THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult a licenced securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your HEG Shares, you should at once hand this Scheme Document and the enclosed forms of proxy to the purchaser or transferee or to the bank, licenced securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Scheme Document is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of HSH or HEG, nor is it an invitation or offer to or a solicitation of any offer to acquire, purchase or subscribe for securities of HSH or HEG in any jurisdiction in which such invitation, offer, solicitation or sale would be unlawful absent the filing of a registration statement or the availability of an applicable exemption from registration or other waiver. This Scheme Document is not for release, publication or distribution in or into any other jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

HAIER SMART HOME CO., LTD.*
海爾智家股份有限公司
(a joint stock company incorporated in the People's Republic of China with limited liability)

HAIER ELECTRONICS GROUP CO., LTD.
海爾電器集團有限公司*
(Incorporated in Bermuda with Limited Liability)
(Stock Code: 1169)

(1) PROPOSED PRIVATISATION OF HAIER ELECTRONICS GROUP CO., LTD. BY HAIER SMART HOME CO., LTD. BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT AND (2) PROPOSED WITHDRAWAL OF LISTING OF HEG SHARES

Joint Financial Advisers to HSH

CICC 中金公司

J.P.Morgan

Financial Adviser to HEG

UBS

Valuation Adviser to HSH

PLATINUM Securities

Independent Financial Adviser to the Independent Board Committee

SOMERLEY CAPITAL LIMITED

Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the HEG Board is set out in Part VI of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Disinterested Scheme Shareholders in relation to the Privatisation Proposal and the Scheme is set out in Part VII of this Scheme Document. A letter from Somerley Capital Limited, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Privatisation Proposal and the Scheme is set out in Part VIII of this Scheme Document. An Explanatory Statement regarding the Scheme is set out in Part IX of this Scheme Document.

The actions to be taken by the HEG Shareholders are set out in Part III of this Scheme Document.

Notices convening the Court Meeting to be held at 9:30 a.m. on Wednesday, 9 December 2020 and the SGM to be held at 10:00 a.m. on Wednesday, 9 December 2020 (or so soon thereafter as the Court Meeting has concluded or adjourned) are set out in Appendix J and Appendix K to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with the share registrar and transfer office of HEG in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than the respective times and dates as stated under Part III – Actions to be Taken of this Scheme Document. The **white** form of proxy in respect of the SGM will not be valid if it is not so lodged. In the case of the **pink** form of proxy in respect of the Court Meeting, if it is not so lodged, it may also be handed to the chairman of the Court Meeting (who shall have absolute discretion as to whether or not to accept it) at the Court Meeting.

Completion and return of a form of proxy in respect of the Court Meeting or the SGM will not preclude you from attending and voting in person at the Court Meeting or the SGM (as the case may be), or any adjournment of the relevant meeting, should you so wish. In such event, the returned form of proxy will be deemed to have been revoked by operation of law.

Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), HEG will implement the following prevention and control measures at the Court Meeting and the SGM to protect HEG Shareholders from the risk of infection:

(i) compulsory body temperature checks will be conducted for every attending HEG Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;

(ii) every attending HEG Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting and the SGM; and

(iii) no refreshments will be served at the Court Meeting and/or the SGM.

Furthermore, HEG wishes to advise all of the HEG Shareholders, particularly any HEG Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting and/or the SGM as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting and/or the SGM in person.

HEG will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the Court Meeting and/or the SGM.

This Scheme Document is issued jointly by HSH and HEG.

The English language texts of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language texts in the event of any inconsistency.

* *For identification purpose only*

16 November 2020

CONTENTS

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

"Acceleration"	has the meaning ascribed to it in the section headed "3. HEG RESTRICTED SHARE AWARD SCHEME" in Part VI – Letter from the HEG Board of this Scheme Document
"acting in concert"	has the meaning ascribed to it in the Takeovers Code and "concert parties" shall be construed accordingly
"affiliate"	in relation to an individual, that individual's relatives (whether close or distant, including any spouse, child (including adopted child and step-child), parent or sibling of that individual), any person which is controlled by that individual and/or that individual's relatives (whether close or distant and whether acting individually or together) ("**Controlled Entity**") and any affiliate of a Controlled Entity; and in relation to any person other than an individual, any other person that (directly or indirectly) controls, is controlled by or is under common control with such person
"associates"	has the meaning ascribed to it in the Takeovers Code
"Bank Facility"	the HK$3,500,000,000 (or its equivalent in US dollars) term loan facility agreement dated 31 July 2020 entered into by HEG as borrower and DBS Bank Ltd., Hong Kong Branch as lender
"Beneficial Owner"	any beneficial owner of the HEG Shares whose HEG Shares are registered in the name of a Registered Owner other than himself or herself
"Bond Terms and Conditions"	has the meaning ascribed to it in the section headed "4. HSH EXCHANGEABLE BONDS – 4.1. General Information" in Part IX – Explanatory Statement of this Scheme Document
"Bondholders"	the holders of the HSH Exchangeable Bonds
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"Cash Payment"	subject to the Scheme becoming effective and as part of the Scheme, the payment of HK$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Participant"	a person admitted to participate in CCASS as a participant
"China Clear"	China Securities Depository and Clearing Corporation Limited
"CICC"	China International Capital Corporation Hong Kong Securities Limited, a company incorporated in Hong Kong with limited liability and licenced under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and the Scheme
"CMM"	China Market Monitor Co., LTD, a provider of market research focusing on the retail research of the consumer goods market in the PRC
"Companies Act"	the Companies Act 1981 of Bermuda (as amended)
"Condition(s)"	the condition(s) to the implementation of the Privatisation Proposal as described in the section headed "2. THE PRIVATISATION PROPOSAL AND THE SCHEME – 2.6. Conditions of the Privatisation Proposal and the Scheme" in "Part IX – Explanatory Statement" of this Scheme Document
"COSMO"	Haier COSMO IoT Ecosystem Technology Co., Ltd. (海爾卡奧斯物聯生態科技有限公司)
"Court"	the Supreme Court of Bermuda
"Court Hearing"	the hearing of the petition by the Court for the sanction of the Scheme
"Court Meeting"	the meeting of the Scheme Shareholders convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, to be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong at 9:30 a.m. on Wednesday, 9 December 2020, notice of which is set out in Appendix J to this Scheme Document, or any adjournment thereof
"Court Order"	the order of the Court pursuant to Section 99(2) of the Companies Act sanctioning the Scheme

"CSRC"	China Securities Regulatory Commission
"Delisting"	the delisting of the HEG Shares from the Main Board of the Stock Exchange
"Director(s)"	the director(s) of HEG
"Disinterested Scheme Shareholder(s)"	the Scheme Shareholder(s) other than the HSH Concert Parties
"Disinterested Scheme Share(s)"	HEG Share(s) held by the Disinterested Scheme Shareholders
"EB-to-CB Proposal"	has the meaning ascribed to it in the section headed "4. HSH EXCHANGEABLE BONDS – 4.3. EB-to-CB Proposal" in Part IX – Explanatory Statement of this Scheme Document
"Enlarged HSH Group"	HSH Group together with the privatised HEG
"Euro"	Euro, the lawful currency of the member states of the European Union
"Euromonitor"	Euromonitor International (Shanghai) Co., Ltd., an independent market research and consulting company
"Exchange Business Day"	a day other than a Saturday, Sunday or public holiday on which banks are open for business in the city in which the specified office of the registrar of the HSH Exchangeable Bonds (if a certificate in respect of the HSH Exchangeable Bonds is deposited with it in connection with a transfer) or the transfer agent of the HSH Exchangeable Bonds with whom a certificate in respect of the HSH Exchangeable Bonds is deposited in connection with a transfer, is located
"Exchange Date"	has the meaning ascribed to it in the Bond Terms and Conditions
"Exchange Property"	has the meaning ascribed to it in the Bond Terms and Conditions
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
"Explanatory Statement"	the explanatory statement set out on pages 97 to 146 of this Scheme Document issued in compliance with Section 100 of the Companies Act
"Fractional Shares"	the 502 HEG Shares arising as a result of the aggregation of fractional entitlements to consolidated shares in the

	share consolidation of HEG as disclosed in the announcement, the circular and the announcement of HEG dated 24 January 2007, 6 February 2007 and 8 March 2007, respectively, and which arose by operation of law and have remained in the issued share capital of HEG with no registered holder
"FRL"	Flourishing Reach Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of HSH
"Haier Ecological Investment"	Qingdao Haier Ecological Investment Co., Ltd.
"Haier Electric Appliances"	Haier Electric Appliances International Co., Ltd., a company incorporated under the laws of the PRC and a non-wholly owned subsidiary of Haier Group
"Haier Group"	Haier Group Corporation, a company incorporated under the laws of the PRC and is the controlling shareholder of HSH
"Harvest"	Harvest International Company, a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of HS (HK)
"HCH (HK)"	HCH (HK) Investment Management Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect subsidiary of Haier Group. HCH (HK) is principally engaged in investment holding activities
"HEG" or "Company"	Haier Electronics Group Co., Ltd., a company incorporated in Bermuda with limited liability, the HEG Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1169)
"HEG 2019 Final Dividend"	the final dividend for the year ended 31 December 2019 of HK$49 cents per HEG Share in cash paid to HEG shareholders on 3 August 2020 whose names appeared on the register of members of HEG on 3 July 2020
"HEG Board"	the board of directors of HEG
"HEG Group"	HEG and its subsidiaries
"HEG Operational Update Announcement"	the announcement issued by HEG dated 29 October 2020 in relation to, amongst others, operational updates of the HEG Group for the nine months ended 30 September 2020
"HEG Profit Forecast"	has the meaning ascribed to it in the section headed "4. HEG Operational Update Announcement" in Appendix A — Financial Information of HEG of this Scheme Document

"HEG Restricted Share Award Scheme"	the restricted share award scheme of HEG which has been approved by the HEG Board on 15 April 2014 and renewed by an addendum on 15 April 2019, for the benefits of the employees of the HEG Group, in its present form or as amended from time to time in accordance with its rules
"HEG Share Awards"	a maximum of 105,000,000 HEG Shares which may from time to time be purchased or otherwise acquired and/or issued and allotted to the HEG Trustee pursuant to the HEG Restricted Share Award Scheme (as renewed by an addendum on 15 April 2019)
"HEG Shareholder(s)"	the registered holder(s) of the HEG Share(s)
"HEG Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of HEG
"HEG Trustee"	Bank of Communications Trustee Limited, a professional trustee who is an independent third party not associated or connected with HEG or its connected persons appointed by HEG for the administration of the HEG Restricted Share Award Scheme
"HKI/HIC Restricted Share Award Schemes"	the restricted share award schemes adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited (each being a wholly-owned subsidiary of Haier Group) for the benefit of their respective participants, in their present form or as amended from time to time in accordance with their rules, and HKI/HIC Restricted Share Award Scheme means any of the aforementioned scheme. Under the rules of those schemes, the selected participants will, after the vesting of awards made, either be entitled to HEG Shares or cash, except that awards granted to any selected participant who is a Director or a chief executive of HEG will only be cash-settled
"HKI/HIC Trustee"	Bank of Communications Trustee Limited (i.e. Bank of Communications Trustee Limited – T144 and Bank of Communications Trustee Limited – T168), a professional trustee who is an independent third party not associated or connected with Haier (HK) Investment Co., Limited or Haier International Co., Limited (as the case may be) or its respective connected persons appointed by Haier (HK) Investment Co., Limited and Haier International Co., Limited (as the case may be) for the administration of the corresponding HKI/HIC Restricted Share Award Scheme
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HS (HK)"	Haier Shareholdings (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HSH
"HSH"	Haier Smart Home Co., Ltd. (海爾智家股份有限公司), a joint stock company incorporated on 28 April 1989 in the PRC with limited liability whose A shares are listed on the Shanghai Stock Exchange (stock code: 600690) and whose D shares are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D)
"HSH 2019 Final Dividend"	the final dividend for the year ended 31 December 2019 of RMB0.375 per HSH Share in cash paid to HSH Shareholders whose names appeared on the register of members of HSH on 15 July 2020
"HSH A Shareholder(s)"	the holder(s) of HSH A Shares
"HSH A Shares"	the A shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange (stock code: 600690)
"HSH A Shares Class Meeting"	the class meeting of the HSH A Shareholders held on 1 September 2020 approving, among other things, the Privatisation Proposal and the transactions contemplated thereunder
"HSH Board"	the board of directors of HSH
"HSH Concert Parties"	parties acting in concert with HSH in relation to HEG, including Haier Group, HCH (HK), the HKI/HIC Trustee, the directors of each of HSH and Haier Group, CICC and J.P. Morgan (except for the relevant members of the CICC group and J.P. Morgan group which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code), each of which is presumed under the Takeovers Code to be acting in concert with HSH in relation to HEG
"HSH Convertible Bonds"	has the meaning ascribed to it in the section headed "4. HSH EXCHANGEABLE BONDS – 4.3. EB-to-CB Proposal" in Part IX – Explanatory Statement of this Scheme Document
"HSH D Shareholder(s)"	the holder(s) of HSH D Share(s)

"HSH D Shares"	the D shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are listed and traded on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange (stock code: 690D)
"HSH D Shares Class Meeting"	the class meeting of the HSH D Shareholders held on 1 September 2020 approving, among other things, the Privatisation Proposal and the transactions contemplated thereunder
"HSH Exchangeable Bonds"	HK$8,000,000,000 Zero Coupon Guaranteed Exchangeable Bonds due on 21 November 2022, which are listed on the Stock Exchange (stock code: 5024)
"HSH General Meeting"	the general meeting of HSH held on 1 September 2020 approving, amongst other things, the Privatisation Proposal and the transactions contemplated thereunder
"HSH Group"	HSH and its subsidiaries
"HSH H Shares"	overseas listed foreign shares in the ordinary share capital of HSH, with a nominal value of RMB1.00 each, which are to be traded in HK$ and which are to be listed on the Stock Exchange pursuant to the Introduction
"HSH Shareholder(s)"	holder(s) of HSH Shares
"HSH Shares"	ordinary shares of HSH, comprising both HSH A Shares and HSH D Shares
"Independent Board Committee"	the independent board committee of HEG established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders in respect of the Privatisation Proposal and the Scheme
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licenced to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by HEG with the approval of the Independent Board Committee in respect of the Privatisation Proposal and the Scheme
"Independent HSH Shareholders"	the HSH Shareholders other than Haier Group, Haier Electric Appliances, their concert parties, being Qingdao Haier Venture & Investment Information Co., Ltd. and Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), Haier International Co., Limited and any related shareholder as defined under the SSE Listing Rules

"Initial Adjustment Date"	the 11^{th} trading date after the date on which the Cash Payment is paid by HEG
"Introduction"	the proposed Listing of HSH by way of introduction on the Main Board of the Stock Exchange
"Investor Participant"	a person admitted to participate in CCASS as an investor participant
"J.P. Morgan"	J.P. Morgan Securities (Asia Pacific) Limited, a company incorporated in Hong Kong with limited liability and licenced under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and the Scheme
"Joint Financial Advisers"	CICC and J.P. Morgan, the financial advisers to HSH in connection with the Privatisation Proposal and the Scheme
"Last Trading Day"	29 July 2020, being the last day on which the HEG Shares were traded on the Stock Exchange prior to the publication of the Rule 3.5 Announcement
"Latest Practicable Date"	the latest practicable date prior to the printing of this Scheme Document for the purpose of ascertaining certain information contained herein, being 13 November 2020
"Listing"	the listing of, and permission to deal in, the HSH H Shares on the Main Board of the Stock Exchange
"Listing Document"	the listing document dated the same date as this Scheme Document and published by HSH in connection with the Introduction, a copy of which is set out in Appendix F to this Scheme Document
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Macau"	the Macau Special Administrative Region of the PRC
"MAR Announcement"	the announcement dated 31 August 2020 issued by HSH in relation to certain announcements relating to the material asset restructuring of HSH which were published on the Shanghai Stock Exchange on the same date
"Meeting Record Date"	Wednesday, 9 December 2020, or such other time and date as may be announced to the HEG Shareholders, being the record date for the purpose of determining the entitlement of Scheme Shareholders to attend and vote at the Court

	Meeting and the entitlement of HEG Shareholders to attend and vote at the SGM
"NDRC"	the National Development and Reform Commission of the PRC (國家發展和改革委員會)
"Non-Qualifying Overseas Shareholders"	has the meaning ascribed to it in the section headed "16. OVERSEAS SHAREHOLDERS" in "Part IX – Explanatory Statement" of this Scheme Document
"Offer Period Commencement Date"	16 December 2019, being the date on which HSH and HEG respectively first issued an announcement pursuant to Rule 3.7 of the Takeovers Code in relation to, among others, the proposed privatisation of HEG
"PRC" or "China"	the People's Republic of China (for the purpose of this Scheme Document, excluding Hong Kong, Macau and Taiwan)
"Pre-Conditions"	the pre-conditions to the making of the Privatisation Proposal as described in the section headed "2. TERMS OF THE PRIVATISATION PROPOSAL – 2.6. Pre-Conditions to the making of the Privatisation Proposal" in Part VI – Letter from the HEG Board of this Scheme Document
"Privatisation Proposal"	the proposal for the privatisation of HEG by HSH by way of the Scheme and the withdrawal of the listing of the HEG Shares from the Stock Exchange
"Put Option"	has the meaning ascribed to it in the section headed "4. HSH EXCHANGEABLE BONDS – 4.1 General Information" in Part IX – Explanatory Statement of this Scheme Document
"Put Option Date"	has the meaning ascribed to it in the section headed "4. HSH EXCHANGEABLE BONDS – 4.1 General Information" in Part IX – Explanatory Statement of this Scheme Document
"Reference Exchange Rate"	RMB1.00: HK$1.1707
"Registered Owner"	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of HEG as a holder of HEG Shares
"Registers"	the principal and branch registers of members of HEG kept in Bermuda and Hong Kong, respectively

"Relevant Period"	the period commencing from 16 June 2019 (being the date falling six months prior to the Offer Period Commencement Date) and ending on the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"Rule 3.5 Announcement"	the announcement dated 31 July 2020 jointly issued by HSH and HEG pursuant to Rule 3.5 of the Takeovers Code
"Rule 3.5 Announcement Date"	31 July 2020, being the date of the Rule 3.5 Announcement
"R&D"	research and development
"Scheme"	a scheme of arrangement under Section 99 of the Companies Act involving, among other matters, the cancellation of all of the Scheme Shares and making of the Cash Payment upon the Scheme becoming effective
"Scheme Document"	this scheme document to be despatched to all HEG Shareholders containing, among other things, further details of the Privatisation Proposal and the Scheme
"Scheme Effective Date"	the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Act, being the date on which a copy of the Court Order is delivered to the Registrar of Companies in Bermuda for registration pursuant to Section 99(3) of the Companies Act, and which is expected to be 18 December 2020 (Bermuda time)
"Scheme Long Stop Date"	30 June 2021 or such later date as may be agreed by HSH and HEG, or to the extent applicable, as the Court may direct and, in all cases, as permitted by the Executive
"Scheme Record Time"	Friday, 18 December 2020, or such other time and date as may be announced to the HEG Shareholders, being the record time for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
"Scheme Shareholder(s)"	the registered holder(s) of the Scheme Shares
"Scheme Share(s)"	all of the HEG Shares in issue and such further HEG Shares as may be issued prior to the Scheme Record Time, other than those held by HSH and those held by any of its wholly-owned subsidiaries (including but not limited to FRL). For the avoidance of doubt, the Scheme Shares shall include HEG Shares held by the other HSH Concert Parties, but will not include the Fractional Shares

"Selected Person"	the nominee selected by HSH (i) to which the HSH H Shares representing fractional entitlements of the Scheme Shareholders to HSH H Shares under the Scheme will be allotted and to sell on the market the fractional entitlements of the Scheme Shareholders to HSH H Shares, and (ii) to which the HSH H Shares which would otherwise have been allotted to the Non-Qualifying Overseas Shareholders pursuant to the Scheme will be allotted and to sell on the market such HSH H Shares so allotted, further details of which are set out in the section headed "16. OVERSEAS SHAREHOLDERS" in Part IX – Explanatory Statement of this Scheme Document
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the HEG Shareholders convened to consider and if thought fit, approve, among other things, the necessary resolutions for the implementation of the Privatisation Proposal, to be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong at 10:00 a.m. on Wednesday, 9 December 2020 (or, so soon thereafter as the Court Meeting has concluded or adjourned), notice of which is set out in Appendix K to this Scheme Document
"Share Exchange Ratio"	the exchange ratio of 1.60 new HSH H Shares for every Scheme Share cancelled under the Scheme
"Share Registrar"	Tricor Tengis Limited, the Hong Kong branch share registrar and transfer office of HEG
"Southbound Investors"	has the meaning ascribed to it in Part V – Questions and Answers of this Scheme Document
"SSE Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (revised in April 2019)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Track Record Period"	1 January 2017 to 30 June 2020
"trading day"	a day on which the Stock Exchange is open for the business of dealings in securities

"UBS"	UBS AG (acting through its Hong Kong Branch), a registered institution under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to HEG in relation to the Privatisation Proposal. UBS AG is incorporated in Switzerland with limited liability
"US" or "United States"	the United States of America
"US Securities Act"	the US Securities Act of 1933 (as amended), including the related rules and regulations promulgated thereunder
"Valuation Adviser" or "Platinum Securities"	Platinum Securities Company Limited, the adviser appointed by HSH to value the HSH H Shares and which is a corporation licenced to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Valuation Report"	the valuation report issued by the Valuation Adviser on the value of the HSH H Shares as at 12 November 2020

In this Scheme Document, the Reference Exchange Rate of RMB1.0000: HK$1.1707 are used for illustration purposes only. There is no assurance that any sum in RMB can be converted to HK dollars at the Reference Exchange Rate or at all.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Court Hearing and the Scheme Effective Date, which are the relevant dates in Bermuda. For reference only, Bermuda time is 12 hours behind Hong Kong time as at the Latest Practicable Date.

All statements, other than statements of historical facts included in this Scheme Document, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as "seek", "expect", "envisage", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "may" and "might". These statements reflect HSH's or HEG's (as the case may be) current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties.

Accordingly, actual results may differ materially from those described in such forward-looking statements as a result of a number of factors, including, without limitation:

(a) the satisfaction of the Conditions to the Privatisation Proposal and the Scheme;

(b) any changes in the regulatory regime and significant policies for the PRC electronic appliances industry or any changes in the regulatory policies of the relevant government authorities of the PRC;

(c) any changes in the effects of competition on the market demand and sale price of the products manufactured by HSH and HEG; and

(d) any changes in political, economic, legal and social conditions in the PRC and other countries in which HSH and/or HEG operates.

Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. HEG Shareholders and investors should not place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to HSH or HEG or persons acting on behalf of either of them are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included herein are made only as of the date of this Scheme Document. Subject to the requirements of the applicable laws, rules and regulations, including the Takeovers Code, neither HSH nor HEG undertake any obligation to update publicly or revise any forward-looking statements contained in this Scheme Document.

HEG Shareholders and potential investors of HSH and HEG should be aware that the implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. HEG Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

ACTIONS TO BE TAKEN BY HEG SHAREHOLDERS

1. Actions to be taken by HEG Shareholders

HEG Shareholders who are entitled to attend and vote at the Court Meeting and the SGM are those whose names appear on the register of members of HEG on Wednesday, 9 December 2020. In order to qualify to vote at the Court Meeting and the SGM, all transfers of HEG Shares accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 3 December 2020. A subsequent purchaser of HEG Shares will need to obtain a proxy form from the transferor if he or she wishes to attend or vote at the Court Meeting or the SGM.

Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a HEG Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The pink form of proxy for use at the Court Meeting should be lodged no later than 9:30 a.m. on Monday, 7 December 2020, which is not less than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof. The pink form of proxy may also be handed to the chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting before the taking of the poll. The white form of proxy for use at the SGM should be lodged no later than 10:00 a.m. on Monday, 7 December 2020, which is not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof, failing which it will not be valid.

The completion and return of a form of proxy for the Court Meeting and/or the SGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the SGM, you will still be bound by the outcome of the Court Meeting and/or the SGM if, among other things, the resolutions are passed by the requisite majorities of the Scheme Shareholders, the Disinterested Scheme Shareholders or HEG Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and/or the SGM in person or by proxy.

Voting at the Court Meeting and the SGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

HEG and HSH will make an announcement in relation to the results of the Court Meeting and the SGM on Wednesday, 9 December 2020 by no later than 7:00 p.m. and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the Court Hearing, the expected Scheme Record Time, the expected Scheme Effective Date and the expected date of withdrawal of listing of HEG Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Each Scheme Shareholder holding more than one Scheme Share is only entitled to submit not more than two proxy forms for the Court Meeting. For the purposes of calculating the "majority in number" requirement at the Court Meeting, if more than one proxy form is submitted by a Scheme Shareholder and the voting instructions from him are contradictory (i.e. one set requires his proxy to vote for, and the other set requires his proxy to vote against, the Scheme), and such Scheme Shareholder or his proxy/proxies fails to indicate to the chairman of the Court Meeting whether the Scheme Shareholder chooses to vote in favour of or against the Scheme, the chairman of the Court Meeting shall have absolute discretion to determine if such Scheme Shareholder is voting in favour of or against the Scheme according to the majority of the total number of Scheme Shares voted by him.

2. Actions to be taken by Beneficial Owners whose HEG Shares are held by a Registered Owner or deposited in CCASS

No person will be recognised by HEG as holding any HEG Shares on trust.

If you are a Beneficial Owner whose HEG Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party (other than HKSCC Nominees Limited), you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which HEG Shares beneficially owned by you should be voted at the Court Meeting and/or the SGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally, you should:

(a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the SGM and, for such purpose, the Registered Owner may appoint you as his/her/its proxy; or

(b) arrange for some or all of HEG Shares registered in the name of the Registered Owner to be transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the bye-laws of HEG.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in page 18 of this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the SGM will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof should he/she/it so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court

Meeting and/or the SGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the SGM, such Beneficial Owner should comply with the requirements of such Registered Owner.

If you are a Beneficial Owner whose HEG Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HEG Shares with, a CCASS Participant regarding voting instructions to be given to such persons, or alternatively arrange for some or all of such HEG Shares to be withdrawn from CCASS and transferred into your own name prior to the Meeting Record Date, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM. The procedure for voting in respect of the Scheme by the Investor Participants and the other CCASS Participants with respect to HEG Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "*General Rules of CCASS*" and the "*CCASS Operational Procedures*" in effect from time to time.

Only Scheme Shareholders whose Scheme Shares are registered in their own names in the register of members of HEG on the Meeting Record Date will be counted as HEG Shareholders for the purpose of calculating whether or not a majority in number of HEG Shareholders have approved the Scheme at the Court Meeting under section 99 of the Companies Act. In accordance with the direction from the Court, HKSCC Nominees Limited will be counted as one Scheme Shareholder and may vote for or against the Scheme according to the majority of voting instructions as represented by the HEG Shares it receives. Beneficial Owners who wish to individually vote or be counted for such purposes should make arrangements to be registered as a HEG Shareholder and become the registered owner of some or all of the HEG Shares they beneficially own prior to the Meeting Record Date.

3. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A HEG SHAREHOLDER OR A BENEFICIAL OWNER, YOU ARE STRONGLY URGED TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE SGM.

IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR HEG SHARES. IF YOU KEEP ANY HEG SHARES IN A SHARE LENDING PROGRAMME, YOU ARE STRONGLY URGED TO RECALL ANY OUTSTANDING HEG SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING HEG SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU

SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR HEG SHARES PRIOR TO THE MEETING RECORD DATE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR LICENCED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

The following expected timetable takes into account the procedures of the Court for the Scheme. The expected timetable is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the expected timetable.

All references to times and dates are references to Hong Kong times and dates, except as otherwise specified. For reference only, Bermuda time is 12 hours behind Hong Kong time as at the Latest Practicable Date.

Date of despatch of this Scheme Document	Monday, 16 November 2020
Last day for Bondholders to exchange the HSH Exchangeable Bonds into HEG Shares in order to become HEG Shareholders to qualify for attending and voting at the Court Meeting and the SGM *(Note 1)*	Wednesday, 18 November 2020
Last day for Bondholders to exchange the HSH Exchangeable Bonds into HEG Shares and in order to become HEG Shareholders to qualify for entitlements under the Scheme *(Note 1)*	Wednesday, 25 November 2020
Latest time for lodging transfers of HEG Shares to qualify for attending and voting at the Court Meeting and the SGM	4:30 p.m. on Thursday, 3 December 2020
Closure of the register of members of HEG for determining the entitlement to attend and vote at the Court Meeting and the SGM *(Note 2)*	Friday, 4 December 2020 to Wednesday, 9 December 2020 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting *(Note 3)*	9:30 a.m. on Monday, 7 December 2020
Latest time for lodging forms of proxy in respect of the SGM*(Note 3)*	10:00 a.m. on Monday, 7 December 2020
Meeting Record Date	Wednesday, 9 December 2020
Court Meeting *(Note 4)*	9:30 a.m. on Wednesday, 9 December 2020
SGM *(Note 4)*	10:00 a.m. on Wednesday, 9 December 2020 (or so soon thereafter as the Court Meeting has been concluded or adjourned)
Announcement of the results of the Court Meeting and the SGM published on the Stock Exchange's website and HEG's website	no later than 7:00 p.m. on Wednesday, 9 December 2020
Expected last day for trading in the HEG Shares on the Stock Exchange	Friday, 11 December 2020
Latest time for lodging transfers of HEG Shares to qualify for entitlements under the Scheme	4:30 p.m. on Wednesday, 16 December 2020

Closure of the register of members of HEG for determining entitlement of the Scheme Shareholders under the Scheme *(Note 5)*	From Thursday, 17 December 2020 onwards
Court Hearing for sanctioning the Scheme	Thursday, 17 December 2020 *(Bermuda time)*
Announcement of (i) the results of the Court Hearing; (ii) the expected Scheme Record Time; (iii) the expected Scheme Effective Date; and (iv) the expected date of withdrawal of listing of the HEG Shares to be published on the Stock Exchange's website and HEG's website	at or before 8:30 a.m. on Friday, 18 December 2020
Scheme Record Time	4:30 p.m. on Friday, 18 December 2020
Scheme Effective Date *(Note 7)*	Friday, 18 December 2020 *(Bermuda time)*
Announcement of (1) the Scheme Effective Date and (2) the withdrawal of listing of the HEG Shares on the Stock Exchange's website and HEG's website	at or before 8:30 a.m. on Monday, 21 December 2020
Despatch of certificates for the new HSH H Shares to be issued pursuant to the Scheme and the Listing *(Notes 6 and 8)*	Monday, 21 December 2020
Withdrawal of the listing of the HEG Shares on the Stock Exchange becomes effective *(Notes 6 and 9)*	9:00 a.m. on Tuesday, 22 December 2020
Dealings in the HSH H Shares on the Stock Exchange expected to commence at *(Note 6)*	9:00 a.m. on Tuesday, 22 December, 2020
EB-to-CB Proposal becomes effective *(Note 10)*	Tuesday, 22 December, 2020
Latest time to despatch cheques for payment of the Cash Payment to the Scheme Shareholders	Wednesday, 30 December 2020

HEG Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. *Pursuant to the Bond Terms and Conditions, HSH and FRL will take all necessary action to procure the transfer of HEG Shares to exchanging Bondholders and the delivery of such HEG Shares to such exchanging Bondholder or its nominee as provided for in the relevant exchange notice through CCASS in accordance with prevailing laws, rules, regulations and procedures of CCASS effective from time to time within 10 business days after the Exchange Date. References to "**business day**" in the Bond Terms and Conditions mean a day on which both CCASS and the share registrar and transfer office of HEG in Hong Kong are open for business for trade, settlement of the HEG Shares and for registration of HEG Share transfers. The Exchange Date is the Exchange Business Day immediately following the date of due delivery of the relevant exchange notice and, if applicable, the making of any payment to be made and the giving of any indemnity and/or security to be given under the Bond Terms and Conditions in connection with the exercise of such exchange right.*

   Bondholders are reminded that although HSH and FRL will take all necessary action to procure the transfer and delivery of HEG Shares to the relevant exchanging Bondholders as soon as practicable, there is no guarantee that transfer and delivery of the HEG Shares can be completed before the 10th business day after the Exchange Date. As the register of members of HEG will be closed from Thursday, 17 December 2020 onwards for determining entitlement of the Scheme Shareholders under the Scheme, there is no *guarantee that HSH and FRL will be able to transfer and deliver HEG Shares to the relevant exchanging Bondholders in respect of any exercise of exchange right after Wednesday, 25 November 2020. Upon exchange, the right of the exchanging Bondholder to repayment of any amount of principal or premium (if any) of the HSH Exchangeable Bond to be exchanged will be extinguished and released and the principal amount of the HSH Exchangeable Bonds will be reduced to reflect such exchange on the Exchange Date.*

Bondholders are urged to deliver an exchange notice and make all relevant arrangements (including providing sufficient details to its broker, dealer, bank, custodian, trust company or other nominee or other intermediary) as early as possible if they intend to be a Scheme Shareholder to attend and vote at the Court Meeting and the SGM and/or to participate in the Scheme. Bondholders are also advised to check with any broker, dealer, bank, custodian, trust company or other nominee or other intermediary through which they hold the HSH Exchangeable Bonds to confirm whether such intermediary requires that it receive instructions for such Bondholder related to the exchange before the deadlines specified above.

Bondholders are strongly advised to refer to the separate announcements published by Harvest in relation to the HSH Exchangeable Bonds (under Stock Code: 5024) on the website of the Stock Exchange (www.hkexnews.hk) on the same day as the date of this Scheme Document and from time to time in the manner as provided under the Bond Terms and Conditions and in accordance with the Listing Rules for further information in relation to the HSH Exchangeable Bonds.

2. *The closure of the register of members of HEG during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements of Scheme Shareholders and Disinterested Scheme Shareholders to attend and vote at the Court Meeting and the HEG Shareholders to attend and vote at the SGM, respectively.*

3. *Forms of proxy should be lodged with the share registrar and transfer office of HEG in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates stated above. In the case of the **pink** forms of proxy for use at the Court Meeting, they may alternatively be handed to the chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting. Completion and return of the relevant form of proxy for the Court Meeting or the SGM will not preclude a Scheme Shareholder, a Disinterested Scheme Shareholder or a HEG Shareholder, as the case may be, from attending the relevant meeting and voting in person. In such event, the relevant form of proxy returned will be deemed to have been revoked by operation of law.*

4. *The Court Meeting and the SGM will be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong, at the times and dates specified above. Please see the notice of the Court Meeting set out in "Appendix J – Notice of Court Meeting" to this Scheme Document and the notice of the SGM set out in "Appendix K – Notice of SGM" to this Scheme Document.*

5. *Subject to the requisite approval having been obtained at the Court Meeting and the SGM, the register of members of the Company will be closed from Thursday, 17 December 2020 onwards for the purposes of determining the entitlements under the Scheme.*

6. *If the approval for the Listing is not granted on or prior to Friday, 18 December 2020, the certificates for the new HSH H Shares will not be despatched on Monday, 21 December 2020, dealings in the HSH H Shares on the Stock Exchange will not commence on Tuesday, 22 December 2020, and the listing of the HEG Shares on the Stock Exchange will also not be withdrawn on Tuesday, 22 December 2020. In such event, HSH will make an announcement of the above and of a revised timetable as soon as practicable.*

7. *The Scheme will become effective upon all the Conditions set out in the section headed "2. THE PRIVATISATION PROPOSAL AND THE SCHEME – 2.6 Conditions of the Privatisation Proposal and the Scheme" in Part IX – Explanatory Statement of this Scheme Document having been satisfied or validly waived (as applicable) on or before the Scheme Long Stop Date. HEG Shareholders will be advised by an announcement of the exact date upon which the Scheme becomes effective.*

8. *The share certificates for the new HSH H Shares to be issued pursuant to the Scheme and the Listing as cancellation consideration for the Scheme Shares are expected to be despatched to the Scheme Shareholders (other than the Non-Qualifying Overseas Shareholders) on Monday, 21 December 2020. Each Scheme Shareholder (other than the Non-Qualifying Overseas Shareholders) will be sent one share certificate representing all HSH H Shares. Such share certificates will not become valid unless the formal letter of approval for the Listing is obtained, and the Introduction has become effective. Investors who trade in the HSH H Shares prior to the receipt of the HSH H Share certificates or prior to the HSH H Share Certificates becoming valid do so entirely at their own risk.*

9. *If the Scheme becomes effective, it is expected that the listing of the HEG Shares on the Stock Exchange will be withdrawn with effect from 9:00 a.m. on Tuesday, 22 December 2020, being the second Business Day following the Scheme Effective Date. The listing of the HEG Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective.*

10. *The EB-to-CB Proposal will become effective upon all the relevant conditions set out in the section headed "4. HSH EXCHANGEABLE BONDS – 4.3 EB-to-CB Proposal" in Part IX – Explanatory Statement of this Scheme Document having been obtained or completed. The Bondholders will be advised by an announcement published by Harvest in relation to the HSH Exchangeable Bonds or the then HSH Convertible Bonds (under Stock Code: 5024) on the website of the Stock Exchange (www.hkexnews.hk) in relation to the exact date upon which the EB-to-CB Proposal becomes effective.*

The following are some of the questions you, as a Scheme Shareholder, may have and the answers to those questions. **However, you are urged to read this entire Scheme Document, including the Appendices, carefully.**

1. What is the purpose of this Scheme Document? What is the Court Meeting and the SGM? What is the Court Hearing?

The purpose of this Scheme Document is to provide you with further information regarding the Privatisation Proposal and, in particular, the Scheme, and the expected timetable, to give you notices of the Court Meeting and the SGM and to inform you of the date and place of the Court Hearing.

The Court Meeting will be convened to obtain the Scheme Shareholders' approval of the Scheme. The SGM will be convened to obtain all HEG Shareholders' approval of the capital reduction of HEG by the cancellation of the Scheme Shares, the issue of the HEG Shares to HSH, the capital reduction of HEG by the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled standing in the share premium account of HEG and other applicable accounts in the reserves of HEG, in connection with the Scheme and, for the purposes as elaborated in the section headed "12. SCHEME SHARES, COURT MEETING AND THE SGM" in Part VI – Letter from the HEG Board, the capital reduction of HEG by cancellation of the Fractional Shares. The Fractional Shares will not be voted on at the Court Meeting and the SGM. All Scheme Shareholders will be entitled to attend the Court Meeting and vote on the Scheme. However, as HSH Concert Parties are not Disinterested Scheme Shareholders, their votes will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code, as set out in Condition (b) in the section headed 2. THE PRIVATISATION PROPOSAL AND THE SCHEME – 2.6 Conditions of the Privatisation Proposal and the Scheme" in Part IX – Explanatory Statement of this Scheme Document. All HEG Shareholders will be entitled to attend and vote at the SGM.

If the requisite approval from the Scheme Shareholders / Disinterested Scheme Shareholders / the HEG Shareholders is obtained at the Court Meeting and the SGM respectively, at the Court Hearing, the Court will hear the petition for the sanction of the Scheme. The Court Hearing is expected to take place on Thursday, 17 December 2020 (Bermuda time). An announcement will also be issued in relation to the date and time of the Court Hearing.

2. What are the Privatisation Proposal and the Scheme?

Please see the section headed "2. THE PRIVATISATION PROPOSAL AND THE SCHEME" in Part IX – Explanatory Statement of this Scheme Document for a discussion of the Privatisation Proposal and the consideration you will be entitled to receive under the Privatisation Proposal and the section headed "2.6. Conditions of the Privatisation Proposal and the Scheme" in Part IX – Explanatory Statement of this Scheme Document for a discussion of the conditions of the Privatisation Proposal and the Scheme.

The Scheme is a scheme of arrangement under Section 99 of the Companies Act between HEG and the Scheme Shareholders involving the cancellation of all of the Scheme Shares.

Upon the Scheme becoming effective, the Scheme will be binding on HEG and all of the Scheme Shareholders, regardless of whether such Scheme Shareholders attended or voted at the Court

Meeting or the SGM, and HEG will become a wholly-owned subsidiary of HSH (assuming that EB-to-CB Proposal becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result). In addition, each of HSH and any of its wholly-owned subsidiaries that holds HEG Shares has undertaken to the Court to be bound by the terms of the Scheme.

3. What is the position of the Independent Board Committee with regard to the Privatisation Proposal?

The Independent Board Committee, having considered the terms of the Privatisation Proposal and taken into account the advice of the Independent Financial Adviser, considers that the terms of the Privatisation Proposal are fair and reasonable so far as the Disinterested Scheme Shareholders are concerned, details of which set out in the letter from the Independent Board Committee. You are urged to read carefully the letter from the Independent Board Committee set out on pages 42 to 43 of this Scheme Document and the letter from the Independent Financial Adviser to the Independent Board Committee, set out in pages 44 to 96 of this Scheme Document.

