has leveraged on its artisan design, advanced craftmanship, exclusive channels and customized experience services. In 2019, the share of Casarte washing machines in the market priced over RMB10,000 in China was over 70%, while Casarte water heater achieved a year-on-

year growth of over 30%. We would not be so arrogant to think that the prestigious Casarte brand has fully constructed a moat that can protect itself from all rivalries, but we are confident in our belief that in addition to dedication and experience, patience and time are more essential in developing a high-end brand that reaches the hearts of our users. We welcome challenges and competition from our peers, as this will accelerate our pace for innovation and iteration, and enable Casarte to be the leader of high-end brands.

Scenario-based brand is the key of an IoT enterprise. In the age of IoT, products will be replaced by scenarios or become only one of the many elements within a scenario. Therefore, on the basis of nurturing a high-end brand, Haier Electronics has been committed to creating a variety of smart home scenarios in recent years to enable the upgrade of user experience. Haier Group's complete set of smart homes has established a "5 + 7 + N + ecosystem" model, which comprises five living spaces of smart living room, smart kitchen, smart bedroom, smart bathroom and smart balcony, coupled with seven solutions including high-end water usage and health management, and multiple personalized scenarios of smart living. The smart home model managed to transform product provision into solution offerings, and transform product interconnectivity into complete-scenario user experience. Haier Electronics has spearheaded the development of smart bathroom and smart balcony scenarios. Taking the balcony scenario as an example, Haier's smart washers and dryers realized integration of washing and drying. The whole washing and drying process is intelligent such that the dryer would automatically switch to appropriate gear for clothes drying after washing is completed. Smart washers can even interact with drying racks that would automatically lower once the washing is done, and raise after clothes are hung, thus making the process smarter, simpler and more convenient. This smart laundry balcony scenario that set up with a washer, a dryer, storage cabinets and drying racks, has continued to induce other scenarios such as a fitness balcony scenario integrated with a treadmill, a green balcony scenario integrated with automatic watering system, a pet-friendly balcony scenario integrated with automatic feeder, and a study balcony scenario integrated with "Xiaoyou" speaker and smart table lamp. As more and more interested stakeholders integrate into our "scenarios" ecosystem, we gain ecosystem revenue in addition to income from our washer products. This ecosystem effect will continue to expand as our scenarios continue to enlarge, which will break the iron law of economics by increasing marginal returns as scale expands.

Ecosystem brands are the hallmarks of IoT enterprises. In the IoT era, industry boundaries are collapsing and ecosystems are destined to override industries. The foundation of ecosystems is Experience Cloud: scenario solutions must be in the cloud, and user experience should also be gained from the cloud. Experience Cloud is a product of interaction where users will become life-long users after participating throughout the entire process. The cloud is there wherever users are. The Haier Smart Home App developed by the Group was launched on 26 December 2019. As a smart living platform for hundreds of millions of families, the Haier Smart Home App is no longer a platform for traditional online trading, it is an interaction platform that offers values via scenario experience, interaction and iterations. Through the App, users can watch and experience smart scenarios, make appointments for free design consultations, and customize ecosystem services, thereby enabling the design, construction and servicing of smart homes. Haier Smart Home App provides users with a whole-process, multi-dimensional customization experience and full life cycle services. In the Internet of Clothing for instance, washing machines have been transformed from home appliances to internet devices, connecting with both users and apparel manufacturers through RFID chips attached to clothing tags. By aggregating key elements of washing machines' consumption data, usage data, fabric traceable data and apparel and detergent consumption data, along with corresponding resource integration and configuration optimization, we have established an ecosystem platform that integrated multiple industries including home appliances, apparel and detergents, all of which are interconnecting at the factory, store and home levels. At present, the Internet of Clothing platform has a connection of 2,320 apparel companies, 5,000 smart stores, and more than 3,600 ecological resource partners, providing users with smart, full life cycle solutions from clothes washing, fabric caring and storage, to apparel mix-and-match and purchasing.

Relying on digital applications alone is not enough to become an IoT enterprise. The enterprise must go through a digital rebirth and achieve an integration of experience cloud and ecosystem cloud through digital reconstruction. Haier Electronics aims to realize digital transformation and digital rebirth by establishing a tri-platform of front end, middle range and back end. At the front end, we have actively engaged in subtraction with "smaller", simpler and more flexible means to achieve online and offline integration of 30,000+ experience stores, which fostered in-depth understanding and flexible responses to users' demands. In the middle range, we have consolidated our digital capabilities through digital interconnectivity of online presence of employees, marketing, products, production, services and R&D, and have realized our capacity for speedy fulfillment and delivery of users' demands. At the back end, we have developed a powerful underlying technological platform through cloud computing, big data, artificial intelligence and blockchain, which can turn data into assets. Big data, user-personalized small data, and streaming data will all become the driving forces of innovation.

Time flies and we have entered the month of March in 2020. We have, much to our dismay, engaged in a smokeless war of novel coronavirus pneumonia. People of China, especially those in Wuhan, Hubei province, have experienced struggles and hardship beyond imagination. Since 18 January, Haier Group has leveraged its global brand network and initiated four rounds of donations in terms of funds, medical equipment and IoT home appliances. Our total donations amounted to over RMB29 million, including RMB13 million of cash, and medical equipment valued over RMB16 million which included around USD570,000 worth of anti-epidemic supplies sourced from 12 countries such as the U.S., Japan and Russia, and IoT home appliances valued more than RMB2.5 million. To better serve and support the medical teams on the frontline, Haier's people are devoted to provide assistance around-the-clock, standing ready to support any rescue effort. We have formed a home appliance installation on-site supporting team of over 210 members to ensure the products and services donated by Haier could be timely installed and offered for the construction of the Huoshenshan and Leishenshan Hospitals in Wuhan. Haier Medical has sent a medical team of ten professional experts with experience in critical care rehabilitation and infectiology to Wuhan for relief efforts. Haier's Gooday Logistics have opened a 24-hour distribution route for free delivery of rescue supplies to Wuhan. In particular, in order to fulfil the demands for usage of Haier refrigerators and water purifiers at the Huoshenshan Hospital in the following morning, Gooday Logistics service workers rushed overnight to the hospital construction site. With paramount determination and perseverance, the team carried the refrigerators on their backs to cross two kilometers of muddy road in the middle of the night as the trucks could not get past the blockade. They completed the emergency mission ahead of time at 4am in the morning. Haier people's care for our mother country, and our fearless spirits and actions against hardship have been highly commended by medical staff and patients.

Because of the pandemic, the China's economy was forced to press the "pause button" to various extents. However, with the tenacious determination of the Chinese government and the Chinese people, the pandemic is now under control. We believe China's economy will soon push the "fast forward button", which is by no means another round of repetition of the original model. Haier Electronics sets out to push the "fast forward button" of innovation. As Winston Churchill said, "never let a good crisis goes to waste"; and just as Joseph Schumpeter observed from the perspective of economics: innovation is the only answer to breaking the fate of an economic crisis and achieving a spiral rise. After the epidemic, the growth-driven economic reform of China, adjustments to innovative policies and investments in new infrastructures will all become new opportunities to Haier Electronics.

Starting from 10 February, Haier Group has resumed work and production nationwide with the exception of Wuhan Industrial Park, and has completely re-opened its entire process of R&D, procurement, manufacturing, marketing and after-sales services. We also attained our goal of zero confirmed case and zero infection after factory work resumption. Haier Electronics fully utilized Haier Group's resources to achieve orderly resumption of work and production. By making use of the COSMOPlat industrial Internet platform, we ensured the supply and demand of materials required for work resumption were matched. In addition, the service platform launched by COSMOPlat for enterprise has successfully empowered companies in various industries across the country to achieve systematic and orderly resumption of work and production, as well as stabilization and enhancement of productivity. It has become the first service platform recommended by the government and the first choice among industries on enterprise work resumption and productivity enhancement. The platform's newly launched module "COSMOPlat National SMEs Work and Production Resumption Monitoring Big Data Platform" has already performed dynamic statistical analysis on more than 38,000 SME samples from 18 industries, covering 31 regions across the country. Through the "COSMOPlat Work Resumption Index", it conducted big data analysis on the SME samples it monitored and provided an indicator on the status of work and production resumption. Such indicator has empowered and informed the government at all levels on decision making for the resumption of work and production in SMEs.

In December 2019, Haier Electronics learned that our parent company was exploring the proposal on potential privatization of Haier Electronics. As the Chairman of the Board of Directors, I have joined Haier Electronics from the Haier Group for more than ten years. From the General Manager in charge of operation to the Chairman, I have witnessed and participated in every important process along Haier Electronics' rise from a company whose market value was worth a few billion HKD, to the market value of more than HKD65 billion in the end of 2019. I vividly remember every strategic milestone along the journey. Personally, I have deep feelings for the listed company in Hong Kong but would also like to see a variety of strategic options for Haier's employees and shareholders. According to the requirements of the Takeovers Code, if the offeror proposes a privatization deal, it will be reviewed by an independent board committee specially set up by the board of directors of the listed company. They will review based on the interests of independent shareholders and incorporate advices from an independent financial adviser in their recommendations detailed in a composite document.

Given our years of experience, the Board of Directors of the Group is very diversified in terms of industries, experiences and backgrounds, and has the ability to provide key support for the company's strategies, risk control and forward-looking investments. I will, as always, support the CEO and the management team with a focus on strategies and operations to maximize benefits to our shareholders, enhance values of our employees, and optimize experience for our users.

The Covid-19 outbreak, undoubtedly the largest black swan event in the beginning of the year, will certainly bring massive impacts on various industries. This year, especially the first quarter, will pose a huge challenge to the Group, but please believe that my team and I are fully prepared. Through devising innovative strategies such as health management initiatives, digital marketing, and interconnected factories, Haier Electronics is equipped to overcome the challenges brought by this novel coronavirus pandemic. Once the crisis is over, we will seize the opportunities of our times and embark on the fast track of healthy development.

Lastly, I would like to express my sincere gratitude to the shareholders and directors for your support to Haier Electronics Group in the past year. I would also like to thank all colleagues for working closely with me. The friendship and trust strengthened through our common efforts have laid a solid foundation for the company's continuous innovative development. After years of unremitting efforts, we have already established an outstanding blue-chip company that is trusted by investors in the Hong Kong capital market.

What's past is prologue. As we have sown the seeds of hope, let us embrace the year of 2020 with special meanings together and embark on a new chapter.

Haier Electronics Group Co., Ltd.
Zhou Yun Jie
Chairman of the Board

Directors and Senior Management

The Directors and senior management of the Group during the year are as follows:

EXECUTIVE DIRECTORS

Mr. ZHOU Yun Jie ("Mr. Zhou"), aged 53, has been serving as an Executive Director and general manager of the Company since 12 November 2009. He has also been appointed as the chairman of the Company with effect from 25 June 2013. He is also a member of the remuneration committee and nomination committee of the Company, and is the chairman of the strategic committee of the Company. Mr. Zhou was the chief executive officer of the Company from 18 March 2013 to 25 August 2017. Mr. Zhou graduated from the Huazhong University of Science and Technology, the People's Republic of China (the "PRC") with a Bachelor's degree in Engineering in 1988. He has a Master's degree in corporate management from the Ocean University of China, the PRC and has completed his Doctoral courses with a diploma in Management from the Xi'an Jiaotong University, the PRC. He joined the Haier Group Corporation ("Haier Group") in 1988 and has had over 20 years of experience in the areas of sales management, enterprise management and international business. Currently, he is the President and Deputy Chairman of the board of Haier Group, and also he is a deputy to the 13th National People's Congress of China. He also serves as a non-executive director of Bank of Qingdao Co., Ltd., a company listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange, and as a director of Qingdao Haier Biomedical Co., Ltd., a company listed on the Shanghai Stock Exchange (STAR Market). Mr. Zhou is also a director of Qingdao Gooday Chuang Zhi Investment Management Co., Ltd., a subsidiary of the Group.

Mr. XIE Ju Zhi ("Mr. Xie"), aged 53, has been appointed as an Executive Director of the Company and the Chief Executive Officer of the Company with effect from 27 March 2019. Mr. Xie graduated from Shandong University of Finance and Economics in July 1989 with a bachelor's degree, and joined Haier Group in the same year. Mr. Xie currently also serves as the Vice President of Haier Group. Mr. Xie has experience in whole-process product management, product-wide services and product-wide marketing. He had held senior positions in Electrothermal Division and East China Marketing and Promotion Division of the Haier Group, and served as the Corporate General Manager of the Customer Services of the Haier Group since August 2002. Since July 2012, he has been the Vice President of Haier Group, and he has undertaken Haier Group's integration of community sales services of first and second-tier cities, and developing the online and offline sales of new household products. Since December 2015, he has been managing the newly developing business segments of Haier Group, including water purification, logistics, Haier home and Gooday services. He has also been in charge of the water heater business since 2019. Mr. Xie was awarded honorary titles including the Gold Award of Outstanding Contribution Award of China's Home Appliance Services Industry (中國家電服務行業突出貢獻獎金獎) and Outstanding Entrepreneur of Shandong Province (山東省優秀企業家).

EXECUTIVE DIRECTORS (continued)

Mr. Xie is also a director of the following subsidiaries of the Group: Hong Kong Bolang Housewares Trading Company Limited, Bloom Trade Limited, Health Water Equipment (HK) Co., Limited, Qingdao Haishi Water Equipment Co., Ltd. and its certain subsidiaries, Haier Electronics Sales (HK) Company Limited, Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd., Chongqing Haier Water Heater Co., Ltd., Wuhan Haier Water Heater Co., Ltd., Zhengzhou Haier New Energy Technology Co., Ltd., Haier Holdings (BVI) Limited, Qingdao Haier Investment and Development Holdings (BVI) Limited, Haier Washing Machines Holdings (BVI) Limited, Haier Water Heaters Holdings (BVI) Limited, and Designwelt Limited.

Mr. LI Hua Gang ("Mr. Li"), aged 50, has been appointed as an Executive Director of the Company with effect from 27 March 2019. Mr. Li graduated from the Huazhong University of Science and Technology, the PRC in 1991 with a Bachelor's degree in Economics, and graduated from China Europe International Business School in 2014 with an executive master of business administration. He joined Haier Group in 1991 and has since then held a number of senior positions in the sales and marketing functions of Haier Group with his expertise in the sales management of the PRC market. Mr. Li served as the Chief Operating Officer of the Company from 2009 to 2014 and has been re-designated as the China Chief Marketing Officer of Haier Group after that. Mr. Li was the Chief Executive Officer of the Company from August 2017 to March 2019. Serving as the China Chief Marketing Officer of Haier Group, Mr. Li actively promoted brand upgrade and channel optimization strategy, leading to the growths of revenue for online business and offline domestic business of Haier Group, enhanced the brand image of Haier product and built seamless and well-functioning omni-channels. Mr. Li is the head of channel services business of the Group. He currently also serves as the Vice President of Haier Group, and the director and the general manager of Haier Smart Home Co., Ltd. (formerly named as Qingdao Haier Co., Ltd.) (a company listed on the Shanghai Stock Exchange and China Europe International Exchange (CEINEX)).

Mr. Li is also a director of the following Group's subsidiaries: Chongqing New Goodaymart Electronics Sales Co., Ltd., Haier Electronics Sales (Hefei) Co., Ltd., Yantai Goodaymart Electric Appliance Co., Ltd., Hefei Goodaymart Electric Appliance Co., Ltd., Jiangsu Subei Goodaymart Electric Appliance Co., Ltd., Wuhan Goodaymart Electric Appliance Co., Ltd., Shanxi Goodaymart Electric Appliance Co., Ltd., Qingdao Haier Electronics Sales Service Co., Ltd., 365 Goodaymart (CM) Limited, Qingdao Ju Shang Hui Network Technology Co., Ltd., Haier Group E-commerce Co., Ltd., Qingdao Gooday Information Technology Co., Ltd., Guanmei (Shanghai) Enterprise Management Co., Ltd., and Ningzhen (Shanghai) Enterprise Management Co., Ltd..

Mr. SUN Jing Yan ("Mr. Sun"), aged 49, has served as an Executive Director of the Company since 28 April 2017. Mr. Sun retired as an Executive Director of the Company with effect from 27 March 2019. Mr. Sun graduated from Shandong Institute of Light Industry, the PRC in 1993 with a Bachelor in Engineering in Machine Design and Manufacture. He joined the Haier Group in 1993 and has since then held a number of senior positions in the Electrothermal Appliance Department of the Haier Group. He has over 20 years of extensive experience in water heater business and has been the General Manager of the Water Heater Division of the Group till the end of year 2018. He is also the General Manager of Kitchen and Sanitary Wares Business of Haier Group, and serves concurrently as the Vice President of Haier Group.

NON-EXECUTIVE DIRECTORS

Mr. LIANG Hai Shan ("Mr. Liang"), aged 53, has served as an Executive Director of the Company since December 2001 and has been re-designated as a Non-executive Director with effect from 12 November 2009. Mr. Liang was previously mainly responsible for strategic procurement and overall quality control of products of the Group. He is currently responsible for identifying market opportunities and white goods business strategies formulation of the Company. He received a Bachelor's degree of Industry from the Xi'an Jiaotong University, the PRC and has over 20 years of experience in the manufacture of household electrical appliances, particularly in raw material procurement function and white goods business. He is also the Executive President and the Deputy Chairman of the board of Haier Group, the Chairman of Haier Smart Home Co., Ltd. (a company listed on the Shanghai Stock Exchange and China Europe International Exchange (CEINEX)).

Mr. YANG Guang ("Mr. Yang"), aged 42, was appointed as a Non-executive Director of the Company on 11 May 2018. He is also a member of the strategic committee of the Company. Mr. Yang graduated from Jilin University, China, majoring in biological pharmacy. He joined Alibaba Group in September 2007. He is currently the general manager of Tmall Consumer Electronics Division, Tmall Home Decoration Division, and Tmall Virtual Business Division of Alibaba Group and is responsible for innovative product and business in supply chain and logistics services in Taobao.com. Mr. Yang has extensive experience in the internet industry and the lottery industry. Before the current position, Mr. Yang led the operation team of consumer electronics product in Taobao.com. Mr. Yang was one of the core members of the team responsible for the establishment of Tmall.com and Taobao Travel. From 2012 to 2015, Mr. Yang was responsible for Taobao.com's innovative business including Taobao Lottery. Currently, Mr. Yang is also a non-executive director of AGTech Holdings Limited, a company listed on the GEM of the Hong Kong Stock Exchange, and a non-executive Director of SUNING. COM Co., Ltd. (a company listed on the Shenzhen Stock Exchange).

NON-EXECUTIVE DIRECTORS (continued)

Ms. TAN Li Xia ("Ms. Tan"), aged 49, had served as a Non-executive Director of the Company since 18 November 2013. She was also a member of the audit committee of the Company. Ms. Tan retired as a Non-executive Director and a member of the audit committee of the Company with effect from 27 March 2019. Ms. Tan graduated from Central University of Finance and Economics, the PRC and has a master degree in Business Administration from the China Europe International Business School upon completion of the EMBA program. She is a Fellow of the Chartered Institute of Management Accountants and has been designated as a Chartered Global Management Accountant (CGMA). She joined Haier Group in 1992 and had held the positions as the Head of Department of Overseas Market Development of Haier Group, Head of Department of Financial Management of Haier Group and Chief Financial Officer of Haier Group. Currently, she is the Executive Vice President of Haier Group. Ms. Tan also holds positions of Deputy Chairman of the Board of directors of Haier Smart Home Co., Ltd. (a company listed on the Shanghai Stock Exchange and China Europe International Exchange (CEINEX)), non-executive director of Bank of Qingdao Co., Ltd. (a company listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange), chairman of the board of directors of Qingdao Haier Biomedical Co., Ltd., a company listed on the Shanghai Stock Exchange (STAR Market). and a director of Fisher & Paykel Appliances Holdings Limited. Ms. Tan was awarded titles such as Model Worker of Shandong Province (山東省勞動模範), National Outstanding Entrepreneur (全國優秀企業家), the China CFO of the Year (中國總會計師年度人物) and China Top Ten Women in Economic Area (中國十大經濟女性年度人物). Ms. Tan is also a member of the 12th executive committee of the All-China Women's Federation, Deputy Chairman of China Association of Women Entrepreneurs.

Dr. WANG Han Hua ("Dr. Wang"), aged 55, has served as a Non-executive Director of the Company since 1 June 2013. He retired as a Non-executive Director of the Company with effect from 27 June 2019. Dr. Wang obtained his Doctor of Philosophy degree from the University of Nebraska of the United States in 1994. He was the China Managing Director of Sonos Inc, an US based world leading wireless HIFi producer from April 2014 to May 2018. Prior to this, he took position as the chief executive officer of Allyes Information Technology (Shanghai) Co. Ltd. (好耶信息技術(上海)有限公司), an internet company providing full digital marketing solutions of data, technology and product to its customers, in December 2012. Prior to this, Dr. Wang had been the president of Amazon (China) Holding Company Limited from May 2005 until November 2012 and was responsible for the sale, marketing, cooperation and the construction of B2C E-commerce ecological chain of Amazon in China. Prior to joining Amazon (China) Holding Company Limited, Dr. Wang served a number of positions with Motorola Mobility Technologies (China) Company Limited Beijing branch company (摩托羅拉移動技術(中國)有限公司北京分公司) between 1998 and 2005 including as marketing director, director of strategy and corporate planning, vice president of the Asia Pacific region and general manager of the mobile telephone operations of China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Hon To, David ("Mr. Yu"), aged 72, was appointed as an Independent Non-executive Director of the Company on 21 June 2007. He is also the chairman of the audit committee and nomination committee of the Company and a member of the remuneration committee of the Company. Mr. Yu is a fellow of the Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Institute of Certified Public Accountants. He was formerly a partner of an international accounting firm with extensive experience in corporate finance. He serves as an independent non-executive director of several other companies listed on the Stock Exchange of Hong Kong, namely China Renewable Energy Investment Limited, Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, China Resources Gas Group Limited, Keck Seng Investments (Hong Kong) Limited, New Century Asset Management Limited (the manager of New Century Real Estate Investment Trust) and MS Group Holdings Limited.

Mrs. Eva CHENG Li Kam Fun ("Mrs. Cheng"), aged 67, was appointed as an Independent Non-executive Director of the Company on 1 June 2013. She is also a member of the audit committee and nomination committee of the Company and the chairman of the remuneration committee of the Company. Mrs. Cheng graduated from the University of Hong Kong with Bachelor of Arts (Hons) and Master of Business Administration degrees. She was conferred with the degree of Doctor of Business Administration, honoris causa, from the Open University of Hong Kong in 2014.

Mrs. Cheng is currently executive director of Our Hong Kong Foundation. She also serves on the boards of two other publicly listed companies as independent non-executive director include Nestle S.A. on the SIX Swiss Exchange, and Trinity Limited on the Main Board of the Hong Kong Stock Exchange. Prior to joining the Our Hong Kong Foundation, Mrs. Cheng had a distinguished career that spanned 34 years with Amway Corporation. When she retired in 2011, she held the concurrent positions of Executive Vice President of Amway Corporation and Executive Chairman of Amway China Co. Ltd. responsible for Amway Greater China & Southeast Asia Region.

Mrs. Cheng's leadership was well recognized in the business community. She was twice named the "World's 100 Most Powerful Women" by Forbes Magazine in 2008 and 2009. CNBC awarded Mrs. Cheng with the "China Talent Management Award" in its 2007 China Business Leaders Awards. In the areas of public and community service, Mrs. Cheng is a director of China Children and Teenagers Foundation, council member of the Hong Kong Academy for Performing Arts, court member of the Open University of Hong Kong, advisor of the All-China Women's Federation Hong Kong Delegates Association, honorary president of the Hong Kong Federation of Women, and permanent honorary director of The Chinese General Chamber of Commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. GONG Shao Lin ("Mr. Gong"), aged 64, was appointed as an Independent Non-executive Director of the Company on 26 June 2018. He is also a member of the audit committee and strategic committee of the Company. Mr. Gong graduated from the Central Institute of Finance and Economics, the PRC (中央財政金融學院) with a Bachelor's degree in Finance, and obtained his Doctor's degree in Economics from the Southwestern University of Finance and Economics, the PRC (西南財經大學) in June 1999. Mr. Gong has an extensive experience in the securities and finance sectors. He was the board chairman of China Merchants Securities Co., Ltd. during the period from November 2001 to May 2017. He retired from this position in May 2017 and thereafter serves as senior advisor of China Merchants Securities Co., Ltd till May 2018. He was the vice-president of China Merchants Bank during the period from 1997 to 2001. Prior to this, he had held a number of senior positions in the People's Bank of China between 1982 and 1997.

Dr. John Changzheng MA ("Dr. Ma"), aged 57, was appointed as an Independent Non-executive Director of the Company on 29 August 2019. Dr. Ma graduated from the department of mechanics of the Shanghai Institute of Metallurgical Technology (上海冶金專科學校), the PRC in July 1983, and obtained his master's degree in material science and engineering and doctoral degree in philosophy from the Wayne State University, the United States of America in May 1992 and December 1996, respectively. He is currently a venture partner of Lilly Asia Ventures (LAV). Dr. Ma has extensive experience in investment and operational management in the health, water treatment and other high technology industries. During May 2000 to May 2005, he served at GE Healthcare China as vice president and general manager; during May 2005 to May 2010, he served at Pentair Ltd., a company listed on the New York Stock Exchange as president of Asia-Pacific; during May 2010 to August 2013, he served at Express Scripts Holding Company, a company listed on NASDAQ as vice president; during August 2013 to May 2014, he served at Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed on the Hong Kong Stock Exchange as senior vice president; during May 2014 to August 2016, he served at Shanghai Fosun Health Industry Holdings Ltd. as president; during January 2016 to February 2017, he served at Fosun United Health Insurance Co., Ltd. as chairman; and during February 2017 to August 2018, he served at Intuitive Surgical, Inc., a company listed on NASDAQ as senior vice president.

SENIOR MANAGEMENT

Mr. HUANG Xiao Wu ("Mr. Huang"), aged 42, was appointed as Deputy General Manager of the Company in November 2009. Mr. Huang holds a Master's degree in Business Administration from the University of Hong Kong and a Bachelor's degree in Engineering from the University of Chong Qing. Mr. Huang is responsible for assisting the Chairman and Chief Executive Officer in implementing development strategies of the Group and managing strategic investments and investor relations. Mr. Huang has nearly 20 years of extensive management experience in the banking, investment and corporate finance sectors. Prior to joining the Group, he had worked with a commercial bank and several investment banking firms.

Ms. ZHAN Bo ("Mr. Zhan"), aged 39, has served as the Chief Financial Officer of the Company since November 2013 and till March 2019. Mr. Zhan holds an Executive Master's degree in Business Administration from University of International Business and Economics and a Bachelor's degree in Economics from Tianjin University of Finance and Economics. He is a Fellow of the Chartered Institute of Management Accountants (FCMA) and has been designated as a Chartered Global Management Accountant (CGMA). Mr. Zhan has extensive experience in financial management. He joined the Haier Group in 2002, and has since held a number of senior financial positions in Haier Group finance department, Haier Europe trading company, Haier Group telecommunication business and Haier Global Marketing department.

Ms. ZHANG Xue Juan ("Ms. Zhang"), aged 37, has served the role of Chief Financial Officer of the Company since March 2019. Ms. Zhang graduated from the Dongbei University of Finance and Economics with dual Bachelor's degree in Finance Management and Business English, and obtained her master's degree in Business Administration from the Xi'an Jiaotong University, the PRC in 2013. She has been designated as a Certified Management Accountant (CMA) by the Institute of Management Accountants, USA. Ms. Zhang joined the Haier Group in 2005, and since then had held a number of senior financial positions in the finance department, the capital operation department and the overseas trading companies of Haier Group, and had served as the Company's financial controller of Water Heater Division. She has extensive experience in financial management.

Mr. SHU Hai ("Mr. Shu"), aged 53 has served as the General Manager of washing machine product division of the Company since June 2009. Mr. Shu has a Master's degree in International Trade from Ocean University of China, the PRC. He joined the Haier Group in 1995 and has since held a number of senior positions in the washing machine business. He is currently responsible for the sales, research and development and production management of the washing machine business of the Group.

COMPANY SECRETARY

Mr. NG Chi Yin ("Mr. Ng"), aged 54, joined the Company on 18 March 2009 as Company Secretary. Mr. Ng graduated from the Faculty of Business Administration of the Chinese University of Hong Kong with a Bachelor's degree in business administration. He is also a fellow member of the Association of Chartered Certified Accountants, and a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He has over 20 years of experience in auditing, finance and company secretarial matters.

BUSINESS REVIEW

Industry Analysis

According to the National Bureau of Statistics (NBS) of China, the total retail sales of consumer goods in 2019 reached RMB41,200 billion, representing a year-on-year increase of 8%. Consumption remained a significant force in driving economic growth in the country. However, due to the slowdown in global economic growth, uncertainty of the US-China trade war and regulatory policies implemented on real estates, the home appliance industry was impacted to a certain degree during the period. According to CMM's data, retail sales of China's household appliance market (excluding 3C, etc.) was RMB898.2 billion in 2019, representing a year-on-year decrease of 3%. Unlike the trend in 2018 that showed higher rise in the first half and lower rise in the second half, this year's home appliance market has been slow overall and has pressed forward under pressure despite distinguished performance in specific segments.

As pre-installed home appliances are closely tied to the real estate industry, they were affected by the slowdown in sales growth and delivery rate of new flats during the period, resulting in a certain degree of slump in growth. Water heaters, air conditioners, water purifiers, and kitchen appliances recorded negative growth of 3.5%, 3.6%, 4.0%, 3%[1] respectively in terms of sales value. Sales growth for categories that were mainly driven by product upgrades and replacements, such as refrigerators and washing machines, were also weighted by the macro environment this year, which slowed down to 1.0% and −0.6%[2] respectively. In face of the industry's ongoing weakness, home appliance companies on one hand continued to lower costs and improve efficiency by seizing the opportunities brought by the VAT rate reduction and the low material prices, allowing space for profitability. On the other hand, some companies have given back to consumers a certain portion of profit pool through price cuts, in the hope of improving sales performance. The price war boosted consumer demand to a certain extent and facilitated the concentration of market share, but it also brought further downward pressure on the industry's sales value. By focusing on users' needs and providing high premium, technological driven products that were functional, health-centered, smart and product-set focused, we were able to mitigate the impact from the price war.

Despite the overall sluggish home appliance market, factors including the rapid development of smart homes, the popularization of consumption awareness on health-orientation and environmental-friendliness, the further penetration of e-commerce in low-tier cities, and emergence of innovative marketing strategies, have opened up new development opportunities for the home appliance industries and the Group.

1 According to CMM's annual reports on respective industries
2 According to CMM's annual reports on respective industries

BUSINESS REVIEW (continued)

Industry Analysis (continued)

Comprehensive upgrades are seen in the creation of smart homes

Accompanied by consumption upgrades and the rising of the younger generation as the main purchasing force, users' demands for products with high level of intelligence and comfort have become increasingly prominent, which motivated the rapid development of the smart household segment. The empowerment from 5G technology with high throughput and low network delay, coupled with deeper knowledge in the AI technology, have pushed and broken conventional product boundaries. Interconnection was made possible in household scenarios, while single-product intelligence was able to upgrade towards whole-house intelligence. At present, many leading home appliance companies and technology giants have been planning ahead and strive to gain market shares by launching product sets and through fast technological iterations. The Haier Group has deployed an IoT smart household ecological brand strategy, and introduced the personalized and customizable "5+7+N" smart set product solutions. The comprehensive upgrade of smart homes has provided a more convenient, comfortable and smooth experience for users. It has also boosted relevant sales and brought a growth to unit order values.

Eco- and health-friendly home appliances become new drivers for growth

As green and low-carbon consumption concept took root, coupled with incentives from the implementation of various energy-saving subsidy policies and new energy efficiency regulations issued by the government, home appliance companies have been upgrading for enhanced energy efficiency. The endearing efforts of home appliance companies were reflected in the gradual elimination of air conditioners with lower (grade-3) energy efficiency, as well as the continual optimization of wastewater ratio in water purifiers. Meanwhile, as consumers' health awareness continues to rise, "healthy and clean" has become a new development trend for home appliances. Products such as water purifiers, dishwashers with disinfection function, air purifiers, air conditioners with fresh air intake, washing machines with disinfection, sterilization and self-cleaning functions, and water heaters with water purification and anti-bacterial functions have all achieved spectacular performance. According to data from JD, sales revenue of JD's healthy appliances[3] increased by more than 60% year-on-year during the Double Eleven period. The Covid-19 outbreak in early 2020 would also further enhance consumers' health awareness, leading home appliances with disinfection and cleaning functions to become continuous growth drivers in the home appliance market.

[3] Air purifiers, water purifiers, massage chairs and electric massagers

BUSINESS REVIEW (continued)

Industry Analysis (continued)

The trend of e-commerce penetration in lower-tier markets intensifies

In recent years, the high penetration of home appliances in first- and second-tier cities has gradually transformed purchase of necessities into demands for personalized and high-quality upgrades. Meanwhile, home appliance consumption were further inhibited by the rising household debt ratio of urban residents due to high mortgages, as well as the increasing number of young people being drawn to renting instead of buying flats. On the other hand, the development of the rural economy and the support of national policies have further narrowed the purchasing power gap between urban and rural areas. Youths from small towns, elderly communities and rural population in lower-tier markets have become new consumer groups for volume growth, as they have more leisure time, potential consumer desires and more disposable funds. According to public data, the number of active users on Taobao reached 824 million as of the end of 2019, of which more than 60% of the newly added annual active consumers were from lower-tier markets. The massive market potential has led e-commerce giants such as Taobao, Pinduoduo, and JD to focus on lower-tier markets, directing their own platform's traffic into offline stores, and further opening up the market entrance to stimulate consumption through the model of "online browsing + offline experience consumption". At the same time, e-commerce platforms have gradually enhanced the layout of their warehousing and logistics network, which further improved their inventory turnover efficiency and reduced offline inventory costs. Collaborations between home appliance enterprises and e-commerce platforms in lower-tier markets shall become new areas of performance growth.

Novel marketing tactics proliferate, among which e-commerce live streaming shows great potential

The matured 4G network has facilitated the rise of e-commerce live streaming which demonstrated extraordinary capacity in consumption conversions. As opposed to conventional marketing means, e-commerce live streaming exports scenario-based experience to consumers by recreating realistic scenarios along with interactions between professional anchors and brand personnel. These initiatives create all-round interactive product experience for consumers and help expedite order conversions. At the same time, professional anchors serve as intermediaries to seamlessly connect merchants with consumers, which does not only reduce production costs and operational costs, but also relay information of consumers' preferences and even guide their preferences for merchants to achieve reverse customization. According to statistics, transactions driven by Taobao Live in 2018 amounted to over RMB100 billion, with a store conversion rate reaching beyond 65%. During the Double Eleven festival in 2019, Taobao Live recorded a total sales of RMB20 billion throughout the day. Building on the popularization of 5G commercial networks and the growing maturity of the emerging VR technology, e-commerce live streaming will facilitate deeper and more direct interactions between enterprises and users.