4. What are "fractional entitlements" to HSH H Shares under the Scheme and how will they be dealt with?

Fractional entitlements to HSH H Shares will arise under the Scheme because Scheme Shareholders will receive, among others, 1.60 HSH H Shares for each Scheme Share held as at the Scheme Record Time and accordingly a Scheme Shareholder's aggregate entitlement may not be an exact multiple of a whole HSH H Share.

Fractions of HSH H Shares will not be allotted to the Scheme Shareholders under the Scheme. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and sold on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

5. What vote is required from the HEG Shareholders and the Scheme Shareholders in order for the Scheme to be approved?

The Scheme must be approved in the following manner:

(a) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

(b) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders; and

(c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH of such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG (such cancellation of share premium constitutes a reduction in the issued share capital of HEG under the Companies Act).

6. How will the votes at the Court Meeting and the SGM be counted?

All Scheme Shareholders will be entitled to attend the Court Meeting and vote on the Scheme. However, as HSH Concert Parties are not Disinterested Scheme Shareholders, their votes will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code, as set out in Condition (b) in the section headed "2. THE PRIVATISATION PROPOSAL AND THE SCHEME – 2.6 Conditions of the Privatisation Proposal and the Scheme" in "Part IX – Explanatory Statement" of this Scheme Document. All HEG Shareholders will be entitled to attend and vote at the SGM.

At the Court Meeting, the Disinterested Scheme Shareholders who are present and voting either in person or by proxy will be entitled to vote on all of their respective Scheme Shares in favour of the Scheme or against the Scheme. Alternatively, the Disinterested Scheme Shareholders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their Scheme Shares against the Scheme.

The "majority in number" requirement at the Court Meeting will be met if the number of such Scheme Shareholders voting in favour of the Scheme exceeds the number of such Scheme Shareholders voting against the Scheme. For the purpose of calculating the "majority in number" requirement, if a Scheme Shareholder votes all of his HEG Shares in favour of the Scheme (or against the Scheme), he will be counted as one Scheme Shareholder voting in favour of the Scheme (or against the Scheme) in respect of the number of his HEG Shares so voted. If a Scheme Shareholder elects to vote a portion of his HEG Shares in favour of the Scheme and the balance of his HEG Shares against the Scheme in person or by proxies, he or his proxy shall indicate to the chairman of the Court Meeting whether he chooses to vote in favour of or against the Scheme. If he fails to so indicate, the chairman of the Court Meeting shall have absolute discretion to count such Scheme Shareholder as one Scheme Shareholder and to determine if he is voting in favour of or against the Scheme according to the majority of the total number of Scheme Shares voted by him. Scheme Shares held in CCASS are registered in the name of HKSCC Nominees Limited. For the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under section 99 of the Companies Act, only Scheme Shareholders whose Scheme Shares are registered in their own names in the register of HEG Shareholders will be counted as HEG Shareholders. In accordance with the direction from the Court, HKSCC Nominees Limited will be counted as one

Scheme Shareholder and may vote for or against the Scheme according to the majority of voting instructions as represented by the HEG Shares it receives. If any Beneficial Owner of Scheme Shares held in CCASS wishes to ensure that he is counted for the purposes of calculating a "majority in number" at the Court Meeting, he may elect to become a HEG Shareholder of record by withdrawing his Scheme Shares or at least some of his Scheme Shares from CCASS and becoming a registered holder of such Scheme Shares.

If a proxy has been appointed to represent more than one Scheme Shareholder at the Court Meeting, for the purpose of calculating the "majority in number" requirement, he will be counted as one Scheme Shareholder for each of the Scheme Shareholders he represents.

At the SGM, every HEG Shareholder present and voting either in person or by proxy will be entitled to vote all of his HEG Shares in favour of a special resolution for (i) the capital reduction of HEG by the cancellation of the Scheme Shares, (ii) the issue of the HEG Shares to HSH, and (iii) the capital reduction of HEG by cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, standing in the share premium account of HEG or other applicable accounts in the reserves of HEG, in connection with the Scheme, and another special resolution, for the purposes as elaborated in the section headed "12. SCHEME SHARES, COURT MEETING AND THE SGM" in Part VI – Letter from the HEG Board, for the capital reduction of HEG by the cancellation of the Fractional Shares, or against any of them. Alternatively, such HEG Shareholders may vote some of their HEG Shares in favour of and some against any of the special resolutions. At the SGM, each of the special resolutions will be passed if the number of the HEG Shares voted in favour of it is at least three-fourths of the total number of the HEG Shares voted at the SGM.

7. I am a registered HEG Shareholder. How do I vote on the Privatisation Proposal?

If you are a registered Scheme Shareholder, you may vote in person or by proxy at the Court Meeting (during which the Scheme will be voted on). However, if you are not a Disinterested Scheme Shareholder, your votes will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code. In addition, if you are a registered HEG Shareholder, you may vote in person or by proxy at the SGM (during which the capital reduction of HEG by the cancellation of the Scheme Shares, the issue of HEG Shares to HSH in connection with the Scheme, the capital reduction of HEG by the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, standing in the share premium account of HEG and other applicable accounts in the reserves of HEG in connection with the Scheme and, for the purposes as elaborated in the section headed "12. SCHEME SHARES, COURT MEETING AND THE SGM" in Part VI – Letter from the HEG Board, the capital reduction of HEG by the cancellation of the Fractional Shares, will be voted on).

Whether or not you are able to attend the Court Meeting or the SGM, if you are a registered Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, in accordance with the instructions printed on it, and if you are a registered HEG Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the SGM, in accordance with the instructions printed on it, and to deposit them at the office of HEG's branch share registrar and transfer office, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The **pink** form of proxy for use at the Court Meeting should be deposited not later than 9:30 a.m. on Monday, 7 December 2020 and, in order to be valid, the white form of proxy for use at the SGM should be deposited not later than 10:00 a.m. on Monday, 7 December 2020. The **pink** form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting (who shall have absolute discretion as to whether or not to accept it) at the Court Meeting if it is not so deposited.

The completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the Court Meeting or the SGM. In such event, the relevant form of proxy will be deemed to have been revoked.

8. If my HEG Shares are held in the name of the nominee of my financial intermediary, will my financial intermediary vote my HEG Shares for me?

Your financial intermediary should send you directions on how to provide it with instructions to vote your HEG Shares. Your financial intermediary may not vote your HEG Shares without your instructions and, as such, if you do not provide your financial intermediary with instructions on how to vote your HEG Shares, your financial intermediary will not vote them at the Court Meeting and the SGM. You should therefore ensure that your financial intermediary is provided with instructions on how to vote your HEG Shares by the deadlines set by your financial intermediary. If you do not give voting instructions to your financial intermediary, you will not be counted as having voted at the Court Meeting and the SGM unless you have the HEG Shares registered in your name and appear in person or by proxy at the Court Meeting and the SGM.

9. I am an overseas HEG Shareholder. What should I do?

All overseas HEG Shareholders are entitled to vote even if they are Non-Qualifying Overseas Shareholders, and you are strongly encouraged to exercise your right to vote, in person or by proxy, at the Court Meeting and the SGM. The actions you should take are summarised in "Part III – Actions to be Taken" of the Scheme Document.

If the law of any relevant jurisdiction precludes an offer of the HSH H Shares, or precludes it except after compliance by HSH with conditions with which HSH is unable to comply or which HSH regards as unduly onerous and burdensome, no HSH H Shares will be issued to overseas HEG Shareholders in such jurisdiction pursuant to the Scheme.

Based on the addresses of the overseas HEG Shareholders as registered in the register of members of HEG as at the Latest Practicable Date and the advice received, overseas HEG Shareholders in Australia are expected to be Non-Qualifying Overseas Shareholders.

The HSH H Shares which would otherwise have been allotted to the Non-Qualifying Overseas Shareholders pursuant to the Scheme will be allotted to the Selected Person, who will sell such HSH H Shares on the market as soon as reasonably practicable after the Scheme becomes effective. The aggregate proceeds of such sale (net of expenses and taxes) will be paid to the relevant Non-Qualifying Overseas Shareholders (pro rata to their shareholdings in HEG as at the Scheme Record Time) in Hong Kong dollars in full satisfaction of their rights to the HSH H Shares pursuant to the Scheme.

Overseas Shareholders, including but not limited to those in Australia, are advised to read this Scheme Document and in particular, "Overseas Shareholders" in the Explanatory Statement under Part IX of this Scheme Document.

10. I am a Southbound Investor of HEG Shares through the southbound trading link of the Shanghai-Hong Kong Stock Connect, how can I vote?

HEG Shares are eligible for southbound trading through the southbound trading link of the Shanghai-Hong Kong Stock Connect. China Clear acting as nominee shareholder of southbound investors through the southbound trading link of the Shanghai-Hong Kong Stock Connect ("**Southbound Investors**") participating and voting at the Court Meeting and the SGM on behalf of the Southbound Investors shall comply with the requirements of the "Business Guidelines on Deposit and Clearing of Southbound Trading of China Clear (Shanghai Branch)" ("**Business Guidelines**"). Pursuant to the Business Guidelines, Southbound Investors shall declare their voting instructions via clearing participants through the CCNET system of China Clear anytime from the date of this Scheme Document until one China trading day earlier than the last day for voting set by HKSCC. China Clear will collect voting instructions from Southbound Investors and then submit such voting instructions to HKSCC on behalf of Southbound Investors.

11. Can I change my vote after I have submitted my proxy with voting instructions?

Yes. If you are registered as a HEG Shareholder, there are two ways in which you may revoke your proxy and change your vote in respect of the resolutions to be voted on at the Court Meeting or the SGM:

(a) you may notify HEG in writing of the revocation of your proxy and deposit a new form of proxy, provided that such revised form of proxy is deposited not less than 48 hours before the time for holding the Court Meeting or the SGM or, in the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting; or

(b) you may attend and vote at the Court Meeting or the SGM in person and in such event, your relevant form of proxy will be deemed to have been revoked.

If you have instructed a financial intermediary to vote your HEG Shares, you must follow the directions received from such financial intermediary to change your vote or revoke your proxy.

12. What is the location, date and time of the Court Meeting and the SGM?

The Court Meeting and the SGM will be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong, on Wednesday, 9 December 2020 at respectively 9:30 a.m. and 10:00 a.m. (or so soon thereafter as the Court Meeting has been concluded or adjourned).

13. What is the location, date and time of the Court Hearing?

The Court Hearing will be held at the Court and is expected to take place on Thursday, 17 December 2020 (Bermuda time). An announcement will be issued in relation to the exact date and time of the Court Hearing.

14. Who should I call if I have additional questions?

If a registered or beneficial owner of HEG Shares in Hong Kong has questions concerning administrative matters, such as dates, documentation and procedures relating to the Privatisation

Proposal, please call the Share Registrar, at +852 2980 1333 between 9:00 a.m. and 6:00 p.m. (Hong Kong time) Monday to Friday, excluding public holidays in Hong Kong.

This helpline will only answer questions concerning administrative matters. This helpline cannot and will not provide advice on the merits of the Privatisation Proposal or the Scheme or give any financial or legal advice, and will not be soliciting proxies or votes in respect of the resolutions to be voted on at the Court Meeting and the SGM.

HAIER ELECTRONICS GROUP CO., LTD.

海爾電器集團有限公司*

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 1169)

Executive Directors:

Mr. Zhou Yunjie (Chairman)
Mr. Xie Ju Zhi
Mr. Li Huagang

Non-executive Directors:

Mr. Liang Haishan
Mr. Yang Guang

Independent non-executive Directors:

Mr. Yu Hon To, David
Mrs. Eva Cheng Li Kam Fun
Mr. Gong Shao Lin
Dr. John Changzheng Ma

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong:

Unit 3513 35/F., The Centre
99 Queen's Road Central
Hong Kong

16 November 2020

(1) PROPOSED PRIVATISATION OF HAIER ELECTRONICS GROUP CO., LTD. ("HEG") BY HAIER SMART HOME CO., LTD. ("HSH") BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT AND (2) PROPOSED WITHDRAWAL OF LISTING OF HEG SHARES

To HEG Shareholders

Dear Sir or Madam,

1. BACKGROUND AND INTRODUCTION

On 31 July 2020, the respective boards of directors of HSH and HEG jointly announced that on 30 July 2020, HSH formally requested the HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward a proposal to the Scheme Shareholders for the privatisation of HEG by way of a scheme of arrangement under Section 99 of the Companies Act.

* For identification purpose only

On 13 November 2020, HSH and HEG jointly announced that all the Pre-Conditions have been satisfied. Accordingly, HSH made the Privatisation Proposal to privatise HEG by issuing new HSH H shares as consideration for the cancellation of the Scheme Shares. HSH has made an application to the Stock Exchange for the listing of the HSH H Shares by way of a listing by introduction. In addition, as an integral part of the Privatisation Proposal, upon the Scheme becoming effective, HEG will make a Cash Payment to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time.

HSH has appointed CICC and J.P. Morgan as its joint financial advisers in connection with the Privatisation Proposal and the Scheme.

HEG has appointed UBS as its financial adviser in connection with the Privatisation Proposal and the Scheme.

The purpose of this Scheme Document is to provide you with further information regarding the Privatisation Proposal and the expected timetable for implementation of the Privatisation Proposal, and to give you notices of the Court Meeting and SGM (together with the proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part VII of this Scheme Document, the letter from the Independent Financial Adviser set out in Part VIII of this Scheme Document, the Explanatory Statement set out in Part IX of this Scheme Document and the terms of the Scheme set out in Appendix I to this Scheme Document.

2. TERMS OF THE PRIVATISATION PROPOSAL

2.1 The Privatisation Proposal

Under the Privatisation Proposal, it is proposed that upon the fulfilment of the Conditions and the Scheme becoming effective, all Scheme Shares will be cancelled and the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) will be entitled to receive from HSH (in respect of the new HSH H Shares) and from HEG (in respect of the Cash Payment):

For every Scheme Share cancelled . . . . **1.60 new HSH H Shares and the Cash Payment of HK$1.95**

The Listing will take place and the new HSH H Shares will be issued to the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) only if the Scheme becomes effective.

The Cash Payment will be paid by HEG only if the Scheme becomes effective.

It is proposed that, under the Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and allotted to the Selected Person, who will sell the resulting HSH H Shares on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

In compliance with Rule 20.1(a) of the Takeovers Code, upon the Scheme becoming effective, the new HSH H Shares will be issued by HSH, and the Cash Payment will be paid by HEG, to the Scheme Shareholders as soon as possible but in any event within seven Business Days after the Scheme Effective Date. It is expected that, if the Conditions are fulfilled and the Scheme becomes effective, the certificates for the new HSH H Shares will be despatched on Monday, 21 December 2020, and such certificates will not become valid unless the formal letter of approval for the Listing is obtained, and the Introduction has become effective.

HEG has adopted a share option scheme, however, there are no share options outstanding under the share option scheme of HEG and it is expected that no share options will be granted under such share option scheme before the Scheme becoming effective. The relevant share option scheme will be terminated in accordance with its terms after the Scheme becoming effective.

Dividend Payment by HSH and HEG

At a general shareholders' meeting of HSH held on 3 June 2020, the HSH Shareholders have approved the HSH 2019 Final Dividend. On 16 July 2020, the HSH 2019 Final Dividend was paid to HSH Shareholders whose names appeared on the register of members of HSH on 15 July 2020. The new HSH H Shares to be issued in consideration for the cancellation of the Scheme Shares upon the Scheme becoming effective will not entitle the holders thereof to the HSH 2019 Final Dividend or any other dividend or distribution which may be made by HSH by reference to a record date/time before the Scheme Record Time.

At the annual general meeting of HEG held on 23 June 2020, the HEG Shareholders have approved the HEG 2019 Final Dividend. On 3 August 2020, the HEG 2019 Final Dividend was paid to HEG Shareholders whose names appeared on the register of members of HEG on 3 July 2020.

Under the terms of the Privatisation Proposal, the payment of the HSH 2019 Final Dividend and/or HEG 2019 Final Dividend will not result in any adjustment to the Share Exchange Ratio or the amount of the Cash Payment.

In addition, the Cash Payment by HEG upon the Scheme becoming effective will not result in any adjustment to the Share Exchange Ratio.

Neither HSH nor HEG intend to declare and/or pay any dividend (other than the HSH 2019 Final Dividend and the HEG 2019 Final Dividend, both of which have already been paid) before the Scheme Effective Date or the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be). For HSH's dividend policy after the Scheme becomes effective, please refer to the section headed "5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION – 5.3.4. Increase shareholder return" in the Explanatory Statement. The respective boards of directors of either HSH (as enlarged after the completion of the Privatisation Proposal) or each of HSH and HEG (as the case may be) intend to declare and pay the final dividend for the year ending 31 December 2020 after the Scheme Effective Date or (if earlier) the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be), subject to obtaining relevant shareholders' approval (if required).

Events following the Scheme becoming effective

If the Conditions are fulfilled and upon the Scheme becoming effective:

(i) all of the Scheme Shares will be cancelled;

(ii) 1.60 new HSH H Shares will be issued to the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) for every Scheme Share cancelled;

(iii) the Cash Payment of HK$1.95 for every Scheme Share cancelled will be paid by HEG to the Scheme Shareholders;

(iv) the issued share capital of HEG will be reduced by the cancellation of the Scheme Shares. Immediately after such reduction, HEG will issue to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled such that the issued share capital of HEG will be restored to its amount in issue immediately before the capital reduction. The reserve created in the books of accounts of HEG as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new HEG Shares so issued, credited as fully paid;

(v) for purposes of making the Cash Payment, an amount equivalent to the Cash Payment for the Scheme Shares standing in the share premium account and other applicable reserves of HEG will be cancelled; and

(vi) the listing of the HEG Shares on the Stock Exchange will be withdrawn pursuant to Rule 6.15(2) of the Listing Rules.

Your attention is drawn to section headed "2.1 The Privatisation Proposal – Basis for determining the Share Exchange Ratio and the Cash Payment" in the Explanatory Statement.

2.2 Total Consideration and Comparisons of Value

Your attention is drawn to the section headed "2.2 Total Consideration and Comparisons of Value" in the Explanatory Statement.

2.3 Market Prices

Your attention is drawn to the section headed "2.3 Market Prices" in the Explanatory Statement.

2.4 Value of the Privatisation Proposal

Your attention is drawn to the section headed "2.4 Value of the Privatisation Proposal" in the Explanatory Statement.

2.5. Confirmation of financial resources

The majority of the cash and cash equivalents of the HEG Group is kept onshore in mainland China as the business operations of the HEG Group are mostly carried out in mainland China. After taking into account various costs, it is considered more appropriate to settle the Cash Payment primarily by external debt financing. As such, upon completion of the Privatisation Proposal and the Scheme becoming effective, it is expected that settlement of the Cash Payment under the Scheme by HEG will be funded by external debt financing pursuant to the Bank Facility primarily and also internal resources. The payment of interest of, repayment of or security for any liability, contingent or otherwise, is not intended to depend on, to any significant extent, the business of HEG.

In addition, as disclosed in the MAR Announcement, as (i) financing of the Cash Payment outside of the PRC is required to meet the capital requirement based on the actual circumstances, (ii) the Cash Payment is required to be made in Hong Kong dollars in accordance with the Hong Kong securities regulatory requirements, and (iii) HEG is a company incorporated outside of the PRC, it is considered more convenient for HEG, rather than for HSH, to enter into debt financing and to make the Cash Payment.

CICC, as a financial adviser to HSH in connection with the Privatisation Proposal and the Scheme, is satisfied that sufficient financial resources are available to HEG to satisfy the maximum amount of the Cash Payment required to effect the Privatisation Proposal as set forth in part (b) of the section headed "2.4. Value of the Privatisation Proposal" in the Explanatory Statement.

2.6. Pre-Conditions to the making of the Privatisation Proposal

In the Rule 3.5 Announcement, it was stated that the making of the Privatisation Proposal was conditional upon:

(a) the CSRC having approved the proposed issuance of HSH H Shares pursuant to the Introduction;

(b) the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, the HSH H Shares on the Stock Exchange to be issued as consideration for the cancellation of the Scheme Shares under the Scheme, pursuant to the Introduction;

(c) at least two-thirds of the voting rights of the Independent HSH Shareholders present at the HSH General Meeting having approved and voted in favour of the requisite resolution; and

(d) at least two-thirds of the voting rights of the HSH A Shareholders and HSH D Shareholders respectively present at the HSH A Shares Class Meeting and HSH D Shares Class Meeting having approved and voted in favour of the requisite resolutions at the HSH A Shares Class Meeting and HSH D Shares Class Meeting respectively.

On 13 November 2020, all of the Pre-Conditions had been satisfied.

2.7 Conditions of the Privatisation Proposal and the Scheme

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Scheme Long Stop Date, failing which the Privatisation Proposal and the Scheme will lapse. HEG has no right to waive any of the Conditions.

For details of the Conditions, your attention is drawn to the section headed "2.6 Conditions of the Privatisation Proposal and the Scheme" in the Explanatory Statement in Part IX of this Scheme Document.

WARNING: The implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. HEG Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

2.8. Further Terms of the Privatisation

The HSH H Shares to be issued pursuant to the Scheme and the Listing by Introduction will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. As a consequence, the HSH H Shares will not be registered under the US Securities Act.

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the HSH H Shares.

2.9. Listing Rules Implications for HEG

As HCH (HK) is a substantial shareholder of HEG and also a fellow subsidiary of HSH, and is thus a connected person (as defined under the Listing Rules) of HEG, and the Cash Payment will be made to the Scheme Shareholders including HCH (HK) upon the Scheme becoming effective, the Cash Payment to HCH (HK) would constitute a connected transaction for HEG under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than profits ratio) in respect of the Cash Payment to be made to HCH (HK) is more than 0.1% and less than 5%, the Cash Payment to HCH (HK) will be subject to the reporting and announcement requirements and exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhou Yunjie, Mr. Xie Ju Zhi, Mr. Li Huagang and Mr. Liang Haishan, each having a position at and related interest in HCH (HK) and its associates (as defined in the Listing Rules), are considered to be interested in the Cash Payment, which will be paid to Scheme Shareholders (which include HCH (HK)) subject to and upon the Scheme becoming effective, each of the aforementioned Directors has therefore abstained from voting on the board resolution of HEG for approving the making of the Cash Payment to Scheme Shareholders subject to and upon the Scheme becoming effective.

The Directors (including the independent non-executive Directors) after reviewing the advice from the Independent Financial Adviser on the Privatisation Proposal and the Scheme consider that the Cash Payment as part of the Privatisation Proposal is entered into on an arm's length basis, on normal commercial terms or better, and the Cash Payment is fair and reasonable and in the interests of HEG and the HEG Shareholders as a whole.

3. HEG RESTRICTED SHARE AWARD SCHEME

The HEG Restricted Share Award Scheme was adopted by HEG on 15 April 2014 (and renewed by an addendum on 15 April 2019) to optimise the remuneration structure of HEG's management and employees through using a combination of cash and HEG Shares, to recognise the respective contributions of, and to incentivise, the eligible participants and to promote the retention of existing personnel and attract capable talents.

As at the Latest Practicable Date, there were no outstanding unvested HEG Share Awards, and the HEG Trustee holds a total of 2,304,625 HEG Shares as trustee under the HEG Restricted Share Award Scheme.

As the HEG Restricted Share Award Scheme is designed to govern the operation of an employees' share award scheme solely concerning the HEG Shares, the terms of the scheme rules and the trust deed for the HEG Restricted Share Award Scheme do not provide for any arrangement with respect to the HSH H Shares to be issued by HSH as consideration for cancellation of the Scheme Shares which will be held by the HEG Trustee upon the Scheme becoming effective. As such, to ensure that fair treatment is afforded to the grantees of the HEG Share Awards, pursuant to the rules of the HEG Restricted Share Award Scheme, the HEG Board resolved to accelerate up to 6,905,460 HEG Share Awards, which would have been due to vest in or about July 2021, subject to the satisfaction of the pre-determined performance target(s) set for each grantee for the financial year ended 31 December 2019. As at the Latest Practicable Date, the corresponding HEG Shares have been vested with the grantees (the "**Acceleration**").

In this connection, the relevant grantee has undertaken to HEG as a condition of the Acceleration that:

(i) he/she will remain in the HEG Group and continue to perform his/her pre-existing employment duties until at least July 2021; and

(ii) should he/she leave the HEG Group at any time earlier than July 2021, he/she shall pay back to HEG an equivalent amount of the vested HEG Shares in money terms proportionately.

The HEG Shares held by the HEG Trustee under the HEG Restricted Share Award Scheme, and the HEG Shares to be held by the grantee upon vesting of the HEG Share Awards, will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such holders as at the Scheme Record Time. Following the Scheme becoming effective and the completion of the Acceleration, the HEG Trustee will not hold any HEG Shares. It is expected that no further HEG Share Awards will be granted prior to the Scheme becoming effective. The HEG Restricted Share Award Scheme will be terminated in accordance with the rules of the HEG Restricted Share Award Scheme and trust law after the Scheme becoming effective, with any remaining funds and assets at the disposal of HEG.

The rules of the HEG Restricted Share Award Scheme prohibit the HEG Trustee from exercising the voting rights attached to the HEG Shares held by it under the HEG Restricted Share Award Scheme, and the HEG Trustee will abstain from voting at the Court Meeting and the SGM.

4. HSH EXCHANGEABLE BONDS

As at the Latest Practicable Date, the entire principal amount of HK$8,000,000,000 of the HSH Exchangeable Bonds are outstanding and are exchangeable into 255,153,451 HEG Shares currently held by FRL (representing approximately 9.06% of the current total issued share capital of HEG). As at the Latest Practicable Date, upon the exercise of exchange right in accordance with the Bond Terms and Conditions, the Bondholders will be entitled to receive 31,894.1813 HEG Shares for each HK$1,000,000 principal amount of the HSH Exchangeable Bonds. Based on the foregoing, as at the Latest Practicable Date, the current implied exchange price at which the HSH Exchangeable Bonds could be exchanged into HEG Shares is approximately HK$31.35.

As detailed in the section headed "4. HSH EXCHANGEABLE BONDS – 4.1 General Information" in Part IX – Explanatory Statement of this Scheme Document, pursuant to the Bond Terms and Conditions, the Bondholders have the right, at their option, to request Harvest to redeem all or some only of the HSH Exchangeable Bonds held by such Bondholders on the Put Option Date at certain early redemption amount as determined under the Bond Terms and Conditions. During the period (which commenced on 22 September 2020 and ended on 22 October 2020) when the Bondholders were entitled to exercise the Put Option under Condition 8(e) of the Bond Terms and Conditions, Harvest received put exercise notice(s) from certain Bondholder(s) requiring it to redeem the HSH Exchangeable Bonds held by such Bondholder(s) in the aggregate principal amount of HK$7,000,000. Accordingly, upon redemption of such HSH Exchangeable Bonds on the Put Option Date, the outstanding principal amount of the HSH Exchangeable Bond will be reduced to HK$7,993,000,000. Upon such redemption, the HSH Exchangeable Bonds will be exchangeable into 254,930,192 HEG Shares currently held by FRL (representing approximately 9.05% of the current total issued share capital of HEG)

The HEG Shares held by FRL do not form part of the Scheme Shares. As such, save as discussed in relation to the EB-to-CB Proposal (as defined in the section headed "4. HSH EXCHANGEABLE BONDS" in the Explanatory Statement), Bondholders are not entitled to receive HSH H Shares unless they have exchanged their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time to receive the HEG Shares from FRL so as to be entitled to receive such HSH H Shares as Scheme Shareholders themselves. Similarly, the Cash Payment is not available to the Bondholders unless they have exchanged their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time to receive the HEG Shares from FRL so as to be entitled to receive such Cash Payment as Scheme Shareholders themselves.

(a) If the Bondholders exercise their exchange right and become HEG Shareholders on or prior to the Meeting Record Date, those HEG Shares held by such Bondholders will form part of the Scheme Shares and accordingly may be voted on at the Court Meeting and the SGM.

(b) If the Bondholders exercise their exchange right and become HEG Shareholders at or prior to the Scheme Record Time (but only after the Meeting Record Date), those HEG Shares held by such Bondholders will form part of the Scheme Shares (but such Bondholders will have no entitlement to vote at the Court Meeting or the SGM). Subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such Bondholders who have exercised their exchange right and become HEG Shareholders as at the Scheme Record Time.

(c) If the Bondholders have not fully exercised their exchange rights to receive the HEG Shares from FRL before the register of members of HEG is closed on Thursday, 17 December 2020, any remaining HEG Shares comprising the Exchange Property held by FRL or the then holder of the Exchange Property will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective but will be included as part of the HEG Shares to be withdrawn from listing. To ensure that FRL will be able to transfer and deliver HEG Shares pursuant to the Bond Terms and Conditions to the relevant Bondholders prior to the closure of register of members of HEG on Thursday, 17 December 2020, Bondholders who intend to become Scheme Shareholders are strongly encouraged to fully exercise their exchange rights on or before Wednesday, 25 November 2020.

Your attention is drawn to the section headed "4. HSH EXCHANGEABLE BONDS" in the Explanatory Statement on pages 97 to 146 of this Scheme Document and the notes applicable to exchange rights in the timetable.

5. REASONS FOR AND BENEFITS OF THE PRIVATISATION AND THE LISTING OF HSH BY INTRODUCTION

Your attention is drawn to the section headed "5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION" in the Explanatory Statement on pages 97 to 146 of this Scheme Document.

6. INFORMATION ON HEG

HEG, a subsidiary of HSH and the Haier Group, is listed on the Main Board of the Stock Exchange. The HEG Group is principally engaged in the research, development, manufacture and wholesale of washing machines and water heaters under Haier Group brands ("Haier", "Casarte" and "Leader"); the distribution of electronics products of Haier Group in the PRC. It has 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.

Your attention is drawn to the section headed "6. INFORMATION ON HEG" in the Explanatory Statement on pages 97 to 146 of this Scheme Document and "Financial Information of HEG" and "General Information of HEG" in Appendices A and C, respectively, to this Scheme Document.

7. INFORMATION ON HSH AND INTENTIONS OF HSH WITH REGARD TO HEG

Your attention is drawn to the section headed "7. Information on HSH" in the Explanatory Statement on pages 97 to 146 of this Scheme Document, and "General Information of HSH" and the Listing Document in Appendices D and F, respectively, to this Scheme Document.

Your attention is further drawn to the section headed "7.6. Intentions of HSH with regard to HEG" in the Explanatory Statement on pages 97 to 146 of this Scheme Document. HEG Board is willing to cooperate with HSH and act in the best interests of HEG and the HEG Shareholders as a whole.

8. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising all non-executive directors and independent non-executive directors of HEG who are not interested in the Privatisation Proposal, namely, Mr. Yang Guang, Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma, has been established by the HEG Board to make a recommendation to the Disinterested Scheme Shareholders as to: (i) whether the terms of the Privatisation Proposal are, or are not, fair and reasonable; and (ii) whether to vote in favour of the resolutions for the approval of the Scheme at the Court Meeting and the resolutions necessary to implement the Privatisation Proposal at the SGM.

Mr. Liang Haishan, a non-executive director of HEG, is a HSH Concert Party and is therefore not considered as independent for the purpose of giving advice or recommendations to the Disinterested Scheme Shareholders. Accordingly, Mr. Liang Haishan has been precluded from the Independent Board Committee.

9. INDEPENDENT FINANCIAL ADVISER

Somerley has been appointed with the approval of the Independent Board Committee as the independent financial adviser to the Independent Board Committee in respect of the Privatisation Proposal and the Scheme. The Independent Board Committee has evaluated the Privatisation Proposal and the views and recommendations of the Independent Board Committee in respect of the Privatisation Proposal are set out in the letter from the Independent Board Committee in Part VII on pages 42 to 43 of this Scheme Document.

10. FINANCIAL EFFECTS OF THE PRIVATISATION PROPOSAL

Your attention is drawn to appendix III to the Listing Document as set out in Appendix F of this Scheme Document which sets out the unaudited pro forma consolidated financial information of the Enlarged HSH Group which has been prepared for the purpose of illustrating the financial effects of the Privatisation Proposal and the Introduction.

Your attention is also drawn to the section headed "8. FINANCIAL EFFECTS OF THE PRIVATISATION PROPOSAL" in the Explanatory Statement set out in Part IX of this Scheme Document which sets out the impact of the Cash Payment on the relevant indicators of solvency of HEG.

11. APPOINTMENT OF VALUATION ADVISER AND THE VALUATION REPORT

HSH has appointed Platinum Securities, the Valuation Adviser, to advise on the value of the HSH H Shares.

The valuation report of Platinum Securities has been reported on by the Joint Financial Advisers in accordance with the requirements under Rule 11.1(b) of the Takeovers Code and the report from the Joint Financial Advisers has been lodged with the Executive.

A copy of the updated valuation report containing the Valuation Adviser's estimate of the value of the HSH H Shares as at 12 November 2020 and the letter from the Joint Financial Advisers on the valuation is also set out in Appendix B of this Scheme Document.

12. SCHEME SHARES, COURT MEETING AND THE SGM

As at the Latest Practicable Date:

(a) HSH directly holds 392,677,482 HEG Shares, representing approximately 13.94% of the issued share capital of HEG; and

(b) FRL, a wholly-owned subsidiary of HSH, holds 894,143,110 HEG Shares, representing approximately 31.74% of the issued share capital of HEG.

The HEG Shares held by HSH and any of its wholly-owned subsidiaries will not form part of the Scheme Shares. Such HEG Shares will not be voted on at the Court Meeting and will not be cancelled upon the Scheme becoming effective.

All of the HEG Shares held by the other HSH Concert Parties will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.

All Scheme Shareholders will be entitled to attend the Court Meeting and vote on the Scheme. However, as HSH Concert Parties are not Disinterested Scheme Shareholders, their votes will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code, as set out in Condition (b) in the section headed "2. THE PRIVATISATION PROPOSAL AND THE SCHEME – 2.6 Conditions of the Privatisation Proposal and the Scheme" in Part IX – Explanatory Statement of this Scheme Document.

As disclosed in the announcement, the circular and the announcement of HEG dated 24 January 2007, 6 February 2007 and 8 March 2007, respectively, HEG implemented a capital reorganisation, which involved a reduction in the nominal value of each then issued HEG share from HK$0.10 to HK$0.01 by cancellation of HK$0.09 paid up capital on each then issued HEG share, and a share consolidation, under which every ten issued HEG shares of HK$0.01 each resulting from the capital reduction be consolidated into one consolidated HEG share of HK$0.10. The Fractional Shares were generated as a result of such share consolidation when the fractional entitlements to consolidated shares were aggregated. As disclosed in the aforesaid HEG announcements and circular, the Fractional Shares would not be issued to the then shareholders of HEG but would be aggregated and, if possible, sold for the benefit of HEG. Given HEG would in any event be entitled to retain the benefit of proceeds arising from the sale of the Fractional Shares, HEG now proposes to cancel the Fractional

Shares, which have yet to be sold, by way of a reduction in the issued share capital of HEG which will take effect immediately after the passing of the relevant special resolution by the HEG Shareholders at the SGM (so that the Fractional Shares will be cancelled before the Scheme Record Time and the Scheme Effective Date).

All HEG Shareholders will be entitled to attend the SGM and vote on the special resolutions to approve and give effect to, amongst other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the restoration of the issued share capital of HEG to its amount in issue prior to the cancellation of the Scheme Shares by issuing to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, by applying the reserve created in the books of accounts of HEG as a result of the cancellation of the Scheme Shares, (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium account and/or other accounts of reserves of HEG (such cancellation of share premium constitutes a reduction in the issued share capital of HEG under the Companies Act) and (iv) the reduction of the issued share capital of HEG by the cancellation of the Fractional Shares. HSH, FRL and HCH (HK) have indicated that if the Scheme is approved at the Court Meeting, all the HEG Shares held by them will be voted in favour of the resolutions to be proposed at the SGM.

Notices convening the Court Meeting and the SGM to be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Wednesday, 9 December 2020 at 9:30 a.m. and 10:00 a.m. (or so soon thereafter as the Court Meeting has concluded or adjourned) respectively are set out on pages J-1 to J-2 and pages K-1 to K-3 respectively of this Scheme Document. Due to COVID-19, no drinks or food will be served during Court Meeting and SGM for safety consideration.

13. REGISTRATION AND PAYMENT

Your attention is drawn to the section headed "17. Registration and Payment" in the Explanatory Statement on pages 97 to 146 of this Scheme Document.

14. TAXATION AND INDEPENDENT ADVICE

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Privatisation Proposal. It is emphasised that none of HSH, HEG or any of their respective directors, officers or associates or any other person involved in the Privatisation Proposal accepts responsibility (other than in respect of themselves, if applicable) for any taxation effects on, or liabilities of, any other persons as a result of their acceptance or rejection of the Privatisation Proposal. Accordingly, you are urged to read the section headed "18. Taxation and Independent Advice" in the Explanatory Statement on pages 97 to 146 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you are recommended to consult an appropriately qualified professional adviser.

15. OVERSEAS SHAREHOLDERS

Overseas holder of HEG Shares are requested to read specifically the section headed "16. OVERSEAS SHAREHOLDERS" in the Explanatory Statement on pages 97 to 146 of this Scheme Document.

16. WITHDRAWAL OF LISTING OF HEG SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HEG has obtained approval from the Stock Exchange for the withdrawal of the listing of the HEG Shares on the Stock Exchange with effect from 9:00 a.m. on Tuesday, 22 December 2020, which is subject to the Scheme becoming effective, in accordance with Rule 6.15(2) of the Listing Rules.

Upon the fulfilment of the Conditions and the Scheme becoming effective, the Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HEG Shares and the day on which the Scheme and the withdrawal of the listing of the HEG Shares on the Stock Exchange will become effective. Please refer to the detailed timetable of the Scheme in the section headed "Expected Timetable" in this Scheme Document.

Your attention is drawn to the section headed "10. Withdrawal of listing of HEG Shares" in the Explanatory Statement on pages 97 to 146 of this Scheme Document.

17. IF THE SCHEME IS NOT APPROVED OR IF THE PRIVATISATION PROPOSAL LAPSES

The Scheme will lapse if any of the Conditions has not been satisfied or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, the listing of the HEG Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, neither HSH nor the HSH Concert Parties under the Privatisation Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months thereafter, announce an offer or possible offer for shares in HEG.

18. FURTHER INFORMATION

You are urged to read carefully (1) the letter from the Independent Board Committee set out on pages 42 to 43 of this Scheme Document, (2) the letter from the Independent Financial Adviser to the Independent Board Committee, set out in pages 44 to 96 of this Scheme Document, (3) the terms of the Schemes set out on pages I-1 to I-7 of this Scheme Document; (4) the Explanatory Statement set out on pages 97 to 146 of this Scheme Document, (5) the appendices to this Scheme Document, (6) notices of the Court Meeting and the SGM set out on pages J-1 to J-2 and pages K-1 to K-3 of this Scheme Document respectively, and (7) the **pink** proxy form in respect of the Court Meeting and the **white** proxy form in respect of the SGM.

19. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Privatisation Proposal are set out in the section headed "Part III – Actions to be Taken" on pages 14 to 17 of this Scheme Document.

20. RECOMMENDATIONS

Your attention is drawn to the recommendation of the Independent Financial Adviser in respect of the Privatisation Proposal as set out in the letter from the Independent Financial Adviser on pages

44 to 96 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Privatisation Proposal as set out in the letter from the Independent Board Committee on pages 42 to 43 of this Scheme Document.

By Order of the Board
Haier Electronics Group Co., Ltd.
Zhou Yunjie
Chairman

HAIER ELECTRONICS GROUP CO., LTD.

海 爾 電 器 集 團 有 限 公 司*

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 1169)

Executive Directors:

Mr. Zhou Yunjie
Mr. Xie Ju Zhi
Mr. Li Huagang

Non-executive Directors:

Mr. Liang Haishan
Mr. Yang Guang

Independent non-executive Directors:

Mr. Yu Hon To, David
Mrs. Eva Cheng Li Kam Fun
Mr. Gong Shao Lin
Dr. John Changzheng Ma

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong:

Unit 3513
35/F., The Center
99 Queen´s Road Central
Hong Kong

16 November 2020

To the Disinterested Scheme Shareholders

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF
HAIER ELECTRONICS GROUP CO., LTD. (“HEG”)
BY HAIER SMART HOME CO., LTD. (“HSH”)
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF HEG SHARES**

We refer to the document dated 16 November 2020 jointly issued by HSH and HEG in relation to the Privatisation Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by HEG Board as the Independent Board Committee to give a recommendation to the Disinterested Scheme Shareholders in respect of the Privatisation Proposal. Somerley has been appointed as the Independent Financial Adviser in respect of the Privatisation Proposal.

Having considered the terms of the Privatisation Proposal and taken into account the advice of the Independent Financial Adviser, in particular, the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser in the Scheme Document, we consider the terms of the Privatisation Proposal to be fair and reasonable so far as the Disinterested Scheme Shareholders are concerned. Accordingly, we recommend the Disinterested Scheme Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and the special resolution to approve and give effect to the Scheme at the SGM.

The Independent Board Committee draws the attention of the Disinterested Scheme Shareholders to (1) the letter from the HEG Board set out on pages 28 to 41 of the Scheme Document, (2) the Explanatory Statement set out on pages 97 to 146 of the Scheme Document, (3) the Appendices to the Scheme Document, in particular, the Listing Document set out in Appendix F to the Scheme Document and (4) the letter from the Independent Financial Adviser set out on pages 44 to 96 of the Scheme Document.

Yours faithfully,

The Independent Board Committee of Haier Electronics Group Co., Ltd.

Mr. Yang Guang	Mr. Yu Hon To, David	Mrs. Eva Cheng Li Kam Fun	Mr. Gong Shao Lin	Dr. John Changzheng Ma

The following is the text of a letter of advice from Somerley, the Independent Financial Adviser appointed to advise the Independent Board Committee, which has been prepared for the purpose of incorporation into the Scheme Document, setting out its advice to the Independent Board Committee in respect of the Privatisation Proposal and the Scheme.

SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 November 2020

To: the Independent Board Committee

Dear Sirs,

**PROPOSED PRIVATISATION OF
HAIER ELECTRONICS GROUP CO., LTD.
BY HAIER SMART HOME CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Privatisation Proposal and the Scheme, details of which are set out in the Explanatory Statement, being the statement required under Section 100 of the Companies Act, contained in the Scheme Document dated 16 November 2020, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document.

On 31 July 2020, HSH and HEG jointly announced that on 30 July 2020, HSH formally requested HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward a proposal to the Scheme Shareholders for the privatisation of HEG by way of a scheme of arrangement under Section 99 of the Companies Act (i.e. the Privatisation Proposal). An application has been made to the Stock Exchange for the listing of HSH H Shares by way of introduction. On 13 November 2020, HSH and HEG jointly announced that all the Pre-Conditions have been satisfied. Accordingly, HSH made the Privatisation Proposal to privatise HEG by issuing new HSH H shares as consideration for the cancellation of the Scheme Shares. In addition, as an integral part of the Privatisation Proposal, upon the Scheme becoming effective, HEG will make a Cash Payment to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time.

An Independent Board Committee, comprising all non-executive directors and independent non-executive directors of HEG who are not interested in the Privatisation Proposal, namely, Mr. Yang Guang, Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma, has been established by HEG Board to make a recommendation to the Disinterested Scheme Shareholders in respect of the Privatisation Proposal and the Scheme. Mr. Liang Haishan, a non-executive director of HEG, is a HSH Concert Party and is therefore not considered as independent for the purpose of giving advice or recommendations to the Disinterested Scheme Shareholders. Accordingly, Mr. Liang Haishan has been precluded from the Independent Board Committee. With the approval of the Independent Board Committee, we have been appointed as independent financial adviser to advise the Independent Board Committee in this regard.

As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley, and (b) HEG, HSH, and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. During the past two years, Somerley has acted as the independent financial adviser to the then independent board committee and independent shareholders of HEG in relation to certain continuing connected transactions (details of which are set out in the circular of HEG dated 31 May 2019). The past engagement was limited to providing independent advisory services to HEG pursuant to the Listing Rules, for which Somerley received normal professional fees. Accordingly, we do not consider the past engagement gives rise to any conflict of interest for Somerley in acting as the Independent Financial Adviser.

Somerley is not associated with HEG, HSH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Privatisation Proposal and the Scheme. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from HEG, HSH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of HEG, which we have assumed to be true, accurate and complete. We have reviewed published information on HEG and HSH, including their annual reports for the years ended 31 December 2018 and 2019, their interim reports for six months ended 30 June 2020, the HEG Operational Update Announcement and the third quarterly report of HSH for the nine months ended 30 September 2020, the unaudited pro forma financial information of the Enlarged HSH Group contained in appendix III to the Listing Document as set out in Appendix F to the Scheme Document, and the Listing Document contained in Appendix F to the Scheme Document. We have discussed with the Valuation Adviser the bases and assumptions for its valuation of HSH H Shares, which is contained in Appendix B to the Scheme Document. We have reviewed the trading performance of HEG Shares and HSH A Shares on the relevant stock exchanges, certain share exchange offer precedent transactions and trading multiples of HEG's listed peers. Given that HSH was the first and only company listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange, the total number of HSH D Shares accounted for less than 5% of total HSH Shares in issue as at the Latest Practicable Date, and its monthly trading volumes represented less than 0.5% of total trading volume of HSH Shares during the Review Period, we do not consider HSH D Shares' trading activities to be representative. As such, we have excluded HSH D Shares from our analyses of share price performance and trading volume of HSH Shares. We have sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of HEG, HSH, or their respective subsidiaries, associated companies or joint ventures. We have also assumed that all representations contained or referred to in the Scheme Document are true at the date of the Scheme Document and will continue to be true up to the Scheme Effective Date. HEG Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to any of the above, up to the Scheme Effective Date.

We have not considered the tax and regulatory implications as regards the Privatisation Proposal and the Scheme since these depend on individual circumstances. In particular, Scheme Shareholders who are overseas resident or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, consult their own professional advisers. Some general comments are set out in section headed "TAXATION AND INDEPENDENT ADVICE" in the Explanatory Statement.

I. PRINCIPAL TERMS OF THE PRIVATISATION PROPOSAL

The Privatisation Proposal was announced on 31 July 2020, and the Pre-Conditions had been fulfilled on 13 November 2020. Upon the fulfilment of the Conditions and the Scheme becoming effective, all Scheme Shares will be cancelled, and the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) will be entitled to receive from HSH (in respect of the new HSH H Shares) and from HEG (in respect of the Cash Payment):

For every Scheme Share cancelled . . . . 1.60 new HSH H Shares and the Cash Payment of HK$1.95 (the "Cancellation Consideration")

Upon the Scheme becoming effective, the new HSH H Shares will be issued by HSH and the Listing will take place, while the Cash Payment will be made by HEG to the Scheme Shareholders (whose names appear in the register of members of HEG on the Scheme Record Time) as soon as possible but in any event within seven Business Days after the Scheme Effective Date, or by 30 December 2020 based on the expected timetable.

Upon the Scheme becoming effective, it will be binding on HEG and all Scheme Shareholders regardless of how they voted (or whether they voted) at the Court Meeting and the SGM.

The implementation of the Privatisation Proposal (including the effectiveness of the Scheme) will be subject to the satisfaction or waiver (as applicable) of certain Conditions which are set out in the section headed "Conditions of the Privatisation Proposal and the Scheme" in the Explanatory Statement. The main Conditions are as follows:

(a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

(b) (i) the approval of the Scheme (by way of poll) by the Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and

(ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders;

(c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH of such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act;

(d) the sanction of the Scheme (with or without modifications) by the Court, and the delivery to the Registrar of Companies in Bermuda of a copy of the Court Order for registration;

(e) all applicable filings, notices, certificates and approvals in relation to the Privatisation Proposal (and its implementation) with or from any governmental or regulatory bodies required under any laws or regulations in the PRC, such as the NDRC and the competent commerce authority, having been made or obtained and remaining in full force and effect; and

(f) save in connection with the implementation of the Privatisation Proposal, the listing of HEG Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of HEG Shares on the Stock Exchange is or is likely to be withdrawn.

None of the above main Conditions can be waived. All of the Conditions will have to be satisfied or waived, as applicable, on or before 30 June 2021 (being the Scheme Long Stop Date), failing which the Privatisation Proposal and the Scheme will lapse. HEG has no right to waive any of the Conditions.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, the listing of the HEG Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, neither HSH nor the HSH Concert Parties under the Privatisation Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months thereafter, announce an offer or possible offer for shares in HEG.

Upon completion of the Privatisation Proposal and the Scheme being effective:

(i) all the Scheme Shares will be cancelled;

(ii) the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) will receive 1.60 new HSH H Shares to be issued by HSH for every Scheme Share cancelled;

(iii) the Scheme Shareholders will receive the Cash Payment of HK$1.95 to be made by HEG for every Scheme Share cancelled;

(iv) the listing of HEG Shares on the Stock Exchange will be withdrawn;

(v) HSH H Shares will be listed on the Stock Exchange;

(vi) the Scheme Shareholders will become shareholders of the Enlarged HSH Group; and

(vii) the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal become effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), while HSH will remain a subsidiary of Haier Group.

II. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Privatisation Proposal and the Scheme, we have taken into account the principal factors and reasons set out below.

A. Reasons for and benefits of the Privatisation Proposal

The Privatisation Proposal involves the Scheme Shareholders exchanging each Scheme Share for 1.60 new HSH H Shares and the Cash Payment of HK$1.95. Given that the share element of Cancellation Consideration represents a great majority of the value, and that there is no cash alternative to the Cancellation Consideration, the Privatisation Proposal has many of the characteristics of a merger with HSH as opposed to a conventional privatisation of a listed company, which usually involves the parent company buying out the remaining stakes in the listed company for cash. Pursuant to the Privatisation Proposal, the Scheme Shareholders will become shareholders of the Enlarged HSH Group, and will continue to participate in the businesses of HEG as part of the Enlarged HSH Group.

The Privatisation Proposal is expected to bring a number of benefits to the Scheme Shareholders, as explained below:

Synergetic benefits to the Scheme Shareholders

HSH Board believes that after completion of the Privatisation Proposal and the Introduction, Scheme Shareholders may continue to invest in HEG (as a part of the Enlarged HSH Group) who possesses a series of competitive strengths and enjoys the growth potential of the global home appliance market. They will also share the potential synergy which may be achieved after further integration of HSH and HEG. HSH Board stated a number of long-term potential benefits to the Scheme Shareholders, as more particularly described in the section headed "REASONS FOR AND

BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION" in the Explanatory Statement. Summarised below are the major ones:

(a) *Achieving stronger growth supported by full-suite smart home appliance products and smart home solutions on a global platform*

Scheme Shareholders will become shareholders of the Enlarged HSH Group, which has (i) a larger product portfolio including refrigerators, freezers, air-conditioners, kitchen appliances and small appliances, in addition to washing machines, water heaters and water purifiers which are being manufactured by HEG, (ii) a globalised business presence and a portfolio of several major brands, on top of HEG's major market and brand portfolio in the PRC, and (iii) a unified operating and data management platform for supporting smart home solutions business. Based on the reported revenue of HSH Group and HEG Group as set out in their respective consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**") for the two years 2018 and 2019, HSH Group's year-on-year revenue growth rate exceeded that of HEG Group's by approximately 8.2 and 12.1 percentage points respectively;

(b) *Improved operational efficiency and enhanced prospects*

Overlapping operations, such as research and development, manufacturing and distribution, of HEG and HSH are expected to be reduced, thus enhancing operational efficiency and collaboration among various entities of HSH Group and HEG Group. HSH has established a global operating platform, research and development centres, manufacturing facilities and distribution centres. HEG could accelerate the overseas expansion of its existing washing machine, water heater and water purifier businesses by leveraging on HSH's global platform. Meanwhile, measures for improving business process, such as less internal settlements and simplified approval procedures, are expected to reduce selling and management expenses;

(c) *Alleviation of concerns over related party transactions*

Currently, there are a number of related party transactions conducted between HEG Group and HSH Group. For example, HEG Group at present purchases a substantial amount of finished goods from HSH Group for the channel service business of HEG Group. Following completion of the Privatisation Proposal, such transactions would no longer constitute continuing connected transactions under the Listing Rules, and the management efforts and compliance costs in this respect could be reduced accordingly;

(d) *Optimisation of capital structure*

As at 30 June 2020, HEG Group has minimal borrowings and significant cash balance (being the sum of cash and cash equivalents and wealth management products) of approximately RMB19.4 billion. HSH Group has a cash balance of approximately RMB46.3 billion (including wealth management products and HEG Group's cash balance) together with debt (including interest-bearing borrowings and convertible and exchangeable bonds but excluding lease liabilities) of approximately RMB44.7 billion as at 30 June 2020. Following completion of the Privatisation Proposal, the cash balances of the two groups will be combined, improving cash management efficiency of the Enlarged HSH Group; and *(e)* *Larger market capitalisation and more diversified investor bases*

Upon the Scheme becoming effective and completion of the Introduction, it is expected that the Enlarged HSH Group will have a larger market capitalisation, enhanced liquidity and more diversified investor bases, including both shareholders of HEG and HSH which not currently investing in both listed companies.

We note that HSH Group has a track record of making external acquisitions and integrating new businesses into its business model, for example, the acquisition of GE Appliances completed in 2016 and the acquisition of Candy S.p.A completed in 2019. As both HSH and HEG are members of Haier Group with high level of current business collaborations, it is reasonable to expect a higher probability of successful future integration and realisation of synergies among the two groups following completion of the Privatisation Proposal.

Accretion of basic earnings per share

On a pro forma basis, there will be an accretion of approximately 9.9% in the basic earnings per share from continuing operations attributable to the Scheme Shareholders as a result of the Privatisation Proposal, as compared to the basic earnings per HEG Share from continuing operations in 2019. We consider such accretion to be a significant benefit to the Scheme Shareholders, and an attractive element of the Privatisation Proposal from their perspective.

Details of our analysis on the pro forma financial information on the Enlarged HSH Group are contained in the section below headed "Pro forma financial information on the Enlarged HSH Group".

Increase in dividend pay-out ratio

HEG Group's dividend pay-out ratio in the past three years ranged from approximately 17.0% to 24.7%. As set out in the section headed "Benefits of the Introduction and the Privatisation to the Company" in the Explanatory Statement, after the completion of the Privatisation Proposal and the Introduction, with the improvement in capital management and operational efficiency, HSH Group plans to increase its dividend pay-out ratio to 40% within three years (i.e. 2021 to 2023) on the basis of net profit attributable to ordinary shareholders, in order to fulfil its commitment to improve returns for all shareholders. On the assumption that there is no material change in the operating performance, financial position and cash flow requirements of HSH Group and HEG Group, it could be reasonably expected that the dividend returns from the Enlarged HSH Group would be higher than that of HEG Group in the near future.

The above benefits do not take into account the Cash Payment of HK$1.95 per Scheme Shares, which is higher than the sum of dividends paid by HEG for the past ten years of approximately HK$1.74 per HEG Share. The Cash Payment serves as an additional return to the Scheme Shareholders.

Market reaction to the Privatisation Proposal

We consider the market reaction to the Privatisation Proposal to be generally positive from the perspective of the Scheme Shareholders. As analysed in the section below headed "Performance of

HEG Shares and HSH A Shares", the market price of HEG Shares has increased by approximately 67.5% since the publication of the first possible offer announcement pursuant to Rule 3.7 (the "**First Rule 3.7 Announcement**") and up to the Latest Practicable Date, compared to the drop in the Hang Seng Index of approximately 3.1% during the same period. From Scheme Shareholders' perspective, the significant increase in the market price of HEG Shares, together with the divergence in trend of HEG Shares and the Hang Seng Index, indicates that the market has responded favourably to the Privatisation Proposal.

B. Overview of HEG Group and HSH Group

(i) Business overview of HEG Group

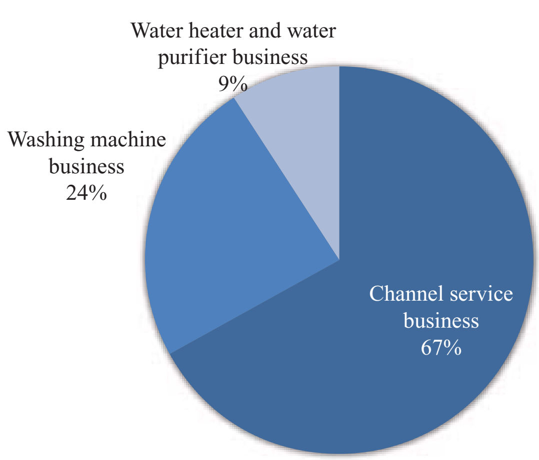
HEG mainly engages in the research, development, manufacture and wholesale of washing machines, water heaters and water purifiers, as well as the distribution of electrical products of Haier Group in the PRC. HEG's logistics services business provides services under the name of "Gooday" in the PRC for large-format items, including but not limited to home appliances, home furnishing and fitness equipment. HEG uses the brand names, namely "Haier", "Casarte" and "Leader", for its washing machines, water heaters and purifiers.

HEG Shares (stock code: 1169.HK) have been listed on the Stock Exchange since 1997, and HEG had a market capitalisation of approximately HK$103.1 billion as at the Latest Practicable Date.

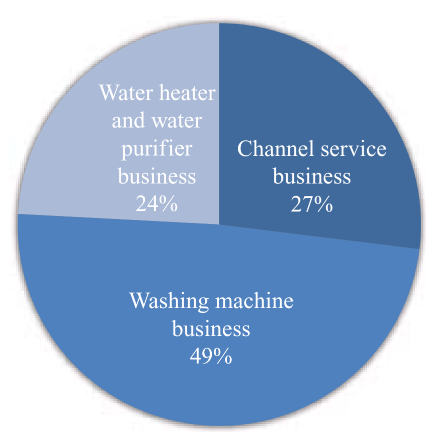
According to CMM, in terms of retail value, Haier's washing machines accounted for the largest PRC market shares on both online and offline channels in the first half of 2020, being approximately 39.3% and 39.2% respectively. In addition, in terms of retail value, Haier's water heaters accounted for the largest PRC market share on offline channels and the second largest PRC market share on online channels in the first half of 2020, being approximately 23.5% and 25.8% respectively.

The following charts illustrate the breakdown of segment revenue and segment profit of HEG Group for the year ended 31 December 2019.

Proportion of segment revenue to revenue before inter-segment eliminations



Proportion of segment profit to profit before inter-segment eliminations



Total revenue of HEG Group was approximately RMB75.9 billion in 2019. Approximately 67% revenue (before inter-segment eliminations) was contributed from its channel service business and over 90% was derived from its operations in the PRC. In respect of channel service business, HEG Group mainly distributes televisions, consumer electronic products and others for HSH Group, Haier Group and other third parties through its online and offline channels, such as franchise store channels. In other words, a substantial portion of HEG Group's revenue from channel service business related to the home appliance products procured from HSH Group and Haier Group, which are classified as HEG's continuing connected transactions under the Listing Rules. The continuing connected transactions between HSH and HEG will become transactions within the same listed group following completion of the Privatisation Proposal, which is considered beneficial from the perspectives of corporate governance and compliance cost savings. In terms of segment profit (before inter-segment eliminations), washing machine business, channel service business and water heater and water purifier business accounted for approximately 49%, 27% and 24% respectively of its total segment profit. For further analysis on financial information of HEG Group, please refer to the section below headed "Financial information of HEG Group and HSH Group".

(ii) Business overview of HSH Group

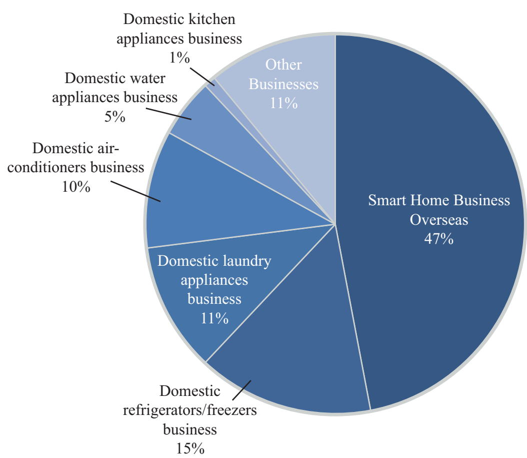
HSH mainly engages in research and development, manufacturing and distribution of products including refrigerators, freezers, kitchen appliances, air-conditioners, washing machines, water heaters, water purifiers and small home appliances. The businesses of washing machines, water heaters and water purifiers in the PRC are mainly carried on by its listed subsidiary, HEG Group. HSH has a global portfolio of home appliance brands including Haier, Casarte, Leader, GE Appliances, Candy, Fisher & Paykel and AQUA. Apart from self-developed brands, namely Haier, Casarte and Leader, other brands have been incorporated into HSH Group's portfolio through a series of overseas acquisitions. As at the Latest Practicable Date, it has operations in more than 160 countries and regions worldwide, including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.

HSH A Shares (stock code: 600690.SH) have been listed on the Shanghai Stock Exchange since 1993 and HSH D Shares (stock code: 690D) have been listed on the Frankfurt Stock Exchange since 2018. Based on the closing price of HSH A Shares, HSH had a market capitalisation of approximately RMB186.9 billion as at the Latest Practicable Date.

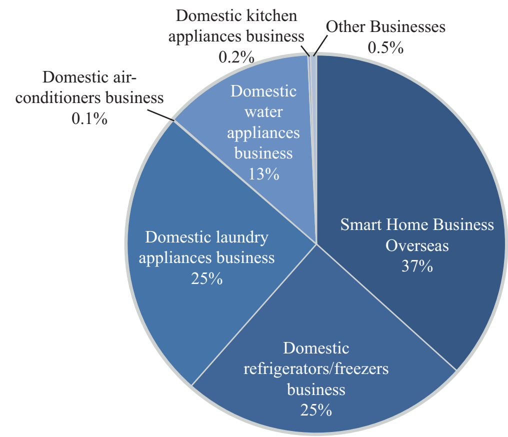
According to Euromonitor, HSH ranked first in the major home appliance industry in the world in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019, with a market share of approximately 14.7% in 2019. The Haier brand also ranked first in terms of retail volume in refrigeration appliances and laundry appliances market in the world among major home appliance brands for 11 consecutive years from 2009 to 2019. By product type, HSH's retail sales ranked first in the global refrigeration appliances market, laundry appliances market and water heaters market, with market shares of approximately 21.7%, 20.3% and 18.8% respectively in 2019. In addition, HSH's retail sales ranked second in the global major kitchen appliances market, with a market share of approximately 8.0% in 2019, and ranked third in the global air-conditioners market, with a market share of approximately 11.3% in 2019.

The following charts illustrate the breakdown of segment revenue and segment profit of HSH Group for the year ended 31 December 2019:

Proportion of segment revenue to revenue after inter-segment eliminations



Proportion of segment profit to profit before inter-segment eliminations



Total revenue of HSH Group was approximately RMB198.0 billion in 2019, contributed from its diversified business portfolio as shown in the charts above, with approximately 47% of its revenue (after inter-segment eliminations) derived from its Smart Home Business Overseas. Given HSH Group consolidates the performance of HEG Group in its financial statements, transactions between HSH Group's business segments and HEG Group's channel service business segment as discussed earlier are eliminated in the financial statements of HSH Group. In terms of segment profit (before inter-segment eliminations), smart home business overseas, domestic refrigerators/freezers business, domestics laundry appliances business (which is being carried on by HEG Group) and domestic water appliances business contributed approximately 37%, 25%, 25% and 13% respectively of its total segment profit. For further analysis on financial information of HSH Group, please refer to the section below headed "Financial information of HEG Group and HSH Group".

Currently, HEG's operations primarily focus on washing machines, water heaters and water purifiers in the PRC. HSH is engaged in the production and distribution of a much wider range of major home appliance products, including refrigerators, freezers, kitchen appliances, air-conditioners, washing machines, water heaters and water purifiers in both China and overseas markets including North America, Europe and Asia. Following completion of the Privatisation Proposal, the Scheme Shareholders' current interests in the businesses of washing machines, water heaters and water purifiers (through HEG Group) in the PRC will be expanded to cover the businesses of a wider range of home appliance products in both PRC and overseas markets (through HSH Group) under a fleet of self-developed or acquired brands. Given the business scale of HSH Group (of which HEG Group forms a part) is approximately 1.6 times larger than that of HEG Group in terms of 2019 revenue from continuing operations, future performance of the Scheme Shareholders' investments will be less dependent on a single market and a relatively narrow range of products, and the associated investment risks may be more balanced and diversified.

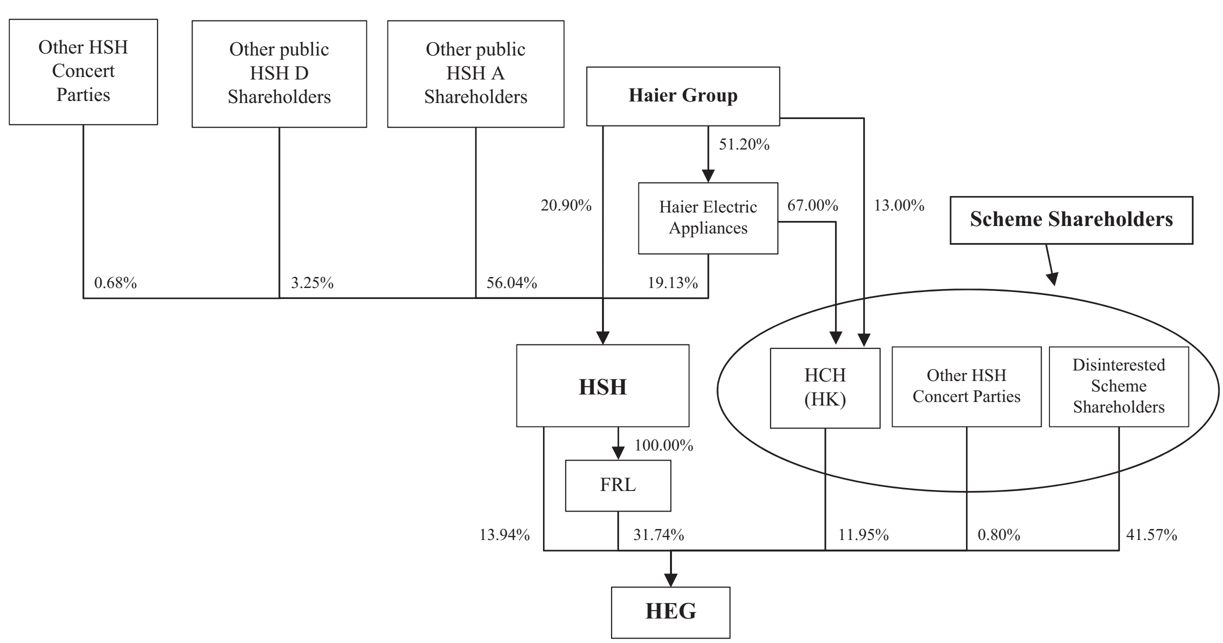
As a group with global presence, HSH Group's operations can be affected by instability in the global political environment. For example, the worsening relationship between China and the United States may continue to deteriorate, which might negatively affect HSH Group's business. As disclosed in the Listing Document, certain raw materials, parts and components, refrigeration appliances, washing machines, air-conditioners, water heaters and kitchen appliances exported from China to the United States were subject to the additional US tariffs. In 2019 and the first half of 2020, HSH Group's customs duties expenses arising out of the additional US tariffs accounted for approximately 1% and 1%, respectively, of its cost of sales for the same periods.

For further details of the HSH Group, Scheme Shareholders should refer to the Listing Document as set out in Appendix F to the Scheme Document.

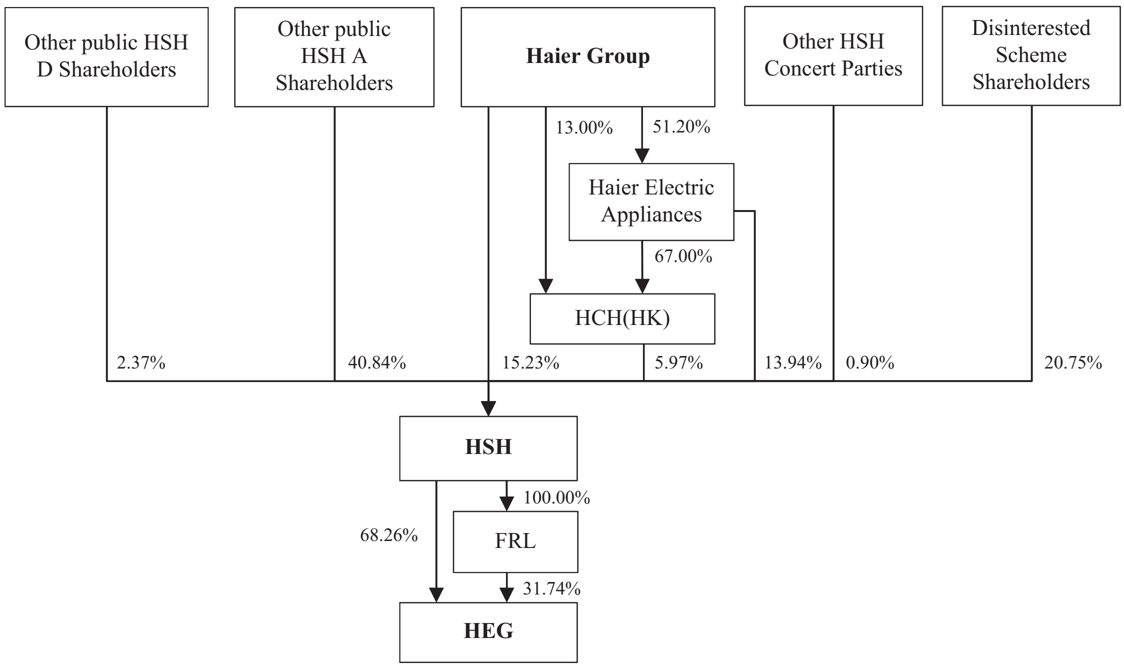
(iii) Shareholding structure

Following completion of the Privatisation Proposal, the Scheme Shareholders' holdings of HEG Shares will be exchanged for HSH H Shares, and HEG will be privatised and become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal become effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result). A simplified shareholding structure of HSH (i) as at the Latest Practicable Date and (ii) immediately upon the completion of the Privatisation Proposal (assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time) are represented in the charts below. For further details of the shareholding structure before and after completion of the Privatisation Proposal, please refer to the section headed "Shareholding structure of HSH" in the Explanatory Statement.

As at the Latest Practicable Date



Immediately upon the completion of the Privatisation Proposal (assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time)



The charts above illustrate the way in which Scheme Shareholders will become shareholders of the Enlarged HSH Group. The Disinterested Scheme Shareholders' approximately 41.6% shareholding interest in HEG will be exchanged for an approximately 20.8% shareholding interest in HSH. HCH (HK) is a member of HSH Concert Parties and is also a Scheme Shareholder, who will be subject to the same treatment under the Scheme among other Scheme Shareholders, and will receive the same Cancellation Consideration for every Scheme Share cancelled.

We concur with the directors of HSH that the potential synergies to be realised following further integration between HSH and HEG and the long-term potential benefits as summarised in the section above headed "Reasons for and benefits of the Privatisation Proposal" benefit the Scheme Shareholders. For instance, HSH and HEG will integrate their research and development, manufacturing and distribution facilities as well as treasury management, which will in turn enhance the operational efficiency and optimise operational costs. Both the existing HSH Shareholders and the Scheme Shareholders (who will become shareholders of the Enlarged HSH Group following completion of the Privatisation Proposal) will share such benefits.

C. Financial information of HEG Group and HSH Group

(i) Comparison of financial information of HSH Group and HEG Group

The following table illustrates the selected financial information of HSH Group and HEG Group.

	HSH Group		**HEG Group**	
	For the six months ended 30 June 2020	**For the year ended 31 December 2019**	**For the six months ended 30 June 2020**	**For the year ended 31 December 2019**
	RMB million (audited)	**RMB million (audited)**	**RMB million (unaudited)**	**RMB million (audited)**
Revenue from continuing operations	95,723	198,006	35,075	75,880
Gross profit margin	27.4%	29.6%	19.6%	21.8%
Profit attributable to the shareholders (from continuing operations)	2,781	6,715	1,335	4,100
	As at 30 June 2020	**As at 31 December 2019**	**As at 30 June 2020**	**As at 31 December 2019**
	RMB million (audited)	**RMB million (audited)**	**RMB million (unaudited)**	**RMB million (audited)**
Total assets	198,043	187,454	48,193	50,058
Net cash *(Note 1)*	1,625	5,747	19,382	18,301
	(%)	*(%)*	*(%)*	*(%)*
Growth in revenue from continuing operations *(Note 2)*	(1.6)	11.5	(5.1)	(0.6)
Growth in profit attributable to the shareholders (from continuing operations) *(Note 2)*	(44.6)	(9.1)	(23.6)	12.7
Growth in total assets *(Note 3)*	5.6	11.5	(3.7)	4.6

Notes:

(1) Being the sum of cash and cash equivalents and wealth management products, less interest-bearing borrowings and convertible and exchangeable bonds (where applicable)

(2) Growth in revenue from continuing operations and profit attributable to the shareholders (from continuing operations) for the six months ended 30 June 2020 represents the growth against those in the corresponding period in 2019

(3) Total assets growth for the six months ended 30 June 2020 represents year-to-date growth against those as at 31 December 2019

As shown above, the business scale of HSH Group was significantly larger than that of HEG Group in terms of revenue, profit and total assets. Revenue of HSH Group grew at a higher rate than that of HEG Group in 2019. Both HSH Group and HEG Group recorded negative year-on-year revenue growth in the first half of 2020, mainly due to the negative impact on market demand caused by the outbreak of COVID-19, with HSH Group's revenue affected to a slightly lesser extent than that of HEG Group during the period.

The overall gross profit margin of HSH Group is higher than that of HEG Group, as channel service segment of HEG Group, which constitutes a majority of its revenue, represents distribution of home appliance products from Haier Group (including HSH Group) and has a lower gross profit margin. HSH Group recorded drops in profit from continuing operations attributable to its shareholders in 2019 and in the first half of 2020 at a rate higher than that of HEG Group during the corresponding periods, as further explained in the section below headed "Financial information of HSH Group".

HSH Group has expanded its global business coverage, with a number of research and development centres, manufacturing facilities and offices worldwide, through a series of overseas acquisitions, such as 2019 acquisition of Candy S.p.A, which is principally engaged in the manufacture and sales of household appliances in the European market.

On 29 October 2020, HSH Group released its third quarterly report for the nine months ended 30 September 2020, and HEG Group published the HEG Operational Update Announcement. During the first nine months of 2020, HSH Group and HEG Group recorded revenue from continuing operations of approximately RMB154.4 billion and RMB56.9 billion respectively, representing slight increases of approximately 4.7% and 2.6% as compared to the same period last year. The profit attributable to the owners of HSH Group and HEG Group were approximately RMB6.3 billion and RMB2.7 billion respectively for the nine months ended 30 September 2020, representing decreases of approximately 17.2% and 56.6% as compared to the same period last year. The latest operating results showed that both groups are recovering from the negative impact of COVID-19 and returning to revenue growths in terms of year-on-year comparison.

Set out below are further analyses on the performance and financial position for each of HEG Group and HSH Group.

(ii) Financial information of HEG Group

The following section sets out the extracted and summarised financial information from the consolidated financial statements of HEG Group for the three years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, prepared in accordance with IFRSs. Due to the application of merger accounting for business combinations under common control relating to the Asset Swap and classification of the PRC logistics services business as a discontinued operation, the comparative figures in 2018 and 2017 presented in this sub-section have been restated, except for the breakdown of HEG Group's revenue from its continuing operations by business segments where no restatements for the comparative figures in 2017 were presented. For further details of the financial information on HEG Group, please refer to Appendix A to the Scheme Document.

Financial performance

	For the six months ended 30 June		For the year ended 31 December		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB million (unaudited)	**RMB million (unaudited and restated)**	**RMB million (audited)**	**RMB million (audited and restated)**	**RMB million (audited and restated)**
CONTINUING OPERATIONS					
Revenue	35,075	36,954	75,880	76,336	71,316
Cost of sales	(28,209)	(29,334)	(59,349)	(60,404)	(56,965)
Gross profit	6,866	7,620	16,531	15,932	14,351
Gross profit margins	*19.6%*	*20.6%*	*21.8%*	*20.9%*	*20.1%*
Profit for the period/year from continuing operations	**1,398**	**1,786**	**4,205**	**3,730**	**3,242**
DISCONTINUED OPERATION					
Profit for the period/year from a discontinued operation	—	151	3,313	368	353
Profit for the period/year	**1,398**	**1,937**	**7,518**	**4,098**	**3,595**
Profit for the period/year attributable to shareholders of HEG					
— from continuing operations	1,335	1,747	4,100	3,638	
— from a discontinued operation	—	89	3,251	206	
	1,335	1,836	7,351	3,844	3,383 *(Note)*
Basic earnings per share attributable to shareholders of HEG *(RMB per share)*					
— from continuing and a discontinued operation	0.48	0.66	2.63	1.38	1.22
— from continuing operations	0.48	0.62	1.47	1.30	1.13
Dividend *(HK$ per share)*	—	—	0.49	0.38	0.29

Note: No restated figures of the profit attributable to shareholders of HEG from continuing operations and a discontinued operation for year 2017 are available. The above figure represents total profit for the year attributable to shareholders of HEG

Revenue

The revenues of HEG Group are mainly derived from its (a) channel service business, (b) washing machine business and (c) water heater and water purifier business, over 90% of which was generated from the PRC market. HEG Group carried on logistics services business in the PRC in prior years, but it has been discontinued since July 2019, as more particularly described in the section below headed "Discontinued operation". A breakdown of HEG Group's revenue from its continuing operations by business segments are sets out in the table below:

	For the six months ended 30 June		For the year ended 31 December		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB million (unaudited)	**RMB million (unaudited and restated)**	**RMB million (audited)**	**RMB million (audited and restated)**	**RMB million (audited)** *(Note)*
Channel service business	31,216	32,750	66,467	68,035	63,663
Washing machine business	9,634	9,846	23,404	21,489	19,553
Water heater and water purifier business	3,945	3,966	8,753	8,049	6,437
Total segment revenue	**44,795**	**46,562**	**98,624**	**97,573**	
Less: Inter-segment revenue	(9,720)	(9,608)	(22,744)	(21,237)	
Revenue from external customers	**35,075**	**36,954**	**75,880**	**76,336**	

Note: No restated figures of HEG Group's 2017 breakdown of revenue by business segments are available. As such, the above figures relating to year 2017 were extracted from HEG's 2017 annual report

(a) Channel service business

Revenue from channel service business, principally representing the sales and distribution of home appliances and other products (mainly comprising washing machines, water heaters, refrigerators and air-conditioners) of Haier Group, as well as the provision of after-sales and other value-added consumer services. Channel service business involves purchasing home appliances and other products from Haier Group, and in turn selling such products to the customers of HEG Group through its wholesale distribution network. In terms of revenue contribution (before inter-segment eliminations), channel service business is the largest business segment of HEG Group, representing over 65% of HEG Group's total segment revenue (excluding revenue from discontinued operation) for the periods under review. Revenue from channel service business maintained a relatively stable revenue stream in the past three years, with revenue increased by approximately 6.9% to approximately RMB68.0 billion in 2018, and slightly decreased by approximately 2.3% to approximately RMB66.5 billion in 2019. For the six months ended 30 June 2020, HEG Group recorded revenue from channel service business of approximately RMB31.2 billion, representing a slight decrease of approximately 4.7% compared to the same period last year.

(b) Washing machine business

Revenue from HEG Group's washing machine business represents sales in the PRC chiefly under Haier Group brands including "Haier", "Casarte" and "Leader". As stated in the 2018 and 2019 annual reports, HEG has been the frontrunner of the laundry industry in China, and revenue from this segment continued its growth despite sluggish performance of the washing machine industry as a whole. Revenue from washing machine business showed continued growth, with an increase of approximately 10.0% to approximately RMB21.5 billion in 2018, and a further increase of approximately 8.9% to approximately RMB23.4 billion in 2019, mainly driven by, among others, HEG Group's dedication to product innovation and technological iteration and the active development of the Internet of Clothing ecosystem. For the six months ended 30 June 2020, despite the impact on the market demand arising from the outbreak of COVID-19, revenue from washing machine business generally remained stable as compared to the corresponding period last year.

(c) Water heater and water purifier business

Water heater business has been a core business of HEG Group over the years. In 2019, HEG Group completed its integration of water purifier business after completion of the Asset Swap (as defined below). Revenue from this business segment for 2018 is presented above on a restated basis with the inclusion of revenues from water purifier business, while no restatement has been made in this regard to the figure for 2017. As such, revenue from water heater and water purifier business segment between 2017 and 2018 may not be comparable. As with the washing machine business, revenue from water heater and water purifier business demonstrated continued growth, with an increase of approximately 8.7% to approximately RMB8.8 billion in 2019. For the six months ended 30 June 2020, revenue from water heater and water purifier business remained fairly stable as compared to the corresponding period last year.