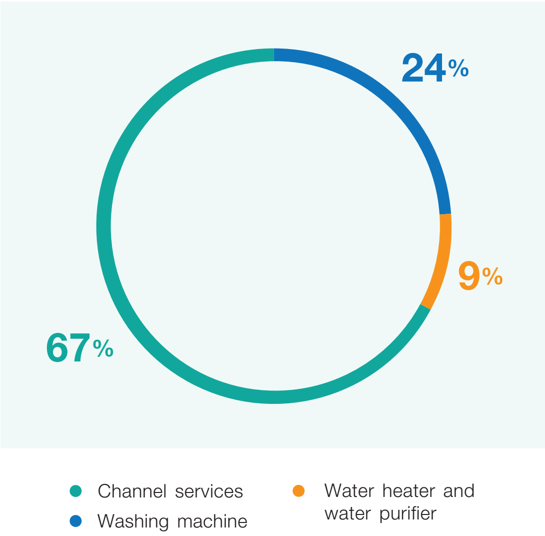
BUSINESS REVIEW (continued)

Overall business performance

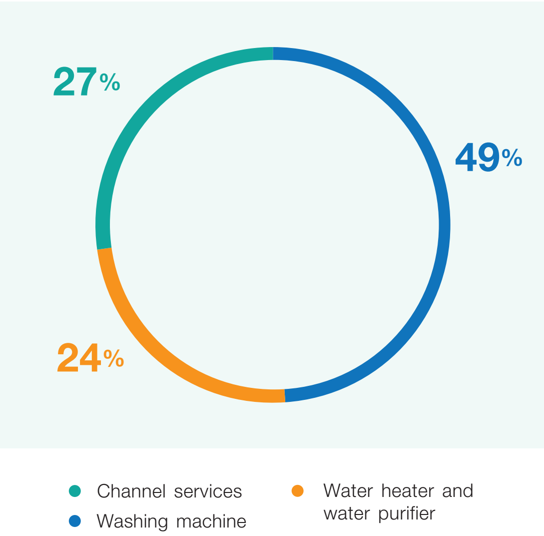
In 2019, the Group recorded a revenue of RMB75.88 billion with a slight decline of 0.6% year-on-year (2018 comparison has been restated following the Group's asset swap transactions relating to the logistics and water purification businesses). Net profit attributable to parent company was RMB7.35 billion, representing a year-on-year increase of 91.2%. Excluding one-off gain generated from the disposal of the logistics business, growth of net profit attributable to parent company was 9%. The overall growth of the white goods industry was sluggish under the influence of the macro economy. However, with our persistence in delivering supreme products and services, the Group sustained satisfactory profit growth trajectory amid adverse market conditions. At the same time, the retail market share of our entire product categories has further improved, which effectively strengthened our leading position. In the washing machines, water heaters and water purification segments, our rich brand matrix and innovative products and services have enabled us to capture diversified consumption needs, which fueled a growth in sales revenue and profit. Facing the emergence of new competitions, our channel services business continued to intensify our four-network integration and push ahead with our smart home customization strategies, thereby enhancing our competitiveness in e-commerce and our own franchise stores. Through the establishment of the Internet of Clothing and the Water-related ecosystem, the Group transformed users' living scenarios with Internet of Things (IoT) concepts and technology, which enables the participants of the ecosystems and their interested parties to further derive revenue of more than RMB2 billion.

The breakdown of segment revenue and business performance for 2019 is set out below:

Proportion of segment revenue to revenue before consolidated eliminations



Proportion of segment profit to profit before consolidated eliminations



BUSINESS REVIEW (continued)

Overall business performance (continued)

The above pie charts are prepared based on the amounts of segment revenue and the entire business performance, without taking into account any inter-segment eliminations of revenue and business performance. Inter-segment eliminations refer to the revenue generated from sales of washing machines and water heaters to the Group's internal distribution channels, and service fee revenue generated from after-sales installation and repair services for washing machines and water heaters of the channel services segment. In 2019, the inter-segment eliminations of washing machine, water heater, and channel services businesses are as follows:

<table>
<tr><td></td><td></td><td colspan="3">Product or service receiver</td></tr>
<tr><td></td><td>Business segments</td><td>Washing machine</td><td>Water heater and water purifier</td><td>Channel services</td></tr>
<tr><td rowspan="3">Product or service provider</td><td>Washing machine</td><td colspan="2">N/A</td><td>RMB15.48 billion</td></tr>
<tr><td>Water heater and water purifier</td><td colspan="2">N/A</td><td>RMB7.02 billion</td></tr>
<tr><td>Channel service</td><td colspan="2">RMB0.25 billion</td><td>N/A</td></tr>
</table>

Washing Machine Business

In 2019, the overall performance of the washing machine industry was sluggish as macroeconomic growth was cooled and consumer confidence remained subdued. According to CMM's overall industry data, the retail volume of washing machines recorded a slight increase of 4.2%, while average price dropped 4.6%, and retail sales declined by 0.6%. By actively responding to market changes through superior product offerings, comprehensive brand matrix and flexible marketing strategies, the Group's washing machine business achieved remarkable results. We recorded a total revenue of RMB23.40 billion and a revenue growth of 8.9%, which greatly surpassed the industry's negative growth rate. Our market share also further increased. According to market statistics from Euromonitor International, sales volume of Haier's washing machines accounted for 14.9% of the global market in 2019, an increase of 0.1percentage points year-on-year, enabling us to rank first in the world for the eleventh consecutive year. In the China market, the Group's washing machine retail value accounted for the largest market shares on both online and offline channels according to data published by CMM, which were recorded at 36.3% for each of the offline and online channels, representing year-on-year increases of 2.77 and 1.95 percentage points respectively. Specifically, our high-end brand Casarte maintained an annual growth rate of around 15%, and its share in overall sales of the Group's washing machines further rose to more than 10%. Our Leader brand, targeting young consumers with a focus on products that offer value for money, achieved an annual revenue growth of over 30%, with its share of sales increased to more than 8%. Our three major brands have offered complementary coverage for a diverse range of price segments to fulfil the laundry needs of consumers.

BUSINESS REVIEW (continued)

Washing Machine Business (continued)

During the period, the washing machine industry continued to witness a trend of consumption upgrades and displayed diversified developments. First of all, product upgrade were continuously driven by users' needs. With a surge in users' demand for large-capacity washers and all-in-one machines for washing and drying, washer-dryer combos as well as 10kg large-capacity products continued to be in the forefront of the entire industry. At the same time, with a growing awareness in health and hygiene, the market shares of washer products with disinfection, sterilization and steaming features experienced rapid growth. Users' needs in caring for precious fabrics such as silk and cashmere were also on the rise, making washers with relevant care features such as Air Wash increasingly popular. Secondly, as consumer groups diversified, demand for new products was generated. In view of surging needs for maternal and baby care, as well as increasing proportion of single-living households and small families, the growth of mini-washing machines, wall-mounted washers and small-capacity dryers experienced significant uplift. Lastly, the proliferation of technologies applications including IoT, AI and 5G in household settings has bred washing machine products that are increasingly intelligent and scenario-oriented. Users have shown massive purchasing power for products that offer remote control and interconnectivity.

Haier washing machine is committed to providing users with excellent laundry experience. Through relentless product innovation and technological iterations, we continued to be a leader in advancing the washing machine industry. During the period, the Group's washer-dryer combos and smart products with remote control features respectively accounted for 40% and 57.7% of our total washers' sales, which were higher than the industry average of 38.3% and 33.2%. Haier dominated the industry with 8 products ranked among the top ten best-selling washer-dryer products. The Group's high-end brand Casarte also continued to raise the bar for the entire industry during the period, with the launch of the prestigious RongHe fiber-care washers that featured dual-drum, ultrasonic atomized Air Wash, smart door sensors and ultraviolet sterilization. It offered smart laundry solutions that integrated washing, drying and fabric caring in the same machine, hence bringing users superior laundry experience. Driven by the RongHe series of washers, Haier's market share of front-load models priced over RMB10,000 reached 75.5%.

Meanwhile, the Group launched the new Haier XianHe washing machine with large drum diameters, equipped with direct-drive technology and ultrasonic atomized Air Wash function. The washer offered precise care to high-end fabrics, which drove our market share of front-load washers priced above RMB6,000 to 41.7%, a climb of 5.3 percentage points. Haier washing machine also achieved unprecedented breakthrough in top-load products. In response to the problems of dirt accumulation between inner and outer drums, high water usage and large space requirement, the washing machine industry has proposed the revolutionary solution of single-drum washing. Through research on addressing technical problems such as single-drum noise reduction, we introduced the industry's first "outer-drum-free" single-drum washing machine. The technology of the project has obtained 2 international invention patents, and has enabled reduction of manufacture material and water usage in a single machine, thereby ushering in a new era for the top-load washing machine industry. Haier washing machine's market share of top-load washers priced over RMB3,500 also achieved a substantial increase of 4.8 percentage points year-on-year, reaching 62.4%.

BUSINESS REVIEW (continued)

Washing Machine Business (continued)

Riding on the Group's "5+7+N" complete-scenario smart product set solutions, the washing machine segment actively connects with brands and suppliers, including apparel, laundry detergent, household textiles, lighting and fitness equipment, to explore the establishment of the Internet of Clothing ecosystem. Through researching users' laundry habits, we created new scenarios for smart laundry in balconies, bathrooms, and walk-in closets, and generated customized personal solutions. In particular, the smart balcony solution organized the balcony with a washer, a dryer, drying racks, balcony storage cabinets and fitness equipment. The scenario established interconnections between the washer-dryer, drying racks and curtains through the use of SMARTHOME Cloud (智家雲), offering users smart experiences of integrated washing, drying and clothes hanging, as well as voice-controlled laundry. Users can complete the chores of washing, drying and hanging of their laundry while exercising along with music. At the same time, the Internet of Clothing team continued to collect user feedback and iteratively developed new balcony scenarios to fulfill users' desire for leisure and greenery in addition to their laundry needs. Scenario-based sales have greatly boosted the motivation of consumers to purchase product sets. Sales volume of smart balcony reached 110,000 sets, with a corresponding average order value reaching RMB9,705. With the continuous development of living scenarios, our Internet of Clothing ecosystem has converged a total of over 5,300 ecological partners. Looking forward, we will enhance collaborations with apparel fabrics and household furnishing manufacturers at the production, R&D and sales levels, so as to provide users with full life cycle solutions from clothes washing, fabric caring and storage, to apparel mix-and-match, purchasing and recycling.

While actively developing sales based on smart scenarios, the Group deployed diversified marketing strategies to achieve precise delivery to targeted customer groups. During the period, Haier's specialty stores housed a pioneer "Mr. Laundry" shop-in-shop, providing users with free fabric care services for dedicated clothing such as fur and silk, while continued to promote the Casarte brand and its Air Wash-featured products. Some stores also collaborated with KOLs to demonstrate our exceptional laundry effects in real-time live broadcast which greatly aroused purchase enthusiasm among consumers. In view of the large number of outdated models and aged washers in the rural market, some county and township specialty stores installed "Replacement Station" new signboards to attract trade-ins from users. Direct salespersons even paid visits to the homes of village and township users, providing them with guidance on the awareness of healthy laundry, while offering free cleaning and trade-in services. These initiatives unleashed the enthusiasm among township consumers in replacing their old washers, effectively turning replacement consumptions from lower-tier markets into key sales driver.

In terms of overseas exports, large-capacity front-load washers were progressively becoming the mainstream. The washing machine industry was also growing rapidly due to the development of e-commerce and community washing stores, as well as the economic boom in emerging markets. During the period, our overseas export recorded a revenue increase of more than 30% year-on-year. The export business accounted for around 12% of our overall washing machine business sales value, with spectacular performances achieved in the American, European and South Asian markets. In the U.S. market, the American style large capacity front-load washers have been in mass production for the collaboration with GEA this year, which doubled the growth of our U.S. exports. The European market maintained steady growth, contributed by an upgrade in technology standards on energy consumption and our collaboration with Candy. In the South Asian market, Haier washing machine ranked first in terms of market shares in Pakistan and experienced rapid growth in India.

BUSINESS REVIEW (continued)

Washing Machine Business (continued)

During the period, raw material prices remained at a low level, the reduction of VAT also gave room to cost optimization in the industry. However, the launching of new factories, corresponding sales promotions and the rise of market shares on online channels have brought pressure to our gross margin. Haier's washing machine business continued to reduce costs and improve efficiency by developing smart mega-factories, streamlining product models, creating best-selling models, and increasing the proportion of high-end products. During the period, these strategies helped maintain our level of gross profit while eliminated 40% of SKUs for our domestic sales, which effectively improved the production efficiency of our factories and reduced associated costs.

During the year, the washing machine business actively drove forward the development of mega-factories and smart customization, which greatly improved our manufacturing efficiency. Throughout the entire process from creative project establishment, order collection, product design to production, with the implementation of whole-process management and big data analysis, the Group has optimized decision-making and improved response speed. Order-to-delivery was shortened from 22 days to 18 days. The Group's existing production lines for washing machine had a broad area coverage and is undergoing continuous optimization of capacity utilization. Meanwhile, our washing machine factories were actively exploring technological applications including 5G, AI, virtual reality, blockchain and industrial cloud. We strive to continue to enhance our efficiency and competitiveness while reducing production costs, setting the benchmark of large-scale smart customization for the industry.

Water Heater and Water Purification Business

This business segment comprises the complete line of water heater and water purification products, which aims to providing users with safe, comfortable and energy-efficient whole-house water usage solutions. In 2019, in spite of unfavorable factors including the global economic slowdown and a sluggish real estate industry, Haier's water heater and water purification business maintained a steady growth, benefiting from consumers' quests for healthy water usage and continuous advancements of our products. The business recorded a revenue of RMB8.75 billion, representing a year-on-year increase of 8.8%.

During this year, the water heater business achieved a year-on-year growth of 8.0% in sales revenue. Remarkable performance was observed among the electric heater, gas heater and air energy heat pump product categories. Our market share also further increased. According to CMM's monitoring data, Haier's market share of the water heater industry reached 20.5% in terms of sales value and 21.4% in terms of sales volume, representing year-on-year increases of 2.39 and 2.15 percentage points respectively. The growth of the water heater business mainly stemmed from continuous technological innovations, increase in sales volume of pre-installed products, the launch of top-selling products as well as the diversification of our product matrix. In 2019, the Casarte water heater business that targeted the high-end market grew over 30%, whereas the Leader brand that focused on young consumers achieved a growth of more than 10%.

Haier water heater has been working on cost optimization this year. By focusing on best-selling models and streamlining the number of product models, we improved inventory turnover, enhanced efficiency in procurement of raw materials and reduced procurement price. Product design also continued to optimize to fulfill the needs of consumers and reduce raw material costs. Through multiple R&D efforts and inputs, we phased out over 200 models this year.

BUSINESS REVIEW (continued)

Water Heater and Water Purification Business (continued)

Electric water heaters are key products of the Group's water heater segment which have sustained leading positions in the industry. According to the monitoring data of CMM, the market share of Haier's electric water heater in terms of sales was 29.58% with a year-on-year increase of 2.38 percentage points, surpassing the market share of the second place by 3 percentage points. This year, Haier's electric water heaters aimed at blazing new trails with the development of technologies including purified washing, 3D gradient heating, and combination of instant heating and thermal storage. These technologies enabled effective removal of scale and bacteria, instantaneous heating on ultra-thin products, as well as an eight-time increase of water output capacity, which catered to users' increasing demand for more frequent water usage and healthier water quality. In 2019, products equipped with water purification features accounted for more than 70% of Haier's water heaters. In particular, Casarte's Tianmu series offered a twelve-time massive water capacity with a rapid heat-up feature, while staying as the thinnest heater among the industry. In addition, as we followed our smart home strategy, we launched the smart bathroom product set solutions that leveraged the U+ big data platform and Haier's AI technology, bringing forth a scenario of pre-bath heating and post-bath dehumidification that offered a smart, energy-efficient and comfortable bathroom experience. Haier's outstanding product innovation capabilities and stylish designs also received international recognitions. Our electric heater Tianmu MAX series has won the AWE Innovative Product Award and the German IFA Product Innovation Award. The Tianmu Fengshang VP Series has also received the German Red Dot Design Award and the IDEA Design Excellence Award.

During the period, gas water heaters maintained rapid growth with sales value increased over 20%. According to CMM's statistics, the market share of gas water heater in terms of sales value reached 11.64%, an increase of 2.08 percentage points year-on-year. In order to enhance the safety, stability and comfort of product usage, Haier's gas heating products developed the patented technology on active elimination of carbon monoxide as well as the zero-cold-water waterfall washing technology. These technologies enabled the reduction of carbon monoxide emissions to 60 times lower than the national minimum standard while significantly improved the comfort in bathing, which successfully leading to the creation of a series of top selling products. Casarte's waterfall washing zero-cold-water technology has won the annual Innovation Award from the China Household Electrical Appliances Research Institute (CHEARI), and was recognized by China Association for Standardization as the "industry benchmark". The associated zero-cold-water product also received the German iF Design Award. Riding the emerging trend of rapid development of clean and healthy household appliances, Haier gas water heaters introduced a five-fold bacteriostatic technology that offered filtration, copper water pipe bacteriostasis, copper water tank bacteriostasis, silver ion sterilization, and 60°C high temperature sterilization. We swiftly applied the silver ion sterilization feature to top selling products and have quickly captured market shares.

BUSINESS REVIEW (continued)

Water Heater and Water Purification Business (continued)

For new energy products, the Group launched a pioneering solar- and air-powered heat pump product that built on our solar energy and heat pump technologies, providing users with all-day effective and energy-efficient heating solutions. During the period, our solar- and air-powered product series achieved a year-on-year rapid growth of 107%, and has won the State Science and Technology Progress Award and the AWE Design Award.

Construction projects is an important channel for volume growth in the water heater business. In 2019, the revenue we received from construction projects amounted to RMB840 million. This year we achieved breakthroughs in two major customer sectors: in the real estate sector, we established collaborations with 42 out of the top 100 real estate developers, 23 of which were new partnerships, with revenue growth generated from property developer reaching 44%; in the commercial and institutional sector, the growth of hot water usage solution and heating solution was doubled, of which revenue generated from commercial heat pump projects reached over RMB70 million. At present, pre-installed water heater in real estate projects has a penetration rate of merely 30%, implying a huge room for future volume growth. In order to strengthen channel management and improve operating efficiency, the Group also adjusted strategy during the year to eliminate sales intermediaries, thereby reduced operating costs and increased profit margin.

On the manufacturing and production end, Haier water heater pushed forward a smart upgrade of our interconnected factories, fully connecting our Huangdao, Wuhan and Chongqing factories to the COSMO-MES information system to achieve real-time transmission and sharing of production data, which has brought a 12% year-on-year increase in per-capita production efficiency. At the same time, the Qingdao Sino-German interconnected factory has been completed and put into operation. The factory has an annual production capacity of electric water heaters and solar-powered water heaters reaching 1 million and 0.3 million units respectively, achieving a complete coverage for all types of solar-powered products. The establishment and upgrading of smart mega-factories would further optimize the product portfolio and improve our efficiency, leading to the realization of mass-customization production.

Haier water purification currently provides residential point-of-use, residential whole-house and commercial usage solutions. In 2019, the revenue of water purification business achieved a year-on-year rise of 13.8%, with steady growth in both online and offline market shares. According to the monitoring data from CMM, Haier's water purification business achieved online and offline market shares of 13.0% and 7.0% respectively in 2019, representing year-on-year increases of 0.5 and 2.1 percentage points year-on-year.

BUSINESS REVIEW (continued)

Water Heater and Water Purification Business (continued)

While we aim at reinforcing the residential point-of-use water purification market, the residential whole-house and commercial water purification markets will be the Group's important growth momentum in the future. With the increasing demand for water usage of varied qualities, varied personal needs and varied scenarios, whole-house water purification as a subdivision of the household water purification segment has attracted increasing attention. This year, Haier water purification collaborated with the China Association for Standardization to publish the "General Technical Specifications for Smart Whole-House Water Purification System (《智慧全屋淨水系統通用技術要求》)" standard. Based on consumption upgrades in IoT era and demands for novel user experience, we put forward for the first time the standardized and systematic requirements for the general technical specifications for smart whole-house water purification system. We also launched the Borui whole-house water purification product set series which was equipped with the FEV2.0 technology, offering consumers the smart experience of "Automatic Cartridge + Large Display Screen + Whole-Process Visualization of Purification Effect". This product series is an innovative integration of IoT, cloud platform and big data analysis, providing users with one-stop housekeeping services such as water quality monitoring, filter lifespan warning, filter replacement reminder and regular maintenance. In 2019, the Group entered into an agreement with BWT AG, a reputable European water treatment corporation, to establish a joint venture manufacturing company and a joint venture sales company in China, which aim to provide high-end whole-house water purification products to consumers. The Group and BWT AG join hands to promote our dual-brand strategy, fully synergizing our competitive edges on technology, resources, platforms and services. Together we are building a world-class production factory that is smart and interconnected to support ongoing upgrading of smart products, so as to create whole-house water solutions that cater for all types of weather and scenarios for high-end users. Construction of the household whole-house water purification factory has commenced in the second half of this year. It is expected to be put into operation in 2020. The joint venture sales company has opened 11 stores and has started to sell whole-house water purification products imported from BWT AG in the second half of the year.

Following the integration of our water heater and water purification businesses, the two have been working together to construct a water-related ecology and drive the development of smart whole-house water usage solutions, while mobilizing the hardware industry on smart bathrooms and showering to create a smart bathroom ecosystem. The integration of our two water segments have created synergies in the dimensions of sales networks, supplier resources and joint procurement, R&D collaborations and technologies, production installation and after-sales services networks. We have a shared total of 900 product specialty stores at the retail-end, and have opened 736 special stores to promote the implementation of whole-house water usage solutions. These stores successfully transformed individual product sales into the sales of product sets, and greatly improved the competitiveness of our brands. The integrated water heating and water purification businesses will enable the Group to become a smart solutions provider for point-of-entry water purifying, softening, hot water, heating, as well as energy-efficient water usage.

BUSINESS REVIEW (continued)

Channel Services Business

In 2019, the channel services business achieved a sales revenue of RMB66.47 billion, this represented a 2.3% decrease year-on-year. According to the offline statistics from CMM, our market shares of refrigerators, washing machines, air conditioners and water heaters have increased by 1.40, 2.77, 0.78 and 2.39 percentage points respectively. Our e-commerce channels maintained steady growth, with sales revenue amounted to over RMB20 billion, a year-on-year increase of about 20%. Its revenue proportion in our channel services segment further rose to about 30%. Online retail shares of refrigerators, washing machines and water heaters each experienced growth of more than 2 percentage points.

The Casarte brand continued to focus on high-end communities, capturing markets with product sets that were superior in multiple dimensions of intelligence, comfort and quality. It dominated the high-end price segment in multiple product categories and recorded a growth over 25% in sales value. On the other hand, Leader was positioned for the urban, young and fashionable communities, and targeting users in search of value for money. It achieved a revenue growth of 3% through dynamic marketing strategies and product strategies, including turning top-selling products into product sets.

In face of the overall sluggish white goods industry, the integration of online and offline channels, as well as the penetration of e-commerce in lower-tier markets during the period, the Group continued to further our reforms, advancing our 5+7+N smart home transformation, and integrating the four networks of sales, information, logistics and services for our franchise store channel. We also leveraged the Smart Home App to foster integration of online and offline channels, while embracing lower-tier markets through the use of the e-commerce channel. We adopted targeted content marketing tactics to acquire users and enhance customers' loyalty.

First of all, we adhered to our 5+7+N strategy to create customized and immersive Smart Home experience

Our Group strives to construct a leading service platform for smart household and quality living. Through creating immersive consumption experience, we provided "one-stop, full scenario, and customized" solutions on the design, sales and services of set products. During the period, the first Smart Home Customization Experience Center was completed and officially opened in Shanghai. With the use of holographic 3D technology, the 001 Experience Center showcased a blueprint of our future homes around five physical spaces of smart kitchen, smart bathroom, smart living room, smart bedroom and smart balcony. All the while, it offered seven whole-house solutions such as whole-house air, whole-house water purification and the Internet of Clothing, along with a variety of personalized scenario options. Users could have a taste of intelligence in everyday living in real-time through technologies such as voice interconnection, multi-screen interaction and ambient sensing of sound and temperature. The 001 Experience Center reshaped user experience and greatly aroused the motivation for scenario-based purchasing of product sets. In the four months since opening, it has attracted an influx of user orders. The average value of individual consumer orders on scenario solutions of smart home appliances reached RMB250,000, with the highest individual order value exceeding RMB500,000.

During the period, the channel business leveraged top-selling set products to portray real-life scenarios, and utilized AR and VR technologies to transform and upgrade Smart Home experience stores. At the same time, we expanded partnerships with interior fitting companies, customized household furnishings manufacturers, heating ventilation and water services providers, as well as smart household service suppliers, and opened new smart household stores. The Group achieved a whole-house retail sales value over RMB8.0 billion, representing a year-on-year increase over 30%. As 5G technology empowers smart home appliances, our Smart Home customization strategy will unlock greater potential.

BUSINESS REVIEW (continued)

Channel Services Business (continued)

Secondly, we unified management of warehousing and distribution systems and improved competitiveness of our franchise stores

During the period, competitions in third- and fourth-tier markets intensified as many e-commerce channels and traditional home appliance channels penetrated to these markets further. To address the lack of management transparency among service providers in third- and fourth-tier cities, as well as the intensive resources required for traditional network expansion, the Group started the project of unifying our warehousing and distribution systems. The project aggregated inventory products from service providers at the Haier cloud warehouse, where Haier Logistics would perform unified warehousing and distribution management, thereby enhancing efficiency across four dimensions including product efficiency, process efficiency, personnel efficiency, and logistics efficiency. During the period, the unification project achieved a coverage of 13415 townships and villages across the country, which drove a significant year-on-year increase in sales value in township markets. The efficiency in product circulation also went up with SKUs greatly optimized, defective product ratio declined year-on-year, and delivery timeliness reached 99.4%. As some of the product supplies from the cloud inventory could be shared, capital held up by our franchise stores was substantially reduced. The commencement of the unification project remarkably enhanced the competitiveness of Haier's franchise stores. The Group shall continue to expand this unification effort to cover all township networks across the country, while simultaneously promoting the provision of integrated distribution and delivery services to end users.

As the unification of warehousing and distribution systems enhanced integration of our logistics network, the Group remained committed to expediting the integration of our four networks of sales, information, logistics and services for our franchise store channel. At present, the Group has attained complete coverage of all of our franchise stores and service providers through the Jushanghui and Yilihuo information system platforms, which enabled before- and after-sales whole-process data visualization and management. Looking ahead, when we have fully unified our warehousing and distribution systems, and furthered the integration of our service networks, we would be in the position to empower our franchise store channels for increasing efficiencies and business performance.

Thirdly, we initiated the Smart Home APP project and fostered online and offline integration

As the smart home customization strategy penetrated in user communities, the Group initiated the development and promotion of an online "Smart Home" APP platform. Smart Home Mall offered an entrance for franchise stores across the country to open online stores, thereby gathering all user resources and achieving online and offline channels integration. On the information end, data would be automatically fed to the Smart Home Mall APP whenever a purchase took place offline at a distributor's franchise store, or online at the Smart Home Mall APP. On the service end, orders received from the online mall would be fulfilled by the inventory and services from corresponding franchise stores. The Smart Home APP effectively converged online user resources for sharing with offline franchise stores, and in this way set up efficient online-and-offline-integrated sales platform for each of the stores to drive business growth. Through promotion throughout the last quarter of 2019, the platform has gathered 2.75 million monthly active users, representing a year-on-year increase of 350%.

BUSINESS REVIEW (continued)

Channel Services Business (continued)

Lastly, we deployed a variety of marketing tactics and strengthened our brand awareness

The Group deployed a variety of marketing tactics to strengthen brand awareness and boost users' loyalty during the period. On one hand, being shortlisted to CCTV Strong Brand for the Country Project (央視強國品牌計劃), as well as having brand placements in reputable films and TV programs such as "Me and My Motherland (《我和我的祖國》)" and "The Captain (《中國機長》)", we have further enhanced our brand recognition. On the other hand, through content innovation on emerging social media such as WeChat, Weibo, TikTok and Xiaohongshu, we triggered discussion of hot topics and enhanced word-of-mouth promotion through viral effects.

In terms of the e-commerce channel, the Group has comprehensively showcased our high-end products and smart product sets through content mediums such as live broadcast and video clips, coupled with scenario-based experiential tactics such as AR, which drastically increased the order value of our e-commerce customers. Besides, by continuously optimizing the quality of our videos and live content, and encouraging day-to-day live broadcast at our stores, users were able to gain a more well-rounded understanding of our quality products, which effectively improved the conversion rate at our stores. Our diversity of marketing tactics shall continue to fuel the brand awareness increase and development of channel business.

Strategic Investment — Logistics Segment

In 2019, the Gooday Logistics recorded a continued growth. The growth mainly stemmed from home appliance logistics scenarios, household logistics scenarios and cross-border logistics scenarios.

During the reporting period, the scale of e-commerce sales continued to grow, and the penetration rate of e-commerce for large-format household products such as home appliances and home furnishings also continued to rise. According to data from the National Household Appliances Industry Information Center, online retail sales of the home appliance industry in 2019 amounted to RMB310.8 billion, which was a year-on-year increase of 4.2% and an online penetration rate of 38.7%. Gooday Logistics continued to intensify its collaborations with major e-commerce platforms, providing the Tmall platform with unified services of large-format home appliance warehousing, distribution, installation, last-mile delivery and reverse logistics. The online home appliance business experienced a growth of 8% year-on-year. In regard to online customers' needs, Gooday has continuously optimized the logistics product structure, and launched four major service categories and twelve sub-categories to cater for personalized needs of users. In an effort to lower inventory turnover and optimize cash-use efficiency for e-commerce customers, we reduced the number of e-commerce warehouses from 33 to 7, which enabled merchants to afford national sales with even smaller inventories. While supporting customers on inventory optimization, Gooday Logistics has further optimized the routings, reducing distribution and delivery lead time from 2.1 days to 1.9 days. Our online user reputation (DSR) reached 4.92, surpassing the industry average of 4.89 and that of our rivals.

BUSINESS REVIEW (continued)

Strategic Investment — Logistics Segment (continued)

In terms of the offline home appliance logistics segment, Gooday Logistics offered supply chain optimization solutions for Haier's marketing network, which enhanced the operational efficiency of Haier's distributor network and provided more flexible inventory matching solutions. Through extending the network depth of Gooday Logistics, services to township areas were distributed via multiple batches in small volumes. The original warehouses and distribution systems that were scattered all over Haier's network of franchise stores were replaced by the Gooday Logistics network, which we named as a "unified warehousing and distribution model". Under the unified warehousing and distribution model, Gooday Logistics eliminated 56 intermediate warehouses, and established a flexible cloud warehouse retail logistics system which enabled direct distribution from factory to central warehouse, and then from unified warehouse to users. The installation and maintenance network has covered 16,000 villages and townships across the country. The processes for reverse logistics were also simplified and the lead time for reverse logistics was further reduced, which hugely improved user experience.

For the home appliance logistics segment, Gooday Logistics actively pursued socialized business in addition to strengthening our online collaboration with Tmall and offline unification of warehousing and distribution services. In 2019, revenue from socialized home appliance business recorded a 35% year-on-year increase. Renowned brands such as Xiaomi, Skyworth and Galanz were among our top ten service clients. Building on the basis of mere distribution service, Gooday Logistics has explored expansion along the industrial value chain, strengthening our synchronized delivery and installation services as well as our repair and maintenance services, while actively developing value-added services for socialized household appliances. As for the large-format household furniture segment, Gooday Logistics has been upholding the principle that the core of our business is our high-standard delivery and installation capabilities for last-mile deliveries. We continuously advanced our unified service capabilities of warehousing, distribution and installation, improved our damage control capabilities, and upgraded our after-sales service provision across the whole network, resulting in a 13% revenue growth in 2019.

Gooday Logistics continued to accelerate development of our emerging business segments. In the healthy transport segment, Gooday Logistics centered on the service scenario of integrated delivery, installation and maintenance of electric vehicles, and provided services to well-known national electric vehicle manufacturers including XiaoNiu, Yadea, Xinri, and Wuyang-Honda. Through innovation of the supply chain model, Gooday Logistics empowered customers in the health appliance industry by providing integrated supply chain solutions that included warehousing, order-taking, distribution, installation and maintenance. The health commute segment achieved a revenue growth of 35% year-on-year in 2019. At the same time, Gooday Logistics proactively planned for our cross-border business and enhanced our capabilities on sea freight, air freight and customs clearance. Backed by overseas factories owned by Haier, we established overseas shipment centers to strengthen our service capacity for overseas delivery.

During the reporting period, Gooday Logistics continued to refine the operation management of our warehouses and has trained a group of experienced warehouse management teams, which helped to improve our warehouse utilization and overall efficiency. Gooday Logistics also continued to optimize and adjust our network arrangements, resulting in enhancements in our truck lines, regional distribution and last-mile delivery. While optimizing the overall routing of our lines, we streamlined intermediate transport nodes which significantly improved our distribution network efficiency.

BUSINESS REVIEW (continued)

Strategic Investment — Logistics Segment (continued)

As of December 31, Gooday Logistics deployed a national network of 26 pre-positioned warehouses, 7 collection warehouses, 33 originate warehouses, 100 transit warehouses, and 6,000 delivery and installation network nodes. We managed a total warehouse area of 5 million square meters, and covered 2,915 districts and counties across the country with no dead zones.

Principal risks and uncertainties faced by the Company

Potential Risks

Facing the impact of various risks, such as external risk, strategic risk, financial risk, and operational risk, the Group has always stayed proactive in monitoring and minimizing critical risks to ensure steady development of all of our businesses.

In 2019, China and the United States have been negotiating back and forth in the trade field. Although the first phase of agreement was reached at the end of the year, uncertainties for import and export of various countries would still linger to a certain extent as both parties continue to negotiate and debate on the issue. This year, the Group's export revenue to the United States accounted for less than 1% of total revenue. However, in order to minimize the impact from external trade environment and ensure smooth operation of our businesses, we will remain proactive in our expansion to overseas market and avoiding reliance on a single country, while improving our innovation and R&D capabilities and promoting upgrades of our product mix, so we can withstand the adverse impacts from the turbulence of the international economic situation.

Durable household appliances are highly subject to the influence of the real estate market. At present, the government is still implementing tightening control policies on the real estate market, resulting in a relatively slow growth in the sales of large-format household appliances. To relieve the pressure caused by policy regulations, the Group continued to upgrade and iterate its products according to users' needs to increase products' added value. We also put emphasis on promoting smart product sets and developing towards the direction of "high-end, pre-installed, embedded and smart product sets".

In the current home appliance market, mid-range and low-end products are highly homogenized. Fierce price competition further reduced the profit margins of companies. In this regard, our Group believes relentless technological iterations and the establishment of differentiation barriers are keys to the development of the future home appliance industry. We remain committed to staying centered on users' demand, increasing our input in R&D and innovation, and attracting high-end talents and industry experts to enhance our technological strength and talent reserve. We also strive to establish differentiation advantages by focusing on high-end products and product sets to maintain steady and healthy development of our enterprises.

Raw material prices are important factors for the gross margin of home appliance product. In 2019, the prices of raw materials such as steel, copper, and aluminum experienced declines which were favorable to the profits of home appliance enterprises. However, if raw material prices fluctuate in the future, our gross profit will be under a certain degree of pressure. In response, the Group has established a global procurement coordination platform, aggregating scattered procurement resources from various regions into an interconnected resource pool. Through building a global procurement big data system, we could formulate optimal procurement plans to counter the risks of price changes.

BUSINESS REVIEW (continued)

Principal risks and uncertainties faced by the Company (continued)

Potential Risks (continued)

While the sinking of channels to lower-tier markets has further facilitated the integration of online and offline channels, it nevertheless challenges offline stores' competitiveness in services and logistics. In this regard, the Group has been undertaking the four-network integration and the unification of warehousing and distribution services since 2018. We aggregate inventory products from service providers to the Haier cloud warehouse, where Haier Logistics would perform unified warehousing and distribution management, thereby enhancing product efficiency, process efficiency, personnel efficiency, and logistics efficiency. We also initiated the online and offline integration to strengthen brand awareness while continuously improving the competitiveness of our own channels.