Gross profit margins

Due to the difference in business model, the gross profit margins from channel service business, which represents the wholesale distribution of Haier Group's household products, are usually lower than those of the washing machine business and the water heater and water purifier business, which involve the research, development, manufacture and wholesale of these products. The overall gross profit margins of HEG Group exhibited an upward trend over the past three years, increasing from approximately 20.1% in 2017 to approximately 20.9% and 21.8% in 2018 and 2019 respectively. Such increase was mainly attributable to the gradual increase in the proportion of gross profit contributions from HEG Group's washing machine business and water heater and water purifier business, which enjoy higher gross profit margins as explained above.

For the six months ended 30 June 2020, overall gross profit margins of HEG Group were approximately 19.6%, representing a decrease of 1.0 percentage point from approximately 20.6% in the corresponding period last year, primarily due to a decrease in proportion of sales of high-end products, which have a higher gross profit margin, resulting from the low consumer traffic in offline stores due to the outbreak of COVID-19.

Discontinued operation

In August 2018, HEG Group and Haier Group entered into an asset swap agreement to exchange the 51% equity interest in Qingdao Haishi Water Equipment Co., Ltd. (which is principally engaged in the research and development and sale of household water purifying solutions) held by Haier Group and the 55% equity interest in Bingji (Shanghai) Enterprise Management Co., Ltd. (together with its subsidiaries, "**Bingji Group**", which is principally engaged in the business of providing logistics services in the PRC and primarily represents the logistics segment of HEG Group) held by HEG Group (the "**Asset Swap**"). The Asset Swap completed in July 2019, resulting in a net disposal gain of approximately RMB3.2 billion. Following completion of the Asset Swap, the logistics services business is no longer a principal business of HEG Group and have since then been classified as a discontinued operation. HEG Group's remaining 45% interests in Bingji Group has since then been accounted for under equity method as investments in an associate.

Profit from continuing operations attributable to shareholders of HEG

Profit from continuing operations attributable to shareholders of HEG increased by approximately 12.7% from approximately RMB3.6 billion in 2018 to approximately RMB4.1 billion in 2019, primarily due to the increase in profit from the washing machine business and water heater and water purifier business.

For the six months ended 30 June 2020, profit from continuing operations attributable to shareholders of HEG decreased by 23.6% year-on-year to approximately RMB1.3 billion, mainly due to a drop in profit from the washing machine and water heater businesses.

Dividend

Dividend paid to HEG Shareholders increased steadily over the past three years, from HK$0.29 per HEG Share in 2017 to HK$0.38 and HK$0.49 respectively in 2018 and 2019. The dividend pay-out ratio, calculated based on the actual amount of final dividends distributed and net profit attributable to HEG Shareholders, was approximately 20.4%, 24.7% and 17.0% in 2017, 2018 and 2019 respectively.

As stated in the Rule 3.5 Announcement, HEG does not intend to declare and/or pay any dividend before the Scheme Effective Date or the date on which the Privatisation Proposal lapses.

2020 Third Quarter Results

On 29 October 2020, HEG published its operational update announcement for the nine months ended 30 September 2020. Revenue of HEG Group increased by approximately 2.6% year-on-year to approximately RMB56.9 billion during the first nine months of 2020, showing an improvement when compared to the revenue decrease of approximately 5.1% year-on-year during the first half of 2020. The revenue growth of HEG Group in the third quarter of 2020 was driven by, among others, brand and product mix optimisation and channel expansion, including both e-commerce channels and speciality store channels. For example, revenue from HEG Group's channel service business through e-commerce sector recorded a growth rate of over 30% in the third quarter of 2020.

For the nine months ended 30 September 2020, the profit attributable to shareholders of HEG was approximately RMB2.7 billion, representing a decrease of approximately 56.6% year-on-year. Such decrease in profit was mainly due to the absence of the one-off non-cash disposal gain of approximately RMB3.2 billion arising from the Asset Swap, as discussed in the section above headed "Financial information on HEG Group – Discontinued operation".

Financial position

	As at 30 June 2020	As at 31 December 2019	As at 31 December 2018
	RMB million (unaudited)	RMB million (audited)	RMB million (audited and restated)
Assets			
Property, plant and equipment	5,012	4,864	5,376
Investments in associates	5,795	5,719	178
Inventories	7,631	10,066	8,682
Trade and bills receivables	3,726	3,308	5,270
Cash and cash equivalents	17,045	14,835	15,023
Other assets	8,984	11,266	13,348
Total assets	**48,193**	**50,058**	**47,877**
Liabilities			
Trade and bills payables	4,339	5,446	6,161
Other payables and accruals	6,822	7,874	7,304
Contract liabilities	3,025	4,081	4,186
Interest-bearing borrowings	77	81	92
Lease liabilities	64	53	—
Other liabilities	3,997	2,885	3,948
Total liabilities	**18,324**	**20,420**	**21,691**
Equity attributable to shareholders of HEG	**29,342**	**29,220**	**24,010**
Net asset value per HEG share (Note)	*10.42*	*10.42*	*8.57*

Note: Calculated based on equity attributable to shareholders of HEG divided by the number of HEG Shares outstanding as at the end of the relevant period/year

Liquidity and financial resources

As at 30 June 2020, HEG Group held cash and cash equivalents of approximately RMB17.0 billion and wealth management products (as contained in "other assets" in the table above) of approximately RMB2.4 billion, most of which are short-term in nature. Borrowings of HEG Group stood at a minimal level of approximately RMB77.2 million as at 30 June 2020. The net cash position of approximately RMB19.4 billion (including wealth management products) indicates a strong liquidity position of HEG Group.

Inventories

As at 30 June 2020, HEG Group had inventories of approximately RMB7.6 billion, mainly represented the finished goods of washing machines, water heaters and water purifiers. As at 30 June 2020, inventory turnover days of washing machine business and water heater and water purifier business was 37 days, representing an increase of 9 days as compared to the end of 2019, primarily due to the production and stockpiling of washing machines in the second quarter of 2020 to ensure adequate supply for the peak season in the second half of 2020. In respect of channel service business, the inventory turnover days was 42 days, representing a decrease of 17 days as compared to the end of 2019, mainly attributable to realised sales of inventories stocked up for the Chinese New Year at the end of 2019.

Investments in associates

HEG Group's investments in associates as at 30 June 2020 mainly comprised its 45% interests in Bingji Group, which has become an associate of HEG upon completion of the Asset Swap in July 2019 and has been accounted for under equity method.

Property, plant and equipment

As at 30 June 2020, HEG Group recorded property, plant and equipment of approximately RMB5.0 billion, all of which were stated at cost less accumulated depreciation and any impairment losses. As advised by HEG Group, the above property, plant and equipment are mainly related to the PRC production facilities of its washing machines, water heaters and water purifiers of HEG Group.

Other payables and accruals

As at 30 June 2020, HEG Group recorded other payables and accruals of approximately RMB6.8 billion, which mainly represented accruals for advertising expense, salary payable and refund liabilities (including volume rebate and sales return) in respect of the sales of HEG Group's products.

Trade and bills payables

Trade and bills payables of HEG Group as at 30 June 2020 mainly comprising (i) trade payables of approximately RMB4.1 billion and (ii) bills payable of approximately RMB0.2 billion, of which trade payables of approximately RMB3.7 billion were due within 1 month. 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 balance of trade payable as at 30 June 2020 were amounts due to affiliates of Haier Group of approximately RMB3.5 billion, mainly representing raw materials purchased from Haier Group for the washing machine business and water heater business and products purchased from Haier Group for the channel service business. As at 30 June 2020, trade payables turnover days of washing machine business and water heater and water purifier business was 47 days, representing a decrease of 11 days as compared to the end of 2019, mainly attributable to the significant increase in raw material purchases at the end of 2019 to ensure adequate supply during Chinese New Year, and a decrease in raw material purchases as a result of the stocked up inventory in the second quarter of 2020.

Contract liabilities

As at 30 June 2020, HEG Group recorded contract liabilities of approximately RMB3.0 billion, mainly represented short-term advances received from customers for sales of products.

(iii) Financial information of HSH Group

The following table sets out the extracted and summarised financial information from the consolidated financial statements of HSH Group for the three years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, prepared in accordance with IFRSs. For further details of the financial information on HSH Group, please refer to the Listing Document as set out in Appendix F to the Scheme Document.

Financial performance

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	RMB million (audited)	RMB million (unaudited)	RMB million (audited)	RMB million (audited)	RMB million (audited)
CONTINUING OPERATIONS					
Revenue	95,723	97,274	198,006	177,594	154,165
Cost of sales	(69,496)	(68,974)	(139,393)	(125,415)	(104,001)
Gross profit	26,227	28,300	58,613	52,179	50,164
Gross profit margins	*27.4%*	*29.1%*	*29.6%*	*29.4%*	*32.5%*
Selling and distribution expenses	(14,527)	(14,939)	(33,843)	(29,076)	(29,979)
Administrative expenses	(8,085)	(7,413)	(17,165)	(14,027)	(11,994)
Other income and expenses, net *(Note)*	658	1,096	3,001	2,250	2,021
Profit before tax from continuing operations	4,273	7,044	10,606	11,326	10,212
Income tax expenses	(661)	(1,009)	(1,584)	(1,793)	(1,421)
Profit for the period/year from continuing operations	**3,612**	**6,035**	**9,022**	**9,533**	**8,791**
DISCONTINUED OPERATION					
Profit for the period/year from a discontinued operation	—	150	3,313	367	353
Profit for the period/year	**3,612**	**6,185**	**12,335**	**9,900**	**9,144**
Profit for the period/year attributable to shareholders of HSH					
— from continuing operations	2,781	5,017	6,715	7,391	6,844
— from discontinued operations	—	41	1,491	93	100
	2,781	5,058	8,206	7,484	6,944
Basic earnings per share attributable to shareholders of HSH *(RMB per share)*					
— from continuing and discontinued operations	0.42	0.79	1.29	1.22	1.14
— from continuing operations	0.42	0.79	1.05	1.20	1.12
Dividend *(RMB per share)*	—	—	0.375	0.351	0.342

Note: including other gains or losses, finance costs and share of profits and losses of associates

Revenue

HSH Group's revenues are mainly derived from (i) Smart Home Business in China, mainly representing the manufacture and sales of (a) refrigerators/freezers and kitchen appliances, (b) air-conditioners, (c) laundry appliances, and (d) water appliances in China, in which the laundry appliances and water appliances business in China were primarily contributed by HEG Group (with HEG being a subsidiary of HSH), (ii) Smart Home Business Overseas, representing the manufacture and sales of home appliances and smart home appliances worldwide other than China, and (iii) Other Businesses mainly involves (a) procurement, manufacturing and sales of ancillary parts and components for home appliances, and (b) design, outsourced manufacturing and sales of various small home appliances under HSH Group's brands. A breakdown of HSH Group's revenue from its continuing operations by business segments (after inter-segment eliminations) are sets out in the table below:

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	RMB million (audited)	RMB million (unaudited)	RMB million (audited)	RMB million (audited)	RMB million (audited)
Smart Home Business in China	38,559	42,121	84,573	84,994	76,264
Household Food Solutions					
Refrigerators/freezers	13,240	14,902	30,424	29,638	26,416
Kitchen appliances	1,137	1,169	2,149	2,271	1,940
Household Air Solutions					
Air-conditioners	10,819	11,646	20,366	23,420	21,555
Household Clothing Solutions					
Laundry appliances	8,958	9,748	22,113	20,853	18,421
Household Water Solutions					
Water appliances	4,405	4,656	9,521	8,812	7,932
Smart Home Business Overseas	45,890	45,689	92,392	74,896	69,914
Other Businesses	11,274	9,464	21,041	17,704	7,987
Total revenue	95,723	97,274	198,006	177,594	154,165

(a) Smart Home Business in China

A majority of HSH Group's product lines recorded continued growth from 2017 to 2019. Revenue from refrigerators/freezers business in China, the largest revenue contributor during the past three years, recorded an increase of approximately 12.2% in 2018, but such increase slowed to approximately 2.7% in 2019. The increase was mainly due to the increase in sales of refrigerators/freezers, especially through online channels, and increasing contributions from its high-end brand refrigerators/freezers. Revenue from air-conditioners business in China increased by approximately 8.7% to approximately RMB23.4 billion in 2018, but in 2019 decreased by 13.0% to approximately RMB20.4 billion, contrary to the sales trend of other major product lines, mainly resulting from the decrease in selling price of its air-conditioners due to the market competition and the decrease in consumer demand caused by the downturn in real estate industry in 2019. Revenue from laundry appliances business in China, mainly representing the revenue recorded by HEG Group exhibited an upward trend in the past three years, increased by approximately 13.2% to approximately RMB20.9 billion in 2018 and further increased by 6.0% to approximately RMB22.1 billion in 2019, mainly attributable to the continuous increase in sales of washing machines as a result of the increase in consumer demand, and the launch of its high-end brand washing machines, which command higher selling price.

For the first half of 2020, the economic and social activities in China were significantly reduced owing to the lockdown measures implemented by the PRC government to contain the outbreak of COVID-19. As a result, HSH Group recorded decreases in revenue from Smart Home Business in China, when compared to the same period in 2019. A substantial improvement in sales of certain product lines, such as refrigerators/freezers and laundry appliances, was noted in the second quarter of 2020, driven by the gradual containment of COVID-19 in China.

(b) Smart Home Business Overseas

Revenue from Smart Home Business Overseas increased by approximately 7.1% to RMB74.9 billion in 2018, and further increased by approximately 23.4% to approximately RMB92.4 billion in 2019, mainly due to the increase in revenue from various overseas markets, including North America and Europe, as well as revenue contribution from business under Candy brand, which was acquired in early 2019. In terms of revenue contribution, revenue from Smart Home Business Overseas accounted for approximately 45.4%, 42.2% and 46.7% of total revenue of HSH Group during the corresponding periods.

Similar to the PRC market, the outbreak of COVID-19 in other regions of the world caused negative impacts on the economic and social activities in overseas markets. Despite a downward trend in the global home appliance industry during the outbreak of COVID-19, certain overseas markets in which HSH Group operates in achieved positive growths. For example, revenue of HSH Group from North America market, Japan market and Southeast Asia market increased by approximately 6.5%, 16.3% and 7% year-on-year respectively during the first half of 2020, according to HSH's 2020 interim report. As a whole, revenue from Smart Home Business Overseas remained relatively stable as compared to the same period in 2019.

(c) Other Businesses

Revenue from Other Businesses increased by approximately 121.7% to RMB17.7 billion in 2018, and further increased by approximately 18.8% to approximately RMB21.0 billion in 2019, mainly due to the increase in revenue from business carried on by COSMO, which principally operates industrial internet-related businesses that help manufacturers and its consumers to participate in the whole process of smart manufacturing. For the first half of 2020, revenue from Other Businesses continued to increase as compared to the corresponding period last year, mainly due to the increase in revenue from HSH Group's COSMO business.

On 30 July 2020, HSH Group entered into an agreement to transfer its 54.5% equity interests in COSMO to Haier Group (the "**COSMO Transfer**") at a total cash consideration of approximately RMB4.1 billion, with a view to, among others, focusing on its core business of smart home appliances and solutions. The COSMO Transfer was completed in the third quarter of 2020. Following completion, HSH Group would retain 18.75% equity interest in COSMO as its strategic investment. In addition, COSMO would no longer be a subsidiary of HSH Group, and future financial performance of COSMO would no longer be consolidated into HSH Group's consolidated financial statements.

Gross profit margins

The gross profit margins of HSH Group's major product lines in China are in general over 30%, with water heaters and kitchen appliances having particular high margins normally over 40%. In addition, gross profit margins of its sales in China in the past were generally higher than its sales overseas. On the other hand, other businesses achieved single digit gross profit margins, as HSH Group's COSMO business entailed a lower operating profit margin as compared to the home appliance business. The overall gross profit margins of HSH Group decreased from approximately 32.5% in 2017 to approximately 29.4% in 2018, mainly as a result of, among others, the increase in the proportion of revenue generated from Other Businesses and Smart Home Business Overseas, and stabilised at approximately 29.6% in 2019. The overall gross profit margins of HSH Group decreased by 1.7 percentage points to approximately 27.4% in the first half of 2020, as compared to the same period in 2019, mainly due to the decrease in selling price of various product lines caused by the decrease in consumer demand resulting from reduced economic and social activities and reduction in resident income caused by COVID-19, and the intensified market competition.

Discontinued operation

As HSH Group consolidated the financial performance of HEG Group, the financial effects of the Asset Swap between HEG Group and Hair Corp have also been reflected in its financial statements, resulting in a net disposal gain of approximately RMB3.2 billion in 2019. For details, please refer to the section above headed "Financial information on HEG Group – Discontinued operation".

Profit from continuing operations attributable to shareholders of HSH

Profit from continuing operations attributable to shareholders of HSH increased by approximately 8.0% from approximately RMB6.8 billion in 2017 to approximately RMB7.4 billion in 2018, mainly due to the increase in revenue and gross profit. In 2019, however, the profit from continuing operations attributable to shareholders of HSH decreased by approximately 9.1% to approximately RMB6.7 billion, primary due to, among others, (i) the decrease in sales of various product lines due to the increasingly intensive industry competition in China, (ii) the increase in marketing expenses and warehousing and logistics expenses for the brand promotion and the air-conditioner sales network respectively, (iii) the increase in administrative expenses, such as research and development expenses and staff costs, mainly caused by further investment in smart home offline experience centres, and (iv) the consolidation of business under Candy brand, which recorded relatively high administrative expenses. For the first half of 2020, profit from continuing operations attributable to shareholders of HSH decreased by approximately 44.6% to approximately RMB2.8 billion, mainly due to the decrease in sales of a majority of product lines due to the decrease in consumer demand caused by the outbreak of COVID-19, and an increase in the provision for obsolete and slow-moving inventories.

Dividend

Dividend paid to HSH Shareholders increased steadily over the past three years, from RMB0.342 per HSH Share in 2017 to RMB0.351 and RMB0.375 in 2018 and 2019 respectively. The dividend pay-out ratio, calculated based on the total cash dividend and net profit attributable to HSH Shareholders, was approximately 30.0%, 29.9% and 30.1% in 2017, 2018 and 2019 respectively. As stated in the Rule 3.5 Announcement, HSH does not intend to declare and/or pay any dividend before the Scheme Effective Date or the date on which the Privatisation Proposal lapses.

2020 Third Quarter Results

For the nine months ended 30 September 2020, HSH Group's revenue increased by approximately 4.7% to RMB154.4 billion, as compared to that in the same period in 2019. Revenue from Smart Home Business in China remained stable and amounted to approximately RMB63.1 billion during the first nine months of 2020, as compared to approximately RMB62.9 billion for the same period in 2019 representing an improvement when compared to the revenue drop of approximately 8.5% year-on-year in the first half of 2020, mainly due to the strategic focus on high-end products and customised marketing efforts as well as the improvement of operating efficiency of franchise network. Revenue from Smart Home Business Overseas grew by approximately 5.3% to approximately RMB72.9 billion during the period compared to that in the first nine months of 2019. This was a result of HSH Group leveraging on its global procurement, supply chain and research and development platform capabilities to minimise the adverse impact of COVID-19 and actively exploring online sales.

The gross profit margin of HSH Group for the nine months ended 30 September 2020 remained stable at approximately 27.5% when compared to the gross profit margin of approximately 27.4% for the first half of 2020. HSH Group recorded a slight increase in profit from continuing operations by approximately 2.9% year-on-year to approximately RMB8.0 billion for the nine months ended 30 September 2020, mainly as a combined result of (i) the one-off after tax gain attributable to shareholders of HSH of approximately RMB1.5 billion arising from the COSMO Transfer completed in the third quarter of 2020, and (ii) the reduction of financing costs through repayment of borrowings with higher interest rates, partly offset by the higher administrative expenses as a result of the increased research and development expenses and staff costs incurred relating to HSH Group's continued investment in product innovation.

Financial position

	As at 30 June	As at 31 December	
	2020	2019	2018
	RMB million (audited)	RMB million (audited)	RMB million (audited)
Assets			
Property, plant and equipment	24,684	23,919	21,441
Goodwill	24,141	23,352	21,239
Interests in associates	20,935	20,461	13,994
Inventories	25,282	28,229	22,411
Trade and bills receivables	30,177	24,967	24,834
Cash and cash equivalents	43,022	34,963	36,561
Other assets	29,802	31,563	27,612
Total assets	**198,043**	**187,454**	**168,092**
Liabilities			
Trade and bills payables	49,171	53,059	47,937
Other payables and accruals	22,532	19,726	16,620
Interest-bearing borrowings	37,470	26,685	24,949
Lease liabilities	2,846	2,575	—
Convertible and exchangeable bonds	7,232	7,005	9,192
Other liabilities	12,284	13,414	13,586
Total liabilities	**131,535**	**122,464**	**112,284**
Equity attributable to shareholders of HSH	**48,331**	**47,887**	**39,742**
Net asset value per HSH share (Note)	*7.35*	*7.28*	*6.24*

Note: Calculated based on equity attributable to shareholders of HSH divided by the number of HSH Shares outstanding as at the end of the relevant period/year

Liquidity and financial resources

As at 30 June 2020, HSH Group held (i) cash and cash equivalents of approximately RMB43.0 billion and (ii) wealth management products (as contained in "other assets" in the table above) of approximately RMB3.3 billion, mostly short-term in nature.

As at 30 June 2020, HSH Group recorded (i) interest-bearing borrowings of approximately RMB37.5 billion, out of which approximately RMB22.7 billion were due within one year or on demand, and (ii) convertible and exchangeable bonds of approximately RMB7.2 billion. The increase in HSH Group's interest-bearing borrowings during the first half of 2020, as compared to the end of 2019, was primarily due to additional bank loans obtained for its operations. As at 30 June 2020, HSH Group had a net cash position (based on the sum of cash and cash equivalents and wealth management products, less interest-bearing borrowings and convertible and exchangeable bonds) of approximately RMB1.6 billion.

Inventories

As at 30 June 2020, HSH Group had inventories of approximately RMB25.3 billion, mainly represented the finished goods, such as air-conditioners, refrigerators/freezers, kitchen appliances, water appliances and laundry appliances of approximately RMB21.8 billion. As at 30 June 2020, HSH Group's inventory turnover days was 66.2 days, as compared to 73.9 days as at the end of 2019, primarily due to the decrease in procurement due to the impact of COVID-19 and accelerated turnover of inventories in the second quarter of 2020.

Property, plant and equipment

As at 30 June 2020, HSH Group recorded property, plant and equipment of approximately RMB24.7 billion, mainly comprised (i) machinery and equipment of approximately RMB13.2 billion, (ii) land and building of approximately RMB6.8 billion and (iii) construction in progress of approximately RMB2.9 billion, all of which were stated at cost less accumulated depreciation and any impairment losses. As advised by HSH Group, the above property, plant and equipment are mainly related to the production facilities, research and development centres, and customer service centres for its major products, as well as office premises of HSH Group.

Goodwill

HSH Group recorded goodwill of approximately RMB24.1 billion as at 30 June 2020, mainly represented the carrying amount of goodwill recognised in prior years arising from the acquisition of GE Appliances completed in 2016 and acquisition of Candy S.p.A completed in 2019.

Trade and bills receivables

As at 30 June 2020, HSH Group recorded trade and bills receivables of approximately RMB30.2 billion, comprising (i) trade receivables of approximately RMB17.0 billion and (ii) bills receivables of approximately RMB13.2 billion. Generally, HSH Group requires full payment upon delivery of goods. Depending on the credit history of its customers and related transaction amounts, HSH Group typically allows the flexibility by offering a credit period of 30 to 90 days to certain customers. As at 30 June 2020, HSH Group's trade and bills receivables turnover days was 57.4 days, as compared to 46.0 days as at the end of 2019, primarily due to the increase in trade and bills receivables resulting from the decrease in the factoring business of GE Appliances and its increase in revenue.

Interests in associates

Interests in associates of HSH Group as at 30 June 2020 mainly comprising (i) approximately RMB6.2 billion of HSH Group's approximately 42.0% interest in Haier Group Finance Co., Ltd., which is principally engaged in the provision of financial services to members of Haier Group, (ii) approximately RMB3.6 billion of HSH Group's approximately 48.4% interest in Controladora Mabe, S.A. de C.V., which principally engaged in manufacturing of household appliances, and (iii) approximately RMB2.6 billion of HSH Group's approximately 8.7% interest in Bank of Qingdao Co., Ltd., a commercial bank in the PRC listed on the Stock Exchange and the Shenzhen Stock Exchange.

Trade and bills payables

Trade and bills payables of HSH Group as at 30 June 2020 was approximately RMB49.2 billion, which comprised (i) trade payables of approximately RMB29.6 billion and (ii) bills payables of approximately RMB19.5 billion, and approximately RMB48.6 billion of the total balance were due within one year. The trade and bills payables are generally non-interest bearing. Typically, the suppliers granted HSH Group a credit period from 30 to 180 days. As at 30 June 2020, HSH Group's trade and bills payables turnover days was 128.8 days, as compared to 138.9 days as at the end of 2019, primarily due to the settlement of the existing trade and bills payables during the period and the decrease in procurement due to the impact of COVID-19.

2020 Third Quarter Results

As at 30 September 2020, HSH Group's total assets amounted to approximately RMB200.2 billion, which included cash and cash equivalent of approximately RMB43.3 billion.

As at 30 September 2020, HSH Group's total liabilities amounted to approximately RMB131.8 billion, which included total debt (including interest-bearing borrowings and convertible and exchangeable bonds but excluding lease liabilities) of approximately RMB41.2 billion. During the third quarter of 2020, HSH Group issued ultra-short-term financing bonds totalling RMB5.5 billion, and repaid certain interest-bearing borrowings with higher interest rates.

As at 30 September 2020, HSH Group's equity attributable to shareholders of HSH stood at approximately RMB50.4 billion.

For further information on the unaudited consolidated financial information of HSH Group for the nine months ended 30 September 2020, please refer to the section headed "Recent Developments" in the Listing Document and "Unaudited Interim Financial Report" in appendix II to the Listing Document respectively.

D. Evaluation of the Cancellation Consideration by reference to relative contributions

As stated in the Explanatory Statement, the Share Exchange Ratio of 1.60 HSH H Shares was determined on commercial basis after taking into account, among other things, the historical business and financial performance of HSH and HEG. We consider that the Share Exchange Ratio may be evaluated by comparing it to the implied exchange ratios based on the relative contributions of earnings and net assets.

Set out below is a comparison of the relative contributions of earnings and net assets for HSH Shareholders and the Scheme Shareholders, and the exchange ratios which they imply. The results are compared to the Share Exchange Ratio and the percentage shareholdings in the Enlarged HSH Group held by HSH Shareholders and the Scheme Shareholders under the Scheme (the "**Shareholding Proportions**"), being approximately 72.9% and 27.1% respectively:

	HSH Shareholders		Scheme Shareholders		Implied exchange ratio
	RMB million *(Note 1)*	Contribution	RMB million *(Notes 1 and 2)*	Contribution	*(Note 3)*
1. Profit attributable to shareholders					
— For the nine months ended 30 September 2020	6,301 (RMB0.96 per share –"A")	81.4%	1,442 (RMB0.95 per share – "B") *(Note 4)*	18.6%	0.990 (B/A)
— For the six months ended 30 June 2020	2,781 (RMB0.42 per share –"C")	79.3%	725 (RMB0.48 per share –"D")	20.7%	1.143 (D/C)
— For the year ended 31 December 2019 (audited)	8,206 (RMB1.29 per share –"E")	67.3%	3,993 (RMB2.63 per share –"F")	32.7%	2.039 (F/E)
— For the year ended 31 December 2019 (audited earnings from continuing operations ONLY)	6,715 (RMB1.05 per share –"G")	75.1%	2,227 (RMB1.47 per share –"H")	24.9%	1.400 (H/G)
— For the year ended 31 December 2018 (audited)	7,484 (RMB1.22 per share –"I")	78.2%	2,088 (RMB1.38 per share –"J")	21.8%	1.131 (J/I)
— For the year ended 31 December 2018 (audited earnings from continuing operations ONLY)	7,391 (RMB1.20 per share –"K")	78.9%	1,976 (RMB1.30 per share –"L")	21.1%	1.083 (L/K)

	HSH Shareholders		Scheme Shareholders		Implied exchange ratio
	RMB million *(Note 1)*	**Contribution**	**RMB million** *(Notes 1 and 2)*	**Contribution**	*(Note 3)*
2. Net assets attributable to shareholders					
— As at 30 June 2020 *(Note 5)*	48,331 (RMB7.35 per share –"M")	75.2%	15,939 (RMB10.42 per share – "N")	24.8%	1.418 (N/M)
— As at 31 December 2019 (audited)	47,887 (RMB7.28 per share –"O")	75.1%	15,872 (RMB10.42 per share – "P")	24.9%	1.431 (P/O)
Range of implied exchange ratios					***0.990 to 2.039***
Share Exchange Ratio					**1.600**
Shareholding Proportions		**72.9%**		**27.1%**	

Notes:

(1) Financial information of HSH was extracted from the Listing Document, while financial information of HEG was extracted from the relevant annual report and interim report

(2) Being the portion attributable to the Scheme Shareholders, based on the proportion of Scheme Shares to the total issued HEG Shares as at the Latest Practicable Date (i.e. approximately 54.32%), as only the Scheme Shareholders would receive new HSH H Shares pursuant to the Share Exchange Ratio

(3) Being the quotient of the Scheme Shareholders' contribution and HSH Shareholders' contribution

(4) The profit attributable to the Scheme Shareholders of RMB0.95 per share was calculated based on the profit attributable to owners of HEG of approximately RMB2,655 million as set out in the HEG Operational Update Announcement divided by the weighted average number of HEG Shares in issue of 2,802,593,483 during the nine months ended 30 September 2020 as provided by HEG

(5) As net assets attributable to HEG Shareholders as at 30 September 2020 was not publicly available, no relative contribution analysis on net assets attributable to shareholders as at 30 September 2020 was performed

Except for the implied exchange ratio based on 2019 audited earnings (from both continuing and discontinued operations), the range of implied exchange ratios based on earnings contribution are at or lower than 1.400. The higher implied exchange ratio based on 2019 audited earnings of 2.039 is principally due to a one-off net disposal gain of approximately RMB3.2 billion recognised by HEG Group from the Asset Swap (as explained in the section above headed "Financial information of HEG Group and HSH Group"). Although HSH Group consolidates HEG Group's financial performance in its financial statements, the relevant scale of the said disposal gain shared by HSH is of a lesser extent when compared to HEG. This is because HSH Group held less than 50% equity interests in HEG during 2019 and hence a majority of the net disposal gain arising from the Asset Swap was attributable to HSH's non-controlling interests. In our view, emphasis should be put on the implied exchange ratios based on the profit attributable to the shareholders derived from continuing operations, which excluded the one-off disposal impact and results from the discontinued operation.

We note that the implied exchange ratio based on the 2019 earnings (from continuing operations) of 1.400 is higher than that calculated on the same basis of 1.083 for 2018. Such higher implied exchange ratio for 2019 was mainly due to the increase in warehousing, logistics and marketing expenses incurred by HSH Group for its brand promotion and overseas sales network, and the higher administrative expenses as a result of further investment by HSH Group in smart factories and smart home offline experience centres during the second half of 2019.

The implied exchange ratio based on the earnings for the nine months ended 30 September 2020 is 0.990, representing a decrease from 1.143 based on the earnings for the six months ended 30 June 2020. This is primarily due to the one-off after tax gain of approximately RMB1.5 billion attributable to the shareholders of HSH arising from the COSMO Transfer, as detailed in the section above headed "Financial Information of HSH Group". Excluding such one-off gain, the implied exchange ratio would become 1.315, which remains well below the Share Exchange Ratio of 1.60.

Based on the relative contributions of net assets as at the end of December 2019 and June 2020, the implied exchange ratio is 1.431 and 1.418 respectively.

As shown in the above table, excluding the 2019 audited earnings (from both continuing and discontinued operations), the contributions attributable to Scheme Shareholders are between approximately 18.6% and 24.9%. The Shareholding Proportion of the Scheme Shareholders of approximately 27.1% is higher than the upper end of such range, which we consider to be favourable to the Scheme Shareholders.

For the sake of simplicity, the additional Cash Payment of HK$1.95 per Scheme Share payable under the Privatisation Proposal has not been taken into account in the above analysis. In other words, in addition to enjoying a Shareholding Proportion higher than their relative contributions of earnings and net assets, Scheme Shareholders will also receive the Cash Payment of HK$1.95 per Scheme Share, which represents an additional benefit to the Scheme Shareholders.

E. Independent valuation of HSH H Shares

The Valuation Adviser has been appointed by HSH to advise on the value of the new HSH H Shares as at 12 November 2020. The valuation report from the Valuation Adviser (the "**Valuation Report**"), together with the letter from the Joint Financial Advisers on the valuation, are set out in Appendix B to the Scheme Document. On the basis of, and subject to, the assumptions and methodologies set out in the Valuation Report, an estimate of the value of HSH H Shares would be in a range between HK$19.48 and HK$25.62 per HSH H Share (the "**Estimated Value**"). It is stated in the Valuation Report that the Estimated Value does not constitute an opinion as to the price at which HSH H Shares may trade at any point in the future, or represent the value that a holder of HSH H Shares may realise on any future sale.

We have reviewed and discussed with the Valuation Adviser the methodology used, and the bases and assumptions adopted, for the estimates of value of HSH H Shares as set out in the Valuation Report. Furthermore, we have performed works as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuation Valuer and its work as regards the Estimated Value. In arriving at the Estimated Value, the Valuation Adviser considered four valuation methodologies:

Valuation methodologies	Description
Global comparable valuation	The valuation of HSH H Shares is arrived at based on (i) the net profit from continuing operation attributable to shareholders and earnings before interest, tax, depreciation and amortisation ("**EBITDA**") of HSH in 2019, and (ii) the median P/E ratios and enterprise value to EBITDA ("**EV/EBITDA**") ratios of the 10 listed comparable companies selected (the "**Global Comparable Companies**"), which (i) engaged in global manufacturing and/or sale of home appliances and other related products, and (ii) have market capitalisation of above RMB5 billion. HEG is one of the Global Comparable Companies being considered by the Valuation Adviser to arrive at the valuation under this method.
Global comparable valuation excluding HEG	The valuation of HSH H Shares is arrived at based on (i) the net profit from continuing operation attributable to shareholders and the EBITDA of HSH in 2019, and (ii) the median P/E ratios and EV/EBITDA ratios of the Global Comparable Companies (excluding HEG). The Valuation Adviser is of the view that given HEG Share price has likely been affected by the Privatisation Proposal after the Rule 3.5 Announcement Date, the Global Comparable Companies (excluding HEG) is more appropriate for the purpose of the valuation of HSH H Share.
Sum-of-the-parts valuation	The valuation of HSH H Shares is the sum of (i) HSH's share of HEG value, based on the average market capitalisation of HEG for the last 30 trading days up to and including 12 November 2020, (ii) the value of HSH's non-HEG portion, arrived at based on (a) the net profit from continuing operation attributable to shareholders of HSH from its non-HEG portion in 2019, and (b) the average and median P/E ratios of 8 listed companies considered comparable to HSH's non-HEG businesses.
Direct comparable valuation	The valuation of HSH H Shares is arrived at based on (i) the net profit from continuing operation attributable to shareholders and EBITDA of HSH in 2019, and (ii) the P/E ratio and EV/EBITDA ratio of HEG.

As stated in the Valuation Report, the Valuation Adviser noted that different countries and regions have suffered various degree of impacts from COVID-19, where companies' performances are impacted differently. As such, the Valuation Adviser considers that the unprecedented and abnormal impacts arising from COVID-19 in 2020 should be isolated, and using the financial figures for the year ended 31 December 2019 represent a fairer and more reasonable base to evaluate the operational performance of the comparable companies selected.

The range of valuations based on the above valuation methodologies are summarised in the table below:

		Range of valuation	Mid-point
		(HK$)	(HK$)
Global comparable valuation		21.75 –24.78	23.27
Global comparable valuation excluding HEG		19.48 –25.62	22.55
Sum-of-the-parts valuation		23.50 –24.00	23.75
Direct comparable valuation		21.10 –25.06	23.08
Estimated Value	*A*	19.48 –25.62	22.55
The Cancellation Consideration, being 1.60 HSH H Shares and HK$1.95 in cash for each Scheme Share	*(A x 1.60) +HK$1.95*	33.12 –42.94	38.03

The four ranges of valuations under the four valuation methodologies are reasonably close, with valuation mid-points all between HK$22.55 to HK$23.75 per HSH H Share. As set out in the Valuation Report, the Valuation Adviser considered that HEG's share price has likely been affected by the Privatisation Proposal after the Rule 3.5 Announcement Date. In this respect, we note that the closing price of HEG Shares increased substantially since the publication of the Rule 3.5 Announcement, from HK$26.85 on the Last Trading Day to HK$36.60 on the Latest Practicable Date. Accordingly, the Valuation Adviser is of the view that the global comparable valuation excluding HEG is more appropriate for the valuation of HSH.

The final range of the Estimated Value is HK$19.48 to HK$25.62 per HSH H Share, with a valuation mid-point of HK$22.55. Based on the above, the Cancellation Consideration of 1.6 HSH H Shares and HK$1.95 in cash is valued at approximately HK$38.03 for each Scheme Share (the "**Valuation-implied Consideration**").

For further details of methodologies, bases, assumptions and computations of the Estimated Value, please refer to Appendix B to the Scheme Document which should be read in its entirety.

F. Comparable Companies of HEG

We have analysed the following listed companies (the "**Comparable Companies**") that engage in a business similar to that of HEG, with (i) a majority of their revenue derived from sales of washing machines, water heaters, refrigerators/freezers and/or air-conditioners, according to their latest published full year financial statements, (ii) a listing history of at least one year, and (iii) a market capitalisation of at least RMB30 billion (about 50% HEG's market capitalisation on the last trading day prior to the publication of the First Rule 3.7 Announcement) as at the Latest Practicable Date. As there are no such Comparable Companies that we could identify on the Stock Exchange, we have expanded, on a best effort basis, the search for Comparable Companies to companies listed on recognised stock exchanges outside Hong Kong that can be identified on Bloomberg. A total of 8 Comparable Companies were identified, which in our view represents an exhaustive list based on the criteria above. Although the listing venues of the Comparable Companies may vary, they are all principally engaged in the home appliance business with majority of revenue contribution from the same business with HEG and HSH, and all fall within the above criteria. Given the fact that no Comparable Companies can be identified on the Stock Exchange, we consider, on balance, the Comparable Companies should be used for the purpose of assessing the Valuation-implied Consideration. Details of our findings are set out below:

Company name	**Principal activities**	**Market capitalisation as at the Latest Practicable Date**	**Price to latest full year earnings ratio (“FY P/E Ratio”)**	**Price to trailing twelve months earnings ratio (“TTM P/E Ratio”)**
		RMB million	**(times)** *(Note 1)*	**(times)** *(Note 2)*
Midea Group Co., Ltd. (stock code: 000333.CH)	Mainly engaged in manufacturing and installation of household electrical appliances, compressors and components. Shares are listed on the Shanghai Stock Exchange	635,613	26.3	25.5
Daikin Industries Ltd. (stock code: 6367.JP)	Mainly engaged in manufacturing of air-conditioning equipment for household and commercial use. Shares are listed on the Tokyo Stock Exchange	432,851	40.3	50.3
Gree Electric Appliances of Zhuhai (stock code: 000651.CH)	Mainly engaged in manufacturing and sales of air-conditioners and air purifiers. Shares are listed on the Shanghai Stock Exchange	398,602	16.1	24.5

Company name	Principal activities	Market capitalisation as at the Latest Practicable Date	Price to latest full year earnings ratio ("FY P/E Ratio")	Price to trailing twelve months earnings ratio ("TTM P/E Ratio")
		RMB million	(times) *(Note 1)*	(times) *(Note 2)*
HSH (based on HSH A Share) (stock code: 600690.CH)	Mainly engaged in manufacturing and distribution of air-conditioners, refrigerators, freezers, small household electrical appliances and other related products. Shares are listed on the Shanghai Stock Exchange	186,860	27.8	27.1
Whirlpool Corporation (stock code: WHR.US) *(Note 3)*	Mainly engaged in manufacturing and marketing of laundry appliances, refrigeration, room air-conditioning equipment, cooking appliances, dishwashers, and mixers and other small household appliances. Shares are listed on the New York Stock Exchange	76,180	9.7	13.2
A.O. Smith Corporation (stock code: AOS.US) *(Note 3)*	Mainly engaged in manufacturing of residential and commercial water heating and water treatment equipment. Shares are listed on the New York Stock Exchange	57,831	23.6	27.6
Electrolux AB (stock code: ELUXB.SS) *(Note 3)*	Mainly engaged in manufacturing and sales of refrigerators, dishwashers, washing machines, cookers, vacuum cleaners, air-conditioners and small domestic appliances. Shares are listed on the Stockholm Stock Exchange	48,391	34.7	25.3

Company name	Principal activities	Market capitalisation as at the Latest Practicable Date	Price to latest full year earnings ratio ("FY P/E Ratio")	Price to trailing twelve months earnings ratio ("TTM P/E Ratio")
		RMB million	(times) *(Note 1)*	(times) *(Note 2)*
Rinnai Corporation (stock code: 5947.JP)	Mainly engaged in manufacturing and sales of cooking equipment for household and commercial use, room and water heating equipment, and laundry dryers. Shares are listed on the Tokyo Stock Exchange	37,089	27.3	25.0
		Mean	*25.7*	*27.3*
		Median	*26.8*	*25.4*
		Maximum	*40.3*	*50.3*
		Minimum	*9.7*	*13.2*
HEG at the Valuation-implied Consideration		**91,510** *(Note 4)*	**22.3**	**23.5**

Source: Bloomberg and Comparable Companies' public filings

Notes:

(1) Calculated by dividing the respective market capitalisation by the respective consolidated reported profits from continuing operations attributable to the ordinary shareholders, as extracted from the latest published full year financial statements

(2) Calculated by dividing the respective market capitalisation by the respective consolidated trailing twelve months profits from continuing operations attributable to the ordinary shareholders, calculated based on the most recently published financial information extracted from the respective annual reports, interim reports and quarterly reports, as applicable

(3) Due to time zone differences, the market capitalisation of Whirlpool Corporation, A.O. Smith Corporation and Electrolux AB, are based on closing prices of the above companies on 12 November 2020, the trading day prior to the Latest Practicable Date

(4) Being the product of (a) the Valuation-implied Consideration of approximately HK$38.03, being the sum of (i) the value of 1.60 HSH H Shares of approximately HK$36.08 (based on the mid-point of the Estimated Value of HSH H Shares as indicated by the Valuation Adviser) and (ii) the Cash Payment of HK$1.95, and (b) the 2,816,995,978 HEG Shares in issue as at the Latest Practicable Date, translating into Hong Kong dollar by using the Reference Exchange Rate

As shown above, the FY P/E Ratios of the Comparable Companies range from approximately 9.7 times to 40.3 times, with a mean and median of approximately 25.7 times and 26.8 times respectively. The FY P/E Ratio of HEG as represented by the Valuation-implied Consideration of approximately 22.3 times is lower than the mean and median, but well within the range of the FY P/E Ratio of the Comparable Companies.