To a certain degree, the outbreak of Covid-19 has impacted the production and sales rhythm of home appliance enterprises. In order to curb the spread of the virus, various places have implemented measures such as delaying resumption of work and controlling the flow of people which have brought impacts to the home appliance market. On one hand, these measures have delayed the upstream supply of raw materials, blocked the downstream logistics system, and prevented the industrial chain from resuming work. On the other hand, regular sales activities in offline stores were interrupted and installation and maintenance work were also restricted in the short term. Facing this outbreak, our Group has stepped up to our social responsibilities and was among the very first in launching aid works at various locations. Besides initiating multiple rounds of donation activities across the country, we have leveraged the overseas brand network we have developed over the years to collect resources, as well as making use of our own logistics network system to deliver the resources back to our country. Meanwhile, the Group has been phasing work resumption in an orderly manner to gradually resume regular production of our enterprises. We have also seized the opportunities brought by the epidemic for healthcare and sterilization products. Through product innovations, we have launched a variety of products equipped with sterilization functions to satisfy users' needs.

In order to enhance our business strategies, the Group shall continue to perform strategic investment, business mergers and acquisitions, and joint-venture cooperation. Through these activities, we would expand our product categories and improve our operational capability and management standard. However, even if we have conducted thorough business, financial and legal due diligence of target companies before confirming investment and collaborations, and employed industry experts to perform project analysis, we still could not completely avoid the risks stemmed from cultural and business integration of different companies.

Financial Review

In 2019, the Group's revenue amounted to RMB75,879,970,000, representing a decrease of 0.6% from RMB76,335,602,000 (restated) in 2018. The profit attributable to owners of the Company was RMB7,350,810,000, representing an increase of 91.2% from RMB3,844,497,000 (restated) in 2018. The basic earnings per share attributable to ordinary equity holders of the Company was RMB2.63, representing an increase of 90.6% from RMB1.38 (restated) in 2018. The basic earnings per share from continuing operations attributable to ordinary equity holders of the Company was RMB1.47, representing an increase of 13.1% from RMB1.30 (restated) in 2018.

1. ANALYSIS OF REVENUE AND PROFIT

Items	2019 RMB'000	2018 RMB'000 (Restated)	Change %
Revenue			
Washing machine business	**23,403,888**	21,489,429	+8.9%
Water heater and water purifier business	**8,753,529**	8,048,475	+8.8%
Channel services business	**66,466,898**	68,035,075	−2.3%
Inter-segment elimination	**(22,744,345)**	(21,237,377)	+7.1%
Consolidated revenue	**75,879,970**	76,335,602	−0.6%
Adjusted operating profit*	**4,050,047**	3,864,603	+4.8%
Profit attributable to owners of the Company	**7,350,810**	3,844,497	+91.2%
Earnings per share attributable to ordinary equity holders of the Company			
Basic			
— For profit for the year	**RMB2.63**	RMB1.38	+90.6%
— For profit from continuing operations	**RMB1.47**	RMB1.30	+13.1%
Diluted			
— For profit for the year	**RMB2.61**	RMB1.37	+90.5%
— For profit from continuing operations	**RMB1.46**	RMB1.29	+13.2%

* Adjusted operating profit was defined as profit before tax, net of interest income and expenses, investment gains and losses, fair value gains and losses on other non-current financial assets, government grants and share of profits and losses of associates.

The revenue of the Group for 2019 was RMB75,879,970,000, representing a decrease of 0.6% as compared to RMB76,335,602,000 (restated) in 2018. Against the backdrop of insufficient consumer demand and an industry decline, the Group achieved growth at a level outstripped the overall industry. In particular, the washing machine business and water heater and water purifier business have all achieved higher single-digit growth. The Group's performance in the fourth quarter has even recorded a nearly double-digit surge.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

The revenue from washing machine business amounted to RMB23,403,888,000 in 2019, representing an increase of 8.9% as compared to RMB21,489,429,000 in 2018. The growth was mainly fueled by Haier's dedication in product innovation and technological iteration, the active development of the Internet of Clothing ecosystem, as well as the promotion of online and offline channels integration and advancements. In terms of brands, the share of Casarte washing machines continued to rise. In terms of channels, both online and offline market shares experienced significant increases, maintaining our leading position in the industry.

The revenue from water heater and water purifier business amounted to RMB8,753,529,000 in 2019, representing an increase of 8.8% as compared to RMB8,048,475,000 (restated) in 2018. The Group completed the integration of the water purifier business this year. The synergies between the water heater and water purifier have further enhanced our whole-house smart water-using system solutions. In terms of product mix, the revenue of gas water heaters recorded a growth of over 20%, and Casarte water heaters recorded an increase of more than 30%.

The revenue from channel services business amounted to RMB66,466,898,000 in 2019, representing a decrease of 2.3% as compared to RMB68,035,075,000 (restated) in 2018. In face of the overall sluggish consumer demand and fierce competition in the home appliance market, revenues from air conditioners and televisions experienced a certain decline but with a significant rebound in the fourth quarter. The Group has intensified its reform efforts in response to the challenges. On one hand, we drove product iterations and upgrades and developed more scenario-based solutions. On the other hand, we promoted smart household transformation via the channels of our specialty stores, and continued our efforts in the online and offline channels integration, so as to maintain our competitiveness as a leader in the industry.

Profit Attributable to Owners of the Company

In 2019, the profit attributable to owners of the Company was RMB7,350,810,000, representing an increase of 91.2% from RMB3,844,497,000 (restated) in 2018. The basic earnings per share from continuing operations and discontinued operations attributable to ordinary equity holders of the Company was RMB2.63, representing an increase of 90.6% from RMB1.38 (restated) in 2018. The basic earnings per share from continuing operations attributable to ordinary equity holders of the Company was RMB1.47, representing an increase of 13.1% from RMB1.30 (restated) in 2018.

Adjusted Operating Profit

Adjusted operating profit was defined as profit before tax, net of interest income and expenses, investment gains and losses (including dividend income from equity instruments at fair value through other comprehensive income, investment income from other financial assets, gains/(losses) on disposal of subsidiaries, fair value gains and losses on other non-current financial assets, government grants and share of profits and losses of associates. By excluding these items, it is easier for management and investors to compare the Group's financial results over multiple periods and analyze trends in its operations.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Adjusted Operating Profit (continued)

Adjusted operating profit is used as a non-IFRS measure to evaluate the Group's results of operations. This measure provides investors with valuable information of the Group's ongoing operation performance because it reveals its business trends that may be obscured by the net effect of realized capital gains and losses, fair value changes on derivative financial instruments, gains and losses on disposition of operations and adjustments for other significant non-recurring or unusual items.

In 2019, the adjusted operating profit of the Group was RMB4,050,047,000, representing an increase of 4.8% as compared to RMB3,864,603,000 (restated) in 2018. The increase in the adjusted operating profit was mainly attributable to the increase in profit of washing machine business and water heater and water purifier business.

The following table sets forth the reconciliation between the Group's adjusted operating profit and profit before tax from continuing operations prepared in accordance with IFRS in 2019 and 2018:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Profit before tax	**5,087,318**	4,531,372
Adjustment:		
Bank interest income	**(311,548)**	(286,691)
Government grants	**(309,954)**	(211,059)
Return on investments in other financial assets	**(114,091)**	(69,037)
Dividend income from an equity investment designated at fair value through other comprehensive income	**(38,549)**	(104,823)
Losses/(gains) on disposal of subsidiaries	**(184,790)**	2,604
Finance costs	**4,870**	1,699
Share of profits and losses of associates*	**(95,992)**	538
Fair value losses on other non-current financial assets	**12,783**	—
Adjusted operating profit	**4,050,047**	3,864,603

* Share of profits and losses of associates mainly represents the current profits of Bingji Group attributable to the Group based on its shareholding ratio since the completion of the asset swap transaction on 26 July 2019, further details of which are set out in note 2.1 of the financial statements. The Bingji Group is principally engaged in the provision of logistics services and is accounted for using the equity method.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Gross Profit Margins

In 2019, the overall gross profit margin of the Group was 21.8%, representing an increase of 0.9 percentage points from 20.9% (restated) in 2018. The increase in the overall gross profit margin was mainly attributable to the increase in the proportion of the washing machine business and water heater and water purifier business which are of high gross profit margins.

The gross profit margin of washing machine business was 27.9%, representing a decrease of 0.2 percentage points from 28.1% in 2018. The price decline of bulk raw materials and the reduction of VAT tax rate raised our gross profit margin on one hand. On the other hand, gross profit margin dipped slightly as our new factories were still in the process of production ramp-up, coupled with adjustments in our product structure.

The gross profit margin of water heater and water purifier business was 38.1%, representing an increase of 0.3 percentage points from 37.8% (restated) in 2018. Besides positive contributions from the price decline of bulk raw materials and the reduction of VAT tax rate, the Group has adjusted our product structure and increased the proportion of middle-range to low-end products in an effort to achieve market share breakthroughs in various price segments, thus lowered the gross profit margin.

The gross profit margin of channel services business was 10.7%, remained the same as 10.7% in 2018.

Selling and Distribution Expenses

The ratio of selling and distribution expenses of washing machine business and water heater and water purifier business to its segment revenue increased by 0.9 percentage point from 17.0% (restated) in 2018 to 17.9% in 2019. The rise was mainly due to the Group's efforts in accelerating the transformation towards smart households and enhancing user experience, with increased investments in the construction of smart household experience stores, delivery, installation and after-sales services.

The ratio of selling and distribution expenses of channel services business to its segment revenue slightly increased by 0.1 percentage point from 7.8% in 2018 to 7.9% in 2019.

Administrative Expenses

The ratio of administrative expenses of washing machine business and water heater and water purifier business increased by 0.7 percentage points from 4.5% (restated) in 2018 to 5.2% in 2019. As our businesses expanded, our R&D investment in 2019 also increased to maintain continuous product innovation and leadership. In order to further enhance product quality, the Group's factories also strengthened technical and quality control workforce which to a certain extent increased the administrative expenses ratio.

The ratio of administrative expenses of channel services business decreased by 0.1 percentage points from 1.0% in 2018 to 0.9% in 2019. The drop was mainly due to the Group's reduction of expenses, strengthening of IT-based management and improvements in operating efficiency.

2. FINANCIAL POSITION

Items	2019 RMB'000	2018 RMB'000 (Restated)
Non-current assets	**14,525,175**	10,544,124
Current assets	**35,532,717**	37,332,624
Current liabilities	**19,012,509**	19,214,922
Non-current liabilities	**1,407,464**	2,476,129
Net assets	**29,637,919**	26,185,697

Cash and Cash Equivalents and Wealth Management Products from Other Financial Assets

In 2019, the Group's total balance of cash and cash equivalents and wealth management products from other financial assets decreased by 6.8% from RMB19,732,617,000 (restated) as at 31 December 2018 to RMB18,381,846,000 as at 31 December 2019. The decrease was mainly attributable to the fact that the logistics segment was no longer included in the consolidation of the Group as at the end of 2019.

Items	2019 RMB'000	2018 RMB'000 (Restated)
Cash and cash equivalents	**14,834,594**	15,023,077
Wealth management products from other financial assets		
— Current portion	**3,252,705**	4,382,181
— Non-current portion	**294,547**	327,359
Total	**18,381,846**	19,732,617

2. FINANCIAL POSITION (continued)

Net Assets

The Group's net assets increased by 13.2% from RMB26,185,697,000 (restated) as at 31 December 2018 to RMB29,637,919,000 as at 31 December 2019. The increase in net assets was mainly attributable to the increase in profit for the year and the decrease in the net assets caused by the logistics business no longer being included in the consolidation of the Group.

Working Capital

Trade and Bills Receivables Turnover Days

The bills receivable turnover days of the Group's washing machine business and water heater and water purifier business was 15 days as at the end of 2019, representing a decrease of 4 days as compared to the end of 2018, which was mainly attributable to the increase in proportion of the use of bills for settling payments.

The trade receivables turnover days of the Group's washing machine business and water heater and water purifier business was 19 days as at the end of 2019, remained the same as that of the end of 2018.

In the Group's channel services business, the majority of customers are small scale customers or end customers, and the sales are generally settled with payment in advance of delivery. The trade receivables turnover days as at the end of 2019 was 2 days, remained the same as that of the end of 2018.

Inventory Turnover Days

As at the end of 2019, inventory turnover days of washing machine business and water heater and water purifier business was 28 days, representing a decrease of 3 days as compared to the end of 2018.

As at the end of 2019, inventory turnover days of channel services business was 59 days, representing an increase of 13 days as compared to the end of 2018. It was mainly attributable to the increase in inventory to ensure adequate supply during Chinese New Year which came earlier than prior year.

Trade Payables Turnover Days

As at the end of 2019, trade payables turnover days of washing machine business and water heater and water purifier business was 58 days, representing an increase of 22 days as compared to the end of 2018, which was mainly attributable to the increase in raw material purchases to ensure adequate supply during Chinese New Year.

As at the end of 2019, trade payables turnover days of the channel services business was 9 days, representing an increase of 1 day as compared to the end of 2018.

3. CASH FLOW ANALYSIS

Items	Note	2019 RMB'000	2018 RMB'000 (Restated)
Cash and cash equivalents as stated in the statement of cash flows at the beginning of the year		**15,023,394**	15,273,487
Net cash flow from operating activities		**4,704,647**	4,351,593
Net cash flow used in investing activities	(a)	**(3,325,847)**	(4,131,105)
Net cash flow used in financing activities	(b)	**(1,601,937)**	(529,984)
Effect of foreign exchange rate changes, net		**34,337**	59,403
Cash and cash equivalents as stated in the statement of cash flows at the end of the year		**14,834,594**	15,023,394
Less: Cash and cash equivalents of a disposal group classified as held for sale		**–**	317
Cash and cash equivalents as stated in the statement of financial position at the end of the year		**14,834,594**	15,023,077

Net cash inflow from operating activities for the year amounted to RMB4,704,647,000, representing an increase of 8.1% as compared to last year, which was mainly due to profit contribution for the year.

(a) Net cash outflow from investing activities for the year amounted to RMB3,325,847,000, representing a decrease of 19.5% as compared to last year, with details as follows:

Items	2019 RMB'000	2018 RMB'000 (Restated)
Capital expenditure	**(1,857,067)**	(2,338,793)
Purchase of wealth management products	**(883,487)**	(2,706,364)
Acquisition of subsidiaries	**(46,027)**	(103,834)
Cash inflow/(outflow) from disposal of subsidiaries and assets held for sale	**(959,893)**	658,476
Cash from disposal of fixed assets and leasehold land	**208,615**	159,179
Dividend from Sinopec Sales Company Limited (after tax)	**34,694**	94,341
Interest received from wealth management products	**129,771**	90,655
Net cash inflow from other investing activities	**47,547**	15,235
Net cash flow used in investing activities	**(3,325,847)**	(4,131,105)

3. CASH FLOW ANALYSIS (continued)

(b) Net cash flow used in financing activities for the year amounted to RMB1,601,937,000, representing an increase of 202.3% as compared to last year, with details as follows:

Items	2019 RMB'000	2018 RMB'000 (Restated)
Capital contributions from minority shareholders of subsidiaries	**19,655**	616,528
Issuance of new shares	**6,597**	10,835
Dividend distribution to shareholders and minority shareholders	**(982,575)**	(883,560)
Repurchase of shares	**(65,900)**	(100,467)
Net repayment of borrowings	**(28,378)**	(136,181)
Deemed distribution for business combinations under common control	**(34,000)**	(50,000)
Dividends paid to the then holding company of a subsidiary	**(18,998)**	—
Capital contribution from the then holding company of a subsidiary	**—**	30,000
Cash paid for acquisition of equity from minority shareholders of subsidiaries	**(203,731)**	(31,541)
Lease payment*	**(297,089)**	—
Net cash inflow from other financing activities	**2,482**	14,402
Net cash flow used in financing activities	**(1,601,937)**	(529,984)

* Pursuant to the requirements of the new standards, lessees are required to include the lease payment for leased assets and the interest accrued on lease liabilities into the cash flow of financing activities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. As at 31 December 2019, the Group had a current ratio of 186.9%, representing a decrease of 7.4 percentage points as compared to 194.3% (restated) as at 31 December 2018.

Items	2019 RMB'000	2018 RMB'000 (Restated)
Cash and cash equivalents	**14,834,594**	15,023,077
Wealth management products from other financial assets	**3,547,252**	4,709,540
	18,381,846	19,732,617
Less:		
Interest-bearing borrowings	**80,896**	92,374
Net balance of cash and cash equivalents and wealth management products from other financial assets	**18,300,950**	19,640,243

As at 31 December 2019, wealth management products from other financial assets amounted to RMB3,547,252,000 (31 December 2018: RMB4,709,540,000).

As at 31 December 2019, the Group's net balance of cash and cash equivalents and wealth management products from other financial assets amounted to RMB18,300,950,000 (31 December 2018: RMB19,640,243,000 (restated)), representing a decrease of 6.8% as compared to 2018.

The financial return of cash and cash equivalents and other financial assets in 2019 was RMB425,639,000, representing an increase of 19.7% from RMB355,728,000 (restated) in 2018.

The Group will continue to maintain stable liquidity in its operations in 2020 to ensure the meeting of its working capital requirements for the next year, to construct intelligent factories and e-commerce platform, as well as to maintain financial flexibility for future strategic investment opportunities.

CAPITAL EXPENDITURE

The Company assesses its capital expenditure and investments in washing machine business and water heater and water purifier business from time to time. The capital expenditure during the year was RMB1,857,067,000 (2018: RMB2,353,761,000 (restated)), in which RMB314,396,000 (2018: RMB627,463,000) was used in the construction of the logistics warehouse before the asset swap transaction, and RMB1,542,671,000 (2018: RMB1,726,298,000 (restated)) was used in factory construction and equipment modifications for washing machine business and water heater and water purifier business as well as the development of industrial layout.

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio (defined as total borrowings, including interest-bearing borrowings over net assets) was 0.3% (31 December 2018: 0.4% (restated)).

TREASURY POLICIES

The Group adopts a prudent approach in its cash management and risk control. Most of the Group's revenues and expenses are denominated in Renminbi. Cash is generally placed in deposits denominated in Renminbi, Hong Kong dollars or United States Dollars. Foreign currency risk is largely, though not fully, mitigated, as liabilities in Renminbi will be substantially offset by the Group's revenue, of which mostly are derived from domestic sales in China and denominated in Renminbi. Only approximately 4% of the Group's revenue is derived from export sales and is denominated in other currencies. The Group does not have any significant interest rate risk as it has an overall net cash balance. The Group does not have any financial instrument for hedging purposes.

CAPITAL COMMITMENT

The Group's capital commitments contracted but not yet provided for amounted to RMB662,957,000 as at 31 December 2019 (31 December 2018: RMB1,306,208,000), which were mainly related to the construction of intelligent factories.

CHARGE OF ASSETS

As at 31 December 2019, certain of the Group's buildings and leasehold land with a net carrying value of RMB45,383,000 (31 December 2018: RMB45,853,000), freehold land with a net carrying value of RMB9,367,000 (31 December 2018: RMB9,464,000) and trade receivables with a net carrying value of RMB10,880,000 (31 December 2018: RMB14,231,000) were pledged to secure certain of the Group's bank loans.

In addition, as at 31 December 2019, certain of the Group's bills payable were secured by the pledge of the Group's bank deposits amounting to RMB402,692,000 (31 December 2018: RMB397,231,000) and the Group's bills receivable amounting to RMB10,218,000 (31 December 2018: RMB35,108,000).

CONTINGENT LIABILITIES

As at the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

RELATIONSHIP WITH EMPLOYEES, REMUNERATION POLICY AND RESTRICTED SHARE AWARD SCHEME

The Group is dedicated to offer employees a competitive remuneration mechanism (including short-, medium- and long-term incentives), all-rounded benefit plans, work-life balance and employee caring scheme. Under the management approach of "Integrating Order with Personnel", it encourages every employee to integrate his/her personal development into the long-term development of the Company, for achieving a healthy development and progress between the Company and employees and thus creates a win-win situation.

The total number of employees of the Group increased by approximately 0.1% to 16,775 as at 31 December 2019 from 16,759 as at 31 December 2018.

RELATIONSHIP WITH EMPLOYEES, REMUNERATION POLICY AND RESTRICTED SHARE AWARD SCHEME (continued)

The Company operates a Restricted Share Award Scheme, which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the Restricted Share Award Scheme, the Company may purchase the scheme shares in the open market or issue and allot new scheme shares to the trustee and hold such shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest. During the year 2019, the Company had granted directors and other employees a total of 11,509,100 awarded shares in accordance with the Restricted Share Award Scheme (2018: 11,649,900 shares) and a total of 9,128,898 awarded shares have been vested (2018: 13,344,804 awarded shares). As at the date of this annual report, there are 19,803,282 awarded shares yet to be vested. Under the special mandate approved by the shareholders' meeting convened on 27 June 2019, up to 3,893,790 new shares might be issued and allotted to the trustee for the outstanding awarded shares to be vested.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group values its customers and suppliers as major partners and stakeholders. A healthy and competitive partnership network is fundamental to the Group's success.

The Group's trading terms with customers of washing machine business and water heater and water purifier business are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally ranging from 30 to 90 days. Each customer has a maximum credit limit. The Group's trade receivables relate to a large number of diversified customers, and therefore there is no significant concentration of credit risk.

In the Group's channel services business, the majority of customers in the 3rd and 4th-tier markets are relatively small scale customers or end consumers, and the sales are generally settled with cash before delivery. The business model aims at achieving rapid sales.

The Group is dedicated to establish a mechanism to achieve success and to share with the supplier partners and to realize fair competition among themselves. The supplier partners can interact directly through various channels including a cloud manufacturing platform (COSMO). The suppliers can participate in front-end design through online platform of module resources. The Group's platform of research and development resources can introduce the top-notch resources from around the world for research and development, design and supply chain, with the aim of securing the availability of resources for the best user experience.

The Group has also adopted and implemented whole-process online-tendering mechanisms such as online tendering, online bidding, online bid invitation and online bid-evaluation etc., which can ensure the compliance and efficiency of the tendering mechanism and assure fair competition.

MATERIAL ACQUISITIONS AND DISPOSALS

On 30 August 2018, the Group and Haier Electric International Co., Ltd. ("Haier International"), a subsidiary of Haier Corp, entered into an asset swap agreement (the "Asset Swap Agreement"), pursuant to which Guanmei (Shanghai) Enterprise Management Co., Ltd. ("Guanmei"), an indirect wholly-owned subsidiary of the Company, agreed to acquire and Haier International agreed to sell 51% of the equity interest in Qingdao Haishi Water Equipment Co., Ltd. ("Qingdao Haishi") at a consideration of RMB1,073,524,000 to be satisfied by Guanmei by way of transfer of 55% of the equity interest in Bingji (Shanghai) Enterprise Management Co., Ltd. ("Bingji"), a wholly-owned subsidiary of Guanmei, from Guanmei to Haier International at the same consideration. Qingdao Haishi is principally engaged in the research and development and sale of household water purifying solutions, and Bingji is an investment holding company that indirectly controls Gooday Logistics, which is principally engaged in the business of providing logistics services in the PRC and primarily represents the logistics segment of the Group.

Haier International has guaranteed to Guanmei that the audited consolidated net profit of Qingdao Haishi for the three financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not be less than RMB470.5 million in aggregate. The Company will review the position in respect of the satisfaction of such guarantee upon the expiry of 31 December 2020 and make disclosures as and when appropriate.

The above transaction has been approved by shareholders of the Company in a special general meeting of the Company held in November 2018. It has been further approved by the relevant authorities and completed in July 2019, resulting in a net disposal gain of approximately RMB3.16 billion.

On 29 June 2019, the Group agreed to sell its entire 100% equity interest in Foshan Shunde Haier Intelligence Electronics Limited ("Foshan Intelligence"), an indirect subsidiary of the Company, to Haier Kaaosi IOT Ecosystem Technology Limited, a fellow subsidiary of the Group, for RMB556,000,000 and the transaction has been completed in November 2019, resulting in a net disposal gain of RMB111 million.

In January 2020, the Group entered into acquisition agreements with unrelated third parties to acquire 75.96% of the equity interest in Qingdao Gooday Lejia IOT Technology Co., Ltd at a cash consideration of RMB562,420,000. This acquisition was completed on 23 January 2020.

DIVIDENDS

The Board has proposed a final dividend of HK$49 cents per share in cash to shareholders whose names appear on the register of members of the Company on Friday, 3 July 2020 for the year ended 31 December 2019. All the dividends will be paid upon approval by shareholders at the Company's forthcoming annual general meeting. The final dividend will be paid on around Monday, 3 August 2020.

This dividend represented approximately 30% of the profit attributable to the owners of the Company after deducting the net disposal gain of approximately RMB3.16 billion from the Asset Swap Agreement and approximately RMB111 million from the sale of Foshan Intelligence during the year, and will be distributed out of the retained earnings of the Company. The Group shall retain sufficient cash for maintaining a strong financial position for capturing strategic investments when opportunities arise.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors (the "Directors") and the management (the "Management") of Haier Electronics Group Co., Ltd. (the "Company") recognise that sound corporate practices are crucial to the efficient operation of the Company and its subsidiaries (collectively the "Group") and the safeguarding of our shareholders' interests. In this regard, the Board gives high priority to enhance the Company's corporate governance standards with emphasis on transparency, accountability and independence in order to enhance the long-term value of our shareholders.

The Company has complied with the applicable code provisions (the "Code Provision(s)") and principles under the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") during the year ended 31 December 2019 except for certain deviations as described below. The Board shall review its code from time to time to ensure its continuous compliance with the Code. This report describes the Company's corporate governance practices, explains its applications of and deviations from the Code, together with considered reasons for such deviations.

BOARD OF DIRECTORS

Composition

As at 31 December 2019, the Board comprised three Executive Directors, two Non-executive Directors and four Independent Non-executive Directors (the "INED(s)").

The Board has at least one-third in number of its members comprising INEDs throughout the year. The Company has also fulfilled the requirements of the composition of the Company's audit committee, remuneration committee and the nomination committee under the Listing Rules.

At least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Directors are well-versed in respective areas such as accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate balance of skills and experience. The chairman of the Board and the nomination committee will review the composition of the board from time to time so as to enhance it for meeting the strategic objectives of the Company. The Directors' biographical details are set out on pages 12 to 17 of this annual report.

To the best of the Company's knowledge, there is no financial or family relationship among the Board members. All of them are free to exercise their independent judgment on all matters concerning the Company.

Under Code Provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company (the "AGM") in accordance with the Company's Bye-laws (the "Bye-laws"), and their appointment will be reviewed by the nomination committee and the Board when they are due for re-election.

The Bye-laws have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. Under the Bye-laws, the Board may from time to time appoint a director either to fill a casual vacancy or as an addition to the Board. Any such new director shall hold office until the next following general meeting of the Company or until the next following AGM and shall then be eligible for re-election at the same general meeting.

BOARD OF DIRECTORS (continued)

Board diversity policy

The Company has adopted the board diversity policy since the year 2013. The Company recognizes the benefits of having a diverse Board to enhance the quality of its performance and as an essential element in maintaining sustainable development and achieving strategic objectives. The Company continues to review and enhance the level of board diversity. All Board appointments will be based on merits against objective criteria and with due regards for benefits and balance of diversity on the Board. Board diversity would be considered in terms of, among other things, age, gender, educational and cultural background, expertise, industry experience, independence and length of services, in order to complement and extend the skills, know-how and experience of the Board.

The Nomination Committee will consider and, if appropriate, set measurable objectives to implement the Board diversity policy and review such objectives to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board diversity policy from time to time to ensure its continued effectiveness, and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Delegation by the Board

The Directors are collectively responsible for setting the Group's strategies, providing leadership and guidance to put them into effect, reviewing and monitoring the performance of the Group and are accountable to the Company's shareholders. To maximise the effectiveness of the Group's operations, the Board has delegated management and administration of the Group's daily operations to the Executive Directors, chief executive officer ("CEO") and the Management while reserved several important matters for its approval. To this end, the Board has adopted written guidelines (the "Guidelines") laying down the division of functions between the Board and the Management (including the Executive Directors and the CEO).

Pursuant to the Guidelines, the major functions of the Board and the Management are summarized as follows:

The Board is principally responsible for:

1. determining the overall strategy;

2. reviewing all significant policies of the Group;

3. monitoring the performance of the Management to ensure that the business operations of the Group are properly planned and conducted;

4. approving interim and annual results of the Group based on recommendations made by the audit committee of the Company;

5. approving material contracts and transactions for which the Management is required to obtain the Board's prior approval; and

6. subject to the requirements of the Listing Rules, approving transactions in which connected person(s) (as defined in the Listing Rules) of the Company is/are considered having a material conflict of interests.

BOARD OF DIRECTORS (continued)

Delegation by the Board (continued)

The Management is principally responsible for:

1. exercising all such other powers and performing all such other acts as may be exercised and performed by the Directors, save and except for those that may specifically be reserved by the Board and/or the committees set up by the Board for decision and implementation; or those that may only be exercised by the Board pursuant to The Companies Act of Bermuda, the Bye-laws, the Listing Rules and/or the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs;

2. formulating and implementing policies for business activities, internal controls and administration of the Company;

3. planning and deciding the Company's strategies on its business activities;

4. monitoring the executions of the continuing connected transactions with connected person(s) (as defined in the Listing Rules) of the Company to ensure their compliance with the relevant rules and regulation; and

5. keeping proper written records of its decisions made which may be inspected by any member of the Board or the Board committees upon request.

The Board reviews those arrangements and the Guidelines on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Chairman and Chief Executive Officer ("CEO")

The roles of chairman and chief executive officer ("CEO") of the Company are separated and are performed by the different persons. During the year ended 31 December 2019, Mr. Zhou Yun Jie, an Executive Director, had served as the chairman of the Company, while Mr. Li Hua Gang has served as the CEO of the Company till March 2019 and Mr. Xie Ju Zhi has served as the CEO thereafter.

INEDs

The INEDs have the same duties of care and skill and fiduciary duties as the Executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in areas of accounting and finance, and business management. With their professional knowledge and experience, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's connected/continuing connected transactions and other material transactions; participate in the Company's audit committee meetings, remuneration committee meetings, nomination committee meetings and strategic committee meetings. The INEDs also contribute to provide adequate checks and balances so as to protect the interests of the Company, to enable the interests of the Company's shareholders as a whole are adequately and fairly represented, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers all INEDs independent as at the date of this report.

BOARD OF DIRECTORS (continued)

Supply of and access to information

Newly appointed Directors will receive induction packages relating to the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

All the Directors are briefed and updated from time to time on the latest legislative and regulatory developments, and they receive, in a timely manner, adequate information which is accurate, clear, complete and reliable to ensure that they are fully aware of their responsibilities under the Listing Rules, applicable legal and regulatory requirements.

In order to ensure that their duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the Company's expense.

Professional development

The Directors paid significant attention to enhance their knowledge and expertise so as to discharge their duties and responsibilities more effectively. The Company would organize in-house training sessions for newly appointed directors which are conducted by professionals relating to the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

During the year, all Directors have fully observed the Code Provision A.6.5 and have attended various relevant training programmes which include:

(i) participation and/or as speakers in relevant conferences and seminars organized by various external organizations relevant to the business or directors' duties, for update on corporate governance, and for enhancing their business expertise; and

(ii) private study of materials relevant to the director's duties and responsibilities.

During the year, all Directors received regular updates on the Group's business, operations, risk management, corporate governance matters, and changes on relevant laws and regulations applicable to the Group.

The Company Secretary of the Company, who is a full-time employee of the Company, has taken no less than 15 hours of relevant professional training.

Board meetings

During the year ended 31 December 2019, apart from the adhoc meetings and consents obtained by means of written resolutions of all the Board members, the Board held four scheduled meetings at approximately quarterly intervals to review and approve, among other things, the 2018 annual results and 2019 interim results, the overall Group's strategy, discloseable and connected transactions of the Group. The Company's board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communication under the Bye-laws.

BOARD OF DIRECTORS (continued)

Board meetings (continued)

Sufficient notices are served and comprehensive information is provided to the Board members in advance of all the Board Meetings in order to enable them to make informed decisions on all matters transacted at the Board Meetings.

The proceedings of the Board Meetings are conducted by the Chairman of the Board or another Executive Director who ensures that sufficient time is allowed for discussion among the Directors and equal opportunities are being given to the Directors to express their views and share their concerns.

The chairman has met the Independent Non-executive Directors at least annually without the presence of the other Directors.

The Company Secretary attends the Board Meetings to advise Directors on corporate governance practices, and statutory compliance, accounting and financial issues whenever deemed necessary by the Board.

The Company Secretary is responsible for preparing minutes recording all matters transacted and resolved at the Board Meetings. All the Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

The following table shows the attendance of the Directors at the scheduled Board Meetings during the year ended 31 December 2019:

	No. of the scheduled Board Meetings attended/held
Executive Directors:	
Mr. Zhou Yun Jie *(Chairman)*	4/4
Mr. Xie Ju Zhi *(CEO)* (appointed with effect from 27 March 2019)	4/4
Mr. Li Hua Gang (appointed with effect from 27 March 2019)	2/4
Mr. Sun Jing Yan (retired with effect from 27 March 2019)	0/0
Non-executive Directors:	
Mr. Liang Hai Shan	2/4
Mr. Yang Guang	4/4
Ms. Tan Li Xia (retired with effect from 27 March 2019)	0/0
Dr. Wang Han Hua (retired with effect from 27 June 2019)	1/1
INEDs:	
Mr. Yu Hon To, David	4/4
Mrs. Eva Cheng Li Kam Fun	4/4
Mr. Gong Shao Lin	4/4
Dr. John Changzheng Ma (appointed with effect from 29 August 2019)	2/2

BOARD OF DIRECTORS (continued)

Board meetings (continued)

It is challenging to arrange the Board Meeting that fits in with the tight and busy schedules of all the Directors. Certain of the Directors devoted considerable time and efforts to the management of the Group's business, they were only able to attend some of the Board Meetings in person and their attendance rate at the Board Meetings were relatively low during the year. To enable all the Directors to keep abreast of the Group's latest development and to discharge their duties properly, the Company Secretary briefed the Directors on those matters transacted at the Board Meetings that they were unable to attend. In addition, draft and final versions of the Board minutes were sent to all Directors for their comments and records. Also, the minutes of Board Meetings as well as meetings of Board committees are recorded in sufficient details of the matters considered and decisions made, including concerns raised by the Directors or dissenting views expressed.

Model Code for Securities Transactions by Directors

The Company has adopted a Model Code for Securities Transactions by Directors (the "Haier Electronics Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard as set out in the Haier Electronics Model Code throughout the year ended 31 December 2019.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Haier Electronics Model Code. Having made specific enquiries of all the Relevant Employees, the Company confirmed that all the Relevant Employees had complied with the required standards as set out in the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2019.

Board Committees

The Board has established an Audit Committee (the "Audit Committee"), a Remuneration Committee (the "Remuneration Committee"), a Nomination Committee (the "Nomination Committee") and a Strategic Committee (the "Strategic Committee") (collectively the "Committees") to oversee specific aspects of the Company's affairs. The Committees report to the Board regularly, and have been provided with sufficient resources to discharge their respective duties. To reinforce independence, the chairman of the Committees other than the Strategic Committee is an INED. Each of the Committees has adopted specific terms of reference covering its duties, powers and functions which will be reviewed by the Board from time to time. The Company Secretary also acts as secretary of the Committees. The Committees adopt as far as practicable, the procedures and arrangement of the Board Meeting in relation to the conduct of meetings, notice of meetings and recording of minutes. Further particulars of each of the Committees are set out below:

(1) Audit Committee

During the year ended 31 December 2019, the Audit Committee comprised three members throughout the year. They are Mr. Yu Hon To, David and Mrs. Eva Cheng Li Kam Fun (INEDs), and Ms. Tan Li Xia (Non-executive Director) who retired as a member with effect from 27 March 2019. Mr. Gong Shao Lin (INED) was appointed as a member with effect from 27 March 2019. The Audit Committee was chaired by Mr. Yu Hon To, David. Mr. Yu is a professional accountant and was formerly a partner of an international accounting firm. The terms of reference of the Audit Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(1) Audit Committee (continued)

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, to make recommendations to the Board on the appointment, reappointment and removal of the Group's external auditors and review of the Company's financial controls, internal control and risk management systems. Each member of the Audit Committee has unrestricted access to the Group's external auditor and the Management.

During the year ended 31 December 2019, the Audit Committee held three meetings to review with the management the accounting principles and practices adopted by the Group and to discuss financial reporting matters including the review of 2018 annual results and 2019 interim results of the Group, review the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions, review of the internal control procedures and the connected transactions, review the reappointment of external auditors, and review the terms of reference of the Audit Committee, and other related issues.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor. The Audit Committee also met the external auditor at least once without the presence of the Executive Directors and the Management.

The annual results for the year ended 31 December 2019 were also reviewed by the Audit Committee.

The Board also has adopted the arrangement for employees of the Company to raise genuine concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters in the Company and its subsidiaries. The Audit Committee monitors the execution of this arrangement.

The following table shows the attendance of members of the Audit Committee during the year ended 31 December 2019:

	No. of Audit Committee meetings attended/held
Non-executive Director:	
Ms. Tan Li Xia (retired as a member with effect from 27 March 2019)	1/1
INEDs:	
Mr. Yu Hon To, David	3/3
Mrs. Eva Cheng Li Kam Fun	3/3
Mr. Gong Shao Lin (appointed as a member with effect from 27 March 2019)	2/2

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(2) Remuneration Committee

The Remuneration Committee currently comprises three members including one Executive Director, namely Mr. Zhou Yun Jie, and two INEDs (Mrs. Eva Cheng Li Kam Fun and Mr. Yu Hon To, David). The Remuneration Committee is chaired by Mrs. Eva Cheng Li Kam Fun, an INED. The terms of reference of the Remuneration Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendations to the Board on policies and structures of all remuneration of the Directors and senior management. Each of the Directors has not involved in the determination of his/her own remuneration. The Remuneration Committee meets at least once a year.

During the year ended 31 December 2019, apart from consents obtained by means of written resolutions of all the committee members, the Remuneration Committee held two meetings. At the meetings, members of the Remuneration Committee reviewed and made recommendations to the Board on the remuneration proposal of the Directors and senior management by taking into account the factors such as remuneration packages and benefits offered by comparable companies, the respective contribution of each of the Directors and senior management to the Group and the business objectives of the Group. The Remuneration Committee also considered the performance-based structures of the remuneration of Executive Directors and senior management, and reviewed the terms of the appointment letters or service contracts.

The Remuneration Committee has adopted the model that it will review the proposals made by the Management on the remuneration of Executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

The following table shows the attendance of members of the Remuneration Committee during the year ended 31 December 2019:

	No. of Remuneration Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	2/2
INEDs:	
Mrs. Eva Cheng Li Kam Fun	2/2
Mr. Yu Hon To, David	2/2

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee

The Nomination Committee was formed on 19 September 2008 and currently comprises three members including one Executive Director, namely, Mr. Zhou Yun Jie, and two INEDs (Mr. Yu Hon To, David and Mrs. Eva Cheng Li Kam Fun). The Nomination Committee is chaired by Mr. Yu Hon To David, an INED. The Nomination Committee meets at least once a year. The terms of reference of the Nomination Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

The Nomination Committee is responsible for formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession. It also develops selection procedures of candidates for nomination, reviews the structure, size and composition of the Board and assesses the independence of the INEDs. The Company has provided the Nomination Committee sufficient resources to perform its duties.

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee and review and approval of such nomination by the Board. The selection criteria for Directors are that the candidates must have substantial experience in business relevant to the Company, or in corporate management, or in relevant profession and must be able to contribute effectively to the objectives of the Company. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria (such as professional expertise, relevant experience, personal ethics etc.) and with due regard for the benefits of diversity on the Board. Any committee member may propose suitable candidates for directorship for discussion and approval by the Nomination Committee, after which the Board will consider and, if proper, approve such nomination. Directors thus selected is subject to re-election by the Company's shareholders in the next general meeting or next annual general meeting, as appropriate, according to the Bye-laws of the Company. The Nomination Committee also advises the Board in considering the suitability of the re-election of the Directors who are subject to the retirement by rotation at the AGM in accordance with the Bye-laws.

The Nomination Committee monitors the execution of the Board diversity policy of the Company. Selection will be based on a range of diversity perspectives, including but not limited to, professional experience, business experience and insight, skills, know-how, gender, age, cultural and educational background, ethnic and length of services. It will review the Board diversity policy as appropriate and recommend any revisions to the policy to the Board for consideration and approval if necessary.

During the year ended 31 December 2019, apart from consents obtained by means of written resolutions of all the committee members, the Nomination Committee held two meetings. At the meetings, members of the Nomination Committee have identified and recommended qualified individuals to the Board for the appointment of directors, reviewed the composition of the Board and diversity of the Board, and advised the Board on the suitability of the retirement and re-election of the Directors at the annual general meeting.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee (continued)

The Nomination Committee discussed and agreed the measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. During the year, three directors (Mr. Sun Jing Yan, Ms. Tan Li Xia and Dr. Wang Han Hua) retired and three directors (Mr. Li Hua Gang, Mr. Xie Ju Zhi and Dr. John Changzheng Ma) have been appointed. The Nomination Committee assessed the candidates on objectives of offering relevant industry experience and business skill to the Board for the Company's strategic business developments, while maintaining diversity of perspectives appropriate to the requirements of the Company's business. The Committee reviewed the existing composition of the Board and received and accepted the report from the management in relation to identified business skills and experience required and their ranking and the action plan for recruiting new Board members. It also monitored the review of the Company's recruitment process to reinforce its commitment to the principle of equal opportunity. With these measures in place, therefrom these new Board members have been appointed during the year.

The following table shows the attendance of members of the Nomination Committee during the year ended 31 December 2019:

	No. of Nomination Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	2/2
INEDs:	
Mr. Yu Hon To, David	2/2
Mrs. Eva Cheng Li Kam Fun	2/2

(4) Strategic Committee

The Strategic Committee was formed on 18 October 2011 and currently comprises three members including one Executive Director, namely, Mr. Zhou Yun Jie, one INED, namely, Mr. Gong Shao Lin and one Non-executive Director namely, Mr. Yang Guang. The Strategic Committee is chaired by Mr. Zhou Yun Jie. The Strategic Committee shall meet four times a year.

The purpose of the Strategic Committee shall be to prepare recommendations for the Board in fulfilling its responsibilities relating to (a) the development, articulation, and execution of the Company's long term strategic plan, and (b) the review, evaluation, and approval of certain strategic transactions, including but not limited to acquisitions, mergers, divestitures, financings, capital structure and joint ventures.

The primary duties of the Strategic Committee are to review the major long term strategic proposals of the Group, review the issue, offer or sale of shares or other equity securities of the Company for the purposes of funding acquisitions or investments made or new businesses undertaken by the Group, review the proposed initial or follow-on equity investment by the Company through the establishment of a new business or venture or other means, review and comment on the annual budgets of the Group taken as a whole, and thereafter recommend to the Board for its consideration and approval.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(4) Strategic Committee (continued)

During the year ended 31 December 2019, the Strategic Committee held four meetings. At the meetings, members of the Strategic Committee have discussed the strategies and the development plans of the channel services business and water purifying business and made recommendations to the Board. The strategic transactions, such as the mergers and acquisitions, were reviewed.

The following table shows the attendance of members of the Strategic Committee during the year ended 31 December 2019:

	No. of Strategic Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	4/4
Non-executive Director:	
Mr. Yang Guang	4/4
INED:	
Mr. Gong Shao Lin	4/4

Corporate Governance Function

In fulfilling the requirements of the Listing Rules which became effective on 1 April 2012, the Board delegated the corporate governance duties to the Audit Committee and Nomination Committee.

The primary corporate governance duties are to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the year, the Board and the Committees have developed and reviewed the Company's corporate governance practices, including the review of the recent changes of regulatory requirements, review of the nomination procedures of directors, review of terms of reference of the Audit Committee and of Nomination Committee, review of directors' and officers' liability insurance policy, and the review of the process in upgrading the internal controls and risk management.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

A shareholders' communication policy was established in March 2012. The Company has maintained different communication channels with its shareholders through the publication of annual and interim reports, circulars and announcements. Such information is also available on the websites of the Hong Kong Stock Exchange and the Company.

It is the Company's practice to provide an explanation to shareholders of the details of the voting by poll procedures in the general meetings in accordance with the Bye-laws and the Listing Rules. The poll results of the general meetings are also published on the websites of the Hong Kong Stock Exchange and the Company. The Board regards general meetings as one of the principal channels of communication with our shareholders and the Directors provide detailed and complete answers to questions raised by the shareholders in the general meetings.

During the year ended 31 December 2019, the Company held two general meetings, including the annual general meeting and one special general meeting, in which various resolutions were passed.

The following table shows the attendance of the Directors at the general meetings held during the year ended 31 December 2019:

	No. of the General meetings attended/ held
Executive Directors:	
Mr. Zhou Yun Jie *(Chairman)*	2/2
Mr. Xie Ju Zhi *(CEO)* (appointed with effect from 27 March 2019)	2/2
Mr. Li Hua Gang (appointed with effect from 27 March 2019)	0/2
Mr. Sun Jing Yan (retired with effect from 27 March 2019)	0/0
Non-executive Directors:	
Mr. Liang Hai Shan	0/2
Mr. Yang Guang	0/2
Ms. Tan Li Xia (retired with effect from 27 March 2019)	0/0
Dr. Wang Han Hua (retired with effect from 27 June 2019)	0/1
INEDs:	
Mr. Yu Hon To, David	2/2
Mrs. Eva Cheng Li Kam Fun	2/2
Mr. Gong Shao Lin	2/2
Dr. John Changzheng Ma (appointed with effect from 29 August 2019)	0/0

During the year ended 31 December 2019, there have been no changes in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders may convene a special general meeting

Pursuant to Section 74(1) of the Bermuda Companies Act and the bye-law 62 of the Bye-laws of the Company, the shareholder(s) of the Company ("Shareholder(s)") holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may request the Board to convene a special general meeting.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business of the Company in Hong Kong at Unit 3513, 35/F., The Center, 99 Queen's Road Central, Hong Kong, for the attention of the Company Secretary and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures by which enquiries may be put to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. Such enquiries can be made by the following means:

Mail: Company Secretary
Haier Electronics Group Co., Ltd.
Unit 3513, 35/F., The Center,
99 Queen's Road Central, Hong Kong

E-mail: ir@haier.hk

Procedures for putting forward proposals at a Shareholders' meeting

On the requisition in writing of (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than 100 Shareholders, the Company shall be under a duty to:

(a) give to Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

SHAREHOLDERS' RIGHTS (continued)

Procedures for putting forward proposals at a Shareholders' meeting (continued)

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and head office and principal place of business of the Company in Hong Kong at Unit 3513, 35/F., The Center, 99 Queen's Road Central, Hong Kong, for the attention of the Company Secretary, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the Company Secretary will ask the Board (i) to include the resolution in the agenda for the AGM; or (ii) to circulate the statement for the general meeting, provided that the shareholder(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the shareholder(s) concerned in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid or the shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the general meeting.

Procedures for Shareholders to propose a person for election as a Director

If a Shareholder wishes to nominate a person to stand for election as a Director at a general meeting, notice in writing of his intention to propose such person for election as a Director and the notice in writing executed by the nominee of his willingness to be elected must be validly served at the principal place of business in Hong Kong of the Company. The minimum length of the period during which such notices are given shall be at least 7 days and the period for lodgement of such notices shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

To enable Shareholders to make an informed decision on their election at a general meeting, the names of all candidates submitted for election or re-election as a Director together with his/her biographical details as set out in Rule 13.51(2) of the Listing Rules (including other directorships held in listed public companies in the past 3 years and other major appointments) are to be set out in a circular or supplementary circular to be sent to shareholders prior to the meeting in accordance with the Listing Rules.

INSURANCE

The Group has arranged appropriate directors' and officers' liability insurance to indemnify the Directors and senior staff of the Group for their potential liabilities incurred by them in discharging their duties. The Group reviews the insurance coverage for the Directors and the Group's senior staff on an annual basis.

POLICY ON PAYMENT OF DIVIDENDS

It is the policy of the Company to allow its shareholders to participate in the Company's profits whilst to retain adequate reserves for future growth. The Company will generally consider paying dividends once a year, which is a final dividend. The board of directors of the Company may declare interim dividend and/or special dividends in addition to such dividend as it considers appropriate.

Factors for consideration

In determining/recommending the frequency, amount and form of any dividend in any financial year/period, the Board shall consider the following factors:

1. the actual and expected financial results of the Company and its subsidiaries;

2. the economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group;

3. the Group's business strategies, including future cash commitments and investment needs to sustain the long-term growth aspect of the business of the Group;

4. the current and future operation, liquidity position and capital requirements of the Group; and

5. any other factors that the Board deems appropriate.

The Company does not have any pre-determined dividend payout ratio. The declaration, recommendation and/or payment of dividends of the Company shall be at the discretion of the Board. The Board endeavors to maintain a balance between a prudent capital management and meeting the Shareholders' expectations.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group's financial position. In preparing the financial statements of the Group for the year ended 31 December 2019, the Directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor's Report of this Annual Report.

The Board aims to present a comprehensive, balanced and understandable assessment of the Group's development and prospects in all corporate communications, including but not limited to annual and interim reports, any price sensitive announcements and financial disclosures required under the Listing Rules, any reports to regulators as well as to information required to be disclosed pursuant to other statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group is committed to implementing and maintaining effective risk management and internal controls procedures to identify and manage the risks faced by the Group, as well as to safeguard the interests of the Group and our shareholders as a whole. The Board would ensure that adequate resources and management attention will be devoted to strengthen its internal controls and risk management procedures.

The Board is responsible for overseeing adequate internal controls and risk management procedures in the Group, reviewing their effectiveness on an on-going basis, and ensuring the Management has clearly defined the authorities and key responsibilities of each business and operational unit for adequate checks and balances. The Board has delegated to the Management the design, implementation and monitoring of the Group's risk management and internal control systems covering all material aspects, including financial, operational, risk management functions and in compliance with all relevant regulations. Such systems are designed to manage the risk of failure to achieve business objectives, and provide reasonable, but not absolute assurance against material misstatement or loss.

The Board is also responsible for ensuring that the Management has discharged its duty to have an effective internal control system in terms of the adequacy of resources, qualification and experience of staff of the Company's finance and internal audit functions, and their training programme and budget.

Control Environment

- The control framework is consistent with that promoted by The COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards;
- Risk awareness and control responsibility are built into the company culture and are regarded as the foundation of risk management and internal control systems;
- An effective internal audit function is maintained which is independent from operational management;
- Whistleblowing Guideline of the Company is in place.

Internal Auditing Function

In response to the broadening of the Group's scope of business activities and the increase in geographical locations in which it operates, to face the challenges of the fast growing trend of new business and the related financial and operational risks, the Group has continuously strengthened the functions of its Internal Audit Department which provides independent and objective assurance and consulting activity designed to add value and improve Company's operations. It helps the Group in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing is a catalyst for improving Company's governance, risk management and management controls by providing insight and recommendations based on analysis and assessments of data and business processes. With commitment to integrity and accountability, Internal Audit provides value to governing bodies and senior management as an objective source of independent advice.

The Internal Audit Department also provides independent and reasonably assurance that the internal controls system is effective and efficient. In order to carry out its functions, the Internal Audit Department is given unrestricted access to all business operations and personnel, all business files and accounting records. The head of the Department reports directly and regularly to the Audit Committee and CEO respectively on the findings of audit matters. The work schedule of the Internal Audit Department is based on an annual audit program reviewed and approved by the Audit Committee.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management

An enterprise-wide risk assessment with the Management and key-process owners had been institutionalised to identify major risks of all levels and to review the effectiveness of the key controls and mechanisms in place. It is intended that the risk management framework would be able to raise risk-awareness within senior management such that a safeguarding culture of the Group's business and assets is to be developed and implemented.

A Risk Management Committee has been set up comprising the CEO and senior managers of major business units to review and analyse weekly the key risks associated with achieving the objectives of the Group as well as the individual departments, activities and businesses, and to provide reasonable assurance that internal controls are both embedded and effective within their areas of accountability. Such assessment has been implemented throughout the year to evaluate all major risks associated with the business operations of the forthcoming years. Relevant measures have been adopted to deal with and to mitigate the risks to controllable range.

The Internal Audit Department of the Company plays a significant role in the risk management execution. Major risks of all levels facing the Group are identified and evaluated, and the Risk Management Committee ultimately reviewed the identification and evaluation of these risks. Based on these measures, mitigation strategies and plans with respect to each key risk identified are developed and implemented, which include establishing or enhancing internal controls, with regular review and update. The process of the work performed are reported regularly to the Audit Committee and the Board. An typical example is that the business risks associated with the recent outbreak of infectious disease are identified and evaluated, and mitigation plans are promptly implemented.

Control Process

The Company recognizes that the assessment of the internal control system is an on-going process which will require applications of underlying principles to the different objective categories in the changing business and operating environments. In particular, management enhancements are required to address deficiencies in internal controls over operations, compliance and financial and non-financial reporting.

There is a clearly-defined management structure with specified authority limits and segregated responsibilities to achieve business control objectives and safeguard of assets. Guidelines and approval limits for operating and capital expenditures are set clearly in advance, with division of operations and financial personnel responsible for the different approval processes. An internal budget system as well as expense system have been used to enhance the controls and effectiveness embedded in the approval process. Detective controls are also in place as safeguards for the business and operational processes.

The Internal Audit Department establishes an annual internal control review plan for major internal control systems covering areas including operational control, financial control and compliance control (including review of controls on continuing connected transactions). The review tasks on various internal controls are prioritized in accordance with the risk level assessed or where significant changes have been taken place. During the year ended 31 December 2019, the Internal Audit Department has conducted a review of the effectiveness of Group's internal control system's procedures on the major business and operational processes, particularly on those divisions and businesses which were newly set up. Recommendations for further improvements have been reported to the Audit Committee as well as Board, together with its findings. Such recommendations have been or are being implemented by the Management with regular review.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Review of Control Effectiveness

The Audit Committee reviewed the effectiveness of the risk management and internal control systems by reviewing the work of the Internal Audit Department. The Board has, through the Audit Committee, reviewed and considered that for the year ended 31 December 2019: (i) the Group's risk management and internal control systems were effective and adequate, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) the Group had adopted the necessary control mechanisms to monitor and rectify any non-compliance of regulations.

Inside Information

The Company has adopted the following procedures and internal controls for the handling and dissemination of inside information:

(i) the Company keeps updated on the obligations under the Securities and Futures Ordinance, the applicable Listing Rules and other statutory regulations with regard to the timely and proper disclosure of inside information and authorizes the disclosure through the publication of announcements as required;

(ii) the Company implemented an Inside Information Disclosure Policy which the Company's spokespersons have to strictly follow in communicating with the public;

(iii) the Company adopted a Model Code for securities transactions by Directors, and by employees who are likely to be in possession of unpublished inside information of the Company on no less exacting terms than that for the Directors; and

(iv) the Company included in the employee conduct code that unauthorised uses of confidential and inside information are strictly prohibited.

Epidemic Risk Control

In early 2020, the sudden outbreak of the novel coronavirus pneumonia epidemic has posed a serious threat to the lives of people, and plunged the country and the world into a smokeless battle. The Company has immediately established an emergency command team to comprehensively assess and continuously monitor the epidemic risk, and adopted the following countermeasures to prevent and control the risks:

1. Assess the impact of the epidemic on the resumption of operation and production of the Group, and take effective measures to ensure the safety of resumption of operation and production. In accordance with the relevant requirements of the state and local governments on the holidays and resumption of production for companies, the Company has successfully resumed the entire process of operation while ensuring the safety of employees.

2. Assess the impact of the epidemic on offline sales channels and after-sales services, and actively carry out online activities and operate online social software to drive the transformation of marketing, products and users; comprehensively upgrade the specification of home services to provide isolated and safe professional services, while also reduce door-to-door communication and ensure service satisfaction through remote and online interaction.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Epidemic Risk Control (continued)

3. Assess the potential impact of the epidemic on the supply chain and customers, and track the resumption of operation and production of suppliers and customers and provide necessary support and assistance; continuously pay attention to overseas markets and customers, and communicate with overseas customers in advance and coordinate internal and external resources in advance to deal with the impact of the epidemic.

4. Assess the impact of the epidemic on corporate financial operations and cash flows, and continuously pay attention to the cash flow, inventory and other financial risks of each business segment of the Company and deal with such risks appropriately.

5. Upon the outbreak of the coronavirus, the management of the Group has paid close attention to the progress of the epidemic, and earnestly fulfilled the social responsibilities of a listed company by organizing Haier brands to donate cash and supplies to the epidemic-stricken area in Hubei; and actively deployed Haier's overseas branches to purchase emergency supplies to fight the epidemic.

The Company has continuously paid attention to the progress of the epidemic and formulated effective plans for epidemic risk management and control to prevent any significant impact on the Group's operations, business sustainability and profitability caused by the novel coronavirus, so as to control the relevant risks as a whole. In view of the uncertainties in the progress of the global epidemic, the Group will continue to pay close attention to the global epidemic and take timely countermeasures to minimize the impact on the Group.

REMUNERATION OF EXTERNAL AUDITORS

The Group's independent external auditors are Ernst & Young, Certified Public Accountants ("Ernst & Young"). During the year ended 31 December 2019, the annual audit fees and non-audit fees payable/paid by the Group to Ernst & Young were RMB6,480,000 and RMB1,500,000, respectively. The non-audit services mainly included the performance of agreed-upon procedures in respect of the Group's quarterly and interim financial information (RMB1,300,000), review of the continuing connected transactions (RMB160,000) and other services (RMB40,000).

26 March 2020

Report of The Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group's subsidiaries continued to be engaged in the manufacture and sale of washing machines and water heaters, sale and distribution of home appliances and other products, providing after-sale services and other value-added consumer services, and providing logistics services. There were no significant changes in the nature of the Group's principal activities during the year except that after the asset swap transaction completed in July 2019, the logistic services business was no longer a principal business of the Group, and the logistic business group (Bingji Group) has since become an associate to the Group. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties faced by the Group and an indication of the Group's likely future developments, can be found in the Chairman's letter and Business Review and Financial Review set out on pages 6 to 11 and 19 to 47 of this Annual Report. Such information forms part of the Report of The Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 90 to 219.

The Directors of the Company recommend the payment of a final dividend for the year ended 31 December 2019 of HK49 cents per share (2018: HK38 cents per share).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 220. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year ended 31 December 2019 are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2019 are set out in notes 36 and 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws ("Bye-laws") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company purchased certain of its ordinary shares (the “Shares”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and these Shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Total price paid HK$’000
September 2019	1,737,000	21.15	19.86	35,767

The issued capital of the Company was reduced by the par value thereof. The premium paid on the purchases of the Company’s shares of HK$35,593,000 (2018: HK$97,243,000) has been charged to the share premium account of the Company. The purchases of the Company’s shares during the year was effected by the Directors, pursuant to the mandate approved by the shareholders at the last annual general meeting. The above purchases of the Company’s shares were made with a view to enhancing the net asset and/or earnings per share of the Company and thus benefiting the shareholders as a whole.

In addition, during the year, there were also purchases of 1,799,000 shares of the Company on the open market for an aggregate consideration of HK$36,981,000 by the trustee pursuant to the Company’s Restricted Share Award Scheme as adopted by the Company on 15 April 2014 and renewed on 15 April 2019, and the trustee has retained 1,521,646 shares of the Company from the employees as substitution of their individual income tax upon vesting of awarded shares which amounted to HK$28,802,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 49 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company’s reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to RMB2,934,791,000, of which HK$1,374,689,000 (equivalent to RMB1,228,981,000) has been proposed as a final dividend for the year. In addition, RMB2,382,049,000 in the Company’s share premium account may be capitalised and distributed to members in the form of fully paid bonus shares.

ENVIRONMENTAL AND SOCIAL POLICIES AND PERFORMANCE

Recognizing the utmost importance of environmental sustainability in face of the present ecological challenges, the Group has adopted the new strategy of "greening" the economy for corporate development and introduced concepts and elements of environmental protection to various aspects of operations. The Group has also continued deepening the transformation of green service platforms, and exploring the management of products throughout their whole life cycles. To realize the implementation of "green development" strategy, the principle of high technological content, low energy consumption, less environmental pollution has been consistently applied and adhered to processes including product design, manufacturing, sales, and recycling.

The Group has increased investment in the R&D and innovation of core products and services, and supported innovation as the lifeline of the corporate. Through technological approaches, the Group established an innovative alliance with suppliers and distribution partners, centering on sharing and collaboration. We consolidated global user resources and global supply chain resources to build and develop an environmentally friendly, socially harmonious green industrial chain.

Committed to giving back to society, the Group has incorporated the ESG philosophy into our strategies and has actively fulfilled our corporate citizenship responsibilities and protected employees' rights. The innovative management model "Ren Dan He Yi" has allowed more autonomy for our employees and created more opportunities for value sharing. The Group has also organized a range of charitable activities to bring warmth to society and has developed numerous brand charity projects. Capitalized on the edge of our industry, the Group has advocated the strategy of "change with change, change to win" to curb the outbreak of Covid-19 in early 2020. As one of the first corporations in support of the anti-epidemic fight, the Group has donated funds and supplies to help with relief efforts.

Further discussions of these activities are in the Environmental, Social and Governance Report which will be issued separately within the period as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

COMPLIANCE WITH LAWS AND REGULATIONS

The Board is responsible for reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, with the assistance of the Internal Audit Department, the Legal Department and the Company Secretarial Department of the Company. The Company has in place compliance procedures to ensure adherence to the laws and regulations that are relevant to the Group.

Apart from the laws and rules applicable to the Company as a listed company, laws and regulations in other jurisdictions also apply to and have a significant impact on the non-Hong Kong operations of the Group, such as those relevant to the manufacturing process, product specification and design, labour, and environmental protection in respect of the Group's manufacture of products, channel services and logistic services operations in China.

The Group's staff are regularly briefed and updated from time to time on the relevant changes in laws and regulations so as to enhance their awareness of compliance obligations.

During the year, the Group has complied with the relevant laws and regulations that have a significant impact on the operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 94% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 56%.

During the year ended 31 December 2019, Haier Group Corporation ("Haier Corp"), the substantial shareholders of the Company, had beneficial interests in one of the Group's five largest customers and all of the Group's five largest suppliers.

Save as disclosed above, none of the Directors or any of their close associates or any shareholders of the Company which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive directors:
Mr. Zhou Yun Jie *(Chairman)*
Mr. Xie Ju Zhi *(Chief Executive Officer)*
(appointed with effect from 27 March 2019)
Mr. Li Hua Gang
(appointed with effect from 27 March 2019)
Mr. Sun Jing Yan
(retired with effect from 27 March 2019)

Non-executive directors:
Mr. Liang Hai Shan
Mr. Yang Guang
Ms. Tan Li Xia
(retired with effect from 27 March 2019)
Dr. Wang Han Hua
(retired with effect from 27 June 2019)

Independent non-executive directors:
Mr. Yu Hon To, David
Mrs. Eva Cheng Li Kam Fun
Mr. Gong Shao Lin
Dr. John Changzheng Ma
(appointed with effect from 29 August 2019)

Ms. Tan Li Xia retired as a Non-executive Director of the Company, and Mr. Sun Jing Yan retired as an Executive Director of the Company with effect from 27 March 2019. Ms. Tan had taken this decision due to commitments on her other business within Haier Group. Mr. Sun had taken this decision due to re-designation of duties within the Haier Group. Dr. Wang Han Hua retired as a Non-executive Director of the Company with effect from 27 June 2019. Dr. Wang had taken this decision to devote more time to his other business commitments.

DIRECTORS (continued)

In accordance with the Bye-laws, Mr. Yang Guang, Mrs. Eva Cheng Li Kam Fun, and Mr. Gong Shao Lin are subject to retirement by rotation at the forthcoming AGM. Dr. John Changzheng Ma will hold office until the forthcoming AGM. All these Directors are eligible for re-election at the AGM.

The INEDs are not appointed for any specific terms and are subject to retirement by rotation and re-election at the AGM in accordance with the Bye-laws.

The Company has received an annual confirmation of independence from each of Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma, and, as at the date of this report, the Board still considers them independent on the basis of such confirmations.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 to 18 of the annual report.

CHANGES OF INFORMATION OF DIRECTORS

Below are the changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the report date of the Company's interim report for the period ended 30 June 2019:

Up to the date of this report, Mr. Zhou Yun Jie is a director of Qingdao Haier Biomedical Co., Ltd., a company listed on the Shanghai Stock Exchange (STAR Market) on October 2019.

Mr. Xie Ju Zhi has been appointed as a director of Haier Holdings (BVI) Limited, Qingdao Haier Investment and Development Holdings (BVI) Limited, Haier Washing Machines Holdings (BVI) Limited, Haier Water Heaters Holdings (BVI) Limited, Haier Electronics Sales (HK) Company Limited, Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd., Chongqing Haier Water Heater Co., Ltd., Wuhan Haier Water Heater Co., Ltd., Zhengzhou Haier New Energy Technology Co., Ltd., subsidiaries of the Group.

Mr. Li Hua Gang has resigned as a director of Haier Washing Machines Holdings (BVI) Limited and Haier Electronics Sales (HK) Company Limited, subsidiaries of the Group.

Mrs. Eva Cheng Li Kam Fun has retired as an independent non-executive director of Amcor Limited, a company listed on the Australian Securities Exchange, in November 2019.

DIRECTORS' SERVICE CONTRACTS

During the year, no Director had a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

Under the Bye-laws, every director or other officer of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. A Directors' and Officers' Liability Insurance is in place to protect the Directors and officers of the Group against any potential liability arising from the Group's activities which such directors and officers may be held liable.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except executive positions and related interests in the Haier Group, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding companies of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Except executive positions and related interests in the Haier Group, none of the Directors is interested in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the interests and short positions of the Directors and chief executive in the share capital and underlying shares ("Share(s)") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company:

Name	Number of Shares directly (personal) beneficially owned	Approximate% of issued Shares*
Mr. Zhou Yun Jie	9,277,840	0.33
Mr. Xie Ju Zhi	443,867	0.02
Mr. Li Hua Gang	230,000	0.01
Mr. Yu Hon To, David	510,000	0.02
Mrs. Eva Cheng Li Kam Fun	240,000	0.01

Apart from above, the following Directors and chief executive are also the grantees of the restricted shares of the Company in accordance with the Company's Restricted Share Award Scheme under its Directors' Trust comprising shares purchased from the stock market.

Name	Outstanding awarded Shares	Approximate% of issued Shares*
Mr. Zhou Yun Jie	1,109,360	0.04
Mr. Xie Ju Zhi	375,213	0.01
Mr. Li Hua Gang	486,800	0.02
Mr. Yu Hon To, David	27,500	0.001
Mrs. Eva Cheng Li Kam Fun	22,000	0.001
Mr. Gong Shao Lin	31,500	0.001
Dr. John Changzheng Ma	16,500	0.001

* The percentage is calculated on the basis of 2,805,487,778 shares in issue of the Company as at 31 December 2019.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Name	Date of grant of share options	Number of share options granted and not yet exercised*	Approximate% of issued shares upon exercise of share options#
Mr. Li Hua Gang	11/09/2015	108,000	0.004

Note:

* The exercise price of the above share options is HK$12.84 for subscription of one share. The exercisable period is from 10 May 2016 to 10 May 2020.

The percentage is calculated on the basis of 2,805,487,778 shares in issue of the Company as at 31 December 2019.

Long positions in shares and underlying shares of Haier Smart Home Co., Ltd, the Company's shareholder:

Name	Number of shares held	Approximate% of total registered share capital	Capacity and interest
Mr. Liang Hai Shan	14,483,466	0.22	Directly (personal) beneficially owned
Mr. Zhou Yun Jie	196,596	0.003	Directly (personal) beneficially owned
Mr. Li Hua Gang	653,306	0.01	Directly (personal) beneficially owned

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive had any interests or short positions in the shares or underlying shares of the Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 38 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY (continued)

Share Option Scheme (continued)

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options								
Name or category of participants	At 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2019	Date of grant of share options (note 1)	Exercise period of share options	Exercise price of share options per share (note 2) HK$
Executive directors									
Mr. Li Hua Gang	108,000	–	–	–	–	108,000	11/09/2015	10/05/2016–10/05/2020	12.84
Mr. Sun Jing Yan (retired on 27 March 2019)	84,000	–	–	–	–	84,000	11/09/2015	10/05/2016–10/05/2020	12.84
	192,000	–	–	–	–	192,000			
Other employees									
In aggregate	2,262,855	–	583,455	–	–	1,679,400	11/09/2015	10/05/2016–10/05/2020	12.84
	2,454,855	–	583,455	–	–	1,871,400			

Notes:

1. For share options granted on 11 September 2015, 40% and 60% of the total share options granted were vested on vesting dates of 10 May 2016 and 10 May 2017, respectively. The vesting period of the share options is from the date of grant until the respective vesting dates.

2. The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.

3. The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$21.72 per share.

4. The total share options that could be granted under the then available scheme mandate limit as at 31 December 2019 were in respect of 153,890,890 shares which represented 5.5% of the issued shares of the Company as at 31 December 2019.

As at 31 December 2019, the Company had 1,871,400 share options outstanding under the Share Option Scheme. Should the share options be fully exercised, the Company will receive approximately HK$24,029,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to HK$6,306,000.

The particulars regarding dilution effect of the share options are set out in note 13 to the financial statements.

Restricted Share Award Scheme

The Company operates a Restricted Share Award Scheme, which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the Restricted Share Award Scheme, the Company may purchase the scheme shares in the open market or issue and allot new scheme shares to the trustee and hold such shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest. The Board has discretion to decide whether the awarded shares are to be purchased or subscribed. Further details of this scheme are disclosed in note 37 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY (continued)

Restricted Share Award Scheme (continued)

The following table discloses movements in the Company's awarded shares under the Company's Restricted Share Award Scheme during the year:

	Number of awarded shares								
Name of participants	At 1 January 2019	Granted during the year (note 2)	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2019	Date of grant of awarded shares	Exercise/vesting period of awarded shares (note 2)	Exercise price of awarded shares per share (note 1) HK$
Executive directors									
Mr. Zhou Yun Jie	576,000	–	576,000	–	–	–	29/05/2017	29/05/2017–01/07/2019	–
	605,000	–	242,000	–	–	363,000	05/07/2018	05/07/2018–01/07/2020	–
	124,600	–	49,840	–	–	74,760	17/09/2018	17/09/2018–01/07/2020	–
	–	671,600	–	–	–	671,600	24/12/2019	24/12/2019–01/07/2021	–
	1,305,600	671,600	867,840	–	–	1,109,360			
Mr. Xie Ju Zhi	164,580	–	156,351	–	–	8,229	03/03/2017	03/03/2017–01/07/2020 (note 3)	–
	238,200	–	90,516	–	–	147,684	17/09/2018	17/09/2018–01/07/2020	–
	–	219,300	–	–	–	219,300	24/12/2019	24/12/2019–01/07/2021	–
	402,780	219,300	246,867	–	–	375,213			
Mr. Li Hua Gang	44,000	–	–	–	–	44,000	08/07/2016	08/07/2016–07/07/2020	6.42
	172,800	–	–	–	–	172,800	05/07/2018	05/07/2018–01/07/2020	–
	135,800	–	–	–	–	135,800	12/07/2018	12/07/2018–01/07/2020	–
	63,500	–	–	–	–	63,500	17/09/2018	17/09/2018–01/07/2020	–
	–	70,700	–	–	–	70,700	24/12/2019	24/12/2019–01/07/2021	–
	416,100	70,700	–	–	–	486,800			
Mr. Sun Jing Yan	32,220	–	–	32,220	–	–	08/07/2016	08/07/2016–01/07/2019	–
(refired on 27 March 2019)	178,738	–	139,893	–	–	38,845	03/03/2017	03/03/2017–01/07/2020 (note 3)	–
	138,300	–	47,022	–	–	91,278	05/07/2018	05/07/2018–01/07/2020	–
	28,500	–	9,690	–	–	18,810	17/09/2018	17/09/2018–01/07/2020	–
	377,758	–	196,605	32,220	–	148,933			
	2,502,238	961,600	1,311,312	32,220	–	2,120,306			
Non-executive director									
Dr. Wang Han Hua (refired on 27 June 2019)	18,000	–	18,000	–	–	–	29/05/2017	29/05/2017–01/07/2019	–
Independent Non-executive directors									
Mr. Yu Hon To, David	30,000	–	30,000	–	–	–	29/05/2017	29/05/2017–01/07/2019	–
	–	27,500	–	–	–	27,500	24/12/2019	24/12/2019–01/07/2021	–
Mrs. Eva Cheng Li Kam Fun	24,000	–	24,000	–	–	–	29/05/2017	29/05/2017–01/07/2019	–
	–	22,000	–	–	–	22,000	24/12/2019	24/12/2019–01/07/2021	–
Mr. Gong Shao Lin	–	31,500	–	–	–	31,500	24/12/2019	24/12/2019–01/07/2021	–
Dr. John Chengzheng Ma	–	16,500	–	–	–	16,500	24/12/2019	24/12/2019–01/07/2021	–
	54,000	97,500	54,000	–	–	97,500			
Other employees									
In aggregate	104,400	–	–	–	–	104,400	08/07/2016	08/07/2016–07/07/2020	6.42
In aggregate	476,940	–	125,760	212,260	–	138,920	08/07/2016	08/07/2016–01/07/2020 (note 3)	–
In aggregate	6,707,762	–	4,779,816	533,620	–	1,394,326	03/03/2017	03/03/2017–01/07/2020 (note 3)	–
In aggregate	10,143,200	–	2,840,010	1,805,360	–	5,497,830	17/09/2018	17/09/2018–01/07/2020	–
In aggregate	–	10,450,000	–	–	–	10,450,000	09/10/2019	09/10/2019–01/07/2021	–
	17,432,302	10,450,000	7,745,586	2,551,240	–	17,585,476			
	20,006,540	11,509,100	9,128,898	2,583,460	–	19,803,282			

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY (continued)

Restricted Share Award Scheme (continued)

Notes:

1. The exercise price of the awarded shares is subject to adjustment(s) in the case of rights or bonus issues, or other similar changes in the Company's share capital.