For the purpose of reflecting the latest performance of HEG and the Comparable Companies, the TTM P/E Ratios of HEG and the Comparable Companies are also presented above. The TTM P/E Ratio of HEG as represented by the Valuation-implied Consideration of approximately 23.5 times produce a similar result as compared to that calculated based on the FY P/E Ratio, as discussed above.

As a further cheque, we looked into the historical P/E ratio of HEG based on the market prices of HEG Shares during the period from 1 January 2019 and up to the last trading day prior to the publication of the First Rule 3.7 Announcement. Based on the information sourced from Bloomberg, the P/E ratio of HEG was in the range of between approximately 11.3 and 17.3 times. The implied FY P/E Ratio and TTM P/E Ratio of HEG as represented by the Valuation-implied Consideration compare favourably to the said P/E ratio of HEG based on its historical share prices.

G. Comparisons of Value

The theoretical total value of (i) the 1.60 HSH H Shares (to be issued by HSH) by using the mid-point of the valuation range estimated by the Valuation Adviser as at 12 November 2020 of HK$22.55 per HSH H Share, and (ii) the Cash Payment (to be made by HEG) of HK$1.95 per Scheme Share under the Privatisation Proposal, is equivalent to approximately HK$38.03 for each Scheme Share and represents:

(a) a premium of approximately 41.6% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 49.0% over the average closing price of approximately HK$25.52 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(c) a premium of approximately 54.9% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day; and

(d) a premium of approximately 65.1% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day.

Assuming that the Cash Payment of HK$1.95 could be paid by HEG to its shareholders even in the absence of the Privatisation, we have also looked at a comparison excluding the Cash Payment. The theoretical value of the 1.60 HSH H Shares (to be issued by HSH), by using the mid-point of the valuation range estimated by the Valuation Adviser as at 12 November 2020 of HK$22.55 per HSH H Share, under the Privatisation Proposal is equivalent to approximately HK$36.08 for each Scheme Share and represents:

(a) a premium of approximately 34.4% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 41.4% over the average closing price of approximately HK$25.52 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(c) a premium of approximately 47.0% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day; and

(d) a premium of approximately 56.6% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day.

As shown above, the theoretical total value of the 1.60 HSH H Shares and the Cash Payment is higher than the (average) closing price of HEG Share on the Last Trading Day and for periods of last 10, 30 and 60 trading days, with premiums in a range of approximately 41.6% and 65.1%. Excluding the Cash Payment to be made by HEG, the theoretical value of the 1.60 HSH H Shares remains higher than the (average) closing price of HEG Share on and during the corresponding dates and periods, with premiums of between approximately 34.4% and 56.6%. When evaluating the premiums offered under the Privatisation Proposal, we consider that emphasis should be placed on the theoretical total value of the 1.60 HSH H Shares and the Cash Payment, as this represents the total amount to be received by the Scheme Shareholders under the Privatisation Proposal in exchange for each HEG Share.

Please also refer to our commentary below in relation to the premium provided in the Privatisation Precedents and the price performances of the HEG Shares and the HSH A Shares, in particular their respective performances following publication of the First Rule 3.7 Announcement and our general observation on the potential price spread between HSH A Shares and HSH H Shares.

H. Share exchange privatisation precedents

We have also compared the Cancellation Consideration to other completed privatisation proposals, (i) involving share exchange offer (for the offeror's listed shares and without cash alternative offer) for companies listed on the Stock Exchange, (ii) the offeree having a market capitalisation of at least HK$10 billion on the last trading day prior to the privatisation announcement, and (iii) announced since January 2008 and up to the Latest Practicable Date (the "**Privatisation Precedents**"). In our view, the Privatisation Precedents represent an exhaustive list that we are able to identify from the Stock Exchange's website in this time frame. Although the companies listed below may have different principal activities, market capitalisation, financial performance and position as compared with those of HSH and HEG, the reasons behind the privatisation proposals may vary, and some aspects of pricing may be industry-specific, we consider that the Privatisation Precedents, involving companies listed on the Stock Exchange, can provide us with a meaningful analysis of the market trend of the pricing of this type of transaction in the Hong Kong equity capital market as well as a meaningful benchmark for the Scheme Shareholders when evaluating the premium provided in the Privatisation Proposal, given the similar transaction structure offered to the companies listed on the Stock Exchange as part of the transaction consideration. Based on the aforesaid, we regard the Privatisation Precedents has reference value and is one of our analyses in assessing the Valuation-implied Consideration.

The table below illustrates the implied premium over, or discount to, the relevant historical average closing prices of the offeree prior to the respective privatisation announcement:

Date of announcement	**Offeror**	**Offeree**	**Market implied consideration per share**	**Premium over/(discount to) the closing price on the last trading day**	**Premium over/(discount to) the average closing price for the last 10 trading days**	**Premium over/(discount to) the average closing price for the last 30 trading days**	**Premium over/(discount to) the average closing price for the last 60 trading days**
			(HK$) *(Note 1)*				
8 September 2017	China National Building Material Company Limited (Stock code: 3323.HK)	China National Materials Company Limited (Stock code: 1893.HK)	*4.267*	19.2%	24.7%	31.2%	44.9%
9 January 2015	Cheung Kong (Holdings) Limited (Stock code: 0001.HK)	Hutchison Whampoa Limited (Stock code: 0013.HK)	*85.363*	(2.3%)	(3.8%)	(6.1%)	(9.4%)
30 December 2014	CSR Corporation Limited (Stock code: 1766.HK)	China CNR Corporation Limited (Stock code: 6199.HK)	*8.679*	13.3%	18.7%	23.9%	26.7%
19 May 2010	Guangzhou Automobile Group Co., Ltd. ("**GAC**")	Denway Motors Limited (Stock code: 0203.HK)	*5.32* *(Note 2)*	18.4% *(Note 3)*	25.4% *(Note 3)*	27.1% *(Note 3)*	25.8% *(Note 3)*
2 June 2008	China Unicom Limited (Stock code: 0762.HK)	China Netcom Group Corporation (Hong Kong) Limited (Stock code: 0906.HK)	*27.90*	3.0%	13.0%	17.2%	19.5%
		Mean		*10.3%*	*15.6%*	*18.7%*	*21.5%*
		Median		*13.3%*	*18.7%*	*23.9%*	*25.8%*
		Maximum		*19.2%*	*25.4%*	*31.2%*	*44.9%*
		Minimum		*(2.3%)*	*(3.8%)*	*(6.1%)*	*(9.4%)*
31 July 2020	**HSH**	**HEG**	**38.03** *(Note 4)*	**41.6%**	**49.0%**	**54.9%**	**65.1%**

Source: Stock Exchange and Bloomberg

Notes:

(1) Being the closing price of the respective offeror's share as quoted on the Stock Exchange on the last trading day multiplied by the respective share exchange ratio

(2) Being the mid-point of the valuation range of GAC share as estimated by its valuation adviser multiplied by the share exchange ratio as set out in the initial privatisation announcement

(3) The closing prices of Denway Motors Limited on the last trading day and for the last 10, 30 and 60 trading days have been adjusted for the final dividend of RMB0.068 (equivalent to approximately HK$0.0682) for the year ended 31 December 2009. Trading in the shares of Denway Motors Limited suspended during the period from 29 April 2010 to 18 May 2010, while the record date was 11 May 2010

(4) Being the Valuation-implied Consideration of approximately HK$38.03, representing the sum of (i) the value of 1.60 HSH H Shares of approximately HK$36.08 (based on the mid-point of the Estimated Value of HSH H Shares as indicated by the Valuation Adviser) and (ii) the Cash Payment of HK$1.95

As shown in the above table, the mean premiums of the Privatisation Precedents over the (average) closing prices of the offerees' shares on the last trading day and last 10, 30 and 60 trading days ranges from approximately 10.3% to 21.5%. The premiums as represented by the Valuation-implied Consideration (of which the value of HSH H Shares as part of the Cancellation Consideration is estimated by the Valuation Adviser, as further discussed in the section above headed "Independent valuation of HSH H Shares") over the closing price of HEG Shares on the last trading day and for the last 10, 30 and 60 trading days are all higher than the corresponding means and medians of premiums offered under the Privatisation Precedents.

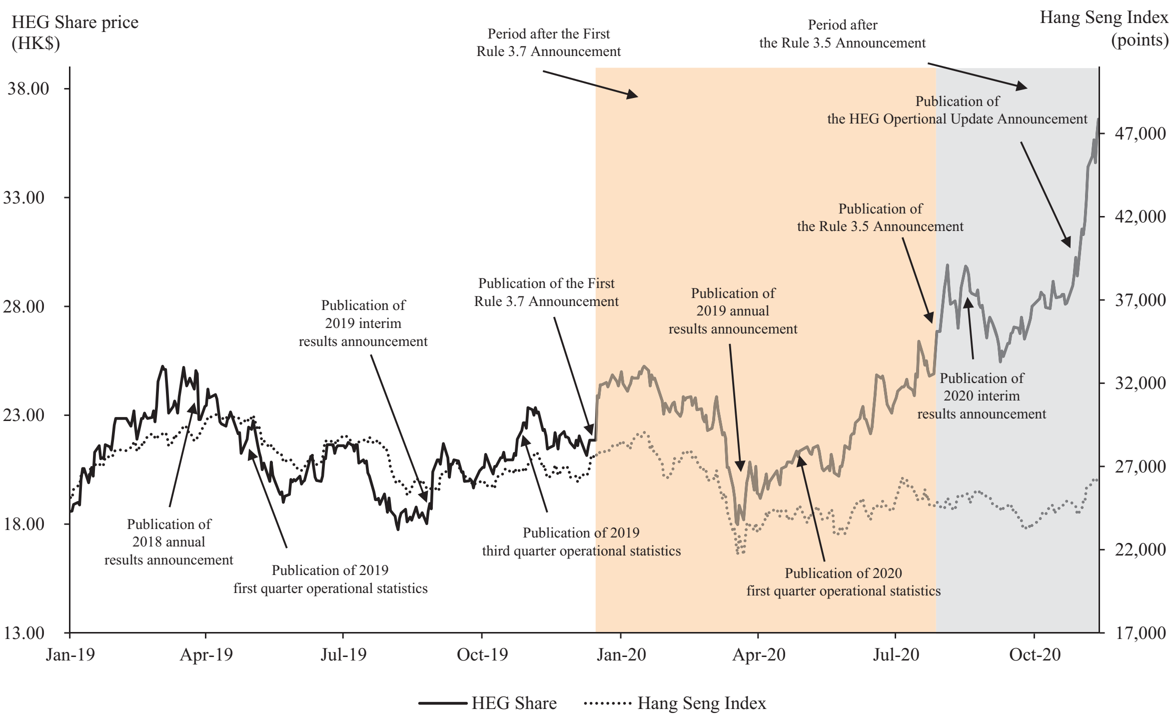
I. Performance of HEG Shares and HSH A Shares

In a share exchange offer where both offeror and offeree companies are listed, it is reasonable to analyse the offer by looking into the share trading performance of both companies. HSH Shares are currently traded principally on the Shanghai Stock Exchange as HSH A Shares, while HSH H Shares to be issued to the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) will be listed on the Stock Exchange. While this is the case, we consider that the trading activities of HSH A Shares are active (as analysed below), and as such consider it reasonable to look into the trading performance of HSH A Shares (as a reference to HSH H Shares to be issued) and HEG Shares.

(a) HEG Shares

Share price performance analysis

The share price chart below illustrates the daily closing prices of HEG Shares quoted on the Stock Exchange from 1 January 2019 and up to the Latest Practicable Date (both dates inclusive) (the "**Review Period**"), and compares such prices to the movements of the Hang Seng Index:



Source: Bloomberg

The price of HEG Shares broadly trended upward and outperformed the Hang Seng Index since early 2019 and climbed to a high of HK$25.25 on 4 March 2019. After the publication of HEG's 2018 annual results announcement on 27 March 2019, the price of HEG Shares dropped by approximately 8.4% on the following day, exhibited a decreasing trend in the second and third quarter of 2019, and ceased to outperform but moving broadly in line with the Hang Seng Index. On 29 August 2019, HEG Group released its 2019 interim results announcement. After that, the price of HEG Shares generally trended upward.

On 16 December 2019, HEG Group published the First Rule 3.7 Announcement in relation to the possible privatisation proposal of HEG being explored by HSH. HEG Shares resumed trading on 17 December 2019, and closed approximately 9.4% higher at HK$23.90. Since then, price of HEG Shares started to substantially outperform the Hang Seng Index. Although such outperformance narrowed between mid-March and early April 2020 when the level of decrease in the price of HEG Shares was higher than the market, that was potentially a result from the PRC consumer sector being particularly affected by the lockdown measures implemented in various cities in the PRC due to the outbreak of COVID-19. HEG Shares' outperformance against the Hang Seng Index generally resumed and began to widen in the second quarter of 2020, when the Rule 3.7 monthly update announcements of HEG disclosed that (i) professional parties assisting HSH to explore the Privatisation Proposal, (ii) HSH was considering the potential terms and structure of the Privatisation Proposal, including the consideration proposed and the possible timetable, and (iii) various workstreams including financial reporting and due diligence work were ongoing.

The Rule 3.5 Announcement was made on 31 July 2020 and trading in HEG Shares resumed on 3 August 2020. The price of HEG Shares closed at HK$28.85 on 3 August 2020, representing an increase of approximately 7.4% from the previous closing price, and then fluctuated within a range between HK$26.55 and HK$29.90 throughout the month. Following a dip to a low of HK$25.45 in early September 2020, HEG Share price gradually increased to over HK$30 and closed at HK$30.25 on 29 October 2020, the publication date of the HEG Operational Update Announcement. HEG Share price showed a drop of approximately 2.8% to HK$29.40 on 30 October 2020.

HSH and HEG jointly announced that on 30 October 2020, HSH received the approval by the CSRC for, amongst others, the proposed issuance of HSH H Shares pursuant to the Introduction, and the requisite approval from the CSRC in relation to the EB-to-CB Proposal. In November 2020, the increase in market price of HEG Shares accelerated, and closed at HK$36.60 as at the Latest Practicable Date. HEG Shares' outperformance against the Hang Seng Index continued to widen since the Rule 3.5 Announcement.

The market price of HEG Shares has increased by approximately 67.5% since the publication of the First Rule 3.7 Announcement and up to the Latest Practicable Date, outperforming the Hang Seng Index which decreased by approximately 3.1% during the same period. In our view, this positive market reaction is beneficial from the Disinterested Scheme Shareholders' perspective.

The market price of HEG Shares is currently influenced by the terms of the Privatisation Proposal. If the Privatisation Proposal fails, other things being equal, the price of HEG Shares may return to the level before the First Rule 3.7 Announcement.

Trading volume of HEG Shares

The table below sets out the total number of HEG Shares traded per month, the percentage of the monthly trading volume to the issued share capital of HEG and the percentage of the monthly trading volume to HEG Shares held by the public respectively during the Review Period:

	Total monthly trading volume of HEG Shares	Approximate % of total monthly trading volume to the total issued HEG Shares	Approximate % of total monthly trading volume to the public float
	(Note 1)	*(Note 2)*	*(Note 3)*
2019			
January	156,133,876	5.6%	13.1%
February	92,073,348	3.3%	7.7%
March	158,431,690	5.7%	13.3%
April	131,496,097	4.7%	11.0%
May	118,418,788	4.2%	10.0%
June	63,094,120	2.3%	5.4%
July	91,274,922	3.3%	7.8%
August	106,886,443	3.8%	9.1%
September	101,977,134	3.6%	8.7%
October	77,526,748	2.8%	6.6%
November	86,024,516	3.1%	7.3%
December	86,066,690	3.1%	7.3%
2020			
January	88,091,164	3.1%	7.5%
February	72,074,233	2.6%	6.1%
March	136,950,955	4.9%	11.6%
April	68,854,409	2.4%	5.8%
May	70,712,848	2.5%	6.0%
June	81,054,234	2.9%	6.9%
July	125,781,750	4.5%	10.6%
August	272,223,921	9.7%	23.0%
September	131,635,712	4.7%	11.1%
October	98,894,581	3.5%	8.4%

Notes:

(1) *Sourced from Bloomberg and HEG*

(2) *Calculated based on the total monthly trading volume of HEG Shares divided by the total issued HEG Shares at the end of each month*

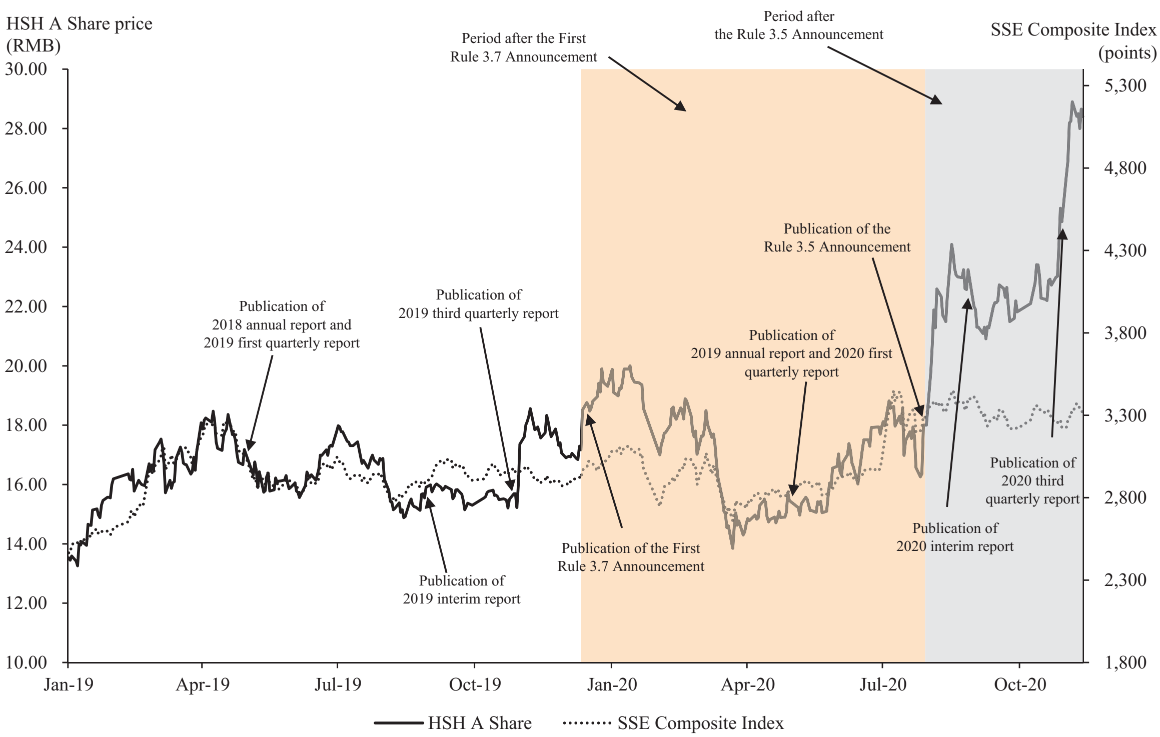
(3) *Calculated based on the total monthly trading volume of HEG Shares divided by the total number of HEG Shares held by the public at the end of each month*

As shown in the above table, the monthly trading volumes were within the range of approximately 2.3% and 9.7% of the total issued HEG Shares, and between approximately 5.4% and 23.0% of the issued HEG Shares constituting the public float of HEG. Considering the above and the monthly trading volumes of between approximately 63 million and 272 million HEG Shares during the Review Period, we consider that HEG Shares have been trading moderately active during the Review Period.

(b) HSH A Shares

Share price performance analysis

The share price chart below illustrates the daily closing prices of HSH A Shares quoted on the Shanghai Stock Exchange during the Review Period, and compares such prices to the movements of the SSE Composite Index:



Source: Bloomberg

Since the beginning of 2019, the price of HSH A Shares trended upward in the first four months in 2019 and closed at RMB17.18 on 30 April 2019, the day HSH Group published its 2018 annual report and 2019 first quarterly report. The market price of HSH A Shares dropped by approximately 5.0% on the following trading day, and subsequently moved downward in May and early June 2019. After a general rising trend from the level of approximately RMB16 in the beginning of June 2019 to approximately RMB18 by the end of the same month, price of HSH A Shares price fell back in July and then fluctuated in a relatively narrow range of between RMB15 and RMB16 throughout the period until the end of October 2019. During this period, HSH A Shares generally traded broadly in line with the SSE Composite Index until an underperformance of HSH A Shares started to emerge since August 2019.

On 31 October 2019, HSH Group announced its 2019 third quarterly report, recording a profit attributable to HSH Shareholders of approximately RMB2.6 billion in the third quarter of 2019, representing an increase of approximately 91.0% compared to the same period last year. The share price surged by approximately 8.5% on 1 November 2019 and started to outperform the SSE Composite Index. It continued to move around at the similar level and closed at RMB17.17 on 12 December 2019, two trading days before publication of the First Rule 3.7 Announcement. On

13 December 2019, HSH Group made a clarification announcement in the Shanghai Stock Exchange in relation to the possible privatisation proposal involving HEG as reported by certain overseas media. HSH A Shares price rose by approximately 7.8% on 13 December 2019. On 16 December 2019, the next trading day, HSH Group released the First Rule 3.7 Announcement on the Stock Exchange, stating that it was exploring a proposal to privatise HEG which may involve a securities exchange offer. Subsequent to these announcement publications, the market price of HSH A Shares increased substantially to a high of RMB20.00 on 14 January 2020, the highest point prior to the publication of the Rule 3.5 Announcement. Since late January 2020, the outbreak of COVID-19, coupled with the lockdown measures in the PRC and a number of overseas countries, negatively affected the market sentiment. HSH A Share price generally declined to the 2020 lowest point of RMB13.85 on 23 March 2020, and ceased to outperform the SSE Composite Index. Since then, the market price of HSH A Shares exhibited a broadly upward trend in general tandem with the SSE Composite Index in the second quarter of 2020, and closed at RMB18.00 on 30 July 2020, before trading suspension on 31 July 2020 pending the release of the Rule 3.5 Announcement.

On 3 August 2020, the next trading day after the Rule 3.5 Announcement, the market price of HSH A Shares closed at RMB19.80, representing an increase of approximately 10.0% and reaching the daily price increase limit pursuant to the relevant trading rules of A shares. The price of HSH A Shares continued to trend upward and fluctuated within a range between RMB20.72 and RMB24.09 in the following three months, then closed at RMB25.31 on 29 October 2020, the publication date of HSH Group's 2020 third quarterly report. HSH A Share price showed a drop of approximately 1.8% to RMB24.86 on 30 October 2020.

HSH and HEG jointly announced that on 30 October 2020, HSH received the approval by the CSRC for, amongst others, the proposed issuance of HSH H Shares pursuant to the Introduction, and the requisite approval from the CSRC in relation to the EB-to-CB Proposal. The market price of HSH A Shares increased and reached a high of RMB28.90 on 6 November 2020, and closed at RMB28.4 as at the Latest Practicable Date. Since publication of the Rule 3.5 Announcement, the market price of HSH A Shares outperformed the SSE Composite Index and the spreads widen, in particular after obtaining the approval from the CSRC as mentioned above.

Trading volume of HSH A Shares

The table below sets out the total number of HSH A Shares traded per month, the percentage of the monthly trading volume to the issued HSH A Shares and the percentage of the monthly trading volume to HSH A Shares held by the public respectively during the Review Period:

	Total monthly trading volume of HSH A Shares	**Approximate % of total monthly trading volume to the total issued HSH A Shares**	**Approximate % of total monthly trading volume to the public float**
	(Note 1)	*(Note 2)*	*(Note 3)*
2019			
January	635,247,080	10.4%	18.1%
February	603,786,789	9.9%	17.2%
March	1,140,413,494	18.7%	32.6%

	Total monthly trading volume of HSH A Shares	Approximate % of total monthly trading volume to the total issued HSH A Shares	Approximate % of total monthly trading volume to the public float
	(Note 1)	*(Note 2)*	*(Note 3)*
April	1,025,001,294	16.8%	29.3%
May	654,121,261	10.7%	18.7%
June	441,286,947	7.2%	12.6%
July	504,584,943	8.3%	14.4%
August	629,166,553	10.3%	18.0%
September	539,374,041	8.8%	15.4%
October	383,579,082	6.3%	11.0%
November	1,097,671,994	17.9%	31.0%
December	1,114,886,086	17.7%	30.1%
2020			
January	643,296,079	10.2%	17.4%
February	887,020,993	14.1%	23.9%
March	1,021,894,342	16.2%	27.6%
April	744,756,272	11.8%	20.1%
May	997,311,821	15.8%	26.9%
June	1,026,814,528	16.3%	27.7%
July	1,188,710,492	18.8%	32.1%
August	1,657,193,968	26.3%	44.7%
September	875,862,622	13.9%	23.6%
October	634,000,025	10.1%	17.1%

Notes:

(1) Sourced from Bloomberg and HSH

(2) Calculated based on the total monthly trading volume of HSH A Shares divided by the total issued HSH A Shares at the end of each month

(3) Calculated based on the total monthly trading volume of HSH A Shares divided by the total number of HSH A Shares held by the public at the end of each month

As shown in the above table, the monthly trading volumes were within the range of approximately 6.3% and 26.3% of the total issued HSH A Shares, and between approximately 11.0% and 44.7% of the issued HSH A Shares constituting the public float of HSH. Considering the above and the average monthly trading volumes between approximately 384 million and 1.7 billion HSH A Shares during the Review Period, we consider HSH A Shares to be actively traded during the Review Period.

Potential spread between HSH A Shares and HSH H Shares

As A shares and H shares are traded in separate markets where one class of shares is not exchangeable into the other class of shares, and not all investors can directly participate in both markets due to regulatory requirements, there is currently no efficient arbitration between the two markets. As such, the future price performance of HSH A Shares and HSH H Shares (to be issued upon the Scheme becoming effective in exchange for the Scheme Shares) may not necessarily be in line with each other, so that the future price of HSH A Shares may not be equivalent to the future price of HSH H Shares at a given point in time (the "**A/H Spread**"). The A/H Spread may fluctuate over time, as the

HSH A Shares are traded on the Shanghai Stock Exchange, while the HSH H Shares will be traded on the Stock Exchange.

To analyse the A/H Spread and its variance, we have reviewed the A/H Spread of companies with listed A shares and H shares ("**Comparable AH Company(ies)**"), which were listed on or before 1 January 2019 and with market capitalisation as at the Last Trading Day that were between 50% and 200% of the assumed market capitalisation of the Enlarged HSH Group (based on the closing price of HSH A Share and the number of HSH Share in issue on the Last Trading Day, and the number of new HSH H Shares to be issued pursuant to the Scheme). A total of 34 Comparable AH Companies were identified, which in our view represents an exhaustive list based on the criteria above. Based on the daily closing prices of the A shares and H shares of each Comparable AH Company during the Review Period and the resulting daily A/H Spread, we note that the difference between the minimum and maximum A/H Spread for each of the Comparable AH Companies during the Review Period ranged between approximately 17.0 percentage points and 43.3 percentage points, with a mean and median of approximately 29.7 percentage points and 28.5 percentage points respectively. As A shares and H shares are trading in two distinct markets, the existence of the A/H Spread and its variance over time may be a result of, among others, differences in the monetary policies, stock market regulations, composition of investors and their perspectives on specific stocks or industries in different markets, and type of investment products available between the China stock market and the Hong Kong stock market. These factors, which may or may not be directly relating to the fundamentals of individual companies, could lead to a difference in supply and demand between A shares and H shares of the same company, resulting in a difference in market price of the A share and H share of the same company. As the above analyses of the Comparable AH Companies shows, the A/H Spread of a specific company may fluctuates to a significant extent over time.

The above are general observations on the differences in the two markets which may explain the A/H Spread. In assessing the merits of the Privatisation Proposal which we regard as having the characteristics of a merger, we have principally focused on the benefits of combining the businesses of HSH Group and HEG Group, recognised by the market through the HEG Shares outperforming the Hang Seng Index, and on fundamental analyses including financial analysis of the two groups and the relative contributions to earnings and net assets by HSH Shareholders and the Scheme Shareholders, as further elaborated above in this letter.

J. Pro forma financial information on the Enlarged HSH Group

Upon completion of the Privatisation Proposal, HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal become effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), and the Scheme Shareholders will become shareholders of the Enlarged HSH Group. The analyses below made reference to the unaudited pro forma financial information of the Enlarged HSH Group in appendix III to the Listing Document as set out in Appendix F to the Scheme Document, which has been compiled by the directors of HSH and reported on by the auditors of HSH for illustrative purposes only and is based on a number of assumptions and estimates as set out therein. Because of its hypothetical nature, such pro forma financial information may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the Enlarged HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in the Listing Document.

Earnings per share from continuing operations

According to the unaudited pro forma consolidated statements of profit or loss and other comprehensive income of the Enlarged HSH Group, the pro forma basic earnings per HSH Share from continuing operations in 2019 is RMB1.01, without taking into account the effect of the one-off listing and privatisation expenses. On this basis, the pro forma earnings of the 1.60 HSH H Shares to be received for the cancellation of each HEG Share would be approximately RMB1.62, representing an increase of approximately 9.9% as compared to the basic earnings per HEG Share from continuing operations in 2019 of approximately RMB1.47 as analysed in the section above headed "Financial information of HEG Group and HSH Group". We consider such expected increase in per share earnings to be a significant benefit to the Scheme Shareholders, and is an attractive element of the Privatisation Proposal from their perspective.

Net assets per share

According to the pro forma consolidated statements of financial position of the Enlarged HSH Group, the pro forma equity attributable to shareholders of HSH as at 30 June 2020 would be approximately RMB61.2 billion. Based on the outstanding HSH Shares in issue of 6,579,566,627 and the total number of Scheme Share of 1,530,174,884 as at 30 June 2020, as well as the Share Exchange Ratio of 1.60, the pro forma equity attributable to the 1.60 HSH H Shares to be received for the cancellation of each HEG Share is approximately RMB10.84, representing an increase of approximately 4.0% as compared to the equity attributable to each HEG Share of approximately RMB10.42 as at 30 June 2020.

Both the per share pro forma earnings from continuing operations and attributable equity are important measures for the Scheme Shareholders to evaluate the underlying earnings and equity of the Enlarged HSH Group to be shared by the Scheme Shareholders. The above results suggested accretive impacts, which we consider to be favourable to the Scheme Shareholders. It should also be noted that the above comparison of per share earnings and attributable equity do not take into consideration the one-off immediate Cash Payment to be received by the Scheme Shareholders. The Cash Payment to be made by HEG upon the Scheme becoming effective will further increase the total return on the Scheme Shares for the Scheme Shareholders on a one-off basis.

Gearing

As discussed in earlier section, HSH Group had a net cash position of approximately RMB1.6 billion as at 30 June 2020. On a pro forma basis, following completion of the Privatisation Proposal and settlement of the Cash Payment of approximately RMB2.7 billion (expected to be funded by external debt financing primarily and internal resources), it is expected that other things being equal, the Enlarged HSH Group would have a net debt position, but it is still considered relatively small when compared to the pro forma equity attributable to shareholders of the Enlarged HSH Group as at 30 June 2020 of approximately RMB61.2 billion.

III. CORPORATE OUTLOOK

Future prospects and intentions with regard to HEG

Haier Group will remain the controlling shareholder of the Enlarged HSH Group upon completion of the Privatisation Proposal.

After the Introduction, the Enlarged HSH Group is better equipped to build a global leading Internet of Things-based smart home business layout. The Enlarged HSH Group plans to carry out structural optimisation and operational integration to further explore synergies from aggregation of global resources and to reinforce its competitiveness, thus maximising shareholders returns. Please make reference to the section headed "Benefits of the Introduction and the Privatisation to the Company" and "Future Plans and Prospects of HSH Group" in the Explanatory Statement, as well as Appendix D and Appendix F to the Scheme Document regarding general information on HSH and the Listing Document.

It is stated in the Explanatory Statement that HSH and HEG expect to review HEG and its assets, corporate structure, capitalisation, operations, properties, policies, management and personnel to consider and determine what changes, if any, would be appropriate or desirable following the Privatisation in order to best organise and optimise the activities of HEG. Further, as HEG will become a wholly-owned subsidiary of HSH after the Scheme becomes effective, HSH and HEG will consider and intend to implement steps to reorganise the holding structure of some business, properties and operation units within the Enlarged HSH Group following the Privatisation, with a view to streamlining and rationalising the holding structure. Accordingly, HSH and HEG expressly reserve the right to make any changes that they deem necessary, appropriate or convenient in light of the their review of HSH Group and HEG, in light of future developments or in order to better integrate, generate maximum synergy or exploit full economies of scale with other operations of HSH Group. Such changes could include, among other things, changes in HEG's businesses including redeployment of fixed assets of HEG or operations, corporate structure, articles of association, capitalisation, management, HEG Board or dividend policy.

The Privatisation Proposal does not involve any employee arrangements and adjustments. The employees of HEG will continue to work in HEG in accordance with their labour contract. The management team composition is expected to remain stable. In respect of the board composition, HSH and HEG will both reserve the right to make changes after the completion of this transaction.

HSH anticipates that, the Privatisation Proposal will be conducive to: (i) optimising HSH's shareholding and management structure, and improving corporate governance of HSH; (ii) unifying the management and institutional settings currently belonging to HSH and HEG, promoting management synergy and improving management efficiency; (iii) reducing the additional management and compliance costs as HEG will no longer need to fulfil the regulatory requirements and decision-making process in respect of connected transactions required under the Listing Rules for transactions between HSH and HEG; (iv) integrating product categories, and strengthening the internal deep integration of "integration of all product categories" and the business system transformation of "digitalisation of the entire industry chain" under the smart home scenario.

Future Development, Integration Initiatives and Dividend policy

Over the past three years, HSH has been consistently paying approximately 30.0% of the net profit attributable to its ordinary shareholders, while the average dividend pay-out ratio of HEG was approximately 20.7%. In the context of the Scheme becoming effective, HSH Board has approved a proposal of the shareholder return plan of HSH, such that HSH will distribute dividend by way of cash of not less than 33%, 36% and 40% of the net profit attributable to ordinary shareholders of HSH for 2021, 2022 and 2023, respectively. As such, dividend pay-out to the Scheme Shareholders is expected to increase significantly in the coming three years, due to (i) the increase in the expected pay-out ratio as explained above, and (ii) the approximately 9.9% accretion in earnings per share on a pro forma basis for each Scheme Share. The actual amount of dividend payable each year, if any, will be recommended by the directors of HSH Group, and shall depend on HSH Group's financial performance and cash-flow requirements.

As set out in the Explanatory Statement, either HSH (as enlarged after completion of the Privatisation Proposal) or each of HSH and HEG (as the case may be) intends to declare and pay the final dividend for the year ending 31 December 2020 after the Scheme Effective Date or (if earlier) the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be), subject to obtaining relevant shareholders' approval (if required).

It should be noted that holders of HSH Shares may be subject to the PRC taxation on dividends and on gains on sale or other disposition of their shares. The tax rate applicable to individual investors and enterprise investors may be different, depending on individual circumstances. For further details, please refer to the section headed "PRC TAXATION" in appendix IV to the Listing Document as set out in Appendix F to the Scheme Document.

IV. PROCEDURES AND TIMETABLE TO NOTE

A detailed expected timetable is set out in the Scheme Document. Overseas Shareholders are referred to the section headed "OVERSEAS SHAREHOLDERS" in the Explanatory Statement.

The Court Meeting and the SGM

HEG Shareholders, whose names appear on the register of members of HEG on 9 December 2020, are entitled to attend and vote at the Court Meeting and the SGM, which will be held at 9:30 a.m. and 10:00 a.m. (or so soon thereafter as the Count Meeting has concluded or adjourned) on 9 December 2020 respectively. Voting at the Court Meeting and the SGM will be taken by poll as required under the Listing Rules and the Takeovers Code. Detailed procedures are set out in the Scheme Document.

Fractional entitlements

Under the Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated and sold on the open market with the net proceeds to be paid to and retained for the benefit of HSH.

Timetable for dealings and the Cash Payment

The expected last day for dealings in HEG Shares on the Stock Exchange is 11 December 2020. Following the hearing of the petition by the Court for the sanction of the Scheme on 17 December 2020 *(Bermuda time)*, certificates for new HSH H Shares to be issued pursuant to the Scheme are expected to be despatched on 21 December 2020, with trading commencing at 9:00 a.m., 22 December 2020. Listing of HEG Shares on the Stock Exchange are expected to be withdrawn on 22 December 2020. The latest time to despatch cheques for the Cash Payment to the Scheme Shareholders are expected to be 30 December 2020. For additional information, please see the expected timetable in the Scheme Document.

Overseas HEG Shareholders

Scheme Shareholders, who are not resident in Hong Kong, may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. If the law of any relevant jurisdiction precludes an offer of the HSH H Shares, or precludes it except after compliance by HSH with conditions with which HSH is unable to comply or that HSH regards as unduly onerous and burdensome, no HSH H Shares will be issued to the relevant overseas Scheme Shareholders (namely the Non-Qualifying Overseas Shareholders) in such jurisdiction pursuant to the Scheme. The HSH H Shares which would otherwise have been allotted to the Non-Qualifying Overseas Shareholders will be allotted to the Selected Person, who will sell such HSH H Shares on the market as soon as reasonably practicable after the Scheme becomes effective. The aggregate net proceeds will be paid to the relevant Non-Qualifying Overseas Shareholders (pro rata to their shareholdings in HEG as at the Scheme Record Time) in Hong Kong dollars in full satisfaction of their rights to the HSH H Shares pursuant to the Scheme. Overseas HEG Shareholders should make reference to the section headed "OVERSEAS SHAREHOLDERS" in the Explanatory Statement and inform themselves about and observe all legal and regulatory requirements applicable to them.