2. The restricted shares will become exercisable once they are vested.

3. The remaining awarded shares remain exercisable until 1 July 2020.

4. The closing price of the Company's share immediately before the grant dates of the awarded shares were HK$20.45 and HK$24.50 per share.

As at 31 December 2019, the number of ordinary shares held for the Restricted Share Awarded Scheme was 5,353,091 (31 December 2018: 7,590,843) with an aggregate carrying amount of RMB63,150,000 (31 December 2018: RMB97,391,000).

The fair values of the awarded shares granted during the year were approximately HK$212,175,000 and HK$25,741,000 (HK$20.30 and HK$24.30 each), of which the Group recognised a restricted share expense of HK$39,846,000 during the year.

At the date of approval of these financial statements, the Company had 19,803,282 awarded shares outstanding under the Restricted Share Award Scheme, which represented approximately 0.70% of the Company's shares in issue as at that date.

The particulars regarding dilution effect of the awarded shares under the Restricted Share Award Scheme are set out in note 13 to the financial statements.

Save as the options and restricted shares granted to the Directors, at no time during the year ended 31 December 2019 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

The Group has contracts with Haier Corp and their subsidiaries and/or associates (collectively referred to as "Haier Affiliates") for the purchase of products and materials. Further details of the transactions undertaken in connection with these contracts during the year are included in the section "CONNECTED TRANSACTIONS".

EQUITY-LINKED AGREEMENT

The Company has not engaged in any equity-linked agreement during the year ended 31 December 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the following shareholders who have interest in 5% or more of the issued share capital and share options of the Company were recorded in the register of substantial shareholders as required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name of shareholders	Notes	Number of shares interested	Approximate percentage of the Company's issued share capital*
Haier Corp	1	1,623,420,592	57.87
Haier Smart Home Co., Ltd. ("Haier Smart Home")	2	1,623,420,592	57.87
Haier Shareholdings (Hong Kong) Limited ("Hong Kong Haier")	2	894,143,110	31.87
Haier (HK) Investment Co., Limited ("Haier (HK) Investment")	3	336,600,000	12.00
HCH (HK) Investment Management Co., Limited ("HCH (HK)").	3	336,600,000	12.00

Short positions:

Name of shareholders	Notes	Number of shares interested	Approximate percentage of the Company's issued share capital*
Haier Corp	1, 4	250,852,619	8.94
Haier Smart Home	2, 4	250,852,619	8.94
Hong Kong Haier	2, 4	250,852,619	8.94

* The percentage is calculated on the basis of 2,805,487,778 shares in issue of the Company as at 31 December 2019.

Notes:

1. As Haier Smart Home is a non-wholly-owned subsidiary of Haier Corp, Haier Corp was deemed to be interested in the 1,286,820,592 shares of the Company held by Haier Smart Home pursuant to the SFO, and was also deemed to have short positions in 250,852,619 shares of the Company held by Hong Kong Haier, a wholly-owned subsidiary of Haier Smart Home, pursuant to SFO.

   Haier Corp was also deemed to be interested in the 336,600,000 shares of the Company held by its subsidiary, HCH (HK).

   Mr. Zhou Yun Jie, an Executive Director of the Company, and Mr. Liang Hai Shan, Non-executive Directors of the Company, are also the members of the management committee of Haier Corp.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Notes: (continued)

2. Haier Smart Home held 392,677,482 shares of the Company as beneficial owner. Moreover, Haier Smart Home was deemed to be interested in the 894,143,110 shares of the Company held by its wholly-owned subsidiary, Hong Kong Haier, and was deemed to have short positions in 250,852,619 shares of the Company held by Hong Kong Haier, pursuant to the SFO.

   Furthermore, HCH (HK) has appointed Haier Smart Home to exercise the voting rights in respect of the 336,600,000 shares of the Company held by it.

3. HCH (HK) is wholly controlled by Haier (HK) Investment, and Haier (HK) Investment was deemed to be interested in the 336,600,000 shares of the Company held by HCH (HK) pursuant to the SFO.

4. Exchangeable bonds exchangeable into fully paid ordinary shares of the Company were issued by a subsidiary of Haier Smart Home on 21 November 2017. The underlying shares of the above exchangeable bonds are 250,852,619 shares of the Company currently owned by Hong Kong Haier.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had the following connected transactions and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 29 June 2019, a subscription and disposal agreement was entered into between the Company, its wholly owned subsidiary Hefei Haier Washing Machine Limited (合肥海爾洗衣機有限公司), Haier Smart Home and Haier Kaaosi IOT Ecosystem Technology Limited (海爾卡奧斯物聯生態科技有限公司) (the "Target Company"), pursuant to which the Company and Hefei Haier Washing Machine Limited have agreed to dispose of 25% and 75% equity interest in Foshan Shunde Haier Intelligence Electronics Limited (佛山市順德海爾智能電子有限公司), respectively, to the Target Company carrying on Haier Group's Industrial Internet business, at a consideration of RMB556,000,000, which will be satisfied by the Target Company issuing RMB27,550,545 and RMB82,651,636 of its registered capital to the Company and Hefei Haier Washing Machine Limited, respectively (representing 2.37% and 7.10%, respectively, of the enlarged registered capital of the Target Company after completion).

At the same time, the Target Company agreed to issue RMB27,550,545 and RMB82,651,636 of its registered capital to the Company and Hefei Haier Washing Machine Limited, respectively (representing 2.37% and 7.10% of the enlarged registered capital of the Target Company) as consideration for 25% and 75% equity interest in Foshan Shunde Haier Intelligence Electronics Limited to be transferred by the Company and Hefei Haier Washing Machine Limited, respectively to the Target Company on completion.

Haier Smart Home is a substantial shareholder of the Company. As the Target Company is a subsidiary of Haier Smart Home, the Target Company is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the above subscription and disposal agreement constitute connected transactions of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions

i) On 24 September 2018, the Company on the one part and the Haier Group and its relevant members on the other, have renewed and entered into ten continuing connected transaction agreements. The ten continuing connected transaction agreements include Internal Sales Agreement, Logistics Services Agreement, After-sale Services Agreement, Products Procurement Agreement, Materials Procurement Agreement, Production and Experimental Equipment Procurement Agreement, Export Agreement, Promotion Agreement, Product R&D Agreement and Services Agreement. These continuing connected transaction agreements have commenced from 1 January 2019 and shall remain in force until 31 December 2021 (except that the Logistics Services Agreement shall remain in force until 31 December 2019).

ii) On 30 August 2018, the Group and Haier Electric International Co., Ltd. ("Haier International"), a subsidiary of Haier Corp., entered into an asset swap agreement, pursuant to which Guanmei (Shanghai) Enterprise Management Co., Ltd. ("Guanmei"), an indirect wholly-owned subsidiary of the Company, agreed to acquire and Haier International agreed to sell 51% of the equity interest in Qingdao Haishi Water Equipment Co., Ltd. ("Qingdao Haishi") at a consideration of RMB1,074,000,000, to be satisfied by Guanmei by way of transfer of 55% of the equity interest in Bingji (Shanghai) Enterprise Management Co., Ltd., a wholly-owned subsidiary of Guanmei, from Guanmei to Haier International at the same consideration. Haier International is also a subsidiary of Haier Corp and therefore a connected person of the Company under the Listing Rules. Such transaction has completed in July 2019.

Accordingly Qingdao Gooday Logistics Co., Ltd. (青島日日順物流有限公司) has become a subsidiary of Haier Corp, a substantial shareholder of the Company, and ceased to be a subsidiary of the Company. On 31 July 2019, the Company has entered into a logistics services agreement with Qingdao Gooday Logistics Co., Ltd., pursuant to which, the Qingdao Gooday Logistics Co., Ltd. and its subsidiaries agrees to provide the logistics services to the Group at a fair and reasonable price and on normal commercial terms, for the period from 31 July 2019 to 31 December 2021.

Qingdao Gooday Logistics Co., Ltd. is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the above logistics services agreement will constitute continuing connected transactions of the Company under the Listing Rules.

iii) In order to facilitate the continuing growth and development of the Group, the Company on 17 April 2019, entered into a new Financial Services Agreement in relation to the provisions of the financial services, with Haier Group Finance Co., Ltd. ("Haier Finance") and Haier Corp. Pursuant to this new Financial Services Agreement (approved by the independent shareholders at a special general meeting held on 27 June 2019), the previous financial services agreement entered into and announced on 24 September 2018 would be terminated and replaced by the new Financial Services Agreement.

Under the new Financial Services Agreement, Haier Finance agreed to provide financial services (including the provision of deposit services, provision of loan services and other Financial Services) to the Group at a fair and reasonable price and on normal commercial terms. Haier Finance is a company ultimately controlled by Haier Corp and is a connected person of the Company.

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

During the year ended 31 December 2019, the Group had the following material transactions with Haier Affiliates:

	Notes	Cap Amounts 2019 RMB'000	Transaction Amounts 2019 RMB'000	2018 RMB'000
Export sale of products	(i)		**2,822,290**	2,084,713
Export sale expenses	(i)		**(36,025)**	(31,087)
Export sale of products after sale expenses	(i)	**3,220,000**	**2,786,265**	2,053,626
Domestic sale of products	(ii)	**345,000**	**168,097**	87,020
Purchase of finished goods	(iii)	**67,650,000**	**38,157,570**	39,973,193
Purchase of equipment	(iv)	**490,000**	**190,774**	244,057
Purchase of raw materials	(v)		**19,527,501**	18,129,214
Mould charges	(vi)		**189,419**	246,215
		26,925,000	**19,716,920**	18,375,429
Utility service fee expenses	(vii)		**130,965**	139,335
Other service fee expenses	(viii)		**531,248**	376,721
		799,000	**662,213**	516,056
Promotion fee	(ix)	**104,000**	**—**	—
Research and development service fees	(x)	**388,000**	**199,327**	190,152
Interest income	(xi)		**44,522**	7,608
Interest expenses	(xi)		**—**	368
Other financial service fees	(xii)		**26,035**	32,588
Logistics service income	(xiii)	**2,000,000**	**1,568,889**	2,755,797
After-sale service income	(xiv)	**291,000**	**224,800**	223,297
Logistics service expense	(xv)	**841,000**	**831,141**	—

During the year, the Group had the following material transactions with non-controlling shareholders:

Logistic services income	(xiii)	**5,400,000**	**981,593**	1,942,852
Logistic services fees	(xv)	**740,000**	**100,396**	238,843
General services fees	(xvi)	**680,000**	**182,818**	322,396

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

Notes:

(i) The export sale of products were made at prices representing the selling prices of these products for export less a fixed service fee margin for the selling expenses of Haier Affiliates which are no more than 1.5% of the selling prices of products.

(ii) The domestic sale of products were made at prices no less favorable than those prevailing in the domestic market for the products of the same type and quality and at similar time and those offered by the Group to independent third parties.

(iii) The purchase of finished goods was charged at prices no less favorable than those prevailing in the domestic market for the products of the same type and quality and those offered by Haier Affiliates to independent third parties.

(iv) The purchase of equipment was charged at prices (i) used or idled by members of the Haier Affiliates for a consideration calculated based on their net asset values; (ii) tailor-made by members of the Haier Affiliates for a consideration calculated based on the reasonable costs plus reasonable profits, with reference to the market tender and biding price, and shall be no less favourable than terms offered by independent third parties to the Group with regard to the quality and quantity of comparable products at the same time; (iii) the imported production and experimental equipment through Haier Affiliates was charged at the purchase price from suppliers plus a fixed service fee margin from 1.3% to 3% according to relevant operational and administrative expenses.

(v) The purchase of raw materials was charged at prices not higher than the consolidated and integrated tender and bidding price of the raw materials plus a commission fee of not exceeding 1.25%.

(vi) The moulds were charged at a price, being the actual costs of Haier Affiliates, with reference to the market tender and bidding price, on terms no less favourable than those offered at the same time by independent third parties.

(vii) The utility service fee was charged based on the state-prescribed prices plus actual administrative costs.

(viii) The other service fees were charged with reference to the actual costs incurred and/or on terms no less favourable than those offered by independent third parties to the Group.

(ix) The promotion fee was charged based on the actual costs incurred and shall not be more than 0.6% of the total value of the domestic and export sales of the products of the Group, and on terms no less favourable than those offered by independent third parties to the Group.

(x) The research and development service fees were charged at actual costs (comprising direct costs and allocated indirect costs) incurred in the research and development activities. For the single project related to the intellectual property with the amount of more than RMB20,000,000, the independent valuation professional firm shall be involved to determine the price.

(xi) In respect of domestic RMB deposits, Haier Finance provides deposit services to the Group at the highest interest rate for the same type and term of deposits as quoted by all the listed national joint stock commercial banks in the PRC. In respect of overseas RMB deposits and foreign currency deposits, the interest rate of deposits under same nature and term provided by Haier Finance is one that is more favourable than the highest interest rate of commercial banks obtained by the Group.

Haier Finance provides preferential loan to the Group in accordance with the policy as announced by the People's Bank of China from time to time, and on terms no less favourable than those of the best offered by independent commercial banks in the PRC.

The maximum balance of bank deposits placed with and the maximum loan balance drawn down from Haier Group Finance Co., Ltd. related to the above interest income and expenses during the year were RMB3,983,071,000 (Cap Amount: RMB4,000,000,000) and RMB0 respectively.

(xii) The other financial service fees were charged at a rate determined by reference to the benchmark rates published by the People's Bank of China, and on terms no less favorable than those offered by independent commercial banks.

(xiii) The logistics service income was charged on terms no less favorable than those prevailing in the domestic market for services of similar kinds and quality and at similar time and those charged by the Group to independent third parties.

(xiv) The after-sale service income was charged on terms no less favorable than those prevailing in the domestic market for services of similar nature and scale and at similar time and those charged by the Group to independent third parties.

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

Notes: (continued)

(xv) The logistic services fees shall be fair and reasonable and no less favourable than terms offered by independent third parties in respect of the same or similar services.

(xvi) The general service fees were charged at prices no less favorable than those prices and terms obtained by independent third parties in respect of the same or similar services.

The INEDs have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The amounts of the continuing connected transactions have not exceeded the cap disclosed in previous announcements made by the Company.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange in April 2020.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, at least 25% of the Company's total issued share capital was held by the public.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 48 to the financial statements.

AUDITORS

Ernst & Young will retire, and a resolution for their reappointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhou Yun Jie
Chairman

Hong Kong
26 March 2020

To the shareholders of Haier Electronics Group Co., Ltd.
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Haier Electronics Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 219, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
Trade receivables as at 31 December 2019 were material to the financial statements of the Group. When determining the expected credit losses ("ECL") of the trade receivables, significant management judgements and estimates are involved to consider the ageing of the balance, existence of disputes, recent historical payment patterns and other available information concerning the forecast economic conditions. Relevant disclosures are included in notes 3 and 24 to the financial statements.	Our audit procedures included the assessment of the key internal controls which govern credit control and debt collection. We assessed management's ECL allowance by examining the information used by management to form such judgements and estimates, including checking the accuracy of the historical default information, evaluating the adjustments made to the historical loss rates based on the current economic conditions and forward-looking information. We also evaluated the Group's provision for impairment of trade receivables by reference to the Group's subsequent collection of the trade receivables.
Provision for inventories	
As at 31 December 2019, the Group's inventories were exposed to inventory obsolete and excess risks as a result of the fast technology innovation and macroeconomic challenges. The determination of the provision amount is complex and involves significant judgements and estimates because it depends on the net realisable value of inventories. Relevant disclosures are included in notes 3 and 23 to the financial statements.	Our audit procedures included the evaluation of the inventory provisioning policy through inquiry with management and checking to the relevant assessment documentation. We checked to the underlying data, such as the selling prices, subsequent sales, and the estimated selling expenses to assess the net realisable value of inventories on a sample basis. We reviewed the inventories' ageing report and performed analysis on the number of turnover days. We reviewed subsequent sales of finished goods and subsequent usage of raw materials.
Product warranty provisions	
Product warranty provisions are made with reference to the sales volume and the expected unit costs for warranty services. The assessment of the provision amount involves management assumptions, judgements and estimates. Changes in the assumptions could have a significant impact on the provision amount. Relevant disclosures are included in notes 3 and 34 to the financial statements.	Our audit procedures included the review of the provision estimation process, the examination of the underlying data of the provision estimation process as well as the review of the computation of the provision amount based on management's methodology at the year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	**75,879,970**	76,335,602
Cost of sales		**(59,348,597)**	(60,403,519)
Gross profit		**16,531,373**	15,932,083
Other income and gains	5	**1,645,312**	799,650
Selling and distribution expenses		**(10,793,062)**	(10,036,256)
Administrative expenses		**(2,379,548)**	(2,152,319)
Other expenses and losses		**(7,879)**	(9,549)
Finance costs	7	**(4,870)**	(1,699)
Share of profits and losses of associates		**95,992**	(538)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**5,087,318**	4,531,372
Income tax expense	10	**(882,117)**	(801,069)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**4,205,201**	3,730,303
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11	**3,312,865**	367,266
PROFIT FOR THE YEAR		**7,518,066**	4,097,569
Attributable to:			
Owners of the Company		**7,350,810**	3,844,497
Non-controlling interests		**167,256**	253,072
		7,518,066	4,097,569
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
— For profit for the year		**RMB2.63**	RMB1.38
— For profit from continuing operations		**RMB1.47**	RMB1.30
Diluted			
— For profit for the year		**RMB2.61**	RMB1.37
— For profit from continuing operations		**RMB1.46**	RMB1.29

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (Restated)
PROFIT FOR THE YEAR	**7,518,066**	4,097,569
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of group companies	**40,046**	226,385
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**40,046**	226,385
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**19,216**	(20,918)
Income tax effect	**(3,713)**	2,092
	15,503	(18,826)
Share of other comprehensive income of an associate	**35,290**	18,013
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**50,793**	(813)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**90,839**	225,572
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,608,905**	4,323,141
Attributable to:		
Owners of the Company	**7,441,649**	4,070,069
Non-controlling interests	**167,256**	253,072
	7,608,905	4,323,141

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,863,993**	5,375,593
Investment properties	16	**26,693**	28,449
Right-of-use assets	17(b)	**446,912**	—
Prepaid land lease payments	17(a)	**—**	1,142,478
Goodwill	18	**86,473**	351,166
Other intangible assets	19	**103,501**	137,820
Investments in associates	20	**5,719,101**	178,073
Equity investments designated at fair value through other comprehensive income	21	**1,847,506**	1,261,664
Other non-current financial assets	22	**371,604**	422,878
Long-term prepayments	25	**129,979**	760,351
Deferred tax assets	35	**929,413**	885,652
Total non-current assets		**14,525,175**	10,544,124
CURRENT ASSETS			
Inventories	23	**10,066,080**	8,681,532
Trade and bills receivables	24	**3,307,516**	5,270,083
Prepayments, other receivables and other assets	25	**3,661,902**	3,402,758
Other financial assets	26	**3,252,705**	4,382,181
Pledged deposits	27	**409,920**	428,902
Cash and cash equivalents	27	**14,834,594**	15,023,077
		35,532,717	37,188,533
Asset and disposal group held for sale	28	**—**	144,091
Total current assets		**35,532,717**	37,332,624
CURRENT LIABILITIES			
Trade and bills payables	29	**5,446,208**	6,160,770
Other payables and accruals	30	**7,874,000**	7,304,158
Contract liabilities	31	**4,081,075**	4,185,916
Interest-bearing borrowings	32	**68,232**	68,799
Lease liabilities	17(c)	**32,170**	—
Tax payable		**800,155**	781,485
Provisions	34	**710,669**	681,432
		19,012,509	19,182,560
Liabilities directly associated with the assets classified as held for sale	28	**—**	32,362
Total current liabilities		**19,012,509**	19,214,922

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
NET CURRENT ASSETS		**16,520,208**	18,117,702
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,045,383**	28,661,826
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	32	**12,664**	23,575
Lease liabilities	17(c)	**21,002**	—
Deferred income		**147,966**	192,596
Deferred tax liabilities	35	**837,271**	98,611
Put option liabilities	33	**54,598**	1,792,322
Provisions	34	**333,963**	363,320
Other non-current liabilities		**—**	5,705
Total non-current liabilities		**1,407,464**	2,476,129
Net assets		**29,637,919**	26,185,697
EQUITY			
Equity attributable to owners of the Company			
Issued equity	36	**2,938,051**	2,922,364
Shares held for the Restricted Share Award Scheme	37	**(63,150)**	(97,391)
Reserves	39	**26,345,288**	21,185,431
		29,220,189	24,010,404
Non-controlling interests		**417,730**	2,175,293
Total equity		**29,637,919**	26,185,697

Zhou Yun Jie
Director

Xie Ju Zhi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other comprehensive reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to the owners of the Company																
				Reserves														
At 31 December 2017																		
As previously reported		2,995,491	(158,583)	(1,758,526)	1,465,890	425	6,020	153,009	(404,037)	919,328	18,200,719	64,839	–	(678,149)	17,969,518	20,806,426	2,224,025	23,030,451
Effect of business combinations under common control	2.1	–	–	–	–	–	–	–	–	5,187	81,483	–	–	71,502	158,172	158,172	151,970	310,142
As restated		2,995,491	(158,583)	(1,758,526)	1,465,890	425	6,020	153,009	(404,037)	924,515	18,282,202	64,839	–	(606,647)	18,127,690	20,964,598	2,375,995	23,340,593
Profit for the year (restated)		–	–	–	–	–	–	–	–	–	3,844,497	–	–	–	3,844,497	3,844,497	253,072	4,097,569
Other comprehensive income for the year:																		
Exchange differences on translation of financial statements of group companies		–	–	–	–	–	–	–	–	–	–	226,385	–	–	226,385	226,385	–	226,385
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	–	–	–	–	(18,826)	–	(18,826)	(18,826)	–	(18,826)
Share of other comprehensive income of an associate		–	–	–	–	–	–	–	–	–	–	–	18,013	–	18,013	18,013	–	18,013
Total comprehensive income/(loss) for the year (restated)		–	–	–	–	–	–	–	–	–	3,844,497	226,385	(813)	–	4,070,069	4,070,069	253,072	4,323,141
Issue of shares	36	66,158	–	–	–	–	(2,843)	(52,480)	–	–	–	–	–	–	(55,323)	10,835	–	10,835
Shares purchased for the Restricted Share Award Scheme		–	(82,312)	–	–	–	–	–	–	–	–	–	–	–	–	(82,312)	–	(82,312)
Shares transferred to participants from the Share Award Scheme Trust	36	(53,060)	143,504	–	–	–	–	(90,444)	–	–	–	–	–	–	(90,444)	–	–	–
Dividend income of shares under the Restricted Share Award Scheme		–	–	–	–	–	–	–	–	–	–	–	–	3,080	3,080	3,080	–	3,080
Restricted share award scheme arrangements	37	–	–	–	–	–	–	125,090	–	–	–	–	–	–	125,090	125,090	–	125,090
Share-based payments expense		–	–	–	–	–	–	6,205	–	–	–	–	–	–	6,205	6,205	4,448	10,653
Transfer of awarded share reserve upon the expiry of awarded shares		–	–	–	–	–	–	(4,336)	–	–	4,336	–	–	–	–	–	–	–
Shares repurchased	36	(86,225)	–	–	–	(425)	–	–	–	–	425	–	–	–	–	(86,225)	–	(86,225)
Changes in fair value of put option liabilities		–	–	–	–	–	–	–	(91,861)	–	–	–	–	–	(91,861)	(91,861)	(45,702)	(137,563)
Put options granted to non-controlling shareholders		–	–	–	–	–	–	–	(77,125)	–	–	–	–	–	(77,125)	(77,125)	(71,835)	(148,960)
Acquisition of subsidiaries	40	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,163)	(1,163)
Disposal of subsidiaries	41	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(287,808)	(287,808)
Deemed disposal of an associate		–	–	–	–	–	–	–	–	–	–	–	–	685	685	685	–	685
Deemed distributions for business combinations under common control		–	–	–	–	–	–	–	–	–	–	–	–	(50,000)	(50,000)	(50,000)	–	(50,000)
Capital contributions from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	(276,735)	–	–	–	–	179,468	(97,267)	(97,267)	136,705	39,438
Acquisition from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	(24,764)	(24,764)	(24,764)	(6,777)	(31,541)
Dividends payable/paid to non-controlling shareholders of subsidiaries (restated)		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(181,642)	(181,642)
Capital contributions from the then holding company of a subsidiary (restated)		–	–	–	–	–	–	–	–	–	–	–	–	30,000	30,000	30,000	–	30,000
Dividends payable/paid to the then holding company of a subsidiary (restated)		–	–	–	–	–	–	–	–	–	(5,199)	–	–	–	(5,199)	(5,199)	–	(5,199)
Transfer to reserve funds (restated)		–	–	–	–	–	–	–	–	292,417	(292,417)	–	–	–	–	–	–	–
Final 2017 dividend		–	–	–	(685,405)	–	–	–	–	–	–	–	–	–	(685,405)	(685,405)	–	(685,405)
At 31 December 2018		2,922,364	(97,391)	(1,758,526)	780,485	–	3,177	137,044	(849,758)	1,216,932	21,833,844	291,224	(813)	(468,178)	21,185,431	24,010,404	2,175,293	26,185,697

		Attributable to the owners of the Company															
				Reserves													
	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other comprehensive reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018																	
As previously reported		2,922,364	(97,391)	(1,758,526)	780,485	3,177	137,044	(849,758)	1,206,125	21,708,362	291,224	(813)	(569,680)	20,947,640	23,772,613	1,975,671	25,748,284
Effect of business combinations under common control	2.1	–	–	–	–	–	–	–	10,807	125,482	–	–	101,502	237,791	237,791	199,622	437,413
As restated		2,922,364	(97,391)	(1,758,526)	780,485	3,177	137,044	(849,758)	1,216,932	21,833,844	291,224	(813)	(468,178)	21,185,431	24,010,404	2,175,293	26,185,697
Effect of adoption of IFRS 16	2.2	–	–	–	–	–	–	–	–	(8,747)	–	–	–	(8,747)	(8,747)	(9,228)	(17,975)
At 1 January 2019 (restated)		2,922,364	(97,391)	(1,758,526)	780,485	3,177	137,044	(849,758)	1,216,932	21,825,097	291,224	(813)	(468,178)	21,176,684	24,001,657	2,166,065	26,167,722
Profit for the year		–	–	–	–	–	–	–	–	7,350,810	–	–	–	7,350,810	7,350,810	167,256	7,518,066
Other comprehensive income for the year:																	
Exchange differences on translation of financial statements of group companies		–	–	–	–	–	–	–	–	–	40,046	–	–	40,046	40,046	–	40,046
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	–	–	–	15,503	–	15,503	15,503	–	15,503
Share of other comprehensive income of an associate		–	–	–	–	–	–	–	–	–	–	35,290	–	35,290	35,290	–	35,290
Total comprehensive income for the year		–	–	–	–	–	–	–	–	7,350,810	40,046	50,793	–	7,441,649	7,441,649	167,256	7,608,905
Issue of shares	36	53,051	–	–	–	(1,731)	(44,723)	–	–	–	–	–	–	(46,454)	6,597	–	6,597
Shares purchased for the Restricted Share Award Scheme		–	(58,821)	–	–	–	–	–	–	–	–	–	–	–	(58,821)	–	(58,821)
Shares transferred to participants from the Share Award Scheme Trust	36	(4,940)	93,062	–	–	–	(88,122)	–	–	–	–	–	–	(88,122)	–	–	–
Dividend income of shares under the Restricted Share Award Scheme		–	–	–	–	–	–	–	–	–	–	–	2,482	2,482	2,482	–	2,482
Restricted share award scheme arrangements	37	–	–	–	–	–	121,373	–	–	–	–	–	–	121,373	121,373	–	121,373
Share-based payments expense		–	–	–	–	–	1,808	–	–	–	–	–	–	1,808	1,808	1,398	3,206
Shares repurchased	36	(32,424)	–	–	–	–	–	–	–	–	–	–	–	–	(32,424)	–	(32,424)
Changes in fair value of put option liabilities		–	–	–	–	–	–	(29,983)	–	–	–	–	–	(29,983)	(29,983)	(4,818)	(34,801)
Acquisition of a subsidiary	40	–	–	–	–	–	–	–	–	–	–	–	–	–	–	30,626	30,626
Disposal of subsidiaries	41	–	–	–	–	–	–	875,297	–	–	–	–	(875,297)	–	–	(1,904,194)	(1,904,194)
Deemed disposal of an associate		–	–	–	–	–	–	–	–	–	–	–	2,373	2,373	2,373	–	2,373
Deemed distributions for business combinations under common control	2.1	–	–	–	–	–	–	–	–	–	–	–	(1,107,524)	(1,107,524)	(1,107,524)	–	(1,107,524)
Capital contributions from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(5,046)	(5,046)	(5,046)	32,245	27,199
Acquisition from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(173,589)	(173,589)	(173,589)	(30,142)	(203,731)
Dividends payable/paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(40,706)	(40,706)
Dividends payable/paid to the then holding company of a subsidiary (restated)		–	–	–	–	–	–	–	–	(13,799)	–	–	–	(13,799)	(13,799)	–	(13,799)
Transfer to reserve funds		–	–	–	–	–	–	–	154,811	(154,811)	–	–	–	–	–	–	–
Final 2018 dividend		–	–	–	(780,485)	–	–	–	–	(156,079)	–	–	–	(936,564)	(936,564)	–	(936,564)
At 31 December 2019		2,938,051	(63,150)	(1,758,526)	–	1,446	127,380	(4,444)	1,371,743	28,851,218	331,270	49,980	(2,624,779)	26,345,288	29,220,189	417,730	29,637,919

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**5,087,318**	4,531,372
From a discontinued operation	11	**4,024,721**	456,077
Adjustments for:			
Finance costs		**35,514**	10,908
Share of profits and losses of associates		**(95,992)**	346
Bank interest income		**(319,535)**	(312,484)
Return on investments in other financial assets		**(153,809)**	(111,680)
Dividend income from an equity investment designated at fair value through other comprehensive income	5	**(38,549)**	(104,823)
Gain on disposal of subsidiaries, net	41	**(181,275)**	(79,275)
Gain recognised on the remeasurement of fair value of the discontinued operation	11	**(3,190,703)**	—
Gain recognised on disposal of the discontinued operation	11	**(636,575)**	—
Gain on a bargain purchase of an associate		**—**	(185)
Gain on disposal of property, plant and equipment and prepaid land lease payments, net		**(489,607)**	(165,380)
Fair value losses on other non-current financial assets	6	**12,783**	—
Depreciation of property, plant and equipment	15	**363,261**	315,942
Depreciation of investment properties	16	**2,105**	2,063
Depreciation of right-of-use assets/recognition of prepaid land lease payments	17	**275,185**	27,316
Amortisation of intangible assets	19	**16,452**	15,330
Amortisation of long-term prepayments		**4,816**	4,549
Provision for obsolete and slow-moving inventories	6	**312,440**	233,630
Impairment of trade receivables, net	24	**3,869**	3,262
Impairment of prepayments, other receivables and other assets, net	25	**(600)**	5,039
Share-based payment expense		**3,206**	10,653
Equity-settled Restricted Share Award Scheme expense, net	6	**121,373**	125,090
		5,156,398	4,967,750
Increase in inventories		**(1,740,239)**	(507,379)
Decrease/(increase) in trade and bills receivables		**(585,247)**	595,947
Decrease/(increase) in prepayments, other receivables and other assets		**(104,634)**	245,405
Increase/(decrease) in trade and bills payables		**1,456,248**	(429,751)
Increase/(decrease) in other payables and accruals		**1,145,179**	(96,128)
Increase/(decrease) in contract liabilities		**(49,200)**	41,588
Increase/(decrease) in provisions		**(120)**	2,057
Decrease in deferred income related to government grants		**(21,215)**	(17,315)
Effect of foreign exchange rate changes, net		**(4,567)**	186,627

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Cash generated from operations		**5,252,603**	4,988,801
Interest received		**295,606**	272,258
Hong Kong profits tax paid		**—**	(20,136)
Mainland China corporate income tax paid, net of tax refund		**(843,562)**	(889,330)
Net cash flows from operating activities		**4,704,647**	4,351,593
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,054,194)**	(1,862,232)
Receipt of government grants for property, plant and equipment		**66,544**	62,061
Proceeds from disposal of property, plant and equipment and prepaid land lease payments		**208,615**	159,179
Additions to prepaid land lease payments		**(123,923)**	(170,719)
Additions to intangible assets		**(36,460)**	(17,858)
Acquisition of subsidiaries		**(46,027)**	(103,834)
Disposal of subsidiaries	41	**(17,593)**	632,466
Disposal of a discontinued operation	41	**(928,900)**	—
Investment in an associate		**(23,401)**	(2,450)
Purchases of equity investments designated at fair value through other comprehensive income		**(10,508)**	—
Refund from investment in an associate		**3,920**	—
Dividends from an associate		**—**	400
Dividends from an equity investment designated at fair value through other comprehensive income		**38,549**	104,823
Mainland China corporate income tax paid on investing activities		**(17,255)**	(25,553)
Purchases of other non-current assets		**—**	(59,250)
Purchases of other financial assets, net		**(883,487)**	(2,706,364)
Interest received from other financial assets		**129,771**	90,655
Decrease/(increase) in long-term prepayments		**357,510**	(287,984)
Decrease in an amount due from a fellow subsidiary		**—**	23,627
Deposits received for disposal of an asset held for sale		**—**	26,010
Decrease in pledged deposits		**10,992**	5,918
Net cash flows used in investing activities		**(3,325,847)**	(4,131,105)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	36	**6,597**	10,835
Dividend income of shares under the Restricted Share Award Scheme		**2,482**	3,080
Shares purchased for the Restricted Share Award Scheme		**(33,476)**	(14,242)
Repurchase of shares	36	**(32,424)**	(86,225)
Contributions to share-based incentive arrangements of subsidiaries		**–**	11,322
Capital contributions from non-controlling shareholders		**19,655**	616,528
New borrowings		**62,234**	133,532
Repayment of borrowings		**(87,199)**	(258,632)
Dividends paid to shareholders		**(936,869)**	(706,465)
Dividends paid to non-controlling shareholders of subsidiaries		**(45,706)**	(177,095)
Dividends paid to the then holding company of a subsidiary		**(18,998)**	–
Deemed distributions for business combinations under common control		**(34,000)**	(50,000)
Capital contributions from the then holding company of a subsidiary		**–**	30,000
Principal portion of lease payments		**(266,820)**	–
Interest element of lease payments		**(30,269)**	–
Interest paid for borrowings		**(3,413)**	(11,081)
Acquisition of non-controlling interests		**(203,731)**	(31,541)
Net cash flows used in financing activities		**(1,601,937)**	(529,984)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(223,137)**	(309,496)
Cash and cash equivalents at beginning of year		**15,023,394**	15,273,487
Effect of foreign exchange rate changes, net		**34,337**	59,403
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,834,594**	15,023,394
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**2,512,668**	3,480,654
Time deposits		**12,321,926**	11,542,423
Cash and cash equivalents as stated in the statement of financial position	27	**14,834,594**	15,023,077
Cash and cash equivalents of a disposal group classified as held for sale		**–**	317
Cash and cash equivalents as stated in the statement of cash flows		**14,834,594**	15,023,394

1. CORPORATE AND GROUP INFORMATION

Haier Electronics Group Co., Ltd. is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

As at 31 December 2019, the holding company of the Company is Haier Smart Home Co., Ltd. (formerly known as Qingdao Haier Co., Ltd.), established in the People's Republic of China (the "PRC"), and the ultimate holding company of the Company is Haier Group Corporation ("Haier Corp"), established in the PRC.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of washing machines
- manufacture and sale of water heaters and water purifiers
- sale and distribution of home appliances and other products as well as the provision of after-sales and other value-added consumer services
- provision of logistics services, which have been classified as a discontinued operation during the year (note 11)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingdao Haier Washing Machine Co., Ltd.**	PRC/Mainland China	RMB238,610,000	–	100	Sale of washing machines
Foshan Shunde Haier Electric Co., Ltd.**	PRC/Mainland China	RMB48,800,000	–	60	Manufacture and sale of washing machines
Hefei Haier Washing Machine Co., Ltd.*	PRC/Mainland China	RMB92,000,000	–	100	Manufacture and sale of washing machines
Qingdao Jiaonan Haier Washing Machine Co., Ltd.**	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of washing machines
Chongqing Haier Washing Machine Co., Ltd.*	PRC/Mainland China	RMB25,000,000	25	75	Manufacture and sale of washing machines

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Qingdao Haier Drum Washing Machine Co., Ltd.***	PRC/Mainland China	RMB99,345,600	–	100	Sale of washing machines
Chongqing Haier Drum Washing Machine Co., Ltd.**	PRC/Mainland China	RMB250,000,000	–	100	Manufacture and sale of washing machines
Foshan Haier Drum Washing Machine Co., Ltd.**	PRC/Mainland China	RMB150,000,000	–	100	Manufacture and sale of washing machines
Qingdao Haier Washing Electric Appliance Co., Ltd.**	PRC/Mainland China	RMB300,000,000	–	100	Manufacture and sale of washing machines
Tianjin Ririxin Assets Management Co., Ltd.**	PRC/Mainland China	RMB535,800,000	–	100	Manufacture and sale of washing machines
Qingdao Haier Strauss Water Equipment Co., Ltd.*	PRC/Mainland China	RMB128,651,000	–	51	Sale of water treatment equipment
Chongqing Haier Water Heater Co., Ltd.**	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd.***	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Wuhan Haier Water Heater Co., Ltd.***	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Qingdao Haier New Energy Electronics Co., Ltd.***	PRC/Mainland China	RMB150,000,000	–	100	Manufacture and sale of water heaters

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Qingdao Lejia Electronics Co., Ltd.**	PRC/Mainland China	RMB10,000,000	–	97	Sale of home electric appliances
Chongqing New Goodaymart Electronics Sales Co., Ltd.***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Haier Electronics Sales (Hefei) Co., Ltd.***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Qingdao Haier Electronics Sales Service Co., Ltd.**	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Haier Group E-commerce Co., Ltd.**	PRC/Mainland China	RMB37,500,000	–	100	Online sale of Haier brand home electric appliances
Qingdao Goodaymart Electronics Service Co., Ltd.**	PRC/Mainland China	RMB20,000,000	–	100	Provision of after-sales services
Qingdao Goodaymart Lexinyun Technology Co., Ltd.**	PRC/Mainland China	RMB20,000,000	–	78	Provision of after-sales services
Qingdao Goodaymart Chuangzhi Investment Management Co., Ltd.**	PRC/Mainland China	RMB1,199,199,900	–	100	Investment holding

* Registered as Sino-foreign equity joint venture enterprises under PRC law

** Registered as domestic limited liability companies under PRC law

*** Registered as wholly-foreign-owned enterprises under PRC law

The above table lists the subsidiaries of the Company which principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for bills receivable, certain other financial assets (current and non-current), equity investments designated at fair value through other comprehensive income, put option liabilities and other non-current liabilities which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Merger accounting for business combinations under common control

On 30 August 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd. ("Guanmei"), an indirect wholly-owned subsidiary of the Company, and Haier Electric International Co., Ltd. ("Haier International"), an indirect non-wholly-owned subsidiary of Haier Corp, entered into an asset swap agreement, pursuant to which Guanmei agreed to acquire and Haier International agreed to sell 51% equity interest in Qingdao Haishi Water Equipment Co., Ltd. ("Qingdao Haishi") at a consideration of RMB1,073,524,000 to be satisfied by Guanmei by way of transfer of 55% of the equity interest in Bingji (Shanghai) Enterprise Management Co., Ltd. ("Bingji"), a direct wholly-owned subsidiary of Guanmei, from Guanmei to Haier International at the same consideration (the "Asset Swap"). Qingdao Haishi is principally engaged in the research and development and sale of household water purifying solutions, while Bingji is an investment holding company and its subsidiaries (collectively referred to as the "Bingji Group") are principally engaged in the provision of logistics services.

Pursuant to the Asset Swap, the Company became an indirect holding company of Qingdao Haishi, and the Bingji Group was classified as a discontinued operation (note 11). Since the Company and Qingdao Haishi were ultimately controlled by Haier Corp both before and after the completion of the Asset Swap, the acquisition of Qingdao Haishi was accounted for using the principles of merger accounting.

On 9 September 2019, the Group, through its direct wholly-owned subsidiary namely, Qingdao Haier Smart Home Appliances Co., Ltd, acquired 100% equity interest in Qingdao Gooday Health Industry Development Co., Ltd ("Gooday Health") at a cash consideration of RMB34,000,000 (the "Acquisition"), which has been fully paid during the year. Gooday Health was an indirect wholly-owned subsidiary of Haier Corp and is currently principally engaged in manufacturing water treatment appliances. Pursuant to the Acquisition, the Company became an indirect holding company of Gooday Health. Since the Company and Gooday Health were ultimately controlled by Haier Corp both before and after the completion of the Acquisition, the Acquisition was accounted for using the principles of merger accounting.

2.1 BASIS OF PREPARATION (continued)

Merger accounting for business combinations under common control (continued)

The consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2019 and 2018 include the results, changes in equity and cash flows of all companies then comprising the Group, Qingdao Haishi and Gooday Health, as if the corporate structure of the Group immediately after the completion of the Asset Swap and the Acquisition had been in existence throughout the years ended 31 December 2019 and 2018, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2018 has been prepared to present the state of affairs of the Group, Qingdao Haishi and Gooday Health as if the corporate structure of the Group immediately after the completion of the Asset Swap and the Acquisition had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at 31 December 2018.

Restatement of operating results and financial positions of the Group

The operating results previously reported by the Group for the year ended 31 December 2018 have been restated as a result of (i) the application of merger accounting to include the operating results of Qingdao Haishi and Gooday Health, and (ii) the classification of the Bingji Group as a discontinued operation (note 11) to exclude the revenue and profit before tax of the Bingji Group, as set out below:

	The Group	Merger accounting			Discontinued operation		
	(as previously reported)	Qingdao Haishi	Gooday Health	Elimination	Bingji Group	Elimination	The Group (Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	85,250,041	1,030,733	–	(906,502)	(10,144,305)	1,105,635	76,335,602
Profit before tax	4,864,081	123,339	29	–	(456,077)	–	4,531,372
Profit for the year and attributable to owners of the Company	3,789,679	54,789	29	–	–	–	3,844,497

2.1 BASIS OF PREPARATION (continued)

Restatement of operating results and financial positions of the Group (continued)

The financial positions previously reported by the Group at 31 December 2018 and 1 January 2018 have been restated to include the assets and liabilities of Qingdao Haishi and Gooday Health as set out below:

31 December 2018

	The Group (as previously reported)	Merger accounting			The Group (Restated)
		Qingdao Haishi	Gooday Health	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	10,417,406	126,718	—	—	10,544,124
Current assets	36,539,987	874,855	30,035	(112,253)	37,332,624
Current liabilities	18,732,980	594,181	14	(112,253)	19,214,922
Non-current liabilities	2,476,129	—	—	—	2,476,129
Total equity	25,748,284	407,392	30,021	—	26,185,697

1 January 2018

	The Group (as previously reported)	Merger accounting			The Group (Restated)
		Qingdao Haishi	Gooday Health	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	8,871,765	100,507	—	—	8,972,272
Current assets	34,783,158	763,165	—	(83,263)	35,463,060
Current liabilities	18,978,003	553,530	—	(83,263)	19,448,270
Non-current liabilities	1,646,469	—	—	—	1,646,469
Total equity	23,030,451	310,142	—	—	23,340,593

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS17.

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and plant and machinery. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

New definition of a lease (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the basic borrowing rate published by the People's Bank of China at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/ terminate the lease

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	2,156,295
Decrease in prepaid land lease payments	(1,142,478)
Decrease in prepayments, other receivables and other assets	(27,131)
Increase in deferred tax assets	5,843
Increase in total assets	992,529
Liabilities	
Increase in lease liabilities	1,038,011
Decrease in trade and bills payables	(22,126)
Decrease in other payables and accruals	(5,381)
Increase in total liabilities	1,010,504
Decrease in retained profits	(8,747)
Decrease in non-controlling interests	(9,228)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	1,615,368
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(437,933)
	1,177,435
Basic borrowing rate published by the People's Bank of China as at 1 January 2019	4.75%–4.90%
Discounted operating lease commitments and lease liabilities as at 1 January 2019	1,038,011

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition method of accounting is used to account for business combinations not under common control.

Business combinations under common control

Under the merger method of accounting, the net assets of the combining entities or businesses are combined using their existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquires' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the controlling entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not under common control

Under the acquisition method of accounting, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not under common control (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its bills receivable, certain other financial assets (current and non-current), equity investments designated at fair value through other comprehensive income, put option liabilities and other non-current liabilities at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and asset and disposal group held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than freehold land and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% to 19%
Leasehold improvements	10% to 50%
Plant and machinery	5% to 50%
Tools, furniture and fixtures	10% to 33%
Motor vehicles	9% to 35%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of the property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line method to write off the cost of each investment property over its estimated useful life. The principal annual rates used for this purpose range from 4% to 5%.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Patents, licences and software

Purchased patents, licences and software are stated at cost less any impairment losses and software acquired through business combinations is initially stated at fair value. They are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

Customer relationships

Customer relationships acquired through business combinations are initially stated at fair value and subsequently amortised on the straight-line basis over their estimated useful lives of 10 years.

Trademarks

Trademarks have indefinite useful lives and are stated at cost, less any impairment losses.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	1.25 to 10 years
Plant and machinery	1.25 to 8 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings, plant and machinery, tools, furniture and fixtures and motor vehicles (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of tools, furniture and fixtures and motor vehicles that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than six months past due.

The Group considers a financial asset in default when contractual payments are one year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks and other financial institutions, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

The Group provides for warranties in relation to the sale of certain washing machines and water heaters for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs or returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers
Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Rendering of services

Revenue from the provision of services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a restricted share award scheme (note 37) and a share option scheme (note 38) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model or with reference to the share price at the date of grant, adjusted by the present value of the dividend expected to be received during the vesting period.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-Laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollar while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries not established in the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal or liquidation of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries not established in the PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the method to estimate variable consideration and assessing the constraint for the sale of goods

Certain contracts for the sale of goods include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 24 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 46 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB1,847,506,000 (2018: RMB1,261,664,000). Further details are included in note 21 to the financial statements.

Provision of inventories

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed. At 31 December 2019, the carrying amount of inventories was RMB10,066,080,000 (2018: RMB8,681,532,000 (restated)).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Product warranty provisions

Product warranty provisions are made with reference to the sales volume and the expected unit cost for warranties. The assessment of the provision amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the product warranty provisions and the provision amount charged/reversed in the period in which such estimate has been changed. At 31 December 2019, the product warranty amounted to RMB1,044,632,000 (2018: RMB1,044,752,000 (restated)). Further details are included in note 34 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of items of property, plant and equipment

Management determines the estimated useful lives and related depreciation for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. The depreciation charge will increase when the useful lives are less than the previously estimated useful lives, or management will write off or write down obsolete or non-strategic assets that have been abandoned or sold. At 31 December 2019, the carrying amount of the property, plant and equipment was RMB4,863,993,000 (2018: RMB5,375,593,000 (restated)).

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2019 was RMB929,413,000 (2018: RMB885,652,000 (restated)).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable segments for the year ended 31 December 2019 as follows:

(a) the washing machine business segment manufactures and sells washing machines;

(b) the water heater and water purifier business segment manufactures and sells water heaters and water purifiers; and

(c) the channel service business segment sells and distributes home appliances and other products as well as provides after-sales and other value-added consumer services.

Upon the completion of the Asset Swap as detailed in note 2.1 to the financial statements, the Bingji Group is regarded as an associate and classified as a discontinued operation. For presentation purpose, the corresponding logistics business is excluded from the operating segment information disclosure. Further details of the discontinued operation are set out in note 11 to the financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax from continuing operations except that treasury and investment income, corporate and other unallocated income and gains, corporate and other unallocated expenses and losses as well as interest on borrowings are excluded from such measurement.

Segment assets exclude equity investments designated at fair value through other comprehensive income, deferred tax assets, wealth management products included in other financial assets, pledged deposits, cash and cash equivalents, asset and disposal group held for sale, corporate and other unallocated assets and assets related to a discontinued operation as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable, interest-bearing borrowings, liabilities directly associated with the assets classified as held for sale, corporate and other unallocated liabilities and liabilities related to a discontinued operation as these liabilities are managed on a group basis.

Intersegment sales of the washing machine and water heater and water purifier businesses represent the sales of washing machines, water heaters and water purifiers through the Group's channel service business. Intersegment sales of the channel service business represent the after-sales services provided to customers of the washing machine and water heater and water purifier businesses. Such intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater and water purifier business		Channel service business		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
				(Restated)		(Restated)		(Restated)
Segment revenue (note 5)								
Sales to external customers								
Sales of goods	**7,927,900**	6,908,466	**1,731,956**	1,676,866	**65,960,495**	67,480,945	**75,620,351**	76,066,277
Rendering of services	**–**	–	**–**	–	**259,619**	269,325	**259,619**	269,325
	7,927,900	6,908,466	**1,731,956**	1,676,866	**66,220,114**	67,750,270	**75,879,970**	76,335,602
Intersegment sales	**15,475,988**	14,580,963	**7,021,573**	6,371,609	**246,784**	284,805	**22,744,345**	21,237,377
Total	**23,403,888**	21,489,429	**8,753,529**	8,048,475	**66,466,898**	68,035,075	**98,624,315**	97,572,979
Reconciliation:								
Elimination of intersegment sales							**(22,744,345)**	(21,237,377)
Segment revenue							**75,879,970**	76,335,602
Segment other income and gains	**783,816**	180,841	**170,340**	124,715	**39,061**	32,774	**993,217**	338,330
Total segment revenue and other income and gains							**76,873,187**	76,673,932
Segment results	**2,276,214**	2,048,033	**1,113,278**	1,000,217	**1,278,323**	1,322,745	**4,667,815**	4,370,995
Reconciliation:								
Elimination of intersegment results							**(155,473)**	(140,745)
Treasury and investment income (note 5)							**464,188**	460,551
Corporate and other unallocated income and gains							**283,899**	230
Corporate and other unallocated expenses and losses							**(171,620)**	(157,960)
Interest on borrowings (note 7)							**(1,491)**	(1,699)
Profit before tax from continuing operations							**5,087,318**	4,531,372

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater and water purifier business		Channel service business		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)
Segment assets	**8,284,924**	7,337,829	**2,936,805**	2,461,492	**13,585,498**	10,808,616	**24,807,227**	20,607,937
Reconciliation:								
Elimination of intersegment receivables							**(8,114,849)**	(5,719,159)
Equity investments designated at fair value through other comprehensive income							**1,847,506**	1,261,664
Deferred tax assets							**929,413**	885,652
Wealth management products included in other financial assets (note 26)							**3,547,252**	4,709,540
Pledged deposits							**409,920**	428,902
Cash and cash equivalents							**14,834,594**	15,023,077
Asset and disposal group held for sale							**–**	144,091
Corporate and other unallocated assets							**11,796,829**	4,637,238
Assets related to a discontinued operation							**–**	5,897,806
Total assets							**50,057,892**	47,876,748
Segment liabilities	**4,932,348**	3,410,380	**2,810,354**	2,207,088	**15,731,870**	13,279,290	**23,474,572**	18,896,758
Reconciliation:								
Elimination of intersegment payables							**(8,114,849)**	(5,719,159)
Deferred tax liabilities							**837,271**	98,611
Tax payable							**800,155**	781,485
Interest-bearing borrowings							**80,896**	92,374
Liabilities directly associated with the assets classified as held for sale							**–**	32,362
Corporate and other unallocated liabilities							**3,341,928**	3,957,694
Liabilities related to a discontinued operation							**–**	3,550,926
Total liabilities							**20,419,973**	21,691,051

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater and water purifier business		Channel service business		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000	**RMB'000**	RMB'000 (Restated)
Other segment information:								
Investments in associates	**–**	–	**–**	–	**–**	–	**–**	–
Corporate and other unallocated amounts							**5,719,101**	177,282
Discontinued operation							**–**	791
							5,719,101	178,073
Share of profits and losses of associates	**–**	–	**–**	–	**–**	–	**–**	–
Corporate and other unallocated amounts							**95,992**	(538)
							95,992	(538)
Product warranty and installation provisions	**755,423**	596,344	**584,617**	522,074	**–**	–	**1,340,040**	1,118,418
Provision for obsolete and slow-moving inventories	**104,407**	85,067	**18,767**	23,368	**189,266**	125,195	**312,440**	233,630
Impairment of trade receivables, net	**(3,606)**	8,866	**2,912**	(3,168)	**(3,610)**	(3,728)	**(4,304)**	1,970
Impairment of prepayments and other receivables and other assets, net	**–**	–	**–**	–	**(600)**	4,975	**(600)**	4,975
Loss/(gain) on disposal/write-off of property, plant and equipment and prepaid land lease payments, net	**(487,283)**	(2,470)	**435**	(1,446)	**(3)**	452	**(486,851)**	(3,464)
Corporate and other unallocated amounts							**(2,756)**	4
							(489,607)	(3,460)
Depreciation and amortisation	**176,986**	129,455	**98,399**	83,425	**93,541**	14,354	**368,926**	227,234
Corporate and other unallocated amounts							**1,200**	1,198
							370,126	228,432
Capital expenditure	**646,987**	1,244,753	**610,950**	412,559	**284,734**	68,986	**1,542,671**	1,726,298

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000 (Restated)
Mainland China	**72,889,641**	73,668,257
Other countries/regions	**2,990,329**	2,667,345
	75,879,970	76,335,602

The revenue information of the continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2019 RMB'000	2018 RMB'000 (Restated)
Segment non-current assets		
Mainland China	**11,234,517**	7,820,166
Other countries/regions	**142,135**	153,764
	11,376,652	7,973,930
Equity investments designated at fair value through other comprehensive income	**1,847,506**	1,261,664
Other non-current financial assets	**371,604**	422,878
Deferred tax assets	**929,413**	885,652
Total	**14,525,175**	10,544,124

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from continuing operations of approximately RMB8,727,687,000 (2018: RMB7,570,446,000) was derived from sales by the channel service business segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from contracts with customers is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Sale of goods	**75,620,351**	76,066,277
Rendering of services	**259,619**	269,325
	75,879,970	76,335,602

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Rendering of services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from rendering the services. Service contracts are for periods of one year or less, or are billed based on the time incurred.

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Treasury and investment income:		
Bank interest income	**311,548**	286,691
Return on investments in other financial assets#	**114,091**	69,037
Dividend income from an equity investment designated at fair value through other comprehensive income	**38,549**	104,823
	464,188	460,551
Government grants*	**379,984**	211,059
Compensation received from suppliers	**112,262**	114,378
Gross rental income from investment property operating leases	**2,377**	2,137
Gain on disposal of property, plant and equipment and prepaid land lease payments, net*	**489,607**	3,460
Gain on disposal of subsidiaries	**184,790**	—
Others	**12,104**	8,065
	1,645,312	799,650

The amount represents investment income in other financial assets of RMB98,116,000 (2018: RMB60,339,000 (restated)) and their fair value changes of RMB15,975,000 (2018: RMB8,698,000).

* The amount of government grants and gain on disposal of property, plant and equipment include RMB70,030,000 and RMB488,018,000, respectively, in relation to the relocation of two of the Group's factories in Qingdao, the PRC, in accordance with the development plan of the relevant municipal government. The Group also received various general government grants amounting to RMB309,954,000 for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Cost of inventories sold		**58,596,659**	59,584,086
Cost of services provided		**150,806**	129,487
Depreciation of property, plant and equipment		**313,436**	206,593
Depreciation of investment properties	16	**2,105**	2,063
Depreciation of right-of-use assets (2018: amortisation of land lease payments)		**37,298**	5,236
Amortisation of intangible assets*		**15,146**	12,798
Amortisation of long-term prepayments		**2,141**	1,742
Research and development costs**		**724,526**	795,267
Auditor's remuneration		**6,480**	7,365
Employee benefit expense: (including directors' and chief executive's remuneration — note 8):			
Wages and salaries		**4,244,511**	4,184,749
Welfare		**90,856**	65,664
Pension scheme contributions		**328,789**	410,331
Equity-settled Restricted Share Award Scheme expense, net	37	**121,373**	125,090
		4,785,529	4,785,834
Minimum lease payments under operating leases		**—**	202,425
Lease payments not included in the measurement of lease liabilities	17(d)	**208,254**	—
Product warranty and installation provisions	34	**1,340,040**	1,118,418
Provision for obsolete and slow-moving inventories#		**312,440**	233,630
Impairment of trade receivables, net##		**(4,304)**	1,970
Impairment of prepayments, other receivables and other assets, net##		**(600)**	4,975
Loss on disposal of subsidiaries##		**—**	2,604
Fair value losses on other non-current financial assets##		**12,783**	—
Foreign exchange differences, net		**30,710**	(25,000)

* The amortisation of intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

** The research and development costs included mould charges of RMB288,692,000 (2018: RMB456,316,000) which are included in "Cost of sales" in the consolidated statement of profit or loss.

The provision for obsolete and slow-moving inventories for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

These items are included in "Other expenses and losses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000
Interest on borrowings	**1,491**	1,699
Interest on lease liabilities	**3,379**	—
	4,870	1,699

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**1,608**	1,605
Other emoluments:		
Salaries, allowances and benefits in kind	**2,198**	2,113
Performance-related bonuses	**2,427**	2,186
Equity-settled Restricted Share Award Scheme expense	**18,139**	19,994
Pension scheme contributions	**191**	165
	22,955	24,458
	24,563	26,063

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The remuneration of independent non-executive directors during the year is as follows:

	Fees RMB'000	Salaries, allowances benefits in kind RMB'000	Equity-settled Restricted Share Award Scheme expense RMB'000	Total RMB'000
2019				
Mr. Yu Hon To, David	**307**	**23**	**136**	**466**
Mrs. Eva Cheng Li Kam Fun	**307**	**22**	**108**	**437**
Mr. Gong Shao Lin*	**256**	**17**	**17**	**290**
Dr. John Changzheng Ma**	**91**	**7**	**9**	**107**
	961	**69**	**270**	**1,300**
2018				
Mr. Yu Hon To, David	279	18	381	678
Mrs. Eva Cheng Li Kam Fun	279	18	304	601
Ms. Tsou Kai-Lien, Rose***	116	5	227	348
Mr. Gong Shao Lin*	120	8	–	128
	794	49	912	1,755

* Mr. Gong Shao Lin was appointed as an independent non-executive director of the Company with effect from 26 June 2018.

** Dr. John Changzheng Ma was appointed as an independent non-executive director of the Company with effect from 29 August 2019.

*** Ms. Tsou Kai-Lien, Rose resigned from an independent non-executive director of the Company with effect from 1 July 2018.

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled Restricted Share Award Scheme expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019						
Executive directors:						
Mr. Zhou Yun Jie	218	742	940	10,202	59	12,161
Mr. Xie Ju Zhi*	119	569	600	2,885	59	4,232
Mr. Li Hua Gang*	151	511	767	3,885	59	5,373
Mr. Sun Jing Yan*	37	128	120	824	14	1,123
	525	1,950	2,427	17,796	191	22,889
Non-executive directors:						
Mr. Liang Hai Shan	–	142	–	–	–	142
Dr. Wang Han Hua**	122	3	–	73	–	198
Ms. Tan Li Xia*	–	34	–	–	–	34
Mr. Yang Guang***	–	–	–	–	–	–
	122	179	–	73	–	374
	647	2,129	2,427	17,869	191	23,263

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled Restricted Share Award Scheme expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018						
Executive directors:						
Mr. Zhou Yun Jie	218	742	940	13,603	55	15,558
Mr. Sun Jing Yan	150	510	480	2,900	55	4,095
	368	1,252	1,420	16,503	110	19,653
Non-executive directors:						
Mr. Liang Hai Shan	—	142	—	—	—	142
Dr. Wang Han Hua	233	9	—	228	—	470
Ms. Tan Li Xia	—	142	—	—	—	142
Mr. Yin Jing****	22	2	—	—	—	24
Mr. Yang Guang***	38	7	—	—	—	45
	293	302	—	228	—	823
Chief executive:						
Mr. Li Hua Gang	150	510	766	2,351	55	3,832
	811	2,064	2,186	19,082	165	24,308

* Mr. Xie Ju Zhi was appointed as an executive director and chief executive of the Company with effect from 27 March 2019; Mr. Li Hua Gang was appointed as an executive director of the Company and resigned from chief executive with effect from 27 March 2019; Mr. Sun Jing Yan resigned from an executive director of the Company with effect from 27 March 2019; and Ms. Tan Li Xia resigned from a non-executive director of the Company with effect from 27 March 2019.

** Dr. Wang Han Hua resigned from a non-executive director of the Company with effect from 27 June 2019.

*** Mr. Yang Guang was appointed as a non-executive director of the Company with effect from 11 May 2018.

**** Mr. Yin Jing resigned from a non-executive director of the Company with effect from 11 May 2018.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

Mr. Yang Guang did not receive any remuneration during the year. There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

In current and prior years, certain directors were granted awarded shares and/or share options in respect of their services to the Group under the share option scheme and/or the Restricted Share Award Scheme of the Company, further details of which are set out in notes 37 and 38 to the financial statements. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and one of which is the chief executive (2018: two directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: two) highest paid non-director employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**1,774**	1,708
Equity-settled Restricted Share Award Scheme expense	**5,548**	4,776
Pension scheme contributions	**75**	70
	7,397	6,554

9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2019	2018
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	1	–
Total	2	2

In current and prior years, awarded shares and/or share options were granted to these non-director and non-chief executive highest paid employees in respect of their services to the Group under the share option scheme and the Restricted Share Award Scheme of the Company, further details of which are set out in notes 37 and 38 to the financial statements. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable in Mainland China has been calculated at the applicable PRC corporate income tax ("CIT") rate. Certain subsidiaries of the Group are entitled to a preferential tax treatment of reduction in the CIT rate to 15%.

	2019 RMB'000	2018 RMB'000 (Restated)
Current		
Charge for the year	902,577	744,666
Underprovision in prior years	2,281	11,260
Deferred	(22,741)	45,143
Total tax charge for the year from continuing operations	882,117	801,069
Total tax charge for the year from a discontinued operation	711,856	88,811
	1,593,973	889,880

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Profit before tax from continuing operations	**5,087,318**	4,531,372
Profit before tax from a discontinued operation	**4,024,721**	456,077
	9,112,039	4,987,449
Tax at the statutory tax rate	**2,166,008**	1,241,776
Lower tax rates enacted by local authorities	**(522,942)**	(386,939)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**–**	65,500
Effect on opening deferred tax of decrease in rates	**–**	6,011
Adjustments in respect of current tax of previous periods	**2,226**	(7,329)
Profits and losses attributable to associates	**(19,497)**	87
Income not subject to tax	**(12,489)**	(12,005)
Expenses not deductible for tax	**31,054**	33,908
Tax losses not recognised	**68,240**	51,550
Tax losses utilised from previous periods	**(5,415)**	(37,652)
Deductible temporary differences not recognised	**(67,258)**	(23,922)
Additional deduction allowance for research and development costs	**(45,954)**	(41,105)
Total tax charge for the year	**1,593,973**	889,880
Total tax charge for the year from continuing operations	**882,117**	801,069
Total tax charge for the year from a discontinued operation	**711,856**	88,811

The share of tax attributable to associates amounting to RMB32,240,000 (2018: RMB92,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DISCONTINUED OPERATION

On 26 July 2019, the Group completed the Asset Swap as further detailed in notes 2.1 and 4 to the financial statements. As a result, the Bingji Group has since become an associate to the Group and its business is classified as a discontinued operation.

The results of the Bingji Group for the period from 1 January to 25 July 2019 (i.e., the period prior to the classification of the Bingji Group as a discontinued operation) and year ended 31 December 2018 are presented below:

	Period from 1 January to 25 July 2019 RMB'000	Year ended 31 December 2018 RMB'000
Revenue	**4,907,811**	10,144,305
Cost and expenses	**(4,710,368)**	(9,688,228)
Profit from the discontinued operation	**197,443**	456,077
Gain recognised on the remeasurement of fair value of the discontinued operation	**3,190,703**	—
Gain recognised on disposal of the discontinued operation	**636,575**	—
Profit before tax from the discontinued operation	**4,024,721**	456,077
Income tax:		
Related to pre-tax profit	**(46,937)**	(88,811)
Related to remeasurement of fair value	**(664,919)**	—
Profit from the discontinued operation	**3,312,865**	367,266
Attributable to:		
Owners of the Company	**3,251,286**	206,599
Non-controlling interests	**61,579**	160,667
	3,312,865	367,266

11. DISCONTINUED OPERATION (continued)

The net cash flows incurred by the Bingji Group for the period from 1 January to 25 July 2019 and year ended 31 December 2018 are as follows:

	Period from 1 January to 25 July 2019 RMB'000	Year ended 31 December 2018 RMB'000
Operating activities	**(160,500)**	114,019
Investing activities	**19,568**	(1,658,652)
Financing activities	**(283,463)**	406,868
Net cash outflow	**(424,395)**	(1,137,765)
Earnings per share:		
Basic, from the discontinued operation	**RMB1.16**	RMB0.08
Diluted, from the discontinued operation	**RMB1.15**	RMB0.08

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2019	2018
Profit attributable to ordinary equity holders of the Company from the discontinued operation	**RMB3,251,286,000**	RMB206,599,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 13)	**2,798,167,617**	2,793,695,434
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 13)	**2,812,648,910**	2,812,808,569

12. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final — HK49 cents (2018: HK38 cents) per ordinary share	**1,228,981**	935,958

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,798,167,617 (2018: 2,793,695,434) in issue during the year, as adjusted to exclude the shares issued or repurchased under the Restricted Share Award Scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation:		
From continuing operations	**4,099,524**	3,637,898
From a discontinued operation	**3,251,286**	206,599
	7,350,810	3,844,497

	Number of shares 2019	 2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,798,167,617**	2,793,695,434
Effect of dilution — weighted average number of ordinary shares:		
Share options	**854,061**	1,204,791
Restricted share award	**13,627,232**	17,908,344
	14,481,293	19,113,135
Total	**2,812,648,910**	2,812,808,569

14. RELATED PARTY TRANSACTIONS

(a) During the year, in addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with Haier Corp and its subsidiaries and/or associates (collectively referred to as "Haier Affiliates") and the Group's associates and non-controlling shareholders (and their affiliates):

Related party transactions included in continuing operations

	2019 RMB'000	2018 RMB'000 (Restated)
Haier Affiliates:		
Export sale of products	**2,822,290**	2,084,713
Export sale expenses	**(36,025)**	(31,087)
Export sale of products after sale expenses	**2,786,265**	2,053,626
Domestic sale of products	**186,316**	140,354
Purchase of finished goods	**37,653,057**	39,068,125
Purchase of raw materials	**19,527,501**	18,127,735
Purchase of equipment	**188,901**	281,786
Mould charges	**189,419**	246,215
Utility service fee expenses	**128,191**	138,385
Research and development service fees	**199,630**	190,181
Other service fee expenses	**520,216**	395,368
Interest income	**48,577**	5,156
Interest expenses	**—**	368
Other financial service fees	**26,035**	32,588
After-sales service income	**211,569**	213,772
Associates:		
Logistics service fees	**831,141**	—
Non-controlling shareholders and their affiliates:		
Logistics service fees	**100,396**	238,843
General service fees	**182,818**	322,396

14. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Related party transactions included in the discontinued operation

	2019 RMB'000	2018 RMB'000
Haier Affiliates:		
Logistics service income	**1,568,889**	2,755,797
Other service fee expenses	**48,011**	69,944
Utility service fee expenses	**2,829**	950
After-sales service income	**5,458**	110
Purchase of equipment	**1,646**	—
Interest income	**141**	2,452
Purchase of raw materials	**—**	1,479
Research and development service fees	**—**	2
Non-controlling shareholders and their affiliates:		
Logistics service income	**981,593**	1,942,852

The above transactions were conducted in accordance with the terms and conditions mutually agreed by the parties involved.

As a result of the application of merger accounting, the above related party transactions included in continuing operations have also included the transactions between Haier Affiliates and Qingdao Haishi prior to the completion of the Asset Swap. Other than the aforementioned impact, the Group's transactions with Haier Affiliates, associates and non-controlling shareholders (and their affiliates) also constitute continuing connected transactions, which excluded the transactions between Haier Affiliates and Qingdao Haishi prior to the completion of the Asset Swap, as defined in Chapter 14A of the Listing Rules.

(b) Other transactions with related parties:

(i) On 29 June 2019, the Group entered into an agreement to sell its entire 100% equity interest in Foshan Shunde Haier Intelligent Electronics Co., Ltd., an indirect subsidiary of the Company, to Haier Kaaosi IOT Ecosystem Technology Limited, a fellow subsidiary of the Group, for RMB556,000,000 which was determined with reference to the fair value of the equity interest. The transaction was completed on 27 November 2019. This transaction also constitutes connected transactions as defined in Chapter 14A of the Listing Rules in 2019.

(ii) On 21 December 2018, the Group entered into acquisition agreements to acquire 6.33%, 0.08% and 0.08% (6.49% in total) of the equity interests in Qingdao Haier Washing Machine Co., Ltd., an indirect non-wholly-owned subsidiary of the Company, from certain subsidiaries of Haier Corp, namely Qingdao Haier New Economics Consulting Limited, Qingdao Haier Components Procurement Limited, and Qingdao Haier International Trading Limited, respectively, for the cash consideration of RMB81,667,000, RMB1,032,000 and RMB1,032,000, respectively, which were agreed between the parties involved. The acquisition was completed on 30 January 2019.

14. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(iii) The Group leases its investment properties to Haier Affiliates under operating lease arrangements, and the rental income is RMB2,331,000 during the year (2018: RMB1,920,000).

(iv) As a result of the undertakings issued by Haier Corp to the Group in prior years to which Haier Corp agreed to provide other suitable properties to the Group to ensure that the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against the related losses, the Group reached an agreement with a Haier affiliate in 2018 which agreed to compensate the Group for the expenses and/or losses in relation to the relocation of two of the Group's factories in Qingdao, the PRC. The compensation amount is RMB38,640,000 (2018: RMB99,278,000) during the year.

(c) Compensation of key management personnel (including the directors and chief executive of the Company) of the Group:

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**9,316**	9,597
Post-employment benefits	**341**	360
Equity-settled Restricted Share Award Scheme expense	**26,187**	30,180
Total compensation paid to key management personnel	**35,844**	40,137

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

The number of non-director and non-chief executive key management personnel whose remuneration fell within the following bands is as follows:

	2019	2018
HK$500,001 to HK$1,000,000	**2**	—
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—
HK$3,000,001 to HK$3,500,000	**—**	2
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**—**	1
HK$4,500,001 to HK$5,000,000	**1**	—
	5	5

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019								
At 1 January 2019 (as restated):								
Cost	20,009	2,793,380	59,932	1,934,786	182,302	127,719	1,912,720	7,030,848
Accumulated depreciation and impairment	–	(768,190)	(30,965)	(687,637)	(82,856)	(85,607)	–	(1,655,255)
Net carrying amount	20,009	2,025,190	28,967	1,247,149	99,446	42,112	1,912,720	5,375,593
At 1 January 2019, net of accumulated depreciation and impairment	20,009	2,025,190	28,967	1,247,149	99,446	42,112	1,912,720	5,375,593
Additions	–	–	211,515	2,550	1,170	160	1,850,303	2,065,698
Acquisition of a subsidiary (note 40)	–	–	–	–	417	1,440	–	1,857
Disposal of subsidiaries (note 41)	–	(1,381,226)	(26,956)	(43,884)	(10,311)	(19,909)	(632,764)	(2,115,050)
Disposals/write-off	–	(52,791)	–	(44,099)	(890)	(473)	(1,232)	(99,485)
Depreciation provided during the year	–	(90,199)	(60,195)	(176,454)	(26,319)	(10,094)	–	(363,261)
Transfers	–	586,733	8,046	1,344,219	119,873	17,320	(2,076,191)	–
Exchange realignment	(178)	(1,084)	–	(62)	(37)	2	–	(1,359)
At 31 December 2019, net of accumulated depreciation and impairment	19,831	1,086,623	161,377	2,329,419	183,349	30,558	1,052,836	4,863,993
At 31 December 2019:								
Cost	19,831	1,486,641	222,035	2,971,959	267,712	37,554	1,052,836	6,058,568
Accumulated depreciation and impairment	–	(400,018)	(60,658)	(642,540)	(84,363)	(6,996)	–	(1,194,575)
Net carrying amount	19,831	1,086,623	161,377	2,329,419	183,349	30,558	1,052,836	4,863,993

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018								
At 1 January 2018 (as restated):								
Cost	19,853	2,817,898	68,613	1,633,777	155,629	198,022	737,692	5,631,484
Accumulated depreciation and impairment	–	(671,384)	(24,030)	(680,369)	(73,416)	(91,605)	–	(1,540,804)
Net carrying amount	19,853	2,146,514	44,583	953,408	82,213	106,417	737,692	4,090,680
At 1 January 2018, net of accumulated depreciation and impairment	19,853	2,146,514	44,583	953,408	82,213	106,417	737,692	4,090,680
Additions	–	23	3,666	8,209	2,766	16,054	1,995,932	2,026,650
Acquisition of a subsidiary (note 40)	–	–	–	–	1,829	1,709	–	3,538
Disposal of subsidiaries (note 41)	–	(151,372)	(12,347)	(10,065)	(8,685)	(84,442)	(7,015)	(273,926)
Disposals/write-off	–	(133,781)	–	(18,911)	(1,485)	(3,119)	–	(157,296)
Assets classified as held for sale	–	–	–	–	(29)	(27)	–	(56)
Depreciation provided during the year	–	(124,845)	(6,935)	(145,179)	(20,645)	(18,338)	–	(315,942)
Transfers	–	287,593	–	459,627	42,868	23,820	(813,908)	–
Exchange realignment	156	1,058	–	60	614	38	19	1,945
At 31 December 2018, net of accumulated depreciation and impairment	20,009	2,025,190	28,967	1,247,149	99,446	42,112	1,912,720	5,375,593
At 31 December 2018:								
Cost	20,009	2,793,380	59,932	1,934,786	182,302	127,719	1,912,720	7,030,848
Accumulated depreciation and impairment	–	(768,190)	(30,965)	(687,637)	(82,856)	(85,607)	–	(1,655,255)
Net carrying amount	20,009	2,025,190	28,967	1,247,149	99,446	42,112	1,912,720	5,375,593

15. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2019, certain of the Group's buildings with an aggregate net book value of approximately RMB136,569,000 (2018: RMB530,906,000) did not have building ownership certificates registered under the names of the respective subsidiaries of the Company.

With respect to the Group's buildings, investment properties and prepaid land lease payments included in right-of-use assets that did not have certificates registered under the names of the respective subsidiaries of the Company, Haier Corp issued to the Group in prior years undertakings pursuant to which Haier Corp agreed to provide other suitable properties to the Group to ensure that the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against the related losses. Due to the relocation of the factories and the Asset Swap transaction, there was no (2018: RMB113,787,000) building without ownership certificates under the names of the respective subsidiaries of the Company indemnified by Haier Corp as at 31 December 2019.

The Group is entitled to lawfully and validly occupy and/or use the buildings and investment properties for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

At 31 December 2019, certain of the Group's buildings with an aggregate carrying amount of approximately RMB45,383,000 (2018: RMB45,853,000) and certain parcels of the Group's freehold land with an aggregate net carrying amount of approximately RMB9,367,000 (2018: RMB9,464,000) were pledged to secure bank loans granted to the Group (note 32).

16. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
At 1 January, net of accumulated depreciation	**28,449**	29,415
Depreciation provided during the year	**(2,105)**	(2,063)
Exchange realignment	**349**	1,097
At 31 December, net of accumulated depreciation	**26,693**	28,449
At 31 December:		
Cost	**43,165**	42,749
Accumulated depreciation	**(16,472)**	(14,300)
Net carrying amount	**26,693**	28,449

The Group's investment properties consist of one commercial property in Hong Kong and one industrial property in Mainland China.

The fair values of the Group's investment properties in Hong Kong and Mainland China were approximately RMB24,222,000 (2018: RMB27,365,000) and RMB8,888,000 (2018: RMB10,450,000), respectively, as at 31 December 2019.

16. INVESTMENT PROPERTIES (continued)

The fair value measurements of the Group's investment properties are categorised within Level 3. The valuation technique is the discounted cash flow method and the significant inputs used in the fair value measurement are the estimated rental value, rent growth and discount rate.

As at 31 December 2019, the Group's investment property in Mainland China with a carrying amount of approximately RMB6,467,000 (2018: RMB7,615,000) did not have a building ownership certificate registered under the name of the respective subsidiary of the Company. The Group obtained an undertaking from Haier Corp in relation to this property title issue, details of which are set out in note 15 to the financial statements.

17. LEASES

The Group as a leasee

The Group has lease contracts for various items of land use rights, buildings, plant and machinery, tools, furniture and fixtures and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and plant and machinery generally have lease terms between one and ten years, while tools, furniture and fixtures and motor vehicles generally have lease terms of twelve months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	1,188,781
Additions	164,719
Disposals	(100,614)
Disposal of subsidiaries (note 41)	(57,008)
Recognised in profit or loss during the year	(27,316)
Carrying amount at 31 December 2018	1,168,562
Analysed into:	
Current portion	26,084
Non-current portion	1,142,478

17. LEASES (continued)

The Group as a lessee (continued)

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2019	1,168,562	987,260	473	2,156,295
Additions	315,840	305,564	–	621,404
Disposals	(3,216)	–	–	(3,216)
Disposal of subsidiaries (note 41)	(1,069,716)	(982,670)	–	(2,052,386)
Depreciation charge	(18,430)	(256,606)	(149)	(275,185)
As at 31 December 2019	393,040	53,548	324	446,912

As at 31 December 2019, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB97,470,000 (2018: RMB40,941,000) did not have land use right certificates registered under the names of the respective subsidiaries of the Company. There was no (2018: RMB40,941,000) leasehold land without land use right certificates indemnified by Haier Corp as at 31 December 2019. As at 31 December 2018, the Group obtained undertakings from Haier Corp in relation to this title issue, details of which are set out in note 15 to the financial statements.

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	1,038,011
New leases	305,564
Accretion of interest recognised during the year	30,269
Payments	(297,089)
Disposal of subsidiaries (note 41)	(1,023,583)
Carrying amount at 31 December	53,172
Analysed into:	
Current portion	32,170
Non-current portion	21,002

The maturity analysis of lease liabilities is disclosed in note 47 to the financial statements.

17. LEASES (continued)

The Group as a leasee (continued)

(d) The amounts recognised in profit or loss from continuing operations in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**3,379**
Depreciation charge of right-of-use assets	**37,298**
Expense relating to:	
Short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**115,547**
Leases of low-value assets	**284**
Variable lease payments not included in the measurement of lease liabilities	**92,423**
Total amount recognised in profit or loss	**248,931**

(e) The total cash outflow for leases is disclosed in notes 42(c) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 16) consisting of one commercial property in Hong Kong and one industrial property in Wuhan, the PRC, under operating lease arrangements. Rental income recognised by the Group during the year was RMB2,377,000 (2018: RMB2,137,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**1,579**	14,534
After one year but within two years	**571**	17,640
	2,150	32,174

18. GOODWILL

	2019 RMB'000	2018 RMB'000 (Restated)
Cost at 1 January	**351,166**	508,037
Acquisition of a subsidiary (note 40)	**21,086**	161,084
Disposal of subsidiaries (note 41)	**(285,779)**	(317,955)
Cost at 31 December	**86,473**	351,166
At 31 December:		
Cost	**86,473**	351,166
Accumulated impairment	**—**	—
Net carrying amount	**86,473**	351,166

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing:

Water heater and water purifier business segment

- GREENoneTEC Solarindustrie GmbH. ("GoT");
- Qingdao Haier Struass Water Co, Ltd. ("Haier Struass Water").

Logistics business segment (discontinued operation)

- Qingdao Goodaymart Wisdom Union Co, Ltd. ("Qingdao Furnishing Service");
- Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. ("Shanghai Beiye Supply Chain");
- Peiji Logistics Group Co., Ltd. ("Peiji Logistics");
- Shanghai Grand Logistics Co., Ltd. ("Grand Logistics").

18. GOODWILL (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Haier Struass Water	(i)	**83,174**	83,174
GoT	(i)	**3,299**	3,299
Qingdao Furnishing Service	(ii)	**–**	6,123
Shanghai Beiye Supply Chain	(ii)	**–**	68,407
Peiji Logistics	(ii)	**–**	161,084
Grand Logistics	(iii)	**–**	29,079
Net carrying amount		**86,473**	351,166

Notes:

(i) The recoverable amounts of Haier Struass Water and GoT have been determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management and discount rates of 11.9% and 15.7% (2018: 12.2% and 15.7%), respectively. The growth rates used to extrapolate the cash flows beyond the five-year period are 1% and 3% (2018: 1% and 3%), respectively.

Assumptions were used in the value in use calculation of the above cash-generating units for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth rate — The basis used to determine the revenue growth rate is the average growth rate achieved in the years immediately before the budget year, increased for expected market development.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the actual gross margin achieved in the year immediately before the budget year.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

(ii) The recoverable amounts of Qingdao Furnishing Service, Shanghai Beiye Supply Chain, and Peiji Logistics have been determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management and discount rates of 17.2%, 17.1% and 16.4%, respectively, in 2018. The growth rate used to extrapolate the cash flows beyond the five-year period was 3% in 2018.

(iii) The recoverable amount of Grand Logistics has been determined based on its fair value less cost of disposal categorised in Level 3 using cash flow projections based on a financial budget covering a ten-year period approved by senior management and a discount rate of 15.6% in 2018. The growth rate used to extrapolate the cash flows beyond the ten-year period was 3% in 2018.

19. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Customer relationships RMB'000	Trademarks RMB'000	Total RMB'000
31 December 2019					
At 1 January 2019: (as restated)					
Cost	133,147	10,919	22,619	45,000	211,685
Accumulated amortisation and impairment	(52,791)	(8,303)	(12,771)	–	(73,865)
Net carrying amount	80,356	2,616	9,848	45,000	137,820
Cost at 1 January 2019, net of accumulated amortisation and impairment	80,356	2,616	9,848	45,000	137,820
Additions	36,460	–	–	–	36,460
Acquisition of a subsidiary (note 40)	2,347	–	–	–	2,347
Disposal of subsidiaries (note 41)	(5,869)	–	(5,760)	(45,000)	(56,629)
Amortisation provided during the year	(14,495)	(1,227)	(730)	–	(16,452)
Exchange realignment	(4)	(41)	–	–	(45)
Cost at 31 December 2019, net of accumulated amortisation and impairment	98,795	1,348	3,358	–	103,501
At 31 December 2019:					
Cost	156,901	10,919	9,819	–	177,639
Accumulated amortisation and impairment	(58,106)	(9,571)	(6,461)	–	(74,138)
Net carrying amount	98,795	1,348	3,358	–	103,501

19. OTHER INTANGIBLE ASSETS (continued)

	Software RMB'000	Patents and licences RMB'000	Customer relationships RMB'000	Trademarks RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018: (as restated)					
Cost	71,553	10,638	22,619	45,000	149,810
Accumulated amortisation and impairment	(40,770)	(7,090)	(11,369)	–	(59,229)
Net carrying amount	30,783	3,548	11,250	45,000	90,581
Cost at 1 January 2018, net of accumulated amortisation and impairment	30,783	3,548	11,250	45,000	90,581
Additions	64,761	282	–	–	65,043
Acquisition of a subsidiary (note 40)	16	–	–	–	16
Amortisation provided during the year	(12,690)	(1,238)	(1,402)	–	(15,330)
Disposal of subsidiaries (note 41)	(2,437)	–	–	–	(2,437)
Assets classified as held for sale	(75)	–	–	–	(75)
Exchange realignment	(2)	24	–	–	22
Cost at 31 December 2018, net of accumulated amortisation and impairment	80,356	2,616	9,848	45,000	137,820
At 31 December 2018:					
Cost	133,147	10,919	22,619	45,000	211,685
Accumulated amortisation and impairment	(52,791)	(8,303)	(12,771)	–	(73,865)
Net carrying amount	80,356	2,616	9,848	45,000	137,820

20. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**2,690,175**	178,073
Goodwill on acquisition	**3,028,926**	—
	5,719,101	178,073

Particulars of the material associates are as follows:

Name	Particulars of capital invested	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Bingji (Shanghai) Enterprise Management Co., Ltd.	Paid-up capital of RMB1,000,000	PRC/Mainland China	45	Investment holding
Youjin (Shanghai) Enterprise Management Co., Ltd.	Paid-up capital of RMB1,000,000	PRC/Mainland China	45	Investment holding
Gooday (Shanghai) Investment Company Limited	Paid-up capital of RMB1,029,022,000	PRC/Mainland China	45	Investment holding

Bingji, Youjin (Shanghai) Enterprise Management Co., Ltd. ("Youjin") and Gooday (Shanghai) Investment Company Limited ("Gooday Shanghai") have become associates of the Group upon the completion of the Asset Swap on 26 July 2019, further details of which are set out in note 2.1 of the financial statements. Bingji, Youjin and Gooday Shanghai are mainly engaged in investment holding, of which Bingjiholds 55% interests of Youjin, Youjin holds 55% interests of Gooday Shanghai, and Gooday Shanghai holds 56.4% interests of Gooday Logistics, respectively. In view of the above structure, the Group has no control over Gooday Shanghai notwithstanding that the Group's effective interests in Gooday Shanghai are 83.36%.

20. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the Gooday Shanghai's summarised consolidated financial position information as at 31 December 2019 and summarised consolidated financial performance information for the period from 26 July to 31 December 2019 (i.e., the period after the Bingji Group has become an associate of the Group), adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	31 December 2019 RMB'000
Current assets	6,377,681
Non-current assets, excluding goodwill	5,887,188
Current liabilities	(4,583,997)
Non-current liabilities	(2,366,426)
Non-controlling interests	(2,381,601)
Net assets, excluding goodwill	2,932,845
Reconciliation on to the Group's interest in the associate:	
Proportion of the Group's ownership	83.36%
Group's share of net assets of the associate, excluding goodwill	2,444,819
Goodwill on acquisition	3,028,926
Carrying amount of the investments	5,473,745

	Period from 26 July to 31 December 2019 RMB'000
Revenue	5,522,458
Profit for the period	117,663
Total comprehensive income for the period	117,663
Share of the associate's profit for the period	98,084

20. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' losses for the year	**(2,092)**	(539)
Share of the associates' other comprehensive loss	**35,290**	18,013
Aggregate carrying amount of the Group's investments in the associates	**245,356**	178,073

The Group has discontinued the recognition of its share of losses of an associate because the share of losses of that associate exceeded the Group's interest in that associate and the Group has no obligation to take up further losses of that associate. The amounts of the Group's unrecognised share of losses of that associate for the current year and cumulatively were RMB1,523,000 (2018: RMB133,000) and RMB8,359,000 (2018: RMB6,836,000), respectively.

The Group's trade receivable and payable balances with the associates are disclosed in notes 24 and 29 to the financial statements, respectively.

21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Unlisted equity investments, at fair value		
Sinopec Sales Co., Ltd.	**1,243,030**	1,261,664
Haier Kaaosi IOT Ecosystem Technology Limited	**596,610**	—
China-U.S. Industrial Corporation Offshore Partnership, L.P.	**7,866**	—
	1,847,506	1,261,664

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. Details of valuation techniques used to estimate the fair values of the above equity investments are set out in note 46 to the financial statements.

During the year ended 31 December 2019, the Group received dividends in the amount of RMB38,549,000 (2018: RMB104,823,000) from Sinopec Sales Co., Ltd.

22. OTHER NON-CURRENT FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000
Derivative financial instruments	**77,057**	95,519
Non-current portion of wealth management products (note 26)	**294,547**	327,359
	371,604	422,878

The derivative financial instruments arose from acquisition of investee companies in prior years and they are measured at fair value and are categorised in Level 2 or Level 3 (2018: Level 2 or Level 3) of the fair value hierarchy.

Details of wealth management products are set out in note 26 to the financial statements.

23. INVENTORIES

	2019 RMB'000	2018 RMB'000 (Restated)
Raw materials	**98,010**	72,352
Work in progress	**73,763**	56,844
Finished goods	**9,894,307**	8,552,336
	10,066,080	8,681,532

24. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000 (Restated)
Trade receivables	**2,013,429**	3,700,208
Impairment	**(6,085)**	(61,318)
Trade receivables, net	**2,007,344**	3,638,890
Bills receivable	**1,300,172**	1,631,193
	3,307,516	5,270,083

24. TRADE AND BILLS RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally range from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Within 1 month	**1,512,946**	2,888,153
1 to 2 months	**409,477**	486,111
2 to 3 months	**8,512**	70,867
Over 3 months	**76,409**	193,759
	2,007,344	3,638,890

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**61,318**	57,759
Impairment losses, net	**3,869**	3,262
Amount written off as uncollectible	**(1,888)**	(8,300)
Acquisition of subsidiaries	**–**	16,381
Disposal of subsidiaries	**(57,214)**	(7,610)
Amount classified as held for sale	**–**	(174)
At end of year	**6,085**	61,318

The decrease in the loss allowance for the year ended 31 December 2019 was mainly due to the discontinued operation in respect of the Group's logistics business segment with an aggregate gross carrying amount of trade and bills receivables of RMB2,058,635,000 and corresponding loss allowance of RMB57,214,000.

24. TRADE AND BILLS RECEIVABLES (continued)

The increase in the loss allowance for the year ended 31 December 2018 was mainly due to (i) the acquisition of subsidiaries with an aggregate gross carrying amount of trade and bills receivables of RMB465,235,000 and corresponding loss allowance of RMB16,381,000, (ii) the disposal of subsidiaries with an aggregate gross carrying amount of trade and bills receivable of RMB392,856,000 and corresponding loss allowance amount of RMB7,610,000, and (iii) the write-off of certain trade receivable of RMB8,300,000.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	**0.23%**	**0.92%**	**10.61%**	**64.39%**	**0.30%**
Gross carrying amount (RMB'000)	**1,990,192**	**19,233**	**2,319**	**1,685**	**2,013,429**
Expected credit losses (RMB'000)	**4,577**	**177**	**246**	**1,085**	**6,085**

As at 31 December 2018 (restated)

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.08%	7.26%	19.86%	92.51%	1.66%
Gross carrying amount (RMB'000)	3,510,892	101,285	41,811	46,220	3,700,208
Expected credit losses (RMB'000)	2,901	7,357	8,302	42,758	61,318

24. TRADE AND BILLS RECEIVABLES (continued)

Included in the Group's trade and bills receivables are amounts due from Haier Affiliates of RMB1,986,321,000 (2018: RMB1,887,999,000 (restated)) and amounts due from an associate of RMB2,111,000 (2018: Nil). The balance at 31 December 2018 also included amounts due from non-controlling shareholders (and their affiliates) of RMB456,107,000. All of these amounts are repayable on credit terms similar to those offered to the major customers of the Group. Further details of the sales to these related parties are set out in note 14 to the financial statements.

At 31 December 2019, certain of the Group's bills receivable of approximately RMB10,218,000 (2018: RMB35,108,000) were pledged to secure certain of the Group's bills payable (note 29).

At 31 December 2019, certain of the Group's trade receivables of approximately RMB10,880,000 (2018: RMB14,231,000) were pledged to secure loans granted to the Group (note 32).

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000 (Restated)
Current		
Prepayments and other assets (note a)	**2,112,227**	1,966,150
Other receivables (note a)	**1,299,973**	1,236,893
Right-of-return assets	**286,616**	248,905
	3,698,816	3,451,948
Impairment allowance	**(36,914)**	(49,190)
	3,661,902	3,402,758
Non-current		
Long-term prepayments (note b)	**129,979**	760,351
	3,791,881	4,163,109

Notes:

(a) Included in the Group's prepayments, other receivables and other assets are amounts due from Haier Affiliates of RMB1,408,087,000 (2018: RMB1,427,618,000 (restated)) and amounts due from associates of RMB58,542,000 (2018: Nil). The balance at 31 December 2018 also included amounts due from non-controlling shareholders (and their affiliates) of RMB46,097,000. All of these amounts are unsecured, interest-free and repayable on demand.

Prepayments, other receivables and other assets mainly represent prepayments and the deposits with suppliers and other parties. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at the end of the reporting period was 1.00% (2018: 1.42% (restated)). The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

(b) Included in the Group's long-term prepayments are advances made to Haier Affiliates relating to the Group's property, plant and equipment with an aggregate amount of RMB76,355,000 (2018: RMB218,215,000). The amounts are unsecured, interest-free and repayable on demand.

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

The movements in the loss allowance for impairment of prepayments and other receivables are as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
At 1 January	**49,190**	42,236
Impairment losses, net	**(600)**	5,039
Amount written off as uncollectible	**(4,209)**	(2,445)
Acquisition of subsidiaries	**—**	4,660
Disposal of subsidiaries	**(7,467)**	—
Amount classified as held for sale	**—**	(300)
At 31 December	**36,914**	49,190

Notes:

The decrease in the loss allowance for the year ended 31 December 2019 was mainly due to (i) the discontinued operation in respect of the Group's logistics business segment with an aggregate gross carrying amount of prepayments and other receivables of RMB478,987,000 and corresponding loss allowance of RMB7,467,000, and (ii) the write-off of certain prepayments and other receivables of RMB4,209,000.

The increase in the loss allowance for the year ended 31 December 2018 was mainly due to (i) the acquisition of a subsidiary with an aggregate gross carrying amount of prepayments and other receivables of RMB92,492,000 and corresponding loss allowance of RMB4,660,000, and (ii) the impairment of certain prepayments and other receivables with an aggregate gross carrying amount of RMB159,926,000 and corresponding loss allowance of RMB5,039,000.

26. OTHER FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000
Wealth management products	**3,547,252**	4,709,540
Portion classified as non-current (note 22)	**(294,547)**	(327,359)
Current portion	**3,252,705**	4,382,181

As at the end of the reporting period, included in the Group's wealth management products were products with floating returns amounting to RMB493,161,000 (2018: RMB1,895,008,000) which were measured at fair value through profit or loss; and products with fixed returns amounting to RMB3,054,091,000 (2018: RMB2,814,532,000) which were stated at amortised cost. All wealth management products are principal protected. The expected credit losses for the assets measured at amortised cost are immaterial to the Group.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000 (Restated)
Cash and bank balances	**2,575,425**	3,727,678
Time deposits	**12,669,089**	11,724,301
	15,244,514	15,451,979
Less: Cash and bank balances and time deposits pledged for:		
Bills payable (note 29)	**(402,692)**	(397,231)
Bank guarantees	**(7,228)**	(31,671)
	(409,920)	(428,902)
Cash and cash equivalents	**14,834,594**	15,023,077

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB13,851,686,000 (2018: RMB13,485,669,000 (restated)). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of up to three years depending on the immediate cash requirements of the Group, and earn interest at the deposit rates of the respective periods. The bank balances and pledged deposits are deposited with creditworthy banks or financial institutions with no recent history of default.

Included in the Group's cash and cash equivalents are deposits of approximately RMB3,546,644,000 (2018: RMB2,160,392,000 (restated)) placed with Haier Corp Finance Co., Ltd. ("Haier Finance"), which is a fellow subsidiary of the Group and is a financial institution approved by the People's Bank of China. The interest rate on these deposits ranges from 0.39% to 3.20% (2018: 0.30% to 3.20%) per annum. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 14 to the financial statements.

28. ASSET AND DISPOSAL GROUP HELD FOR SALE AND ASSOCIATED LIABILITIES

	2019	2018		
		Asset held for sale	Disposal group held for sale and associated liabilities	Total
	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000
Assets	**–**	106,010	38,081	144,091
Liabilities	**–**	—	32,362	32,362

Notes:

(a) In 2018, the Group agreed to sell its entire 58.08% equity interest in Shengfeng Logistics Co., Ltd. to its non-controlling shareholders for RMB798,354,000, of which 50.37% equity interest was disposed of in 2018, and the remaining 7.71% equity interest was disposed of in 2019.

(b) In 2018, the Group agreed to sell its entire 67.45% equity interest in Shanghai Guangfulai Co., Ltd., a then indirect subsidiary, to its non-controlling shareholders for RMB5,059,000, and the transaction was completed in 2019.

29. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	RMB'000 (Restated)
Trade payables	**5,060,645**	5,732,817
Bills payable	**385,563**	427,953
	5,446,208	6,160,770

29. TRADE AND BILLS PAYABLES (continued)

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Within 1 month	**4,421,564**	4,917,045
1 to 2 months	**229,848**	387,610
2 to 3 months	**29,893**	67,131
Over 3 months	**379,340**	361,031
	5,060,645	5,732,817

The trade and bills payables are non-interest-bearing and are normally settled on credit terms ranging from 30 to 180 days.

Included in the Group's trade payables are amounts due to Haier Affiliates of RMB4,578,048,000 (2018: RMB2,932,987,000 (restated)), which are repayable on credit terms similar to those offered by other similar suppliers of the Group. Further details of the purchases from these related parties are set out in note 14 to the financial statements.

At 31 December 2019, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB402,692,000 (2018: RMB397,231,000 (restated)) (note 27) and the Group's bills receivable amounting to RMB10,218,000 (2018: RMB35,108,000) (note 24).

30. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000 (Restated)
Other payables and accruals	**5,713,317**	5,559,778
Refund liabilities:		
Volume rebate	**1,695,387**	1,357,260
Sales return	**458,580**	371,724
Deferred income	**6,716**	15,396
	7,874,000	7,304,158

Other payables are non-interest-bearing and repayable on demand.

30. OTHER PAYABLES AND ACCRUALS (continued)

Included in the Group's other payables and accruals are amounts due to Haier Affiliates of RMB567,763,000 (2018: RMB625,768,000 (restated)) and amounts due to associates of RMB407,950,000 (2018: Nil). The balance at 31 December 2018 also included amounts due to non-controlling shareholders (and their affiliates) of RMB1,811,000. All of these amounts are unsecured, interest-free and repayable on demand.

As a result of the initial application of IFRS 16, accrued lease payments of RMB5,381,000 previously included in "Other payables and accruals" were adjusted to the right-of-use assets recognised at 1 January 2019, further details of which are set out in note 2.2 to the financial statements.

31. CONTRACT LIABILITIES

Contract liabilities mainly include short-term advances received from customers for sales of products and provision of after-sales and other value-added customer services. The balances at 1 January and 31 December 2018 also included short-term advances received from customers for provision of logistics services.

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)	1 January 2018 RMB'000 (Restated)
Sale of goods	**4,080,340**	4,116,428	4,028,887
Rendering of services	**735**	69,488	114,838
	4,081,075	4,185,916	4,143,725

There were contract liabilities of RMB4,116,428,000 (2018: RMB4,028,887,000 (restated)) and RMB7,148,000 (2018: RMB56,704,000) brought forward from the prior year and recognised during the year as revenue from continuing operations from sales of goods and rendering of services, respectively. The decrease in contract liabilities for the year ended 31 December 2019 was mainly due to the discontinued operation in respect of the Group's logistics business segment with an aggregate carrying amount of RMB61,626,000. The increase in contract liabilities for the year ended 31 December 2018 was mainly due to the increase in short-term advances received from customers.

32. INTEREST-BEARING BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured			**–**	3.88–4.75	2019	20,254
Bank loans — secured	**0.5–2.50**	**2020**	**68,232**	0.09–2.50	2019	48,545
			68,232			68,799
Non-current						
Bank loans — secured	**2.50–3.00**	**2021–2024**	**12,664**	2.50–3.00	2020–2024	23,575
			80,896			92,374
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**68,232**			68,799
In the second year			**4,366**			10,897
In the third to fifth years, inclusive			**8,298**			12,184
Beyond five years			**–**			494
			80,896			92,374

Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying amount at the end of the reporting period of approximately RMB45,383,000 (2018: RMB45,853,000),and certain parcels of the Group's freehold land with an aggregate net carrying amount of approximately RMB9,367,000 (2018: RMB9,464,000); and

(ii) pledge of the Group's trade receivables totalling approximately RMB10,880,000 (2018: RMB14,231,000).

32. INTEREST-BEARING BORROWINGS (continued)

At the end of the reporting period, the Group's interest-bearing borrowings were denominated in the following currencies:

	2019	2018
	RMB'000	RMB'000
Euro	**80,896**	72,120
Renminbi	**–**	20,000
United States dollar	**–**	254
	80,896	92,374

33. PUT OPTION LIABILITIES

The put option liabilities as at 31 December 2019 arose from the put option granted to a non-controlling shareholder of the Group's subsidiary namely, GoT, to sell their respective interests in GoT to the Group at price to be determined based on agreed formulae. It is carried at fair value amounting to RMB54,598,000 and categorised in Level 3 of the fair value measurement.

The put option liabilities as at 31 December 2018 arose from the put options granted to non-controlling shareholders of the Group's subsidiaries namely, GoT, Gooday Logistics and Peiji Logistics, to sell their respective interests in those entities to the Group at prices to be determined based on agreed formulae, and they were carried at fair values amounting to RMB55,959,000, RMB1,587,403,000 and RMB148,960,000, respectively. Subsequent to the completion of the Asset Swap on 26 July 2019, Gooday logistics and Peiji logistics have become associates to the Group. Other than the put option liability attributable to Gooday Logistics which was categorised in Level 2 of the fair value hierarchy, all the put option liabilities were categorised in Level 3 of the fair value hierarchy.

34. PROVISIONS

	2019 RMB'000	2018 RMB'000 (Restated)
Product warranties	**719,446**	696,739
Installation	**325,186**	348,013
	1,044,632	1,044,752
Portion classified as current liabilities	**(710,669)**	(681,432)
Non-current portion	**333,963**	363,320

The movements in provisions are as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
At 1 January	**1,044,752**	1,042,695
Additional provision (note 6)	**1,340,040**	1,118,418
Amounts utilised during the year	**(1,340,160)**	(1,116,361)
At 31 December	**1,044,632**	1,044,752

The Group provides installation services and warranties of three to eight years to its customers for washing machines, water heaters and water purifiers, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volume and past experience of the level of installation services rendered, repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

35. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

Deferred tax assets

	2019					
	Accrued expense RMB'000	**Provisions RMB'000**	**Unrealised profits RMB'000**	**Refund liabilities RMB'000**	**Others RMB'000**	**Total RMB'000**
At 31 December 2018 (as restated)	**237,294**	**117,405**	**206,524**	**206,360**	**118,069**	**885,652**
Effect of adoption of IFRS 16	**—**	**—**	**—**	**—**	**5,843**	**5,843**
At 1 January 2019	**237,294**	**117,405**	**206,524**	**206,360**	**123,912**	**891,495**
Deferred tax credited/(charged) to the statement of profit or loss during the year, net	**(67,661)**	**(7,149)**	**162,851**	**47,801**	**(21,267)**	**114,575**
Deferred tax credited to the statement of other comprehensive income during the year	**—**	**—**	**—**	**—**	**1,863**	**1,863**
Disposal of subsidiaries (note 41)	**—**	**—**	**—**	**—**	**(58,778)**	**(58,778)**
Exchange realignment	**—**	**—**	**—**	**—**	**157**	**157**
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2019	**169,633**	**110,256**	**369,375**	**254,161**	**45,887**	**949,312**

	2018					
	Accrued expense RMB'000	Provisions RMB'000	Unrealised profits RMB'000	Refund liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018 (as restated)	411,009	117,003	157,431	204,482	140,035	1,029,960
Deferred tax credited/(charged) to the statement of profit or loss during the year, net (restated)	(173,715)	402	49,093	1,878	(13,370)	(135,712)
Deferred tax credited to the statement of other comprehensive income during the year	—	—	—	—	2,092	2,092
Acquisition of subsidiaries (note 40)	—	—	—	—	4,957	4,957
Disposal of subsidiaries (note 41)	—	—	—	—	(15,645)	(15,645)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2018	237,294	117,405	206,524	206,360	118,069	885,652

35. DEFERRED TAX (continued)

Deferred tax liabilities

	2019				
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Gain recognised on the remeasurement of fair value of discontinued operation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019 (as restated)	11,566	77,190	–	9,855	98,611
Deferred tax charged/(credited) to the statement of profit or loss during the year, net	(457)	–	664,919	80,376	744,838
Deferred tax charged to the statement of other comprehensive income during the year	–	–	–	17,339	17,339
Disposal of subsidiaries (note 41)	(3,618)	–	–	–	(3,618)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2019	7,491	77,190	664,919	107,570	857,170

	2018			
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	14,809	161,690	1,886	178,385
Deferred tax charged/(credited) to the statement of profit or loss during the year, net	(760)	(84,500)	1,965	(83,295)
Deferred tax charged to the statement of other comprehensive income during the year	–	–	6,004	6,004
Disposal of subsidiaries (note 41)	(2,483)	–	–	(2,483)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2018	11,566	77,190	9,855	98,611

35. DEFERRED TAX (continued)

For presentation purpose, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balance of the Group for financial reporting purpose:

	2019 RMB'000	2018 RMB'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**929,413**	885,652
Net deferred tax liabilities recognised in the consolidated statement of financial position	**837,271**	98,611
Net deferred tax assets	**92,142**	787,041

The Group has tax losses arising in Hong Kong of RMB33,836,000 (2018: RMB34,276,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China and deductible temporary differences of RMB541,324,000 and RMB332,331,000, respectively (2018: RMB549,231,000 and RMB150,223,000, respectively), that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 5% or 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, the Group has recognised deferred tax liabilities of RMB77,190,000 (2018: RMB77,190,000) in relation to withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB23,041,451,000 at 31 December 2019 (2018: RMB18,338,320,000 (restated)). It is not probable that such earnings will be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. ISSUED EQUITY

	Issued equity RMB'000
At 1 January 2018	2,995,491
Exercise of share options	13,678
Exercise of awarded shares	52,480
Shares transferred to participants from the Share Award Scheme Trust	(53,060)
Shares repurchased	(86,225)
At 31 December 2018 and 1 January 2019	**2,922,364**
Exercise of share options	**8,328**
Exercise of awarded shares	**44,723**
Shares transferred to participants from the Share Award Scheme Trust	**(4,940)**
Shares repurchased	**(32,424)**
At 31 December 2019	**2,938,051**

Shares

Company

	2019 HK$'000	2018 HK$'000
Authorised: 30,000,000,000 shares of HK$0.1 each	**3,000,000**	3,000,000

	2019		2018	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid: 2,805,487,778 (2018: 2,803,070,823) shares of HK$0.1 each	**280,549**	**276,293**	280,307	276,084

36. ISSUED EQUITY (continued)

The movements of the Company's issued share capital and share premium account during the year are as follows:

	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2018	2,802,340,407	276,034	2,439,748	2,715,782
Exercise of share options	1,040,345	84	13,594	13,678
Exercise of awarded shares	4,900,071	426	52,054	52,480
Shares transferred to participants from the Share Award Scheme Trust	–	–	(53,060)	(53,060)
Shares repurchased	(5,210,000)	(460)	(85,765)	(86,225)
At 31 December 2018 and 1 January 2019	**2,803,070,823**	**276,084**	**2,366,571**	**2,642,655**
Exercise of share options (note i)	**583,455**	**51**	**8,277**	**8,328**
Exercise of awarded shares (note ii)	**3,570,500**	**314**	**44,409**	**44,723**
Shares transferred to participants from the Share Award Scheme Trust (note iii)	**–**	**–**	**(4,940)**	**(4,940)**
Shares repurchased (note iv)	**(1,737,000)**	**(156)**	**(32,268)**	**(32,424)**
At 31 December 2019	**2,805,487,778**	**276,293**	**2,382,049**	**2,658,342**

36. ISSUED EQUITY (continued)

Notes:

(i) The subscription rights attaching to 583,455 share options were exercised during the year, resulting in the issue of 583,455 shares of HK$0.1 each for a total cash consideration of HK$7,492,000 (equivalent to RMB6,597,000). An amount of RMB1,731,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) The subscription rights attaching to 3,570,500 awarded shares were exercised during the year, resulting in the issue of 3,570,500 shares of HK$0.1 each at nil consideration. An amount of RMB44,723,000 was transferred from the awarded share reserve to the share premium account upon the exercise of the awarded shares.