V. DISCUSSION

Merger with the parent more than a conventional privatisation

The great majority of the Cancellation Consideration payable under the Privatisation Proposal involves the Scheme Shareholders exchanging each Scheme Share for 1.60 new HSH H Shares, so that they will become shareholders of the Enlarged HSH Group. There is no cash alternative and the Cash Payment only amounts to HK$1.95 per Scheme Share. Given the form of consideration, this proposal has many of the characteristics of a merger with the listed parent, as compared to a conventional privatisation, which is usually a buy-out for cash. In this case, the Scheme Shareholders will continue to participate in the businesses of HEG as part of the Enlarged HSH Group. As such, the Scheme Shareholders' current interests in the businesses of washing machines, water heaters and water purifiers in the PRC through HEG Group will be expanded to cover the global businesses of a wide range of home appliance products through the Enlarged HSH Group, at a substantially larger revenue and asset scale. HSH H Shares will be listed by introduction on the Stock Exchange upon completion of the Privatisation Proposal. Accordingly, in our analysis we have placed substantial weight on the benefits of combining the two businesses, which appear to us to be substantial, and on the relative contributions to earnings and net assets, as well as the premium implied by the Cancellation

Consideration, which we would expect to be reflected mainly by relative outperformance of HEG Shares measured against the Hang Seng Index (see chart in the section above headed "Performance of HEG Shares and HSH A Shares") since the First Rule 3.7 Announcement.

Benefits of the Privatisation Proposal

HSH Board has set out a number of long-term potential benefits to shareholders of the Enlarged HSH Group, including stronger growth supported by full-suite smart home products and service solutions on a global platform, improved operational efficiency, reduction in continuing connected transactions, optimisation of capital structure by combining cash balances of the two groups, and a larger market capitalisation with more diversified investor base. The above potential benefits are generally applicable to both the Scheme Shareholders and HSH Shareholders, while the reduction in continuing connected transactions is principally a benefit to the Disinterested Scheme Shareholders from the corporate governance perspective.

The benefits of the Privatisation Proposal can also be reflected in the expected accretion in per share earnings and dividend pay-out ratio. On a pro forma basis, there will be an approximately 9.9% accretion in basic earnings per share from continuing operations attributable to the Scheme Shareholders. In terms of future dividend, HSH plans to gradually increase its dividend pay-out ratio to 40% in the coming 3 years (i.e. 2021 to 2023), compared to HEG's average pay-out ratio of approximately 20.7% in the past three years. We consider the above to be specific and substantial benefits to the Scheme Shareholders.

The market price of HEG Shares has increased by approximately 67.5% since the publication of the First Rule 3.7 Announcement and up to the Latest Practicable Date, compared to the corresponding drop in the Hang Seng Index of approximately 3.1% during the same period. In our view, this outperformance is a positive market reaction to the expected commercial benefits of the merger of the two group's businesses as well as the terms of the Privatisation Proposal from the Disinterested Scheme Shareholder's perspective.

Evaluation by reference to relative contributions

In assessing the Share Exchange Ratio, we performed an analysis of the relative contribution of earnings and net assets by each of HSH Shareholders and the Scheme Shareholders. Analysing the contributions of earnings from continuing operations (which excluded significant one-off disposal gain in 2019 as a result of the Asset Swap) and net assets produce implied exchange ratios lower than the Share Exchange Ratio of 1.60. This means, even without taking into account of the Cash Payment, contributions made by the Scheme Shareholders to earnings and net assets are lower than the shareholding proportions in the Enlarged HSH Group they will receive. On this basis, the Share Exchange Ratio of 1.60 is more favourable to Disinterested Scheme Shareholders than if it had been set by reference to contributions of earnings and net assets.

For simplicity, the Cash Payment of HK$1.95 per Scheme Share has not been taken into account in the above analysis on relative contributions. In other words, as well as enjoying a higher shareholding proportion in the Enlarged HSH Group than their contribution to earnings and net assets, Scheme Shareholders will also receive the Cash Payment of HK$1.95 per Scheme Share as an additional benefit.

Comparable Companies and Privatisation Precedents

We identified 8 Comparable Companies engaging in businesses similar to HEG. The FY P/E Ratio and TTM P/E Ratio of HEG as represented by the Valuation-implied Consideration are lower than the mean and median, but well within the range, of those of the Comparable Companies. The FY P/E Ratio and TTM P/E Ratio as represented by the Valuation-implied Consideration of HEG are higher, and thus compare favourably, to the historical P/E ratio of HEG based on historical market prices of HEG from the beginning of 2019 to the last trading day before publication of the First Rule 3.7 Announcement.

We also identified 5 Privatisation Precedents involving share exchange offers for Hong Kong listed companies. Based on the market prices of the offerors' shares immediately before the announcement of the share exchange terms, most precedents represent premiums over the (average) market prices of the offeree's shares before announcement. The Valuation-implied Consideration shows premiums over (average) market prices of HEG Shares that are comparable or higher than those of the precedent cases.

Market prices of HEG and HSH

The market prices of both HEG Shares and HSH A Shares increased substantially after the publication of the First Rule 3.7 Announcement. Future prices of HSH A Shares and HSH H Shares may not be the same, and the A/H Spread may fluctuate over time, as the HSH A Shares and HSH H Shares will be traded in two distinct markets. The Comparable AH Companies exhibited a significant fluctuation in A/H Spread, which may be a result of a number of differences in characteristics between the two stock markets. These may affect the prices of A shares and H shares of the same company in different ways. In assessing the merits of the Privatisation Proposal which we regard as having the characteristics of a merger, we have principally focused on the benefits of combining the businesses of the two groups, and on fundamental analyses including analysis of financial information and relative contributions to earnings and net assets. The market price of HEG Shares, which has increased approximately 67.5% since the publication of the First Rule 3.7 Announcement and up to the Latest Practicable Date and outperformed the Hang Seng Index, is currently influenced by the terms of the Privatisation Proposal. If the Privatisation Proposal fails, other things being equal, the price of HEG Shares may return to the level before the First Rule 3.7 Announcement.

Corporate outlook

Haier Group will remain the controlling shareholder of the Enlarged HSH Group upon completion of the Privatisation Proposal. The Enlarged HSH Group is dedicated to becoming a leading global Internet-of-Things-based smart home solutions provider, and will pursue structural optimisation and operational integration through the Privatisation Proposal. HSH and HEG expect to conduct a thorough review of HEG and determine if any change would be appropriate or desirable following the Scheme to achieve better integration and generate synergies, which may lead to certain changes in HEG's businesses.

HSH Board has approved a proposal of the shareholder return plan of HSH, such that HSH will distribute dividend by way of cash of not less than 33%, 36% and 40% of the net profit attributable to

HSH Shareholders in each of 2021, 2022 and 2023 respectively. Neither HSH nor HEG intend to declare and/or pay any dividend before the Scheme Effective Date, which is expected to be on 18 December 2020 *(Bermuda time)*.

Procedures and timetable

The Court Meeting and the SGM will be held on 9 December 2020. Disinterested Scheme Shareholders should refer to the detailed timetable and procedures for voting set out in the Scheme Document. If the required approvals are obtained and other Conditions are fulfilled, Disinterested Scheme Shareholders can expect that HSH H Shares will be despatched to them on 21 December 2020, and dealings to commence on 22 December 2020. Cheques for the Cash Payment are expected to be despatched latest by 30 December 2020.

VI. OPINION AND RECOMMENDATION

Based on the principal factors and reasons set out in our letter, we consider the terms of the Privatisation Proposal are fair and reasonable so far as the Disinterested Scheme Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Disinterested Scheme Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the SGM to approve the Scheme.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M. N. Sabine **John Wong**
Chairman *Director*

Mr. M. N. Sabine is a licenced person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licenced under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years of experience in the corporate finance industry.

Mr. John Wong is a licenced person registered with the SFC and a responsible officer of Somerley Capital Limited. He has over ten years of experience in the corporate finance industry.

This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.

Dear Sir or Madam,

1. BACKGROUND AND INTRODUCTION

References are made to (1) the Rule 3.5 Announcement pursuant to which HSH and HEG jointly announced that on 30 July 2020, HSH formally requested the HEG Board to put forward the Privatisation Proposal to the Scheme Shareholders regarding the privatisation of HEG by way of the Scheme; and (2) the joint announcement of HSH and HEG dated 13 November 2020 regarding the satisfaction of all of the Pre-Conditions.

Upon the fulfilment of the Conditions and following completion of the Privatisation Proposal:

(a) the listing of HEG Shares on the Stock Exchange will be withdrawn;

(b) HSH H Shares will be listed on the Stock Exchange;

(c) the Scheme Shareholders will become shareholders of HSH; and

(d) the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal, as detailed in paragraph headed "4. HSH EXCHANGEABLE BONDS – 4.3. EB-to-CB Proposal" below, becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), while HSH will remain a subsidiary of Haier Group.

As at the Latest Practicable Date, there are 2,816,995,978 HEG Shares in issue. HSH and the HSH Concert Parties directly and indirectly hold and/or control the exercise of voting rights over 1,646,097,229 HEG Shares in aggregate, representing approximately 58.43% of the outstanding issued share capital of HEG.

Based on the shareholding as at the Latest Practicable Date, out of the 1,646,097,229 HEG Shares held and/or controlled by HSH and the HSH Concert Parties:

(i) a total of 1,286,820,592 HEG Shares held by HSH and its wholly-owned subsidiary (representing approximately 45.68% of the outstanding issued share capital of HEG) will not form part of the Scheme Shares; and

(ii) the remaining 359,276,637 HEG Shares held and/or controlled by other HSH Concert Parties (in total representing approximately 12.75% of the outstanding issued share capital of HEG), being (A) 336,600,000 HEG Shares (representing approximately 11.95% of the outstanding issued share capital of HEG) held by HCH (HK), a subsidiary of Haier Group (the voting rights of which are exercised by HSH under a voting rights entrustment arrangement), (B) 12,337,198 HEG Shares (representing approximately 0.44% of the outstanding issued share capital of HEG) held by the directors of HSH and Haier Group and (C) 10,339,439 HEG Shares (representing approximately 0.37% of the outstanding issued share capital of HEG) held by the HKI/HIC Trustee, all of which will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.

Each of HSH and any of its wholly-owned subsidiaries that holds HEG Shares has undertaken to the Court to be bound by the terms of the Scheme.

The remaining approximately 41.57% of the outstanding issued share capital of HEG are held by other HEG Shareholders (which include the HEG Trustee and certain Directors).

Please refer to the section headed "7. INFORMATION ON HSH — 7.3. Shareholding structure of HSH" for the simplified shareholding structures of HSH as at the Latest Practicable Date and immediately upon the completion of the Privatisation Proposal.

HSH has appointed CICC and J.P. Morgan as its joint financial advisers in connection with the Privatisation Proposal and the Scheme.

HEG has appointed UBS as its financial adviser in connection with the Privatisation Proposal and the Scheme.

The purpose of this Explanatory Statement is to explain the terms and effects of the Privatisation Proposal and, in particular, the Scheme and to provide the HEG Shareholders with other relevant information in relation to the Privatisation Proposal and the Scheme.

Your attention is drawn to (1) the letter from the HEG Board set out on pages 28 to 41 of this Scheme Document, (2) the letter from the Independent Board Committee set out on pages 42 to 43 of this Scheme Document, (3) the letter from the Independent Financial Adviser, set out on pages 44 to 96 of this Scheme Document and (4) the terms of the Scheme set out on pages I-1 to I-7 of this Scheme Document.

2. THE PRIVATISATION PROPOSAL AND THE SCHEME

2.1 The Privatisation Proposal

On 30 July 2020, HSH requested the HEG Board to, subject to the satisfaction of the Pre-Conditions, put forward the Privatisation Proposal. On 13 November 2020, all the Pre-Conditions have been satisfied. Upon the fulfilment of the Conditions and the Scheme becoming effective, all Scheme Shares will be cancelled and the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) will be entitled to receive from HSH (in respect of the new HSH H Shares) and from HEG (in respect of the Cash Payment):

For every Scheme Share cancelled . . . . **1.60 new HSH H Shares and the Cash Payment of HK$1.95**

The Listing will take place and the new HSH H Shares will be issued to the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) only if the Scheme becomes effective.

The Cash Payment will be paid by HEG only if the Scheme becomes effective.

It is proposed that, under the Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and, if necessary, rounded down to the nearest whole number of a HSH H Share) and allotted to the Selected Person, who will sell the resulting HSH H Shares on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

In compliance with Rule 20.1(a) of the Takeovers Code, upon the Scheme becoming effective, the new HSH H Shares will be issued by HSH, and the Cash Payment will be paid by HEG, to the Scheme Shareholders as soon as possible but in any event within seven Business Days after the Scheme Effective Date. It is expected that the certificates for the new HSH H Shares will be despatched on Monday, 21 December 2020, and such certificates will not become valid unless the formal letter of approval for the Listing is obtained, and the Introduction has become effective.

Dividend Payment by HSH and HEG

At a general shareholders' meeting of HSH held on 3 June 2020, the HSH Shareholders have approved the HSH 2019 Final Dividend. On 16 July 2020, the HSH 2019 Final Dividend was paid to HSH Shareholders whose names appeared on the register of members of HSH on 15 July 2020. The new HSH H Shares to be issued in consideration for the cancellation of the Scheme Shares upon the Scheme becoming effective will not entitle the holders thereof to the HSH 2019 Final Dividend or any other dividend or distribution which may be made by HSH by reference to a record date/time before the Scheme Record Time.

At the annual general meeting of HEG held on 23 June 2020, the HEG Shareholders have approved the HEG 2019 Final Dividend. On 3 August 2020, the HEG 2019 Final Dividend was paid to HEG Shareholders whose names appeared on the register of members of HEG on 3 July 2020.

Under the terms of the Privatisation Proposal, the payment of the HSH 2019 Final Dividend and/or HEG 2019 Final Dividend does not result in any adjustment to the Share Exchange Ratio or the amount of the Cash Payment.

In addition, the Cash Payment by HEG upon the Scheme becoming effective will not result in any adjustment to the Share Exchange Ratio.

Neither HSH nor HEG intend to declare and/or pay any dividend (other than the HSH 2019 Final Dividend and the HEG 2019 Final Dividend (both of which have already been paid)) before the Scheme Effective Date or the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be). For HSH's dividend policy after the Scheme becomes effective, please refer to the section headed "5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION — 5.3.4. Increase shareholder return". Either HSH (as enlarged after the completion of the Privatisation Proposal) or each of HSH and HEG (as the case may be) intends to declare and pay the final dividend for the year ending 31 December 2020 after the Scheme Effective Date or (if earlier) the date on which the Scheme is not approved or the Privatisation Proposal otherwise lapses (as the case may be), subject to obtaining relevant shareholders' approval (if required).

Events following the Scheme becoming effective

On the basis of the number of Scheme Shares in issue as at the Latest Practicable Date, if the Conditions are fulfilled and upon the Scheme becoming effective:

(i) all of the Scheme Shares will be cancelled;

(ii) 1.60 new HSH H Shares will be issued to the Scheme Shareholders (other than Non-Qualifying Overseas Shareholders) for every Scheme Share cancelled;

(iii) the Cash Payment of HK$1.95 for every Scheme Share cancelled will be paid by HEG to the Scheme Shareholders;

(iv) the issued share capital of HEG will be reduced by the cancellation of the Scheme Shares. Immediately after such reduction, HEG will issue to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled such that the issued share capital of HEG will be restored to its amount in issue immediately before the capital reduction. The reserve created in the books of accounts of HEG as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new HEG Shares so issued, credited as fully paid; for purposes of making the Cash Payment, an amount equivalent to the Cash Payment for the Scheme Shares standing in the share premium account and other applicable reserves of HEG will be cancelled; and

(v) the listing of the HEG Shares on the Stock Exchange will be withdrawn pursuant to Rule 6.15(2) of the Listing Rules.

Basis for determining the Share Exchange Ratio and the Cash Payment

The Share Exchange Ratio of 1.60 new HSH H Shares, together with the Cash Payment under the Scheme of HK$1.95 (being an integral part of the Privatisation Proposal), for every Scheme Share cancelled were on arm's length terms determined on commercial basis after taking into account, among other things:

(i) the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal, which is attractive for the Scheme Shareholders;

(ii) the historical business and financial performance of HSH and HEG;

(iii) the prevailing and historical market price levels of HEG and HSH and the historical and current trading multiples of certain of their respective comparable companies;

(iv) the business potential of the Enlarged HSH Group after the Privatisation Proposal takes effect and the potential benefits of the Introduction and the Privatisation Proposal for the HSH Shareholders and HEG Shareholders;

(v) the fact that HSH H Shares are being offered as consideration under the Scheme, and that following completion of the Introduction and the Privatisation Proposal, the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result). Thus, Scheme Shareholders will be able to continue to participate in the performance of HEG indirectly;

(vi) the fact that the Cash Payment could provide a certain level of liquidity to the Scheme Shareholders, while the Enlarged HSH Group could retain sufficient resources to support its future operations and expansion after the completion of the Privatisation Proposal; and

(vii) the effect of the Privatisation Proposal on the dilution and increment of earnings per share of HSH and HEG.

2.2 Total Consideration and Comparisons of Value

Platinum, the Valuation Adviser, has estimated that the value of each HSH H Share as at 12 November 2020 is in the range of RMB16.64 to RMB21.88 (equivalent to approximately HK$19.48 to HK$25.62 respectively). On the basis of such valuation and that Scheme Shareholders will receive (i) 1.60 HSH H Shares and (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal will be in the range of approximately HK$33.12 to HK$42.94. Accordingly, with 2,816,995,978 HEG Shares in issue as at the Latest Practicable Date, the entire issued share capital of HEG would be theoretically valued under the Privatisation Proposal in the range of approximately HK$93,313 million to HK$120,949 million.

The foregoing paragraph is subject to and should be read in conjunction with the bases, limitations and assumptions set out in the Valuation Report in Appendix B to this Scheme Document. The estimate of value in the Valuation Report and the qualification and experience of the Valuation Adviser have been reported on by the Joint Financial Advisers set out in Appendix B to this Scheme Document. **In particular, Scheme Shareholders, investors and potential investors should note that the value of HSH H Shares estimated by the Valuation Adviser does not represent the trading price of HSH H Shares immediately following completion of the Introduction or at any time. The trading price of HSH H Shares may fluctuate subject to prevailing market conditions and may materially differ from the value estimated by the Valuation Adviser. Accordingly, Scheme Shareholders, investors and potential investors should not rely on the Valuation Adviser's estimated value of HSH H Shares as the basis for the trading price of the HSH H Shares upon completion of the Introduction.**

Market prices

Scheme Shareholders, investors and potential investors should note that the additional comparison results have been included apart from those presented in the Rule 3.5 Announcement, based on the trading information in HEG Shares and the valuation of HSH H Shares as at 12 November 2020.

HSH and HEG have each made their first possible offer announcement pursuant to Rule 3.7 of the Takeovers Code on 16 December 2019. The closing price per HEG Share on 17 December 2019 (being the trading day immediately after the publication of such announcements) was HK$23.90, representing an uplift of approximately 9.38% over the closing price of HK$21.85 per HEG Share on 12 December 2019 (being the last trading day on which trading in HEG Shares took place immediately preceding the publication of such announcement).

Comparisons of Value

(1) Comparisons using theoretical total value of the HSH H Shares and the Cash Payment as at 30 July 2020

On the basis of (i) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 30 July 2020 of HK$18.47 per HSH H Share, together with (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment under the Privatisation Proposal is equivalent to approximately HK$31.51 for each Scheme Share and represents:

(a) a premium of approximately 44.20% over the closing price of HK$21.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the Offer Period Commencement Date;

(b) a premium of approximately 17.35% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 28.34% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(d) a premium of approximately 36.79% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(e) a premium of approximately 42.98% over the average closing price of approximately HK$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(f) a premium of approximately 41.86% over the average closing price of approximately HK$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(g) a premium of approximately 158.39% over the unaudited consolidated net asset value attributable to owners of HEG per HEG Share as at 30 June 2020; and

(h) a discount of approximately 13.91% to the closing price of HK$36.60 per HEG Share as quoted on the Stock Exchange on the Latest Practicable Date.

(2) Comparisons using theoretical total value of the HSH H Shares and the Cash Payment as at 12 November 2020

On the basis of (i) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 12 November 2020 of HK$22.55 per HSH H Share, together with (ii) the Cash Payment for every Scheme Share cancelled, the theoretical total value of the HSH H Shares and the Cash Payment under the Privatisation Proposal is equivalent to approximately HK$38.03 for each Scheme Share and represents:

(a) a premium of approximately 74.05% over the closing price of HK$21.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the Offer Period Commencement Date;

(b) a premium of approximately 41.64% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 54.91% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(d) a premium of approximately 65.11% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(e) a premium of approximately 72.57% over the average closing price of approximately HK$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(f) a premium of approximately 71.22% over the average closing price of approximately HK$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(g) a premium of approximately 211.87% over the unaudited consolidated net asset value attributable to owners of HEG per HEG Share as at 30 June 2020; and

(h) a premium of approximately 3.91% over the closing price of HK$36.60 per HEG Share as quoted on the Stock Exchange on the Latest Practicable Date.

(3) Comparisons using the value of the HSH H Shares estimated by the Valuation Adviser as at 30 July 2020 only

On the basis of the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 30 July 2020 of HK$18.47 per HSH H Share, the theoretical value of HSH H Shares under the Privatisation Proposal is equivalent to approximately HK$29.56 for each Scheme Share and represents:

(a) a premium of approximately 35.28% over the closing price of HK$21.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the Offer Period Commencement Date;

(b) a premium of approximately 10.09% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 20.40% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(d) a premium of approximately 28.33% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(e) a premium of approximately 34.13% over the average closing price of approximately HK$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(f) a premium of approximately 33.08% over the average closing price of approximately HK$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day; and

(g) a premium of approximately 142.40% over the unaudited consolidated net asset value attributable to owners of HEG per HEG Share as at 30 June 2020; and

(h) a discount of approximately 19.24% to the closing price of HK$36.60 per HEG Share as quoted on the Stock Exchange on the Latest Practicable Date.

(4) Comparisons using the value of the HSH H Shares estimated by the Valuation Adviser as at 12 November 2020 only

On the basis of the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser as at 12 November 2020 of HK$22.55 per HSH H Share, the theoretical value of HSH H Shares under the Privatisation Proposal is equivalent to approximately HK$36.08 for each Scheme Share and represents:

(a) a premium of approximately 65.13% over the closing price of HK$21.85 per HEG Share as quoted on the Stock Exchange on the last trading day prior to the Offer Period Commencement Date;

(b) a premium of approximately 34.38% over the closing price of HK$26.85 per HEG Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 46.97% over the average closing price of approximately HK$24.55 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(d) a premium of approximately 56.64% over the average closing price of approximately HK$23.03 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(e) a premium of approximately 63.73% over the average closing price of approximately HK$22.04 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(f) a premium of approximately 62.44% over the average closing price of approximately HK$22.21 per HEG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day; and

(g) a premium of approximately 195.88% over the unaudited consolidated net asset value attributable to owners of HEG per HEG Share as at 30 June 2020; and

(h) a discount of approximately 1.42% to the closing price of HK$36.60 per HEG Share as quoted on the Stock Exchange on the Latest Practicable Date.

According to the unaudited pro forma financial information of the HSH Group consisting of the unaudited pro forma statement of adjusted consolidated net tangible assets of the HSH Group as at 30 June 2020, the unaudited pro forma consolidated statements of financial position as at 30 June 2020 and the unaudited pro forma consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2019, and the related notes thereto as set out appendix III to the Listing Document as set out in Appendix F to this Scheme Document, and which has been prepared in accordance with Rule 4.29 of the Listing Rules on the bases and assumptions set out therein, the pro forma basic earnings per HSH H Share attributable to ordinary equity holders of the Enlarged HSH Group from continuing operations for the year ended 31 December 2019 is RMB1.01 without taking into account the effect of the one-off listing and privatisation expenses. On the basis of such pro forma basic earnings per HSH H Share and the Share Exchange Ratio, the pro forma earnings of the HSH H Shares which will be received upon the Scheme becoming effective for cancellation of each HEG Share is approximately RMB1.62 (being RMB1.01 multiplied by the Share Exchange Ratio). This represents an increase of 9.9% as compared to the basic earnings per HEG Share attributable to ordinary equity holders of HEG from continuing operations for the year ended 31 December 2019 in the amount of RMB1.47 as set out in the audited consolidated annual financial statements of HEG for the year ended 31 December 2019. In addition, the Cash Payment to be paid by HEG upon the Scheme becoming effective will further increase the return on the Scheme Shares for the Scheme Shareholders on a one-off basis.

The unaudited pro forma financial information (the compilation of which has been reported on by the auditors of HSH) set out in appendix III to the Listing Document as set out in Appendix F to this Scheme Document is prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the resulting HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in this Scheme Document.

2.3 Market Prices

The table below sets out the closing price of the HEG Shares on the Stock Exchange on (1) the last business day of each of the calendar months during the Relevant Period, (2) the Last Trading Day, (3) the Latest Practicable Date, and (4) the last day on which the HEG Shares were traded on the Stock Exchange prior to the publication of the announcement of HSH dated 16 December 2019:

Date	Closing price of each HEG Share (HK$)
28 June 2019	21.60
31 July 2019	18.54
30 August 2019	20.40
30 September 2019	20.45
31 October 2019	22.40
29 November 2019	21.75
12 December 2019	21.85
31 December 2019	24.35
31 January 2020	23.55
28 February 2020	22.30
31 March 2020	20.65
29 April 2020	21.35
29 May 2020	21.60
30 June 2020	23.45
29 July 2020 (Last Trading Day)	26.85
31 July 2020	26.85
31 August 2020	26.55
30 September 2020	28.00
30 October 2020	29.40
13 November 2020 (Latest Practicable Date)	36.60

During the Relevant Period, the highest closing price of the HEG Shares as quoted on the Stock Exchange was HK$36.60 on 13 November 2020 and the lowest closing price of the HEG Shares as quoted on the Stock Exchange was HK$17.74 on 7 August 2019.

2.4 Value of the Privatisation Proposal

As at the Latest Practicable Date, there are 2,816,995,978 HEG Shares in issue. HSH and FRL, its wholly-owned subsidiary, hold an aggregate of 1,286,820,592 HEG Shares.

On the basis of the theoretical total value of the HSH H Shares and the Cash Payment of HK$38.03 per Scheme Share (being the aggregate of (i) the theoretical value of the HSH H Shares determined on the basis of the mid-point of the valuation range estimated by the Valuation Adviser as at 12 November 2020, and (ii) the Cash Payment under the Scheme as set out in section 2.2 above, for reference only):

(a) assuming (i) there will be no change in the number of HEG Shares in issue (other than the cancellation of the Fractional Shares upon the passing of the relevant special resolution at the SGM) prior to the Scheme Record Time; (ii) none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time; and (iii) the Scheme becomes effective, and taking into account the Cash Payment, the Privatisation Proposal values all of the Scheme Shares at approximately HK$58,193 million, and the entire issued share capital of HEG at approximately HK$107,131 million.

    On the basis of the Share Exchange Ratio and such number of Scheme Shares, upon the fulfilment of the Conditions and the Scheme becoming effective, (i) an aggregate of 2,448,279,814 HSH H Shares (representing approximately 37.21% of the entire issued share capital of HSH as at the Latest Practicable Date or approximately 27.12% of the entire issued share capital of HSH as enlarged by the issuance of such HSH H Shares) will be issued by HSH and (ii) a Cash Payment in the total amount of HK$2,984 million will be paid by HEG to the Scheme Shareholders; or

(b) assuming the exchange right with respect to all of the HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option as detailed in the section headed "4. HSH EXCHANGEABLE BONDS – 4.1 General Information" in Part IX – Explanatory Statement of this Scheme Document) are exercised prior to the Scheme Record Time and excluding the Fractional Shares, there will be an aggregate of 1,785,105,076 Scheme Shares in issue. Assuming further that (i) there will be no other change in the number of HEG Shares in issue prior to the Scheme Record Time (other than the cancellation of the Fractional Shares upon the passing of the relevant special resolution at the SGM); and (ii) the Scheme becomes effective, and taking into account the Cash Payment, the Privatisation Proposal values all of the Scheme Shares at approximately HK$67,888 million, and the entire issued share capital of HEG at approximately HK$107,131 million.

    On the basis of such increased number of Scheme Shares and the Share Exchange Ratio, upon the fulfilment of the Conditions and the Scheme becoming effective, (i) an aggregate of 2,856,168,121 HSH H Shares (representing approximately 43.41% of the entire issued share capital of HSH as at the Latest Practicable Date or approximately 30.27% of the entire issued share capital of HSH as enlarged by the issuance of such HSH H Shares) will be issued by HSH and (ii) a Cash Payment in the total amount of HK$3,481 million will be paid by HEG to the Scheme Shareholders.

Based on the above, it is expected that, upon the Scheme becoming effective and the issuance of the new HSH H Shares pursuant thereto, no less than 15% of the total issued share capital of HSH will be HSH H Shares held by public shareholders. On this basis, upon the fulfilment of the Conditions and upon Listing, HSH will be able to satisfy the minimum public float requirements under Rule 8.08(1)(b) of the Listing Rules.

All of the HSH H Shares to be issued to settle the Privatisation Proposal are and will be free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid by reference to a record time at or after the date and time of their issue.

Upon completion of the Privatisation Proposal and the Scheme becoming effective, Scheme Shareholders will not be entitled to the dividends and/or other distributions declared, paid or made by HEG by reference to a record time on or after the Scheme Effective Date.

2.5 Confirmation of financial resources

The majority of the cash and cash equivalents of the HEG Group is kept onshore in mainland China as the business operations of the HEG Group are mostly carried out in mainland China. After taking into account various costs, it is considered more appropriate to settle the Cash Payment primarily by external debt financing. As such, upon completion of the Privatisation Proposal and the Scheme becoming effective, it is expected that settlement of the Cash Payment under the Scheme by HEG will be funded by external debt financing pursuant to the Bank Facility primarily and also internal resources. The payment of interest of, repayment of or security for any liability, contingent or otherwise, is not intended to depend on, to any significant extent, the business of HEG.

In addition, as disclosed in the MAR Announcement, as (i) financing of the Cash Payment outside of the PRC is required to meet the capital requirement based on the actual circumstances, (ii) the Cash Payment is required to be made in Hong Kong dollars in accordance with the Hong Kong securities regulatory requirements, and (iii) HEG is a company incorporated outside of the PRC, it is considered more convenient for HEG, rather than for HSH, to enter into debt financing and to make the Cash Payment.

CICC, as a financial adviser to HSH in connection with the Privatisation Proposal and the Scheme, is satisfied that sufficient financial resources are available to HEG to satisfy the maximum amount of the Cash Payment required to effect the Privatisation Proposal as set forth in part (b) of the section headed “2.4. Value of the Privatisation Proposal” in this Explanatory Statement.

2.6 Conditions of the Privatisation Proposal and the Scheme

The implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the following conditions:

Shareholders' approval

(a) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

(b) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders;

(c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, by applying the reserve arising in the books of accounts of HEG as a result of the cancellation of the Scheme Shares, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium account of HEG and/or other accounts of reserves of HEG (such cancellation of share premium constitutes a reduction in the issued share capital of HEG under the Companies Act);

Other Bermuda law requirements

(d) the sanction of the Scheme (with or without modifications) by the Court, and the delivery to the Registrar of Companies in Bermuda of a copy of the Court Order for registration;

(e) the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital and cancellation of share premium of HEG referred to in paragraph (c) above;

Third party consents and other governmental or regulatory approvals

(f) all applicable filings, notices, certificates and approvals in relation to the Privatisation Proposal (and its implementation) with or from any governmental or regulatory bodies required under any laws or regulations in the PRC, such as the NDRC and the competent commerce authority, having been made or obtained and remaining in full force and effect;

(g) all necessary third party consents in relation to the Privatisation Proposal which may be required under any existing contractual obligations to which any member of the HEG Group or HSH is a party (where any failure to obtain a consent would have a material adverse effect on the implementation of the Privatisation Proposal or the business of the HEG Group or HSH Group, in each case taken as a whole) having been obtained or waived by the relevant party(ies);

(h) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Privatisation Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Privatisation Proposal (other than such order(s) or decision(s) that would not have a material adverse effect on the legal ability of HSH to proceed with the Privatisation Proposal);

Other conditions

(i) no event having occurred which would make the Privatisation Proposal or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Privatisation Proposal or impose any additional material conditions or obligations with respect to the Privatisation Proposal or any part thereof or on the cancellation of the Scheme Shares (other than such event(s) that would not have a material adverse effect on the legal ability of HSH to proceed with the Privatisation Proposal);

(j) since the date of the Rule 3.5 Announcement, there having been no material adverse change to the business, financial or trading position of the HSH Group or the HEG Group, each taken as a whole. For the purpose of this Condition (j), material adverse change does not include any material adverse change (i) which do not have a material and significantly disproportionate impact on the business, financial or trading position of the HSH Group or HEG Group, each taken as a whole; and (ii) arising or resulting directly from COVID-19 or any change in the industry practices or policies in the material markets in which HSH Group or HEG Group operates and which practices or policies are of general application to the industry in which HSH Group or HEG Group is engaged in; and

(k) save in connection with the implementation of the Privatisation Proposal, the listing of the HEG Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of the HEG Shares on the Stock Exchange is or is likely to be withdrawn.

HSH reserves the right (but is not obliged) to waive any of Conditions (g)and (j) either in whole or in part, and either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e), (f), (h), (i) and (k) cannot be waived in any event. All of the Conditions will have to be satisfied or waived, as applicable, on or before the Scheme Long Stop Date, failing which the Privatisation Proposal and the Scheme will lapse. HEG has no right to waive any of the Conditions.

In respect of Condition (g), as at the Latest Practicable Date, HSH and HEG do not reasonably foresee any necessary third party consents in relation to the Privatisation Proposal which are material and which may be required under any existing contractual obligations to which any member of the HEG Group or HSH is a party, save for the third party consents already set out above as a Condition. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, HSH may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to HSH in the context of the Privatisation Proposal.

WARNING: The implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. HEG Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

2.7 Further Terms of the Privatisation

The HSH H Shares to be issued pursuant to the Scheme and the Listing by Introduction will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. As a consequence, the HSH H Shares will not be registered under the US Securities Act.

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the HSH H Shares.

3 HEG RESTRICTED SHARE AWARD SCHEME

The HEG Restricted Share Award Scheme was adopted by HEG on 15 April 2014 (and renewed by an addendum on 15 April 2019) to optimise the remuneration structure of HEG's management and employees through using a combination of cash and HEG Shares, to recognise the respective contributions of, and to incentivise, the eligible participants and to promote the retention of existing personnel and attract capable talents.

As at the Latest Practicable Date, there were no outstanding unvested HEG Share Awards, and the HEG Trustee holds a total of 2,304,625 HEG Shares as trustee under the HEG Restricted Share Award Scheme.

As the HEG Restricted Share Award Scheme is designed to govern the operation of an employees' share award scheme solely concerning the HEG Shares, the terms of the scheme rules and the trust deed for the HEG Restricted Share Award Scheme do not provide for any arrangement with respect to the HSH H Shares to be issued by HSH as consideration for cancellation of the Scheme Shares which will be held by the HEG Trustee upon the Scheme becoming effective. As such, to ensure that fair treatment is afforded to the grantees of the HEG Share Awards, pursuant to the rules of the HEG Restricted Share Award Scheme, the HEG Board resolved to accelerate up to 6,905,460 HEG Share Awards, which would have been due to vest in or about July 2021, subject to the satisfaction of the pre-determined performance target(s) set for each grantee for the financial year ended 31 December

2019. As at the Latest Practicable Date, the corresponding HEG Shares have been vested with the grantees (the "**Acceleration**").

In this connection, the relevant grantee has undertaken to HEG as a condition of the Acceleration that:

(i) he/she will remain in the HEG Group and continue to perform his/her pre-existing employment duties until at least July 2021; and

(ii) should he/she leave the HEG Group at any time earlier than July 2021, he/she shall pay back to HEG an equivalent amount of the vested HEG Shares in money terms proportionately.

The HEG Shares held by the HEG Trustee under the HEG Restricted Share Award Scheme, and the HEG Shares to be held by the grantee upon vesting of the HEG Share Awards, will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such holders as at the Scheme Record Time.

The rules of the HEG Restricted Share Award Scheme prohibit the HEG Trustee from exercising the voting rights attached to the HEG Shares held by it under the HEG Restricted Share Award Scheme, and the HEG Trustee will abstain from voting at the Court Meeting and the SGM.

4. HSH EXCHANGEABLE BONDS

4.1 GENERAL INFORMATION

On 21 November 2017, Harvest, which is wholly-owned by HS (HK) and which, in turn, is wholly-owned by HSH, issued the HSH Exchangeable Bonds which are listed on the Stock Exchange (stock code: 5024). The HSH Exchangeable Bonds are unconditionally and irrevocably guaranteed by HSH and FRL. Under the current terms and conditions of the HSH Exchangeable Bonds (the "**Bond Terms and Conditions**"), during the period from 1 January 2019 and up to 10 days prior to 21 November 2022 (the "**Maturity Date**") (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place) or 10 days prior to the date fixed for redemption of the HSH Exchangeable Bonds, if such bonds have been called for redemption before the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place), the holders of the HSH Exchangeable Bonds (the "**Bondholders**") are entitled to exchange the HSH Exchangeable Bonds into HEG Shares.

As at the Latest Practicable Date, the entire principal amount of HK$8,000,000,000 of the HSH Exchangeable Bonds are outstanding and are exchangeable into approximately 255,153,451 HEG Shares currently held by FRL (representing approximately 9.06% of the current total issued share capital of HEG). As at the Latest Practicable Date, upon the exercise of exchange right in accordance with the Bond Terms and Conditions, the Bondholders will be entitled to receive 31,894.1813 HEG Shares for each HK$1,000,000 principal amount of the HSH Exchangeable Bonds. Based on the foregoing, as at the Latest Practicable Date, the current implied exchange price at which the HSH Exchangeable Bonds could be exchanged into HEG Shares is approximately HK$31.35.

Pursuant to Condition 8(e) (*Redemption at the Option of the Bondholders*) of the Bond Terms and Conditions, the Bondholders have the right, at their option, to require Harvest to redeem all or some only of the HSH Exchangeable Bonds held by such Bondholders on 21 November 2020 (the "**Put Option Date**") at certain early redemption amount as determined under the Bond Terms and Conditions (the "**Put Option**"). During the period (which commenced on 22 September 2020 and ended on 22 October 2020) when the Bondholders were entitled to exercise the Put Option under Condition 8(e) of the Bond Terms and Conditions, Harvest received put exercise notice(s) from certain Bondholder(s) requiring it to redeem the HSH Exchangeable Bonds held by such Bondholder(s) in the aggregate principal amount of HK$7,000,000. Accordingly, upon redemption of such HSH Exchangeable Bonds by Harvest on the Put Option Date, the outstanding principal amount of the HSH Exchangeable Bonds will be reduced to HK$7,993,000,000, and the *pro rata* share of the Exchange Property or the relevant part thereof attributable to each relevant HSH Exchangeable Bond will cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly. Upon such redemption, the HSH Exchangeable Bonds will be exchangeable into approximately 254,930,192 HEG Shares currently held by FRL (representing approximately 9.05% of the current total issued share capital of HEG).

The HEG Shares held by FRL or the then holder of the Exchange Property do not form part of the Scheme Shares. As such, save as discussed in relation to the EB-to-CB Proposal (as defined below), Bondholders are not entitled to receive HSH H Shares unless they have exchanged their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time to receive the HEG Shares from FRL so as to be entitled to receive such HSH H Shares as Scheme Shareholders themselves. Similarly, the Cash Payment is not available to the Bondholders unless they have exchanged their HSH Exchangeable Bonds into HEG Shares prior to the Scheme Record Time to receive the HEG Shares from FRL so as to be entitled to receive such Cash Payment as Scheme Shareholders themselves.

(a) If the Bondholders exercise their exchange right and become HEG Shareholders on or prior to the Meeting Record Date, those HEG Shares held by such Bondholders will form part of the Scheme Shares and accordingly may be voted on at the Court Meeting and the SGM.

(b) If the Bondholders exercise their exchange right and become HEG Shareholders at or prior to the Scheme Record Time (but only after the Meeting Record Date), those HEG Shares held by such Bondholders will form part of the Scheme Shares (but such Bondholders will have no entitlement to vote at the Court Meeting or the SGM). Subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by such Bondholders who have exercised their exchange right and become HEG Shareholders as at the Scheme Record Time.

(c) If the Bondholders have not fully exercised their exchange rights to receive the HEG Shares from FRL before the register of members of HEG is closed on Thursday, 17 December 2020, any remaining HEG Shares comprising the Exchange Property held by FRL or the then holder of the Exchange Property will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective but will be included as part of the HEG Shares to be withdrawn from listing. To ensure that FRL will be able to transfer and deliver HEG Shares pursuant to the Bond Terms and Conditions to the relevant Bondholders prior to the closure of register of members of HEG on Thursday, 17 December 2020, Bondholders who intend to become Scheme Shareholders are strongly encouraged to fully exercise their exchange rights on or before Wednesday, 25 November 2020.

None of Harvest, HSH, FRL nor the then holder of the Exchange Property intends to adjust the Exchange Property based on the Cash Payment as it is only available to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time if the Scheme becomes effective. However, the economic effect equivalent to the Cash Payment will be reflected in the conversion price of the HSH Convertible Bonds (as defined below) as set out in the EB-to-CB Proposal as described below.

4.2 Impact of the Privatisation Proposal and the Delisting on the HSH Exchangeable Bonds and the Rights and Interests of the Bondholders

As at the Latest Practicable Date, HSH is not aware of any reason why the continued debt listing status of the HSH Exchangeable Bonds will be affected by reason of the Privatisation Proposal and the Delisting.

Under the current Bond Terms and Conditions, the Bondholders have the following options available to them:

(a) selling the HSH Exchangeable Bonds in the secondary market;

(b) exchanging the HSH Exchangeable Bonds into the HEG Shares and becoming HEG Shareholders either (i) on or prior to the Meeting Record Date or (ii) at or prior to the Scheme Record Time, to participate in the Scheme as discussed above; or

(c) holding their HSH Exchangeable Bonds until the Maturity Date and to be repaid at 105.11% of the principal amount of such HSH Exchangeable Bonds.

In addition, (i) the Bondholders may exercise their early redemption right upon Delisting and request Harvest to redeem their HSH Exchangeable Bonds at the early redemption amount (as prescribed in the Bond Terms and Conditions) if Delisting occurs without all conditions to the effectiveness of the EB-to-CB Proposal being satisfied, (ii) after all conditions to the effectiveness of the EB-to-CB Proposal are satisfied, the Bondholders will no longer be able to request Harvest to redeem their HSH Exchangeable Bonds upon Delisting, and (iii) after the EB-to-CB Proposal becomes effective, the holder of any HSH Convertible Bond (as defined below) will have the right, at such holder's option, to require Harvest to redeem all or some only of that holder's HSH Convertible Bond after the HSH H Shares cease to be listed or admitted to trading on the Stock Exchange.

In the event the Privatisation Proposal takes effect, but the EB-to-CB Proposal does not become effective and the Bondholders do not exercise any of the options outlined in paragraphs (a) to (b) above, the consequence will be that, following the Delisting, the HSH Exchangeable Bonds

will, on the exercise of the exchange right by the Bondholders, exchange into unlisted shares of HEG which will not have an open market for trading and will therefore become illiquid.

4.3 EB-to-CB Proposal

To provide an alternative to the Bondholders outside of those that are available under the current Bond Terms and Conditions or as outlined above, HSH proposes to amend the current Bond Terms and Conditions, subject to the satisfaction of the relevant conditions precedent described below, such that the HSH Exchangeable Bonds will not be exchangeable into the HEG Shares but will instead be convertible into new HSH H Shares. The HSH Exchangeable Bonds with such amended terms and conditions are hereafter referred to as the "**HSH Convertible Bonds**".

This is proposed to be achieved by amending the Bond Terms and Conditions to substitute the right to exchange the HSH Exchangeable Bonds for the existing Exchange Property with the right to convert the HSH Convertible Bonds into new HSH H Shares, issuable by HSH at the time of conversion such that, after the Scheme and the Listing both become effective, the Bondholders will be able to convert the then outstanding HSH Convertible Bonds into new HSH H Shares (as opposed to exchanging the HSH Exchangeable Bonds into unlisted HEG Shares). The key terms of the HSH Convertible Bonds include the following:

(a) (i) the proposed initial conversion price of the HSH Convertible Bonds before the Initial Adjustment Date will reflect the combined effect of (A) the relevant exchange price of the HSH Exchangeable Bonds (after taking into account any dividend or other distribution paid or made in respect of the Exchange Property, including but not limited to the HEG 2019 Final Dividend, and the prescribed adjustment to the Exchange Property in accordance with the current Bond Terms and Conditions, which does not include any Cash Payment) and (B) the Share Exchange Ratio. (ii) The conversion price of the HSH Convertible Bonds on or after the Initial Adjustment Date will also reflect the additional economic effect for an amount equivalent to the Cash Payment based on (x) the average of the closing prices of the HSH H Shares on each of the 10 trading days following but excluding the date on which the Cash Payment is made by HEG and (y) the number of HEG Shares comprised in the Exchange Property immediately before the EB-to-CB Proposal takes effect;

(b) Harvest will remain as the issuer of the HSH Convertible Bonds, while the HSH Convertible Bonds will be solely guaranteed by HSH;

(c) the current mechanism for exchange, definition and adjustment of Exchange Property and general offer will be replaced with those conventional for a convertible bond, and the conversion period during which the Bondholders may exercise right of conversion will be a period from the Scheme effective date of the EB-to-CB Proposal up to the date which falls 10 days prior to the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place) or 10 days prior to the date fixed for redemption of the HSH Convertible Bonds, if such bonds have been called for redemption before the Maturity Date (or, if such date is not a business day at the place where the certificate representing such bond is to be delivered, the immediately preceding business day at such place);

(d) Bondholders' right to request Harvest to redeem the HSH Exchangeable Bonds upon Delisting will be replaced with their right to request Harvest to redeem the HSH Convertible Bonds upon delisting of HSH H Shares; and

(e) all other existing material commercial terms of the HSH Exchangeable Bonds will otherwise remain substantially unchanged (e.g. the Maturity Date, interest rate, annual gross yield in the amount of a gross yield of 1.00 per cent. per annum, other redemption terms).

The proposal under which the HSH Exchangeable Bonds will become HSH Convertible Bonds as aforementioned is together referred to as the "**EB-to-CB Proposal**".

The implementation of the EB-to-CB Proposal is subject to obtaining or completing various third-party, corporate and regulatory approvals or filings, including:

(i) the requisite Bondholders' approval in accordance with the Bond Terms and Conditions and the trust deed for the HSH Exchangeable Bonds,

(ii) the requisite approval by HSH Shareholders, HSH A Shareholders and HSH D Shareholders at the HSH General Meeting, HSH A Shares Class Meeting and HSH D Shares Class Meeting, respectively,

(iii) the applicable filings and/or approvals with or from the CSRC and (if any) other relevant PRC governmental or regulatory authorities which are required to be completed or obtained prior to the EB-to-CB Proposal taking effect,

(iv) the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, the HSH H Shares (including HSH H Shares to be issued pursuant to the conversion of the HSH Convertible Bonds) on the Stock Exchange;

(v) satisfying the conditions imposed by the Stock Exchange on the EB-to-CB Proposal; and

(vi) the Scheme becoming effective.

An extraordinary resolution of the Bondholders for approval of certain amendments to the Bond Terms and Conditions and the Trust Deed in relation to the EB-to-CB Proposal has been approved by the Bondholders on 28 August 2020. In addition, at the HSH General Meeting, HSH A Share Class Meeting and the HSH D Shares Class Meeting each held on 1 September 2020, the requisite resolutions to approve the EB-to-CB Proposal were respectively duly passed by the approval of at least two-thirds of the voting rights of the HSH Shareholders, HSH A Shareholders and HSH D Shareholders respectively present at the HSH General Meeting, HSH A Shares Class Meeting and HSH D Shares Class Meeting.

On 30 October 2020, HSH received the requisite approval from the CSRC in relation to the EB-to-CB Proposal. On 13 November 2020, HSH received the letter from the Stock Exchange confirming that they have no further comments on the Listing Document and approving in principle the listing of the HSH H Shares on the Stock Exchange as described in the Listing Document, including the HSH H Shares to be issued as consideration for the cancellation of the Scheme Shares under the Scheme and the HSH H Shares to be issued pursuant to the conversion of the HSH Convertible Bonds.

The implementation of the EB-to-CB Proposal is conditional upon the Scheme becoming effective and the commencement of the Listing. On the other hand, the implementation of the EB-to-CB Proposal is not a condition to the Scheme becoming effective. If all conditions for the implementation of the EB-to-CB Proposal are satisfied, the EB-to-CB Proposal will take effect immediately upon Listing and the commencement of trading of HSH H Shares on the Stock Exchange.

For the avoidance of doubt, prior to the EB-to-CB Proposal taking effect, the Bondholders remain entitled to exercise their right to exchange the HSH Exchangeable Bonds into HEG Shares in accordance with the Bond Terms and Conditions, and those HEG Shares may participate in the Scheme as Scheme Shares if the Bondholders exercise their exchange right and become HEG Shareholders either (i) on or prior to the Meeting Record Date to attend and vote at the Court Meeting and SGM or (ii) at or prior to the Scheme Record Time. To ensure that FRL will be able to transfer and deliver HEG Shares pursuant to the Bond Terms and Conditions to the relevant Bondholders prior to the closure of register of members of HEG on Thursday, 17 December 2020, Bondholders who intend to become Scheme Shareholders are strongly encouraged to fully exercise their exchange rights on or before Wednesday, 25 November 2020.

For further information, please refer to the separate announcements published by Harvest in relation to the HSH Exchangeable Bonds (under Stock Code: 5024) on the website of the Stock Exchange (www.hkexnews.hk) on the same day as the date of this Scheme Document and from time to time in the manner as provided under the Bond Terms and Conditions and in accordance with the Listing Rules.

4.4. Impact on Shareholdings in HSH and HEG

For the impact of the exercise of the HSH Exchangeable Bonds on the respective shareholdings in HSH and HEG, please refer to:

(a) the shareholding table under the section headed "6. INFORMATION ON HEG — 6.2. Shareholding Structure of HEG" for the shareholding structure of HEG (i) as at the Latest Practicable Date, and (ii) immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) on the bases and assumptions on which the shareholding table is prepared and presented; and

(b) the shareholding structure charts under the section headed "7. INFORMATION ON HSH — 7.3. Shareholding structure of HSH" for the shareholding structure of HSH (i) as at the Latest Practicable Date and (ii) immediately upon the completion of the Privatisation Proposal (and the Scheme becoming effective) on the bases and assumptions on which those charts are prepared and presented.

5. REASONS FOR AND BENEFITS OF THE PRIVATISATION PROPOSAL AND THE INTRODUCTION

5.1. Background and Reasons of the Privatisation Proposal and Introduction

HSH plans to further integrate with HEG to build an Internet-of-Things (IoT)-based smart home ecosystem and enhance its globalisation initiatives, in order to unlock greater growth potential in the future.

5.1.1 HEG and HSH to fully integrate comprehensive product solutions and end-to-end operations to develop a seamless Internet-of-Things (IoT)-based smart home ecosystem

To meet the increasing demands of consumers for integrated, holistic and intelligent scenario-based home appliance solutions, HSH has been pioneering the building of an Internet-of-Things (IoT)-based smart home ecosystem by providing customised and one-stop smart home solutions, while developing the "Experiential Cloud" (體驗雲) digital system which empowers designers, experience stores and ecosystem partners. All of such initiatives require seamless integration of end-to-end operations in R&D, manufacturing, distribution and other services. Therefore, HSH pursues to establish an integrated management system through consolidating the different product categories and the end-to-end operations of the two separately listed platforms of HSH and HEG, in order to enhance its market value and capture greater growth opportunities.

5.1.2. To solidify global leadership by fully integrating HEG and HSH

HEG mainly focuses on domestic market with limited revenue contribution from overseas business. HSH on the other hand, has established a full-fledged global portfolio both through organic growth and a series of successful overseas acquisitions, including GE Appliances, Fisher&Paykel, Candy and Sanyo. Leveraging the established global platform, the Enlarged HSH Group could strengthen its industry leading position and enhance its global presence in the washing machine, water heater and water purifier businesses through accelerated integration and consolidation of combined resources on a greater scale.

5.1.3. To optimise the governance and organizational structure for long-term sustainability

From a long-term perspective, HSH intends that the Enlarged HSH Group will further optimise its organisational and management structure and eliminate inefficiencies by aligning the interests of both HSH and HEG. As at the Latest Practicable Date, HSH and the HSH Concert Parties directly and indirectly hold and/or control the exercise of voting rights over 58.43% of the outstanding issued share capital of HEG. However, the current group structure prevents HSH and HEG from achieving the optimal level of efficiency due to the duplication in resources and efforts caused by the separate management of product lines, brands and channels. In addition, business competition hinders HEG's ability to develop in the overseas markets in which HSH has an established presence. Financially, separate listings of HSH and HEG also limit the possibilities for both companies to efficiently allocate capital, including their ability to distribute cash dividend to shareholders.

5.2. Benefits of the Privatisation and the Introduction to Scheme Shareholders

The HSH Board believes that the Enlarged HSH Group after completion of the Privatisation and the Introduction represents an attractive investment opportunity for Scheme Shareholders. After completion of the Privatisation Proposal and the Introduction, Scheme Shareholders may continue to invest in HEG (as a part of the Enlarged HSH Group) who possesses a series of competitive strengths and enjoys the growth potential of the global home appliance market; they will also share the potential synergy which may be achieved after further integration of HSH and HEG.

In addition to the potential long-term capital gain, Cash Payment made by HEG may also bring immediate cash value, which enables Scheme Shareholders to gain certain capital returns from their investment.

Long-term potential benefits for Scheme Shareholders include:

5.2.1. Achieve stronger growth supported by full-suite home appliance products and smart home solutions on a global platform

Firstly, HEG's operation primarily focuses on washing machines, water heaters, water purifiers and channel services for various products including those of HSH's. After completion of Privatisation Proposal and the Introduction, HEG will be able to expand its product portfolio into refrigerators, freezers, air-conditioners, kitchen appliances and small appliances, thus providing full-suite smart home solutions.

Secondly, HSH has built a portfolio of seven major brands through independent development and acquisition, established a globalised business presence, and acquired important market shares in major overseas markets. After completion of the Privatisation and the Introduction, HEG will be able to leverage HSH's overseas business platform to accelerate its international expansion in the washing machine, water heater and water purifier businesses, thereby achieving platform sharing and revenue increase.

Thirdly, led by its visionary management, HSH will continue to build the Haier Smart Home Experiential Cloud Platform, iterate and expand smart home solutions and integrate resources to bring a delightful lifestyle experience in the Internet of Things (IoT) era to users in different countries. After completion of the Privatisation Proposal and the Introduction, HEG will be able to fully integrate with the Haier Smart Home Experiential Cloud Platform to further improve the comprehensiveness and richness of smart home solutions, including improving connectivity across interconnected home appliances, expanding types of solutions and enriching value-added services. The Enlarged HSH Group will take this opportunity to further deepen the online and offline integration in the whole process to enhance user experience and loyalty, build and share the Haier Smart Home Experiential Cloud platform for all categories.

After completion of the Privatisation Proposal and the Introduction, Scheme Shareholders, who will become shareholders of the Enlarged HSH Group, will have the opportunity to continue making investments in the leading major home appliance enterprise in China and benefit from HSH Group's leading market shares and competitive strengths in home appliance market. Meanwhile, Scheme Shareholders are expected to benefit from cross-selling of more comprehensive products and more robust growth brought by a unified smart home operation and data platform and a more complete and systematic smart home solution business.

5.2.2. Improve operational efficiency, expand scale effect and improve prospects

At present, HEG and HSH have certain overlap in operations. After the completion of the Privatisation Proposal and the Introduction, the Enlarged HSH Group will realise resource sharing and capacity building in the entire industrial chain across R&D, procurement, manufacturing, and distribution of HEG and HSH products to promote technical cooperation and result sharing, and optimise operations.

After the completion of Privatisation Proposal and the Introduction, the Scheme Shareholders will become shareholders of the Enlarged HSH Group with comprehensive product offering, integrated operation, and greater economies of scale. On one hand, HEG's washing machine, water heater, and water purifier segments can further realise significant synergies and benefits from integrating with HSH's R&D, procurement, manufacturing and distribution channels. On the other hand, measures for improving business process such as less internal settlement and simplified approval procedures are expected to reduce sales and management expenses. In addition, the Scheme Shareholders will also benefit from reduced operational risks and more robust financial performance supported by a stronger balance sheet.

5.2.3. Raise capital market profile to further improve liquidity

Firstly, the delineation in the business segments of HSH and HEG has led to HSH and HEG entering into numerous related party transactions. During the Track Record Period, HEG procured more than 70% of its raw materials, components and finished goods from HSH. Once the Privatisation and the Introduction are completed, the existing related party transactions in the original R&D, procurement and distribution could be eliminated. This will help reduce management efforts and compliance costs, as well as boost market confidence in the Enlarged HSH Group.

Secondly, in the year of 2018, 2019, and the half year of January to June 2020, HSH's revenue growth rate exceeded that of HEG's by 8.2, 12.1 and 3.5 percentage points respectively. From 2017 to 2019, the average historical profit margin from continuing operations and return on equity of HSH exceeded that of HEG's by 0.2 and 3.4 percentage point(s) respectively. In addition, HSH's dividend pay-out ratio remained at an average of 30% from 2017 to 2019.

Thirdly, after the completion of the Privatisation Proposal and the Introduction, the Enlarged HSH Group will attract more investors including but not limited to the existing shareholders of HEG and HSH.

With larger market capitalisation, improved financial performance, alleviated concerns over related party transactions and a more diversified investor base after completion of the Privatisation Proposal and the Introduction, Scheme Shareholders who will be shareholders of the Enlarged HSH Group are expected to benefit from enhanced liquidity.

5.3. Benefits of the Introduction and the Privatisation to the Company

After the Introduction, the Enlarged HSH Group is better equipped to build a global leading Internet of Things (IoT)-based smart home business layout. The Enlarged HSH Group plans to carry out structural optimisation and operational integration to further explore synergies from aggregation of global resources and to reinforce its competitiveness, thus maximising shareholders returns. In addition, as disclosed in the MAR Announcement, each business segment of HEG will continue to operate as business segments under the Enlarged HSH Group, and the delisting of HEG upon the

Privatisation Proposal becoming effective is not expected to have a negative impact on the daily business development or capital operation of HEG.

5.3.1. Accelerate growth through the continued expansion of smart home solutions

After the completion of the Privatisation Proposal and the Introduction, in terms of continuously expanding smart home solutions, HSH Group will be able to operate the entire product portfolio by integrating R&D, production, distribution and service systems, and develop smart home solutions business through the Haier Smart Home Experiential Cloud Platform to increase the sales proportion of complete sets of smart home products and further deepen the integration and synergy creation of different categories of products to enhance user loyalty.

In terms of achieving global synergies, HSH Group will deepen the coordination of R&D, product development, procurement, supply chain, marketing and branding of washing machine and water appliances in all regions of the world through optimising resource integration; and further enhance its local competitiveness in operation with three in one operations in terms of R&D, manufacturing and marketing on a more integrated global platform and strengthen high-end leadership in overseas market to improve overseas performance.

In terms of whole-process digital reform, HSH Group will improve operational efficiency and competitiveness through whole process digital transformation. In terms of channel system, HSH Group will continue to build a more transparent and efficient distribution network, promote digital transformation and online and offline integration, in order to promote collaborative and synergistic marketing across all categories; in terms of production, HSH Group will build interconnected factories around the world, enhance digitalized smart manufacturing capability, and realise flexible deployment of global production capacity and digital integration of global supply chain.

5.3.2. Reduce restrictions from competition and related party transactions and enhance operational efficiency

After the completion of the Privatisation and the Introduction, HEG will be delisted and become a wholly-owned subsidiary of HSH Group (assuming that the EB-to-CB Proposal becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result); its business development will no longer be subject to restrictions on listed companies. HSH Group will implement integration of all categories, thus global development of washing machine and water appliances business will benefit from efficiency improvement brought by the simplification of decision-making process.

5.3.3. Improve capital efficiency

After completion of the Privatisation Proposal and the Introduction, all home appliances assets of HEG will be included into the Enlarged HSH Group. This is expected to improve comprehensive capital management efficiency for the Enlarged HSH Group. The cash obtained from HEG after this transaction will be used primarily for repayment of borrowings for the Privatisation Proposal's Cash Payment and maintaining working capital; the remaining portion will be used to repay or replace existing loans. This will optimise HSH Group's capital structure and reduce financial costs.

Meanwhile, HSH Group will be able to improve financial performance leveraging on greater economies of scale as a result of greater revenue and stronger balance sheet.

5.3.4. Increase shareholder returns

After the completion of Privatisation Proposal and the Introduction, with the improvement in capital management and operational efficiency, HSH Group plans to increase its dividend payout ratio to 40% within three years on the basis of net profit attributable to ordinary shareholders, in order to fulfil its commitment to improve returns for all shareholders.

Key considerations in determining the shareholder return plan include internal factors such as profitability, cash flow and capital expenditure plan, as well as external factors such as bank credit availability and the general financing environment. HSH's general meeting had approved the Enlarged HSH's shareholder return plan (2021-2023).

Key provisions of HSH's shareholder return plan (2021–2023) include:

(a) HSH should maintain a continuous and stable dividend pay-out policy; and

(b) HSH's cash dividend plan for the next three years (2021–2023) is as follows: in compliance with the general prerequisites dividend pay-out stipulated in the Articles of Association of HSH, the profits to be distributed each year by way of cash shall be not less than 33%, 36% and 40% of the net profit attributable to ordinary shareholders of HSH for 2021, 2022 and 2023, respectively.

The actual amount of dividend payable each year, if any, will be recommended by the directors of HSH Group, and shall depend on HSH Group's financial performance and cash-flow requirements.

5.3.5. Establish a global capital market platform in sync with its globalised operation

After the completion of Privatisation Proposal and the Introduction, the Enlarged HSH Group will become a trio listed company of "A+H+D" shares with access to global capital market. This will also facilitate the implementation of the Enlarged HSH Group's incentive schemes for its directors and employees located globally.

The Enlarged HSH Group is expected to launch incentive schemes for Directors and employees, with the following characteristics:

1. The incentive schemes may be single or combined forms of Employee Stock Ownership Plan (ESOP), Restricted Stock Unit (RSU), Share Award Scheme, and Stock Options Scheme. At present, HSH adopts HSH A Shares as a tool to carry out equity incentive. The Introduction will provide a new tool of equity incentive for HSH Group. HSH Group will increase the incentive granted to core management and excellent talents in different markets worldwide with Incentive Schemes based on various classes of shares.
2. The Enlarged HSH Group intends to maintain a wide coverage under the incentive schemes to strengthen incentives and reach more key personnel, especially overseas employees.

3. The incentive schemes will be linked to performance and profit targets with reference to the terms of employee incentive schemes stipulated by comparable companies in the industry. Relevant performance and profit targets may include, but are not limited to, operating profit and earnings per share.

After the Introduction, the Enlarged HSH Group will comply with all applicable regulatory requirements to formulate and implement incentive schemes. The incentive schemes will be reviewed by the Remuneration and Assessment Committee of HSH and approved by the HSH Board and shareholders. The details of the incentive schemes are subject to internal review and approval procedures and may change. The Enlarged HSH Group will make announcements on incentive schemes from time to time as appropriate.

Secondly, after the completion of the Privatisation and the Introduction, the Enlarged HSH Group will establish a unified capital market image and allow investors to focus on one listed company.

In addition, after the completion of the Privatisation and the Introduction, the Enlarged HSH Group will focus on the ESG concept of "green, life, and care" and improve its ESG standards in terms of ESG governance, ESG disclosure, and ESG management.

5.4. Future Plans and Prospects of HSH Group

The HSH Group plans to take the following integration initiatives in business, finance and corporate governance after completion of Privatisation and the Introduction, so as to accelerate the full implementation of the Internet-of-Things (IoT) smart home ecosystem brand strategy.

Business Integration Plans

5.4.1. Continue to expand smart home solutions

By systematically developing and integrating different product categories, HSH Group aim to provide users with smart home solutions that form an indispensable part of users' home life. With the help of Internet-of-Things (IoT), big data, cloud computing, AI and other technologies, HSH Group is committed to continuously building Haier Smart Home App and Experiential Cloud platform. By improving convenience and connectivity, HSH Group can provide users with consistent, full-process, sustainable and iterative smart home experience. HSH Group hope to increase the proportion of sales of full-suite of smart home products, to deepen the integration and collaboration of different categories of our products, and to enhance user loyalty.

5.4.2. Strengthen global collaboration and enhance competitiveness

To fully leverage global resources, unified platform and industry experience and give full play to the advantages in collaboration, HSH Group will deepen the collaboration of laundry appliances and water appliance business in R&D, product development, procurement, supply chain, marketing and branding in various regions of the world. HSH Group will further enhance localised operational competitiveness of overseas R&D, manufacturing, and marketing. In addition, HSH Group will continue to strengthen its leading position in overseas markets of high-end products to improve overseas performance.

5.4.3. Improve operating efficiency through full-process digital transformation

Centering on user experience improvements, HSH Group will improve operation efficiency and competitiveness through full-process digital transformation. For sales network, HSH Group will continue to build a more transparent and efficient sales network, promote the digital transformation of sales network and the integration of online and offline channels, and promote synergistic cross selling of all categories. For manufacturing, HSH Group will build interconnected factories around the world, and strengthen digitalised smart manufacturing capability, so as to realise a more flexible allocation of our global production capacity and strengthen digital coordination and integration of global supply chain.

Financial Integration Plans

5.4.4. Improve capital efficiency and optimise capital structure

HSH Group will improve capital efficiency; the available cash HSH Group obtains from HEG after this transaction will be prioritised for repayment of borrowings incurred in the Cash Payment, as well as maintaining working capital, and the remaining part will be used to repay or replace existing loans. This will optimise the capital structure, and reduce financial expenses.

After the Privatisation Proposal and the Introduction, we will have a larger business and financial scale which will further exert the advantages of scale economy in financial operation, and improve financial performance.

5.4.5. Increase shareholder returns

With improvement in fund management and operational efficiency, HSH Group plan to, within three years (2021-2023), increase the dividend payout ratio to 33%, 36% and 40% based on net profit attributable to ordinary shareholders. The main considerations in determining the shareholder return plan include internal factors such as profitability, cash flow and capital expenditure, as well as external factors such as bank credit availability and the general financing environment. HSH's general meeting had approved the scheme of HSH (2021-2023) shareholder return plan.

Corporate Governance Plans

5.4.6. Simplify decision-making process and improve efficiency

With HEG's delisting and becoming HSH's wholly-owned subsidiary (assuming that the EB-to-CB Proposal becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), its business development will no longer be restricted by measures to reduce horizontal competition and connected transactions of listed companies, which will facilitate our implementation of cross-category integration, and the global development of laundry appliances and water appliances will benefit from efficiency improvement brought about by the simplified decision-making process.

5.4.7. Continue to attract and retain our talents through comprehensive and effective employee incentive schemes

HSH Group's incentive schemes are expected to target our directors and employees with the features as outlined in the section headed "5.3.5. Establish a global capital market platform in sync with its globalised operation" in this Explanatory Statement. The details of the incentive schemes are subject to internal review and approval procedures and may change. The Enlarged HSH Group will make announcements on incentive schemes from time to time as appropriate.

5.4.8. Adhere to the green development strategy and continuously improve the level of ESG disclosure

HSH Group will closely focus on and implement the ESG concept of "Green, Life, and Care" and improve the ESG standard in terms of ESG governance, ESG disclosure, and ESG management. HSH Group will gradually incorporate impact of climate change into the Company's strategic considerations and risk management processes. In combination with the business development goals and previous annual emission level and resource usage, HSH Group will set clear short/medium/long-term quantitative emission and resource goals which are subject to regular review with improvement initiatives in place. HSH Group will integrate global user and supply chain resources to create and develop an environmental-friendly and society-harmonious green value chain. HSH Group will actively uphold corporate responsibility and protect employees' rights and interests, while giving back to the society, by carrying out public welfare activities and bringing warmth to the society.

6. INFORMATION ON HEG

6.1 General Information

HEG, a subsidiary of HSH and the Haier Group, is listed on the Main Board of the Stock Exchange. The HEG Group is principally engaged in the research, development, manufacture and wholesale of washing machines and water heaters under Haier Group brands ("Haier", "Casarte" and "Leader"); the distribution of electronics products of Haier Group in the PRC. It has 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.

Your attention is drawn to the sections headed "Appendix A - Financial Information of HEG" and "Appendix C - General Information of HEG" of this Scheme Document.

6.2 Shareholding Structure of HEG

As at the Latest Practicable Date, there are 2,816,995,978 HEG Shares in issue. HEG does not have any outstanding options, warrants, convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

As at the Latest Practicable Date, HSH (together with its wholly-owned subsidiary) directly and indirectly holds 1,286,820,592 HEG Shares, representing approximately 45.68% of the outstanding issued share capital of HEG. Excluding the 502 Fractional Shares which are proposed to be cancelled if approved by the HEG Shareholders at the SGM and which do not form part of the Scheme Shares, 1,530,174,884 HEG Shares constitute the Scheme Shares.

On the assumption that there is no change in the number of HEG Shares in issue (other than the cancellation of the 502 Fractional Shares upon the passing of the relevant special resolution at the

SGM) and no other change in the holding of HEG Shares, the table below sets out the shareholding structure of HEG as at the Latest Practicable Date and immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective):

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) *(assuming (i) all HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option) are exercised prior to the Scheme Record Time and (ii) the 502 Fractional Shares has been cancelled)*		Immediately upon completion of the Introduction and the Privatisation Proposal (and the Scheme becoming effective) *(assuming (i) none of the HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option) are exercised prior to the Scheme Record Time; and (ii) the 502 Fractional Shares has been cancelled)*	
	Number of HEG Shares	*Approximate % of the issued share capital of HEG*	*Number of HEG Shares*	*Approximate % of the issued share capital of HEG*	*Number of HEG Shares*	*Approximate % of the issued share capital of HEG*
HSH	392,677,482	13.94	2,177,782,558	77.31	1,922,852,366	68.26
FRL	894,143,110	31.74	639,212,918	22.69	894,143,110	31.74
HSH and FRL *(Note 1)*	**1,286,820,592**	**45.68**	**2,816,995,476**	**100**	**2,816,995,476**	**100**
HCH (HK)	336,600,000	11.95	—	—	—	—
Mr. Zhou Yunjie *(Notes 2 & 3)*	10,387,200	0.37	—	—	—	—
Mr. Li Huagang *(Notes 3 & 4)*	507,591	0.02	—	—	—	—
Mr. Liang Haishan *(Notes 2, 3 & 4)*	—	—	—	—	—	—
Mr. Zhang Ruimin *(Note 2)*	461,062	0.02	—	—	—	—
Ms. Tan Lixia *(Note 2 & 4)*	230,532	0.01	—	—	—	—
Mr. Liu Chi *(Note 2)*	361,445	0.01	—	—	—	—
Mr. Liu Gang *(Note 2)*	21,312	0.00	—	—	—	—
Mr. Zhan Bo *(Note 2)*	368,056	0.01	—	—	—	—
Mr. Wu Changqi *(Note 4)*	—	—	—	—	—	—
Mr. Dai Deming *(Note 4)*	—	—	—	—	—	—
Mr. Chien Da-Chun *(Note 4)*	—	—	—	—	—	—
Mr. Lin Sui Martin *(Note 4)*	—	—	—	—	—	—
Mr. Wong Hak Kun *(Note 4)*	—	—	—	—	—	—
HKI/HIC Trustee *(Note 5)*	10,339,439	0.37				
Other HSH Concert Parties	**359,276,637**	**12.75**	—	—	—	—
HSH and HSH Concert Parties	**1,646,097,229**	**58.43**	**2,816,995,476**	**100**	**2,816,995,476**	**100**
Mr. Xie Ju Zhi *(Note 3)*	752,637	0.03	—	—	—	—
Mr. Yang Guang *(Note 3)*	—	—	—	—	—	—
Mr. Yu Hon To, David *(Note 3)*	537,500	0.02	—	—	—	—
Mrs. Eva Cheng Li Kam Fun *(Note 3)*	262,000	0.01	—	—	—	—
Mr. Gong Shao Lin *(Note 3)*	31,500	0.00	—	—	—	—
Dr. John Changzheng Ma *(Note 3)*	16,500	0.00	—	—	—	—
HEG Trustee	2,304,625	0.08				
Other Public HEG Shareholders	1,166,993,485	41.43				
Disinterested Scheme Shareholders	**1,170,898,247**	**41.57**	**—**	**—**	**—**	**—**
Scheme Shareholders	**1,530,174,884**	**54.32**				
Total number of HEG Shares *(Note 6)*	**2,816,995,978**	**100**	**2,816,995,476**	**100**	**2,816,995,476**	**100**
Total number of Scheme Shares	**1,530,174,884**	**54.32**	**—**	**—**	**—**	**—**

Notes:

1. *The HEG Shares held by HSH and FRL will not form part of the Scheme Shares.*

2. Each a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.

3. Each a director of HEG.

4. Each a director of HSH and is therefore presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.

5. The HKI/HIC Restricted Share Award Schemes were adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited, each of which is a wholly-owned subsidiary of Haier Group, for the benefit of eligible participants (which include certain directors of Haier-Group, HSH and HEG). The HKI/HIC Trustee, in its capacity as trustee of the HKI/HIC Restricted Share Award Schemes, is presumed to be acting in concert with HSH in accordance with class (3) of the presumptions in the definition of "acting in concert" under the Takeovers Code.

No vesting has occurred so far since the Offer Period Commencement Date until the Latest Practicable Date.

It is expected that, during the offer period, no further share awards will be granted under the HKI/HIC Restricted Share Award Schemes, and the HKI/HIC Trustee will not acquire further HEG Shares to satisfy the awards.

As at the Latest Practicable Date, the HKI/HIC Trustee holds a total of 10,339,439 HEG Shares as trustee under the HKI/HIC Restricted Share Award Schemes, comprising:

(i.) a total of 4,121,063 HEG Shares held for the purpose of covering awards already granted but being subject to satisfaction of relevant vesting conditions;

(ii.) a total of 5,315,426 HEG Shares held for the purpose of covering awards already granted with relevant vesting conditions having been met, but the vesting procedures have not been completed and so the corresponding HEG Shares are still held by the HKI/HIC Trustee; and

(iii.) a total of 902,950 HEG Shares held for covering awards to be made in the future under the HKI/HIC Restricted Share Award Schemes, as well as, held to cover the fees of the HKI/HIC Trustee.

Pursuant to the rules of the HKI/HIC Restricted Share Award Schemes, the selected participants shall have no voting rights in respect of HEG Shares held under the HKI/HIC Restricted Share Award Schemes.

The HEG Shares held by the HKI/HIC Trustee under the HKI/HIC Restricted Share Award Schemes will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by the HKI/HIC Trustee as at the Scheme Record Time, to the HKI/HIC Trustee.

The rules of the HKI/HIC Restricted Share Award Schemes prohibit the HKI/HIC Trustee from exercising the voting rights attached to the HEG Shares held by it under the HKI/HIC Restricted Share Award Schemes. The HKI/HIC Trustee will be required to abstain from voting on such HEG Shares at the Court Meeting and the SGM.

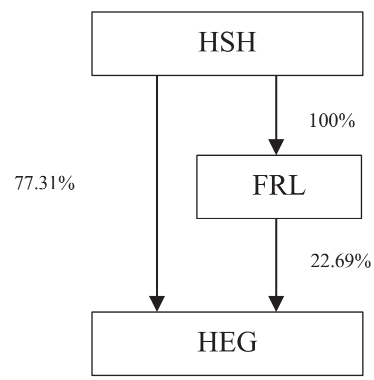
6. The total number of HEG Shares in issue as at the Latest Practicable Date includes the 502 Fractional Shares which arose by operation of law and have remained in the issued share capital of HEG with no registered holder. As disclosed above, such 502 Fractional Shares are proposed to be cancelled by way of the reduction in the issued share capital of HEG which, if approved, will take effect immediately after the passing of the relevant special resolution by the HEG Shareholders at the SGM (and before the Scheme Record Time and the Scheme Effective Date).

7. As confirmed by CICC and J.P. Morgan, as at the Latest Practicable Date, members of the CICC group and J.P. Morgan group, being HSH Concert Parties, do not legally or beneficially own, control or have direction over any HEG Shares (except in respect of HEG Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HEG Shares held on behalf of non-discretionary investment clients of the CICC group and J.P. Morgan group). Nor were there any borrowing or lending of, or dealing in, HEG Shares (or options, rights over HEG Shares, warrants or derivatives in respect of them) by any members of the CICC group and J.P. Morgan group during the Relevant Period (except in respect of HEG Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HEG Shares held on behalf of non-discretionary investment clients of the CICC group and J.P. Morgan group). Notwithstanding that connected exempt principal traders within the CICC group and J.P. Morgan group are not HSH Concert Parties, HEG Shares held by any such connected exempt principal traders must not be voted in the context of the Privatisation Proposal in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the HEG Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant HEG Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no votes shall be cast for the relevant HEG Shares held by the relevant connected exempt principal trader. For this purpose, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Privatisation Proposal will be submitted to the Executive prior to the Court Meeting.

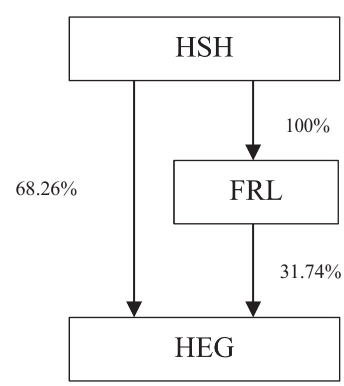
8. *The percentages of the HEG Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.*

Immediately following the Scheme Effective Date and the withdrawal of listing of the HEG Shares on the Stock Exchange, HSH will directly and indirectly hold 100% of the issued share capital of HEG, on the assumptions that (i) there is no other change in shareholding in HEG before completion of the Privatisation Proposal (other than the cancellation of the 502 Fractional Shares upon the passing of the relevant special resolution at the SGM) and (ii) the EB-to-CB Proposal is implemented where all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds. A simplified shareholding structure of HEG immediately upon the completion of the Privatisation Proposal are represented in the charts below respectively:

(A) Assuming all HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option) are exercised prior to the Scheme Record Time and the 502 Fractional Shares has been cancelled



(B) Assuming none of the HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option) are exercised prior to the Scheme Record Time and the 502 Fractional Shares has been cancelled



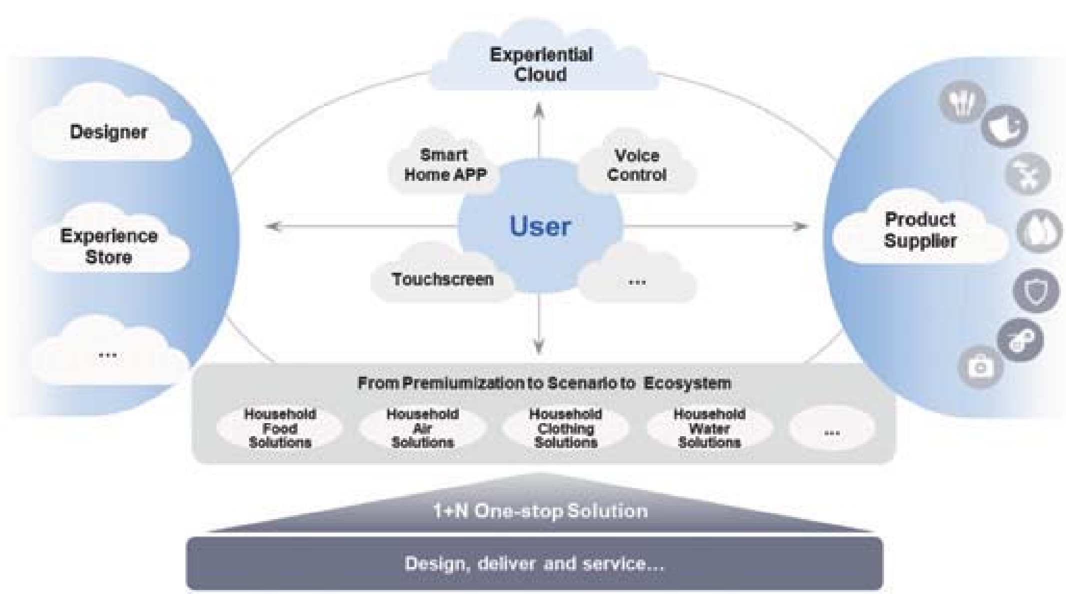
7 INFORMATION ON HSH

7.1 Overview of HSH

HSH is a leading provider of major home appliances and a pioneer of smart home solutions in the world. HSH, committed to providing global users with complete sets of smart home solutions, mainly engages in R&D, manufacturing and distribution of products including refrigerators/freezers, kitchen appliances, air-conditioners, washing machines, water heaters, water purifiers and small home appliances. As a user-centric company, HSH has built up a comprehensive product & brand portfolio, industry-leading smart manufacturing capacity, extraordinary R&D capability, as well as an extensive distribution network worldwide. In 2019, HSH's revenue was RMB198.0 billion, 47.5% of which was overseas revenue. According to Euromonitor, HSH is recognized as the largest major home appliance enterprise in terms of retail volume of major home appliances for nine consecutive years. HSH has been listed on Shanghai Stock Exchange (SSE) since 1993 (stock code: 600690.SH) and on the D-shares market of China Europe International Exchange in Frankfurt since 2018 (stock code: 690D).