(iii) During the year, the Company transferred 5,558,398 shares which were held by the Share Award Scheme Trust to participants with no cash consideration under the Restricted Share Award Scheme. An amount of RMB88,122,000 was transferred from the awarded share reserve to the share premium account, and an amount of RMB93,062,000 was credited to shares held for the Restricted Share Award Scheme from the share premium account.

(iv) The Company purchased 1,737,000 of its shares in The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for a consideration of HK$35,767,000 (equivalent to RMB32,424,000). All of the repurchased shares were cancelled during the year and the issued shares of the Company were reduced by the par value thereof. The premium paid on the repurchases of the Company's shares of HK$35,593,000 (equivalent to RMB32,268,000) has been charged to the share premium account of the Company.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 38 to the financial statements.

37. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME

The Group operates a restricted share award scheme (the "Restricted Share Award Scheme"), which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the Restricted Share Award Scheme, the Company may purchase the scheme shares in the open market and hold the purchased shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest or are issued and new scheme shares are allotted to the trustee. The board of the Company has the discretion to decide whether the awarded shares are to be purchased or subscribed.

As at the end of the reporting period, the number of ordinary shares held for the Restricted Share Award Scheme was 5,353,091 (2018: 7,590,843) with an aggregate carrying amount of RMB63,150,000 (2018: RMB97,391,000).

37. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

The following awarded shares were outstanding under the Restricted Share Award Scheme during the year:

	2019		2018	
	Weighted average exercise price per share HK$	Number of awarded shares	Weighted average exercise price per share HK$	Number of awarded shares
At 1 January	**0.05**	**20,006,540**	0.28	22,613,925
Granted during the year	**0.00**	**11,509,100**	0.00	11,649,900
Forfeited/lapsed during the year	**0.00**	**(2,583,460)**	5.95	(912,481)
Exercised during the year	**0.00**	**(9,128,898)**	0.00	(13,344,804)
At 31 December	**0.05**	**19,803,282**	0.05	20,006,540

The weighted average share price at the dates of exercise for awarded shares exercised during the year was HK$19.02 (2018: HK$24.92) per share.

The exercise prices and exercise periods/vesting periods of the awarded shares outstanding as at the end of the reporting period are as follows:

2019			2018		
Number of awarded shares	Exercise price* HK$ per share	Exercise period	Number of awarded shares	Exercise price* HK$ per share	Exercise period
148,400	**6.42**	**08/07/2016–07/07/2020**	148,400	6.42	08/07/2016–07/07/2020

37. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

2019			2018		
Number of awarded shares	**Exercise price* HK$ per share**	**Vesting period#**	Number of awarded shares	Exercise price* HK$ per share	Vesting period#
138,920	**–**	**08/07/2016–01/07/2020****	509,160	–	08/07/2016–01/07/2019
1,441,400	**–**	**03/03/2017–01/07/2020****	7,051,080	–	03/03/2017–01/07/2019
–	**–**	**29/05/2017–01/07/2019**	648,000	–	29/05/2017–01/07/2019
627,078	**–**	**05/07/2018–01/07/2020**	916,100	–	05/07/2018–01/07/2020
135,800	**–**	**12/07/2018–01/07/2020**	135,800	–	12/07/2018–01/07/2020
5,802,584	**–**	**17/09/2018–01/07/2020**	10,598,000	–	17/09/2018–01/07/2020
10,450,000	**–**	**09/10/2019–01/07/2021**	–	–	–
1,059,100	**–**	**24/12/2019–01/07/2021**	–	–	–
19,654,882			19,858,140		

* The exercise price of the awarded shares is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\# The restricted shares will become exercisable once they are vested.

** The vesting period has been extended to 1 July 2020.

The fair values of the awarded shares granted during the year were approximately RMB192,915,000 and RMB23,166,000 (RMB18.46 and RMB21.87 each) (2018: RMB18,712,000, RMB2,757,000 and RMB175,443,000; RMB20.43, RMB20.30 and RMB16.55 each), of which the Group recognised a Restricted Share Award Scheme expense of RMB35,133,000 (2018: RMB48,047,000) during the year ended 31 December 2019.

In respect of the awarded shares granted in the prior years, a Restricted Share Award Scheme expense of RMB86,240,000 (2018: RMB77,043,000) was recognised during the year ended 31 December 2019.

37. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

The fair value of equity-settled awarded shares granted during the year was estimated with reference to the share price at the date of grant, adjusted by the present value of the dividend expected to be received during the vesting period.

The following table lists the inputs to the model used:

	2019	2018
Dividend yield (%)	**1.56–1.87**	1.21–1.51
Risk-free interest rate (%)	**1.642–1.947**	1.670–2.012
Contractual life of awarded shares (year)	**0.52–1.73**	0.79–1.97
Closing price of a share on the date of grant (HK$ per share)	**20.30–24.30**	19.24–24.00

No other feature of the awarded shares granted was incorporated into the measurement of fair value.

During the year, the Company transferred 5,558,398 (2018: 8,444,733) shares which were held by the Share Award Scheme Trust to participants with no cash consideration under the Restricted Share Award Scheme, and the subscription rights attaching to 3,570,500 (2018: 4,900,071) awarded shares were exercised, resulting in the issue of 3,570,500 (2018: 4,900,071) shares of HK$0.1 each with no cash consideration, as further detailed in note 36 to the financial statements.

38. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the share option scheme include any employee, executive or officer of the Group (including executive, non-executive and independent non-executive directors of the Company) and any suppliers, consultants, agents, advisers, shareholders, customers, partners or business associates who, in the opinion of the board of directors of the Company, have contributed to the Group. The Company's current share option scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the date of this report, the share option scheme had a remaining life of around one year.

The maximum number of shares in respect of which options may be granted under the share option scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the share option scheme. The maximum number of shares issuable upon exercise of the options granted under the share option scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in a general meeting.

38. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant and with an aggregate value (based on the closing price of the shares of the Company as at the date of grant) in excess of HK$5,000,000, within any 12-month period, is subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of RMB1 or HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the share option scheme, whichever is earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average of the closing prices of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2019		2018	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**12.84**	**2,454,855**	12.84	3,495,200
Exercised during the year	**12.84**	**(583,455)**	12.84	(1,040,345)
At 31 December	**12.84**	**1,871,400**	12.84	2,454,855

38. SHARE OPTION SCHEME (continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$21.99 (2018: HK$26.13) per share.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2019			2018		
Number of options	Exercise price* HK$ per share	Exercise period	Number of options	Exercise price* HK$ per share	Exercise period
1,871,400	**12.84**	**10/05/2016–10/05/2020**	2,454,855	12.84	10/05/2016–10/05/2020

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option expense was recognised during the years ended 31 December 2019 and 31 December 2018 in respect of the share options granted.

The 583,455 share options exercised during the year resulted in the issue of 583,455 ordinary shares of the Company and new share capital of HK$7,492,000 (equivalent to RMB6,597,000) (before issue expense), as further detailed in note 36 to the financial statements. An amount of RMB1,731,000 was transferred from the share option reserve to issue equity upon the exercise of the share options.

At the end of the reporting period, the Company had 1,871,400 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,871,400 additional ordinary shares of the Company and additional share capital of HK$187,000 (equivalent to RMB167,000) and share premium of HK$23,842,000 (equivalent to RMB21,315,000) (before issue expenses).

Subsequent to the end of the reporting period, a total of 1,258,700 share options with the exercise price of HK$12.84 per share were exercised. At the date of approval of these financial statements, the Company had 612,700 share options outstanding under the share option scheme, which represented approximately 0.02% of the Company's shares in issue as at that date.

39. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 94 to 95 of the annual report.

The Group's capital reduction reserve arose from the reduction in the nominal value of each of the issued shares of the Company from HK$0.10 to HK$0.01 by the cancellation of paid-up capital of HK$0.09 for each of the issued shares of the Company effective from 8 March 2007.

The Group's capital reserve originally represented the difference between the credit arising from the capital reduction of HK$1,657,866,000 (equivalent to RMB1,758,526,000) and the amount transferred to eliminate the accumulated losses of the Group of HK$1,196,370,000 (equivalent to RMB1,186,521,000), and the amount has been subsequently reduced by the amount of dividends declared and/or paid by the Company.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire.

The awarded share reserve comprises the fair value of the awarded shares granted under the Restricted Share Award Scheme as well as the fair value of equity interests of certain subsidiaries of the Group granted to their employees, which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements.

The put option reserve arose from the Group's incentive agreements with non-controlling shareholders of certain subsidiaries, as further detailed in note 33 to the financial statements.

Other reserves mainly represent reserves arising from acquisitions under common control and disposals of subsidiaries without loss of control, deemed disposal and disposal of associates, exercise of convertible and exchangeable bonds, put option reserve for the forfeiture or expiry of incentive agreements with non-controlling shareholders, acquisition from non-controlling interests, capital contributions from non-controlling shareholders as well as dividend income from shares under the Restricted Share Award Scheme.

Pursuant to the relevant PRC laws and regulations, certain of the Group's subsidiaries registered in the PRC are required to transfer a portion of their profits to reserve funds. These funds are non-distributable in the form of cash dividends. When determining the appropriations to these funds, the net profits of these subsidiaries are determined in accordance with the applicable financial rules and regulations of the PRC.

40. BUSINESS COMBINATIONS

2019

On 12 April 2019, the Group made a capital contribution of RMB20,000,000 and a loan of RMB21,633,000 to acquire a 51% equity interest in Shanghai Feisheng International Logistics Co., Ltd. ("Feisheng Logistics"), which is engaged in the logistics service business. The purchase consideration was a contingent consideration to be determined with reference to Feisheng Logistics's annual operating results in the next three years, and the fair value of Feisheng Logistics on acquisition date was RMB52,961,000, and the corresponding amount shared by the non-controlling shareholders was RMB25,951,000. The acquisition was made as part of the Group's strategy to further develop its logistics business.

The Group has elected to measure the non-controlling interests in Feisheng Logistics at the non-controlling interest's proportionate share of Feisheng Logistics's identifiable net assets.

The fair values of the identifiable assets and liabilities of Feisheng Logistics as at the date of acquisition were as follows:

	Note	**Fair value recognised on acquisition RMB'000**
Property, plant and equipment	15	**1,857**
Other intangible assets	19	**2,347**
Trade and bills receivables		**60,403**
Prepayments, other receivables and other assets		**16,852**
Cash and cash equivalents		**4,629**
Trade and bills payables		**(15,269)**
Other payables and accruals		**(43,373)**
Contract liabilities		**(2,811)**
Interest-bearing borrowings		**(15,027)**
Tax payable		**(68)**
Total identifiable net assets at fair value		**9,540**
Non-controlling interests		**(4,675)**
		4,865
Goodwill on acquisition	18	**21,086**
		25,951
Satisfied by:		
Non-controlling interests		**25,951**

40. BUSINESS COMBINATIONS (continued)

2019 (continued)

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, other receivables and other assets as at the date of acquisition were RMB60,403,000 and RMB16,852,000, respectively.

The Group incurred transaction costs of RMB130,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The initial amount of the contingent consideration recognised was RMB25,951,000 which was determined using the Monte Carlo simulation model and is within Level 3 fair value measurement. The final consideration amount is subject to final measurement as of 31 March 2022. At the date of approval of this financial information, no further significant changes to the consideration are expected.

Significant unobservable valuation inputs for the fair value measurement of the contingent consideration are as follows:

Projected profit before tax of Feisheng Logistics	RMB6,593,000 to RMB14,082,000
Net income volatility	15.87%
Discount rate	2.37%

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances acquired	**4,629**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**4,629**
Transaction costs of the acquisition included in cash flows used in operating activities	**(130)**
	4,499

Since the acquisition, Feisheng Logistics contributed RMB1,577,000 to the consolidated profit for the year ended 31 December 2019, which was included in the discontinued operation of the Group.

40. BUSINESS COMBINATIONS (continued)

2018

On 6 July 2018, the Group acquired a 60% equity interest in Peiji Logistics, which is engaged in the freight forwarding business at a cash consideration of RMB163,145,000, of which RMB114,534,000 has been paid during the year and RMB48,611,000 remained unsettled as at 31 December 2018. The acquisition was made as part of the Group's strategy to further develop its logistics business.

The Group has elected to measure the non-controlling interests in Peiji Logistics at the non-controlling interest's proportionate share of Peiji Logistics's identifiable net assets.

The fair values of the identifiable assets and liabilities of Peiji Logistics as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	3,538
Other intangible assets	19	16
Deferred tax assets	35	4,957
Long term prepayments		2,460
Inventories		23,062
Trade and bills receivables		448,854
Prepayments, other receivables and other assets		87,832
Cash and cash equivalents		10,700
Trade and bills payables		(314,992)
Other payables and accruals		(80,544)
Contract liabilities		(5,670)
Interest-bearing borrowings		(165,000)
Tax payable		(14,315)
Total identifiable net assets at fair value		898
Non-controlling interests		1,163
		2,061
Goodwill on acquisition	18	161,084
		163,145
Satisfied by:		
Cash		114,534
Other payables		48,611
		163,145

40. BUSINESS COMBINATIONS (continued)

2018 (continued)

The fair values of the trade and bills receivables and prepayments, other receivables and other assets as at the date of acquisition were RMB448,854,000 and RMB87,832,000, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to RMB465,235,000 and RMB92,492,000, respectively, of which trade and bills receivables and other receivables of RMB16,381,000 (note 24) and RMB4,660,000 (note 25), respectively, are expected to be uncollectible.

The Group incurred transaction costs of RMB5,944,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid during the year	(114,534)
Cash and bank balances acquired	10,700
Net outflow of cash and cash equivalents included in cash flows from investing activities	(103,834)
Transaction costs of the acquisition included in cash flows used in operating activities	(5,944)
	(109,778)

Since the acquisition, Peiji Logistics contributed RMB27,468,000 to the consolidated profit for the year ended 31 December 2018, which was included in the discontinued operation of the Group.

41. DISPOSAL OF SUBSIDIARIES

	Notes	2019 RMB'000	2018 RMB'000
Net assets disposed of:			
Property, plant and equipment	15	**2,115,050**	273,926
Right-of-use assets	17(b)	**2,052,386**	—
Prepaid land lease payments	17(a)	**—**	57,008
Goodwill	18	**285,779**	317,955
Other intangible assets	19	**56,629**	2,437
Investments in associates		**791**	93,216
Long-term prepayments		**76,123**	10,302
Deferred tax assets	35	**58,778**	15,645
Inventories		**46,365**	56,688
Trade and bills receivables		**2,619,564**	400,306
Prepayments, other receivables and other assets		**475,130**	158,190
Other financial assets		**2,074,028**	—
Pledged deposits		**7,990**	200
Cash and cash equivalents		**947,233**	70,644
Asset and disposal group held for sale		**124,812**	—
Trade and bills payables		**(2,167,312)**	(138,730)
Other payables and accruals		**(813,192)**	(71,742)
Contract liabilities		**(59,442)**	(58,553)
Interest-bearing borrowings		**(12,000)**	(130,000)
Lease liabilities	17(c)	**(1,023,583)**	—
Tax payable		**(84,489)**	(4,581)
Liabilities directly associated to the assets classified as held for sale		**(14,097)**	—
Deferred income		**(88,677)**	(11,083)
Deferred tax liabilities	35	**(3,618)**	(2,483)
Put option liabilities		**(1,771,164)**	—
Exchange fluctuation reserve		**—**	405
Non-controlling interests		**(1,904,194)**	(287,808)
		2,998,890	751,942
Gain on disposal of subsidiaries, net		**181,275**	79,275
Gain recognised on the remeasurement of fair value of the discontinued operation	11	**3,190,703**	—
Gain recognised on disposal of the discontinued operation	11	**636,575**	—
		7,007,443	831,217

41. DISPOSAL OF SUBSIDIARIES (continued)

	2019 RMB'000	2018 RMB'000
Satisfied by:		
Investments in associates	**5,376,919**	—
Deemed distributions for business combination under common control	**1,073,524**	—
Cash	**1,000**	703,110
Other receivables	**—**	22,097
Asset classified as held for sale	**—**	106,010
Equity investment designated at fair value through other comprehensive income	**556,000**	—
	7,007,443	831,217

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2019 RMB'000	2018 RMB'000
Cash consideration received	**1,000**	703,110
Cash and bank balances disposed of	**(947,493)**	(70,644)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(946,493)**	632,466
Analysed into:		
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(17,593)**	632,466
Net outflow of cash and cash equivalents in respect of the discontinue operation	**(928,900)**	—

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB497,481,000 and RMB305,564,000, respectively, in respect of lease arrangements for buildings and plant and machinery (2018: Nil).

During the year ended 31 December 2018, the Group purchased property, plant and equipment by endorsing bills receivable with an aggregate carrying amount of RMB14,968,000.

(b) Changes in liabilities arising from financing activities

	Other payables and accruals in relation to financing activities RMB'000	Interest-bearing borrowings RMB'000	Lease liabilities RMB'000
At 31 December 2018	35,257	92,374	—
Effect of business combinations under common control	5,199	—	—
Effect of adoption of IFRS 16	—	—	1,038,011
At 1 January 2019 (restated)	**40,456**	**92,374**	**1,038,011**
Changes from financing cash flows	**(68,117)**	**(24,965)**	**(297,089)**
New leases	**—**	**—**	**305,564**
Accretion of interest recognised	**—**	**—**	**30,269**
Foreign exchange movement	**—**	**(646)**	**—**
Acquisition of subsidiaries	**—**	**15,027**	**—**
Interest expense	**3,200**	**—**	**—**
Amounts reclassified as held for sale	**—**	**11,106**	**—**
Disposal of subsidiaries	**(22,514)**	**(12,000)**	**(1,023,583)**
Dividends payable to non-controlling shareholders	**40,706**	**—**	**—**
Dividends payable to the then holding company of a subsidiary	**13,799**	**—**	**—**
At 31 December 2019	**7,530**	**80,896**	**53,172**

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

	Other payables and accruals in relation to financing activities RMB'000 (Restated)	Interest-bearing borrowings RMB'000
At 1 January 2018	44,359	192,624
Changes from financing cash flows	(188,176)	(125,100)
Foreign exchange movement	—	956
Acquisition of subsidiaries	14,970	165,000
Shares purchased for the Restricted Share Award Scheme	(18,492)	—
Interest expense	10,908	—
Disposal of subsidiaries	(3,095)	(130,000)
Amounts reclassified as held for sale	—	(11,106)
Dividends payable to non-controlling shareholders settled by offsetting against trade receivables	(6,859)	—
Dividends payable to non-controlling shareholders	181,642	—
Dividends payable to the then holding company of a subsidiary	5,199	—
At 31 December 2018	40,456	92,374

(c) Total cash outflow for leases

	2019 RMB'000
Within operating activities	**208,254**
Within financing activities	**297,089**
	505,343

43. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

44. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**662,957**	1,306,208

Included in the Group's commitment are amounts attributable to Haier Affiliates of RMB65,117,000 (2018: RMB21,212,000).

(b) Operating lease commitments as at 31 December 2018

The Group leased certain properties under operating lease arrangements. Leases for properties were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	763,749
In the second to fifth years, inclusive	756,703
After five years	94,916
	1,615,368

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2019

	Financial assets at fair value through profit or loss — designated as such upon initial recognition	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost	Total
		Debt investments	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	1,847,506	–	1,847,506
Other non-current financial assets	371,604	–	–	–	371,604
Trade receivables (note 24)	–	–	–	2,007,344	2,007,344
Bills receivable (note 24)	–	1,300,172	–	–	1,300,172
Other receivables (note 25)	–	–	–	1,299,720	1,299,720
Other financial assets	198,614	–	–	3,054,091	3,252,705
Pledged deposits	–	–	–	409,920	409,920
Cash and cash equivalents	–	–	–	14,834,594	14,834,594
	570,218	1,300,172	1,847,506	21,605,669	25,323,565

31 December 2018 (restated)

	Financial assets at fair value through profit or loss — designated as such upon initial recognition	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost	Total
		Debt investments	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	1,261,664	–	1,261,664
Other non-current financial assets	422,878	–	–	–	422,878
Trade receivables (note 24)	–	–	–	3,638,890	3,638,890
Bills receivable (note 24)	–	1,631,193	–	–	1,631,193
Other receivables (note 25)	–	–	–	1,231,424	1,231,424
Other financial assets	1,567,649	–	–	2,814,532	4,382,181
Pledged deposits	–	–	–	428,902	428,902
Cash and cash equivalents	–	–	–	15,023,077	15,023,077
	1,990,527	1,631,193	1,261,664	23,136,825	28,020,209

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

31 December 2019

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	5,446,208	5,446,208
Financial liabilities included in other payables and accruals	—	4,889,674	4,889,674
Interest-bearing borrowings	—	80,896	80,896
Lease liabilities	—	53,172	53,172
Put option liabilities	54,598	—	54,598
	54,598	10,469,950	10,524,548

31 December 2018 (restated)

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	6,160,770	6,160,770
Financial liabilities included in other payables and accruals	—	4,677,294	4,677,294
Interest-bearing borrowings	—	92,374	92,374
Put option liabilities	1,792,322	—	1,792,322
Other non-current liabilities	5,705	—	5,705
	1,798,027	10,930,438	12,728,465

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**1,847,506**	1,261,664	**1,847,506**	1,261,664
Other non-current financial assets	**371,604**	422,878	**371,604**	422,878
Bills receivable	**1,300,172**	1,631,193	**1,300,172**	1,631,193
Other financial assets	**198,614**	1,567,649	**198,614**	1,567,649
	3,717,896	4,883,384	**3,717,896**	4,883,384
Financial liabilities				
Put option liabilities	**54,598**	1,792,322	**54,598**	1,792,322
Interest-bearing borrowings	**80,896**	92,374	**80,580**	92,247
Other non-current liabilities	**–**	5,705	**–**	5,705
	135,494	1,890,401	**135,178**	1,890,274

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, certain other financial assets measured at amortised cost, trade receivables, other receivables, trade and bills payables and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of unlisted equity investments in Sinopec Sales Co., Ltd, which was designated at fair value through other comprehensive income, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires management to determine comparable public companies (peers) based on industry and place of business, and to calculate an appropriate price multiple, such as price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. Management believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period. The fair values of the remaining unlisted equity investments designated at fair value through other comprehensive income are determined with reference to their respective latest available transaction prices.

(b) The fair values of derivative financial investments included in other non-current financial assets have been estimated using the Black-Scholes model and the discounted cash flow model, based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of equity interests. The management believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period. The fair values of the remaining other non-current financial assets are determined with reference to their respective latest available transaction prices.

(c) The fair values of put option liabilities have been estimated using the discounted cash flow model by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, or by the combination of the discounted cash flow model and the Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates.

The Group invests in unlisted investments, which represent wealth management products included in other financial assets issued by banks in Mainland China and Hong Kong. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of bills receivable and interest-bearing borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing borrowings as at 31 December 2019 was assessed to be insignificant.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/E multiple of peers	2019: 16.92 to 17.27 (2018: 15.61 to 15.92)	1% increase (decrease) in multiple would result in increase (decrease) in fair value by RMB12,429,000 (RMB12,429,000) (2018: RMB12,615,000 (RMB12,615,000))
		Discount for lack of marketability	2019: 9% to 11% (2018: 14% to 16%)	1% increase (decrease) in the risk-free interest rate would result in decrease (increase) in fair value by RMB13,810,000 (RMB13,810,000) (2018: RMB14,841,000 (RMB14,841,000))

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair values:
As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	596,610	1,250,896	1,847,506
Other non-current financial assets	–	357,383	14,221	371,604
Bills receivable	–	1,300,172	–	1,300,172
Other financial assets	–	198,614	–	198,614
	–	2,452,779	1,265,117	3,717,896

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	1,261,664	1,261,664
Other non-current financial assets	–	376,859	46,019	422,878
Bills receivable	–	1,631,193	–	1,631,193
Other financial assets	–	1,567,649	–	1,567,649
	–	3,575,701	1,307,683	4,883,384

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair values:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	–	–	54,598	54,598

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	–	1,587,403	204,919	1,792,322
Other non-current liabilities	–	–	5,705	5,705
	–	1,587,403	210,624	1,798,027

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing borrowings	**–**	**80,580**	**–**	**80,580**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing borrowings	–	92,247	–	92,247

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, lease liabilities and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in Mainland China and Hong Kong in currencies other than the units' functional currencies (i.e., RMB or Hong Kong dollar). The Group does not enter into any hedging transactions for reducing the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax RMB'000
31 December 2019		
If RMB strengthens against the United States dollar	**5**	**(27,519)**
If RMB weakens against the United States dollar	**(5)**	**27,519**
31 December 2018		
If RMB strengthens against the United States dollar	5	(20,273)
If RMB weakens against the United States dollar	(5)	20,273

Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, and financial assets included in prepayments, other receivables and other assets and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group trades only with recognised and creditworthy third parties and Haier Affiliates. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise cash and cash equivalents, pledged deposits, and financial assets included in prepayments, other receivables and other assets and other financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments and they were all classified within stage 1 as at 31 December 2019 (2018: stage 1), which is mainly based on past due information unless other information is available without undue cost or effort.

Since the Group trades only with recognised and creditworthy third parties and Haier Affiliates, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors. The credit risk of the Group's trade and bills receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts and the Group applies the simplified approach in calculating ECLs of its trade and bills receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and other receivables are respectively disclosed in notes 24 and 25 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings and lease liabilities. It is the Group's policy to renew its loan agreements with major local banks where the Group operates upon the maturity of the Group's short and long term borrowings when funding is needed.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2019

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	—	5,446,208	—	5,446,208
Financial liabilities included in other payables and accruals	4,889,674	—	—	4,889,674
Interest-bearing borrowings	—	69,184	13,238	82,422
Lease liabilities	—	33,332	22,821	56,153
Put option liabilities	—	—	60,045	60,045
	4,889,674	5,548,724	96,104	10,534,502

31 December 2018 (restated)

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	—	6,160,770	—	6,160,770
Financial liabilities included in other payables and accruals	4,677,294	—	—	4,677,294
Interest-bearing borrowings	—	75,328	19,093	94,421
Put option liabilities	—	—	2,020,042	2,020,042
Other non-current liabilities	—	—	7,297	7,297
	4,677,294	6,236,098	2,046,432	12,959,824

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors working capital using a gearing ratio, which is total debt divided by total equity. The Group's policy is to maintain the gearing ratio not exceeding 50%. Total debt includes interest-bearing borrowings. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Interest-bearing borrowings	**80,896**	92,374
Total equity	**29,637,919**	26,185,697
Gearing ratio	**0.3%**	0.4%

48. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2020, the Group entered into acquisition agreements with third parties to acquire 75.96% of the equity interest in Qingdao Gooday Lejia IOT Technology Co., Ltd at a cash consideration of RMB562,420,000. This acquisition was completed on 23 January 2020.

(b) Subsequent to the end of the reporting period, a total of 1,258,700 share options with the exercise price of HK$12.84 per share were exercised.

(c) The outbreak of coronavirus disease 2019 ("COVID-19") was first reported in December 2019. It has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact of the COVID-19 on the Group's businesses and has commenced to put in place various measures to mitigate such impact.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,893,737**	2,354,887
Investments in an associate	**497,828**	—
Equity investments designated at fair value through other comprehensive income	**149,310**	—
Other non-current financial assets	**294,547**	327,359
Due from subsidiaries	**1,757,584**	1,716,747
Total non-current assets	**4,593,006**	4,398,993
CURRENT ASSETS		
Prepayments, other receivables and other assets	**63,206**	60,748
Other financial assets	**311,944**	339,408
Cash and cash equivalents	**1,027,643**	1,823,965
Total current assets	**1,402,793**	2,224,121
CURRENT LIABILITIES		
Due to subsidiaries	**69,385**	—
Other payables and accruals	**41,925**	68,376
Total current liabilities	**111,310**	68,376
NET CURRENT ASSETS	**1,291,483**	2,155,745
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,884,489**	6,554,738
NON-CURRENT LIABILITIES		
Due to subsidiaries	**—**	69,446
Deferred tax liabilities	**1,031**	—
Total non-current liabilities	**1,031**	69,446
Net assets	**5,883,458**	6,485,292
EQUITY		
Issued capital	**276,293**	276,084
Shares held for the Restricted Share Award Scheme	**(63,150)**	(97,391)
Reserves (note)	**5,670,315**	6,306,599
Total equity	**5,883,458**	6,485,292

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Contributed surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Exchange fluctuation reserve RMB'000	Other Comprehensive reserve RMB'000	Other reserves RMB'000	Total reserve RMB'000
At 1 January 2018	2,439,748	1,540,881	425	6,020	144,509	(55,757)	(229,491)	–	35,396	3,881,731
Total comprehensive income for the year	–	–	–	–	–	2,883,299	317,748	–	–	3,201,047
Issue of shares	65,648	–	–	(2,843)	(52,480)	–	–	–	–	10,325
Shares transferred to participants from the Share Award Scheme Trust	(53,060)	–	–	–	(90,444)	–	–	–	–	(143,504)
Dividend income of shares under the Restricted Share Award Scheme	–	–	–	–	–	–	–	–	3,080	3,080
Transfer of awarded share reserve upon the expiry of awarded shares	–	–	–	–	(4,336)	4,336	–	–	–	–
Restricted Share Award Scheme arrangements	–	–	–	–	125,090	–	–	–	–	125,090
Shares repurchased	(85,765)	–	(425)	–	–	425	–	–	–	(85,765)
Final 2017 dividend	–	(685,405)	–	–	–	–	–	–	–	(685,405)
At 31 December 2018 and 1 January 2019	**2,366,571**	**855,476**	**–**	**3,177**	**122,339**	**2,832,303**	**88,257**	**–**	**38,476**	**6,306,599**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**183,576**	**102,668**	**9,279**	**–**	**295,523**
Issue of shares	**52,686**	**–**	**–**	**(1,731)**	**(44,723)**	**–**	**–**	**–**	**–**	**6,232**
Shares transferred to participants from the Share Award Scheme Trust	**(4,940)**	**–**	**–**	**–**	**(88,122)**	**–**	**–**	**–**	**–**	**(93,062)**
Dividend income of shares under the Restricted Share Award Scheme	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,482**	**2,482**
Restricted Share Award Scheme arrangements	**–**	**–**	**–**	**–**	**121,373**	**–**	**–**	**–**	**–**	**121,373**
Shares repurchased	**(32,268)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,268)**
Final 2018 dividend	**–**	**(780,485)**	**–**	**–**	**–**	**(156,079)**	**–**	**–**	**–**	**(936,564)**
At 31 December 2019	**2,382,049**	**74,991**	**–**	**1,446**	**110,867**	**2,859,800**	**190,925**	**9,279**	**40,958**	**5,670,315**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders subject to the Companies Act 1981 of Bermuda (as amended) and Bye-laws of the Company.

50. COMPARATIVE AMOUNTS

As further explained in note 2.1 and note 11 to the financial statements, due to the application of merger accounting for business combinations under common control, as well as the classification of the Bingji Group as a discontinued operation, the comparative amounts have been restated.

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**75,879,970**	76,335,602	71,316,298	57,874,526	57,400,300
Cost of sales	**(59,348,597)**	(60,403,519)	(56,965,474)	(46,332,569)	(46,948,566)
Gross profit	**16,531,373**	15,932,083	14,350,824	11,541,957	10,451,734
Other income and gains	**1,645,312**	799,650	738,010	630,221	745,661
Selling and distribution expenses	**(10,793,062)**	(10,036,256)	(9,090,586)	(7,156,172)	(6,421,220)
Administrative expenses	**(2,379,548)**	(2,152,319)	(1,945,517)	(1,660,108)	(1,642,256)
Other expenses and losses	**(7,879)**	(9,549)	(48,623)	(69,482)	(21,064)
Finance costs	**(4,870)**	(1,699)	(4,623)	(37,863)	(61,894)
Share of profits and losses of associates	**95,992**	(538)	4,141	(27,323)	11,714
PROFIT BEFORE TAX	**5,087,318**	4,531,372	4,003,626	3,221,230	3,062,675
Income tax expense	**(882,117)**	(801,069)	(761,616)	(630,207)	(552,868)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**4,205,201**	3,730,303	3,242,010	2,591,023	2,509,807
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**3,312,865**	367,266	353,442	252,935	182,621
PROFIT FOR THE YEAR	**7,518,066**	4,097,569	3,595,452	2,843,958	2,692,428
Attributable to:					
Owners of the Company	**7,350,810**	3,844,497	3,383,322	2,798,966	2,681,465
Non-controlling interests	**167,256**	253,072	212,130	44,992	10,963
	7,518,066	4,097,569	3,595,452	2,843,958	2,692,428

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**50,057,892**	47,876,748	44,435,332	37,022,173	30,917,811
TOTAL LIABILITIES	**(20,419,973)**	(21,691,051)	(21,094,739)	(18,445,016)	(14,999,664)
NON-CONTROLLING INTERESTS	**(417,730)**	(2,175,293)	(2,375,995)	(953,824)	(977,829)
	29,220,189	24,010,404	20,964,598	17,623,333	14,940,318

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