HSH is a leader in the global major home appliance industry. According to Euromonitor, HSH ranked first in the major home appliance industry in the world in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019, with a market share of 14.7% in 2019. HSH has a global portfolio of home appliance brands including Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Haier brand also ranked first in terms of retail volume of refrigeration appliances and laundry appliances among major home appliance brands in the world for 11 consecutive years from 2009 to 2019. As at the Latest Practicable Date, it has operations in more than 160 countries and regions worldwide including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.

HSH is a pioneer of global smart home solutions. Capitalising on its full-range home appliances products, according to Euromonitor, HSH is one of the first home appliance enterprises in the industry to launch smart home solutions, supported by the introduction of its cloudbased platform that offers integrated smart home solutions covering various lifestyle scenarios. Centring on its interconnected home appliance products, and supported by Haier Smart Home App and Haier Smart Home Experiential Cloud Platform as well as experience stores and franchised stores, HSH provides smart home solutions suited for various lifestyle scenarios for users to satisfy their pursuit for a better life.



HSH's business consists of "Smart Home Business in China", "Smart Home Business Overseas" and "Other Businesses". The following table sets forth the segment revenue (including inter-segment revenue) and cost breakdown for the periods indicated:

For the nine months ended 30 September 2020 (unaudited)

Segment	Segment Revenue RMB billions	Segment Cost RMB billions	Operating Margin %
Smart Home Business in China			
Household Food Solutions			
Refrigerators/freezers	24.43	22.62	7.4%
Kitchen appliances	1.94	1.91	1.7%
Household Air Solutions			
Air-conditioners	20.48	20.44	0.2%
Household Clothing Solutions			
Laundry appliances	18.04	16.80	6.8%
Household Water Solutions			
Water appliances	7.03	6.25	11.1%
Smart Home Business Overseas	73.63	71.08	3.5%
Other Businesses	68.47	68.24	0.3%
Inter-segment Eliminations	-59.61	-59.66	
Total (from external customers)	154.40	147.68	4.4%

2019 (audited)

Segment	Segment Revenue RMB billions	Segment Cost RMB billions	Operating Margin %
Smart Home Business in China			
Household Food Solutions			
Refrigerators/freezers	32.75	30.64	6.4%
Kitchen appliances	2.44	2.42	0.7%
Household Air Solutions			
Air-conditioners	23.49	23.48	0.1%
Household Clothing Solutions			
Laundry appliances	24.44	22.33	8.7%
Household Water Solutions			
Water appliances	9.60	8.48	11.6%
Smart Home Business Overseas	92.91	89.76	3.4%
Other Businesses	83.67	83.62	0.1%
Inter-segment Eliminations	-71.29	-71.33	
Total (from external customers)	198.01	189.39	4.4%

2018 (audited)

Segment	Segment Revenue RMB billions	Segment Cost RMB billions	Operating Margin %
Smart Home Business in China			
Household Food Solutions			
Refrigerators/freezers	31.61	29.52	6.6%
Kitchen appliances	2.46	2.45	0.8%
Household Air Solutions			
Air-conditioners	26.64	25.50	4.3%

2018 (audited)

Segment	Segment Revenue RMB billions	Segment Cost RMB billions	Operating Margin %
Household Clothing Solutions			
Laundry appliances	22.51	20.54	8.8%
Household Water Solutions			
Water appliances	8.86	7.83	11.6%
Smart Home Business Overseas	75.42	72.35	4.1%
Other Businesses	77.93	77.55	0.5%
Inter-segment Eliminations	-67.84	-67.79	
Total (from external customers)	177.59	167.94	5.4%

HSH is a leader in major home appliance industry in both China and the global markets with long-term development. According to Euromonitor, in 2019, its retail volume ranked first in both the global and mainland China's major home appliances market, with market shares of 14.7% and 23.2% respectively. In 2019, its retail sales of refrigeration appliances, laundry appliances and water heaters ranked first in the world, with market shares of 21.7%, 20.3% and 18.8% respectively; major kitchen appliances and air-conditioners ranked second and third in the world, with market shares of 8.0% and 11.3% respectively. HSH also delivered solid financial results steadily. From 2017 to 2019, HSH's revenue increased from RMB154.2 billion to RMB198.0 billion, representing a compound annual growth rate of 13.3%, while its profit increased from RMB9.1 billion to RMB12.3 billion, with a compound annual growth rate of 16.1%. For the nine months ended 30 September 2020, HSH's revenue amounted to RMB154.4 billion and its profit amounted to RMB8.0 billion, with an increase of 4.7% and a decrease of 27.8%, respectively, compared to those for the nine months ended 30 September 2019.

(a) Smart Home Business in China

HSH engages in the business of providing comprehensive home appliances products and value-added services to users in China, which jointly form its smart home solutions. Based on different user lifestyle scenarios, HSH's smart home business in China can be categorised into four different solutions: (i) Household Food Solutions, centring on refrigerators/freezers and kitchen appliances; (ii) Household Air Solutions, centring on air-conditioners; (iii) Household Clothing Solutions, centring on laundry appliances; and (iv) Household Water Solutions, centring on water appliances. In 2019, Euromonitor ranked HSH as the largest major home appliance enterprise in mainland China by retail volume of major home appliances with a market share of 23.2%.

(b) Smart Home Business Overseas

In addition, HSH also provides a comprehensive portfolio of home appliance products and value-added services in other parts of the world. In 2017, 2018 and 2019, revenue from overseas operations accounted for 46.3%, 43.5% and 47.5% of total revenue respectively. According to Euromonitor, in 2019, HSH ranked first in terms of retail volume in the Asia major home appliance market, with a market share of 18.6%; ranked second in North America, with a market share of 22.0%; ranked second in Australia and New Zealand, with a market share of 13.4%; ranked third in the Middle East and Africa, with a market share of 8.4%; ranked fifth in Europe, with a market share of 7.2%.

Your attention is also drawn to the "General Information of HSH" and Listing Document set out in the Appendices D and F of this Scheme Document.

7.2 Overview of Haier Group

Established in 1984, Haier Group, controlling shareholder of HSH, is a world-leading service provider of better life solutions. Focusing on user experience, Haier Group has developed a leading ecosystem in the Internet-of-Things (IoT) era, and it was the sole Internet-of-Things (IoT) ecosystem brand among BrandZ's Top 100 Most Valuable Global Brands in 2019 and 2020. Haier Group controls four listed companies: HSH (listed on the Shanghai Stock Exchange and the China Europe International Exchange AG D-Share Market), HEG (listed on the Stock Exchange), Qingdao Haier Biomedical Co., Ltd (listed on the Shanghai Stock Exchange), and Inkon Life Technology Co., Ltd. (listed on the Shenzhen Stock Exchange), Haier Group has diversified business operations in white goods, investment & incubation platform, financial services, real estate and cultural platform. It owns seven home appliance brands, several service brands including RRS, Yingkang Life and COSMOPlat, as well as cultural and creative brand Haier Brothers.

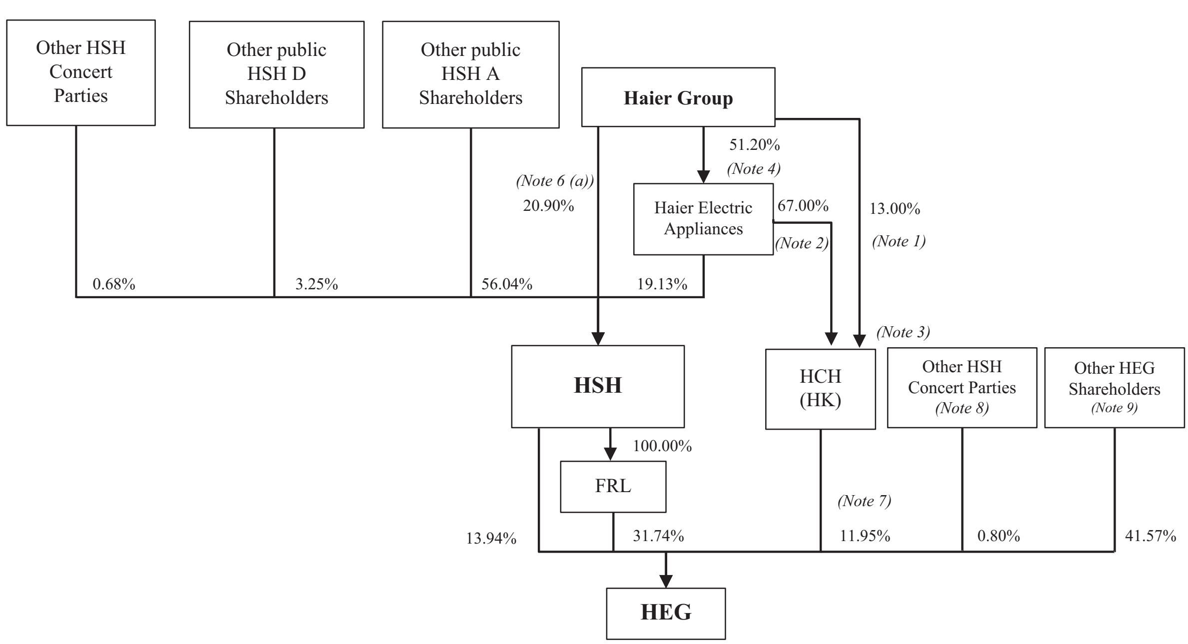
7.3 Shareholding structure of HSH

As at the Latest Practicable Date, there are a total of 6,579,566,627 HSH Shares in issue.

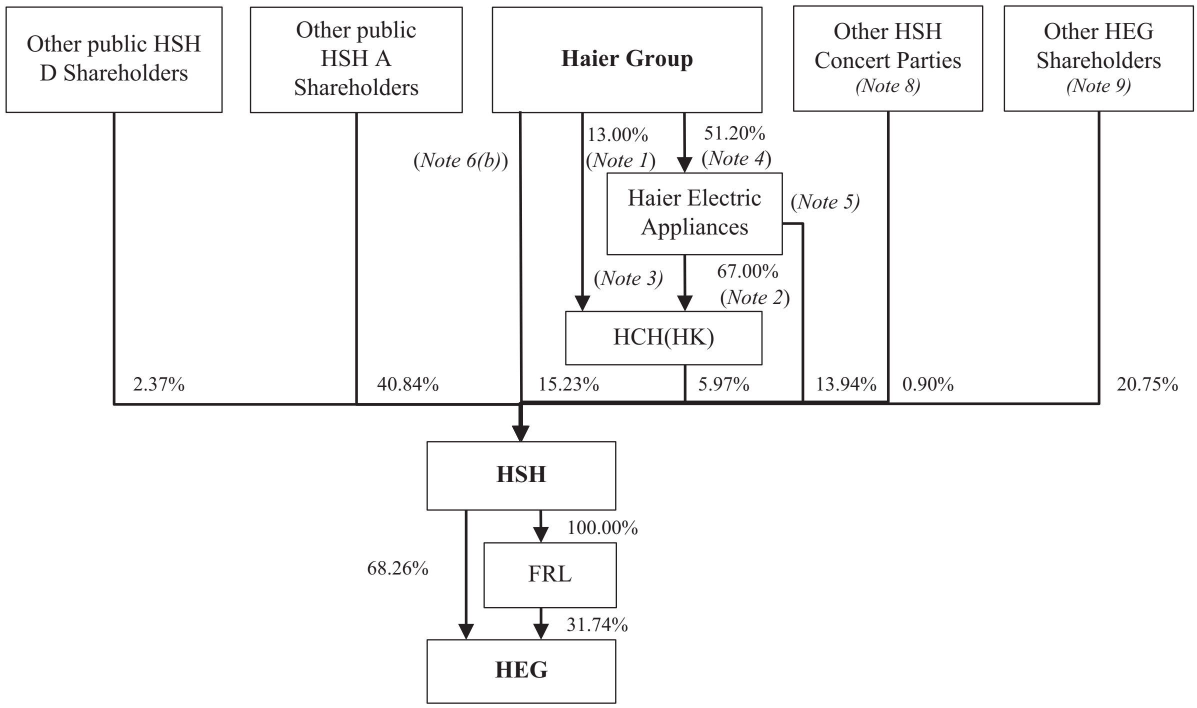
A simplified shareholding structure of HSH as at the Latest Practicable Date and immediately upon the completion of the Privatisation Proposal are represented in the charts below respectively.

The simplified shareholding structure of HSH is as follows:

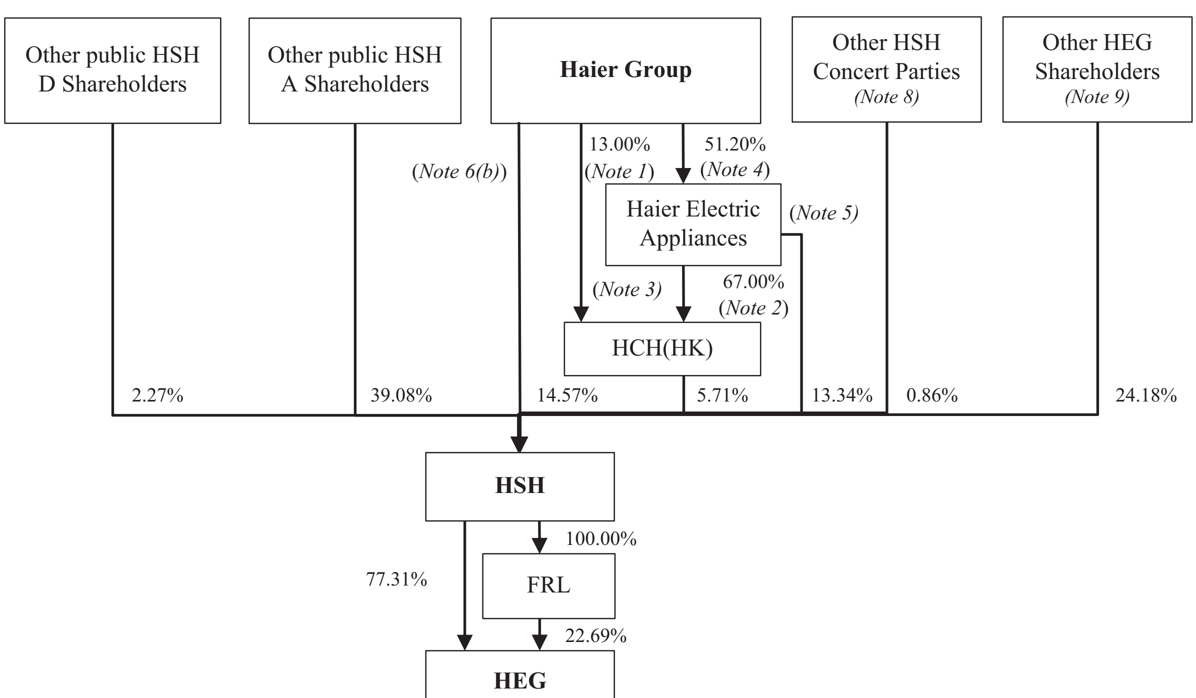
(A) As at the Latest Practicable Date



(B) Immediately upon the completion of the Privatisation Proposal (assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time):



(C) Immediately upon the completion of the Privatisation Proposal (assuming all of the HSH Exchangeable Bonds (the principal amount of which as adjusted as a result of the exercise of the Put Option) are exercised prior to the Scheme Record Time):



Notes:

1. *The shares held by Haier Group in HCH (HK) represent an aggregate of 13.00% economic interests, and 100% voting rights, in HCH (HK).*
2. *The shares held by Haier Electric Appliances in HCH (HK) represent an aggregate of 67.00% economic interests in HCH (HK). All of those shares are non-voting shares.*
3. *Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in HCH (HK). Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.*
4. *Haier Group holds 51.20% of the issued shares in Haier Electric Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier Electric Appliances through an irrevocable voting rights entrustment arrangement.*
5. *Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in Haier Electric Appliances. Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.*

6(a). *As at the Latest Practicable Date, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group directly holds approximately 16.30% shareholding in HSH (in respect of HSH A Shares) and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it) controls a further 4.60% shareholding in HSH (out of which 3.73% is in respect of HSH A Shares, and 0.87% is in respect of HSH D Shares indirectly held through its indirect wholly-owned subsidiary, Haier International Co., Limited).*

6(b). *Immediately upon the completion of the Privatisation Proposal, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group will hold and/or control HSH A Shares, HSH D Shares and HSH H Shares directly and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it).*

7. *HSH has been appointed through a voting rights entrustment arrangement to exercise the voting rights attached to the HEG Shares held by HCH (HK).*
8. *Other HSH Concert Parties exclude HCH (HK).*
9. *Other HEG Shareholders include the HEG Trustee and certain Directors.*
10. *Not all intermediate holding entities are shown in the simplified shareholding structure for simplicity purposes.*

7.4 Financial Information of HSH

Your attention is further drawn to the Listing Document set out in Appendix F to this Scheme Document.

The accountant's report issued by HLB Hodgson Impey Cheng Limited in respect of the audited consolidated financial statements of the HSH Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

There was no other item of any income or expense which was material in the audited consolidated financial statements of the HSH Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

7.5 Listing of HSH H Shares

Your attention is drawn to the Listing Document set out in Appendix F to this Scheme Document.

7.6 Intentions of HSH with regard to HEG

As at the Latest Practicable Date, HEG is a non wholly-owned subsidiary of HSH. Upon the completion of the Privatisation Proposal, HEG will be delisted from the Stock Exchange and will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes effective and all outstanding Exchangeable Bonds become HSH Convertible Bonds as a result).

In connection with the Privatisation Proposal, HSH and HEG expect to review HEG and its assets, corporate structure, capitalisation, operations, properties, policies, management and personnel to consider and determine what changes, if any, would be appropriate or desirable following the Privatisation Proposal in order to best organise and optimise the activities of HEG.

Further, as HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes effective and all outstanding Exchangeable Bonds become HSH Convertible Bonds as a result) after the Scheme becomes effective, HSH and HEG will consider and intend to implement steps to reorganise the holding structure of some business, properties and operation units within the Enlarged HSH Group following the Privatisation Proposal, with a view to streamlining and rationalizing the holding structure.

Accordingly, HSH and HEG expressly reserve the right to make any changes that they deem necessary, appropriate or convenient in light of their review of the HSH Group and HEG, in light of future developments or in order to better integrate, generate maximum synergy or exploit full economies of scale with other operations of the HSH Group. Such changes could include, among other things, changes in HEG's businesses including redeployment of fixed assets of HEG or operations, corporate structure, articles of association, capitalisation, management, the HEG Board or dividend policy.

The Privatisation Proposal does not involve any employee arrangements and adjustments. The employees of HEG will continue to work in HEG in accordance with their labour contract. The management team composition is expected to remain stable. In respect of the board composition, HSH and HEG will both reserve the right to make changes after the completion of this transaction.

It is expected that the integration will reduce the costs incurred as a result of the independent listing of HSH and HEG. In the future, the structure of the board of directors of the HSH will continue to comply with the applicable regulatory requirements of the Stock Exchange, the Shanghai Stock Exchange and the Frankfurt Stock Exchange for the listing of the HSH H Shares (assuming the Introduction is completed), HSH A Shares and HSH D Shares respectively. HSH will comply with the applicable information disclosure obligations if any adjustment is made.

HSH anticipates that, the Privatisation Proposal will be conducive to: (i) optimising HSH's shareholding and management structure, and improving corporate governance of HSH; (ii) unifying the management and institutional settings currently belonging to HSH and HEG, promoting management synergy and improving management efficiency; (iii) reducing the additional management and compliance costs as HEG will no longer need to fulfil the regulatory requirements and decision-making process in respect of connected transactions required under the Listing Rules for transactions between HSH and HEG; (iv) integrating product categories, and strengthening the internal deep integration of "integration of all product categories" and the business system transformation of "digitalisation of the entire industry chain" under the smart home scenario.

8. FINANCIAL EFFECTS OF THE PRIVATISATION PROPOSAL

Your attention is drawn to appendix III to the Listing Document as set out in Appendix F of this Scheme Document which sets out the unaudited pro forma consolidated financial information of the

Enlarged HSH Group which has been prepared for the purpose of illustrating the financial effects of the Privatisation and the Introduction.

As disclosed in the MAR Announcement, based on HEG's audited consolidated financial statements prepared under the International Financial Reporting Standards, as of 30 June 2020, the analysis of the impact of the Cash Payment to be made by HEG under the Privatisation Proposal on the relevant indicators of solvency of HEG is as follows:

	As at 30 June 2020/ For the period from January 2020 to June 2020	
Item	**Before the Privatisation Proposal**	**Assuming the Cash Payment has been made with cash and cash equivalents held by HEG**
Cash and cash equivalents (RMB million) *(Note 1)*	17,045	14,351
Wealth management products (RMB million) *(Note 2)*	2,414	2,414
Interest-bearing liabilities (RMB million) *(Note 3)*	141	141
Liability to assets ratio *(Note 1)*	38.0%	40.3%
EBITDA interest coverage ratio *(Note 4)*	627.84	627.84
Liquidity ratio *(Note 5)*	1.97	1.81
Quick ratio *(Note 5)*	1.52	1.36

Notes

1: *Assuming that upon the Scheme becomes effective, HEG would make cash payment of HK$1.95 per share to Scheme Shareholders with cash and cash equivalents held by it, at an exchange rate of 0.90278 of Hong Kong dollars to RMB, and the total cash payment is approximately RMB2,694 million*

2: *Including short-term wealth management products in financial assets held for trading and long-term wealth management products in other non-current assets*

3: *Including short-term borrowings, long-term borrowings and lease liabilities*

4: *EBITDA interest coverage ratio = EBITDA/interest expenses, EBITDA = Revenue – COGS – SG&A + D&A from continuing operations*

5: *Liquidity ratio = current assets/current liabilities; quick ratio = (current assets – inventories)/current liabilities*

As of 30 June 2020, HEG had healthy long-term and short-term solvency indicators and strong cash payment capabilities. Based on HEG's audited consolidated financial statements prepared under the International Financial Reporting Standards, as of 30 June 2020, HEG had cash and cash equivalents of RMB17,045 million, wealth management products of RMB2,414 million, interest-bearing liabilities of RMB141 million, debt to assets ratio of 38.0%, EBITDA interest coverage ratio of 627.84 times, liquidity ratio of 1.97, and quick ratio of 1.52.

Assuming that HEG makes the Cash Payment under the Privatisation Proposal with cash and cash equivalents held by it, HEG's cash and cash equivalents will decrease to RMB14,351 million, the debt to assets ratio will increase to 40.3%, and the liquidity ratio and quick ratio will decrease to 1.81 and 1.36, respectively.

In general, the Privatisation Proposal has no significant impact on HEG's long-term and short-term solvency indicators. The ability of HEG to repay its debts is safeguarded and there is no solvency risk. The Privatisation Proposal will have no material impact on the subsequent daily operations and future development of HEG.

9. APPOINTMENT OF VALUATION ADVISER AND THE VALUATION REPORT

HSH has appointed Platinum Securities, the Valuation Adviser, to advise on the value of the HSH H Shares as at 12 November 2020. The valuation report of Platinum Securities has been reported on by the Joint Financial Advisers in accordance with the requirements under Rule 11.1(b) of the Takeovers Code and the report from the Joint Financial Advisers has been lodged with the Executive.

A copy of the updated valuation report containing the Valuation Adviser's estimate of the value of the HSH H Shares as at 12 November 2020 and the letter from the Joint Financial Advisers on the valuation is also set out in Appendix B of this Scheme Document.

10. WITHDRAWAL OF LISTING OF HEG SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HEG has obtained approval from the Stock Exchange for the withdrawal of the listing of the HEG Shares on the Stock Exchange with effect from 9:00 a.m. on Tuesday, 22 December 2020, which is subject to the Scheme becoming effective, in accordance with Rule 6.15(2) of the Listing Rules.

Upon the fulfilment of the Conditions and the Scheme becoming effective, the Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HEG Shares and the day on which the Scheme and the withdrawal of the listing of the HEG Shares on the Stock Exchange will become effective. Please refer to the detailed timetable of the Scheme in the section headed "Expected Timetable" in this Scheme Document.

11. IF THE SCHEME IS NOT APPROVED OR IF THE PRIVATISATION PROPOSAL LAPSES

The Scheme will lapse if any of the Conditions has not been satisfied or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, the listing of the HEG Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or if the Privatisation Proposal otherwise lapses, neither HSH nor the HSH Concert Parties under the Privatisation Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months thereafter, announce an offer or possible offer for shares in HEG.

12. COSTS OF THE SCHEME

Pursuant to Rule 2.3 of the Takeovers Code, if the Scheme is not approved and the Privatisation Proposal is either not recommended by the Independent Board Committee or not recommended as fair and reasonable by the Independent Financial Adviser, all costs and expenses incurred by HEG and HSH in connection with the Privatisation Proposal shall be borne by HSH.

Given that the Privatisation Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, HEG and HSH have agreed that all costs, charges and expenses of the advisers and counsel appointed by HEG, including the Independent Financial Adviser, will be borne by HEG, whereas all costs, charges and expenses of the advisers and counsels appointed by HSH will be borne by HSH, and other costs, charges and expenses of the Scheme and the Privatisation Proposal will be shared between HEG and HSH.

13. SCHEME SHARES, COURT MEETING AND THE SGM

As at the Latest Practicable Date:

(a) HSH directly held 392,677,482 HEG Shares, representing approximately 13.94% of the issued share capital of HEG; and

(b) FRL, a wholly-owned subsidiary of HSH, held 894,143,110 HEG Shares, representing approximately 31.74% of the issued share capital of HEG.

The HEG Shares held by HSH and any of its wholly-owned subsidiaries will not form part of the Scheme Shares. Such HEG Shares will not be voted on at the Court Meeting and will not be cancelled upon the Scheme becoming effective.

All of the HEG Shares held by the other HSH Concert Parties will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.

All Disinterested Scheme Shareholders will be entitled to attend and vote at the Court Meeting to approve the Scheme in determining if the Condition in paragraph (b) in the section headed "2.6. Conditions of the Privatisation Proposal and the Scheme" in the Explanatory Statement is satisfied.

All HEG Shareholders will be entitled to attend the SGM and vote on the special resolutions to approve and give effect to, amongst other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the restoration of the issued share capital of HEG to its amount in issue prior to the cancellation of the Scheme Shares by issuing to HSH such number of HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, by applying the reserve created in the books of accounts of HEG as a result of the cancellation of the Scheme Shares, (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium account and/or other accounts of reserves of HEG (such cancellation of share premium constitutes a reduction in the issued share capital of HEG under the Companies Act) and (iv) the reduction of the issued share capital of HEG by the cancellation of the Fractional Shares. HSH, FRL and HCH (HK) have indicated that if the Scheme is approved at the Court Meeting, all the HEG Shares held by them will be voted in favour of the resolutions to be proposed at the SGM.

Each of HSH and any of its wholly-owned subsidiaries that hold HEG Shares has undertaken to the Court that, if the Conditions are satisfied and the Scheme becomes effective, it will be bound by the Scheme, so as to ensure that it will comply with and be subject to the terms and the conditions of the Scheme.

Notices convening the Court Meeting and the SGM to be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Wednesday, 9 December 2020 at respectively 9:30 a.m. and 10:00 a.m. (so soon thereafter as the Court Meeting has concluded or adjourned) are set out on pages J-1 to J-2 and pages K-1 to K-3 of this Scheme Document respectively. Due to COVID-19, no drinks or food will be served during Court Meeting and SGM for safety consideration.

The Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. The Scheme will be subject to the approval by the Disinterested Scheme Shareholders (other than the exempt principal traders connected with HSH or HEG as set out below) at the Court Meeting in the manner referred to in the section headed "2.6. Conditions of the Privatisation Proposal and the Scheme" above in this Explanatory Statement.

Notwithstanding that connected exempt principal traders within the CICC group and J.P. Morgan group are not HSH Concert Parties, HEG Shares held by any such connected exempt principal traders must not be voted in the context of the Privatisation Proposal in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the HEG Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant HEG Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no votes shall be cast for the relevant HEG Shares held by the relevant connected exempt principal trader. For this purpose, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Privatisation Proposal will be submitted to the Executive prior to the Court Meeting.

China Clear will collect voting instructions from Southbound Investors for the Court Meeting and the SGM, and then submit such voting instructions to HKSCC Nominees Limited on behalf of Southbound Investors.

14. INDICATIONS AS TO VOTING

Each of Mr. Xie Ju Zhi, Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma (each a director of HEG), has indicated that those Scheme Shares held by him/her will be voted in favour of (i) the resolution to approve the Scheme at the Court Meeting and (ii) the resolutions to be proposed at the SGM to approve and give effect to the Scheme, including the issue to HSH of such number of new HEG Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled.

Each of Mr. Zhou Yunjie, being a director of Haier Group, the controlling shareholder of HSH, and Mr. Li Huagang, being a director of HSH has indicated that those Scheme Shares held by him (i) will be abstained from voting on the resolution to approve the Scheme at the Court Meeting and (ii) will be voted in favour of the resolutions to be proposed at the SGM to approve and give effect to the

Scheme, including the issue to HSH of such number of new HEG Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled.

15. BINDING EFFECT OF THE SCHEME

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

(a) the Scheme is approved by the Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Scheme Shareholders that are cast either in person or by proxy at the Court Meeting; and

(b) the number of votes cast by the Disinterested Scheme Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Disinterested Scheme Shareholders.

Upon the Scheme becoming effective, it will be binding on HEG and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the SGM.

16. OVERSEAS SHAREHOLDERS

The making and implementation of the Privatisation Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located.

Such overseas Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Privatisation Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes in such jurisdiction.

The Scheme will provide that if the law of any relevant jurisdiction precludes an offer of the HSH H Shares, or precludes it except after compliance by HSH with conditions with which HSH is unable to comply or that HSH regards as unduly onerous and burdensome, no HSH H Shares will be issued to the relevant overseas Scheme Shareholders (the "**Non-Qualifying Overseas Shareholders**") or other alternative arrangement will be made in relation to the HSH H Shares to which those overseas Scheme Shareholders would otherwise be entitled. Such arrangements may include, with the Executive's consent and subject to compliance with applicable requirements, an arrangement for the HSH H Shares which would otherwise have been allotted to the relevant Non-Qualifying Overseas Shareholders pursuant to the Scheme to be allotted to the Selected Person, who will sell such HSH H Shares on the market as soon as reasonably practicable after the Scheme becomes effective. The aggregate proceeds of such sale (net of expenses and taxes) will be paid to the relevant Non-Qualifying Overseas Shareholders (pro rata to their shareholdings in HEG as at the Scheme Record Time) in Hong Kong dollars in full satisfaction of their rights to the HSH H Shares pursuant to the Scheme.

Based on the addresses of the overseas HEG Shareholders as registered in the register of members of HEG as at the Latest Practicable Date and the advice received, overseas HEG Shareholders in Australia are expected to be Non-Qualifying Overseas Shareholders.

Any acceptance by the overseas Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to HSH and HEG and their respective advisers, that those laws and regulatory requirements have been complied with. If such overseas Scheme Shareholders are in doubt as to their positions, they should consult their professional advisers.

As at the Latest Practicable Date, there were 36 HEG Shareholders (representing approximately 2.97% of the total number of the HEG Shareholders) whose addresses as shown in the register of members of HEG ("**registered addresses**") were outside Hong Kong and those HEG Shareholders together held 929,981,896 Shares (representing approximately 33.01% of the issued share capital of HEG). Those 36 HEG Shareholders included: HEG Shareholders in United Kingdom, Macau, Australia, BVI and China.

Based on legal advice obtained by HSH in relation to the laws of Australia and having considered the circumstances, the directors of HSH have formed the view that it is necessary or expedient to exclude those HEG Shareholders with registered addresses in Australia from receiving the HSH H Shares pursuant to the Scheme as consideration for the cancellation of the Scheme Shares held by them, due to the time and costs involved in complying with the local legal and/or regulatory requirements in Australia in relation to the Scheme. The HSH H Shares which would otherwise have been issued to the HEG Shareholders with registered addresses in Australia pursuant to the Scheme will be allocated to the Selected Person, who will sell such HSH H Shares on the market as soon as reasonably practicable after the Scheme becomes effective. The aggregate proceeds of such sale (net of expenses and taxes) will be paid to the HEG Shareholders with registered addresses in Australia (pro rata to their shareholdings in HEG as at the Scheme Record Time) in Hong Kong dollars in full satisfaction of their rights to the HSH H Shares pursuant to the Scheme. Such payment will be sent to the relevant Non-Qualifying Overseas Shareholders at their own risks within 28 days of the Scheme Effective Date. In the absence of bad faith or wilful default, HSH shall have no liability for any loss or damage arising as a result of such sale.

Accordingly, upon the Scheme becoming effective, HEG Shareholders with registered addresses in Australia will be entitled to (i) the Cash Payment and (ii) the aggregate proceeds of sale of the HSH H Shares by the Selected Person (net of expenses and taxes) pro-rated to the shareholdings in HEG of the HEG Shareholders with registered addresses in Australia as at the Scheme Record Time, in consideration for the cancellation of the Scheme Shares held by such HEG Shareholders with registered addresses in Australia.

The directors of HSH and the Directors had been advised by the local counsel in United Kingdom, Macau, BVI and China that there is no restriction under the respective laws or regulations of those jurisdictions against extending the Scheme automatically or despatching this Scheme Document to those overseas HEG Shareholders. The Scheme will be extended and this Scheme Document will be despatched to those overseas HEG Shareholders in United Kingdom, Macau, BVI and China.

An application has been made to the Executive under Note 3 to Rule 8 of the Takeovers Code for consent to exclude the HEG Shareholders with registered addresses in Australia from receiving the Scheme Document and the HSH H Shares. The Executive has granted such consent.

HEG Shareholders in Macau

This Scheme Document have not been registered in Macau. Posting of the Scheme Document and the proxy forms to the HEG Shareholders in Macau is not and is not intended to constitute an offer in Macau and the Scheme Document are not meant to be copied, publicised or distributed in Macau. Any HEG Shareholders with a registered address in Macau in doubt as to whether or not to vote in favour of the Scheme at the Court Meeting and/or the SGM should seek professional advice.

HEG Shareholders in Australia

This Scheme Document does not constitute a disclosure document under Part 5.1 or Chapter 6 of the *Corporation Act 2001* (Cth) of Australia ("**Australian Corporations Act**"), and has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purposes of the Australian Corporations Act and does not purport to include the information required of a disclosure document under Part 5.1 or Chapter 6 of the Australian Corporations Act. The securities offered for subscription in connection with this Scheme Document are not offered for subscription to any person in Australia, nor may any of those securities be offered or sold, or made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Australia other than pursuant to offers that do not need disclosure to investors under Part 5.1 or Chapter 6 of the Australian Corporations Act. Each of HSH and HEG does not issue this Scheme Document or any of the securities offered for subscription in connection with this Scheme Document with the purpose of the person to whom they are or may be issued, or any person acting on their behalf, selling or transferring the securities, or granting, issuing or transferring interests in, or options over, them.

17. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Time falls at 4:30 p.m. on Friday, 18 December 2020, it is proposed that the register of members of HEG will be closed from Thursday, 17 December 2020 (or such other date as HEG Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that the transfers of HEG Shares to them are lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees no later than 4:30 p.m. (Hong Kong time) on Wednesday, 16 December 2020.

Upon the Scheme becoming effective, the new HSH H Shares will be issued by HSH, and the Cash Payment will be paid by HEG, to the Scheme Shareholders whose names appear in the register of members of HEG at the Scheme Record Time as soon as possible but in any event within seven Business Days following the Scheme Effective Date. It is expected that certificates for the new HSH H Shares will be despatched on Monday, 21 December 2020, and such certificates will not become valid unless the formal letter of approval for the Listing is obtained, and the Introduction has become effective.

The certificates of new HSH H Shares and the cheque for the Cash Payment will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of HEG in respect of the joint holding. All such certificates of new HSH H Shares and cheques for the Cash Payment will be posted at the risk of the persons entitled thereto and none of HSH, HEG, CICC, J.P. Morgan, UBS, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates or any other persons involved in the Privatisation Proposal will be responsible for any loss or delay in transmission.

On or after the day being six calendar months after the posting of such cheques for the Cash Payment, HEG shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in HEG's name with a licensed bank in Hong Kong selected by HEG.

HEG shall hold such monies until the expiry of six years from the Scheme Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy HEG that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. Any payments made by HEG shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Cash Payment and deduct interest, tax or any withholding tax or any other deduction required by law. HEG shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of HEG to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

On the expiry of six years from the Scheme Effective Date, HEG shall be released from any further obligation to make any payments under the Scheme and HEG shall be absolutely entitled to the sums (if any) not claimed and to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to, if applicable, any deduction of interest, tax or any withholding tax or any other deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of HEG will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Scheme Effective Date, which, subject to the Scheme becoming effective, is expected to be on Friday, 18 December 2020 (Bermuda time).

Issue of new HSH H Shares and the Cash Payment to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Privatisation Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which HSH may otherwise be, or claim to be, entitled against such Scheme Shareholder.

18. TAXATION AND INDEPENDENT ADVICE

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

All Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of the Privatisation Proposal and, in particular, whether the receipt of the new H Shares or the Cash Payment would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of HSH, HEG or any of their respective directors, officers or associates or any other person involved in the Privatisation Proposal accepts responsibility (other than in respect of themselves, if applicable) for any taxation effects on, or liabilities of, any other persons as a result of the effectiveness or otherwise of the Privatisation Proposal. Accordingly, shareholders of HEG are urged to read this section and if any shareholders of HEG are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, they are recommended to consult an appropriately qualified professional adviser.

19. ACTIONS TO BE TAKEN

Actions to be taken by HEG Shareholders

HEG Shareholders who are entitled to attend and vote at the Court Meeting and the SGM are those whose names appear on the register of members of HEG on Wednesday, 9 December 2020. For the purpose of the Condition in paragraph (b) under the section headed "2.6 Conditions of the Privatisation Proposal and the Scheme" in this Explanatory Statement above, only the votes of Disinterested Scheme Shareholders voting in person or by proxy at the Court Meeting will be taken into account.

In order to qualify to vote at the Court Meeting and the SGM, all transfers of share ownership accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 3 December 2020. A subsequent purchaser of HEG Shares will need to obtain a proxy form from the transferor if he or she wishes to attend or vote at the Court Meeting or the SGM.

A **pink** form of proxy for use at the **Court Meeting** and a **white** form of proxy for use at the **SGM** are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a HEG Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The pink form of proxy for use at the Court Meeting should be lodged no later than 9:30 a.m. on Monday, 7 December 2020, which is not less than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof. The pink form of proxy may also be handed to the chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting. The white form of proxy for use at the SGM should be lodged no later than 10:00 a.m. on Monday, 7 December 2020, which is not less than 48 hours

before the time appointed for holding the SGM or any adjournment thereof, failing which it will not be valid.

The completion and return of a form of proxy for the Court Meeting and/or the SGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the SGM, you will still be bound by the outcome of the Court Meeting and/or the SGM if, among other things, the resolutions are passed by the requisite majorities of the Scheme Shareholders, the Disinterested Scheme Shareholders or HEG Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and/or the SGM in person or by proxy.

Voting at the Court Meeting and the SGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

HEG and HSH will make an announcement in relation to the results of the Court Meeting and the SGM on Wednesday, 9 December 2020 by no later than 7:00 p.m. and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the Court Hearing, the Scheme Effective Date and the date of withdrawal of listing of HEG Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Actions to be taken by Beneficial Owners whose HEG Shares are held by a Registered Owner or deposited in CCASS

No person shall be recognised by HEG as holding any HEG Shares on trust.

If you are a Beneficial Owner whose HEG Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party (other than HKSCC Nominees Limited), you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which HEG Shares beneficially owned by you should be voted at the Court Meeting and/or the SGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally, you should:

(a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the SGM and, for such purpose, the Registered Owner may appoint you as his/her/its proxy; or

(b) arrange for some or all of HEG Shares registered in the name of the Registered Owner to be transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the bye-laws of HEG.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the SGM will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof should he/she/it so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and/or the SGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the SGM, such Beneficial Owner should comply with the requirements of such Registered Owner.

If you are a Beneficial Owner whose HEG Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HEG Shares with, a CCASS Participant regarding voting instructions to be given to such persons, or alternatively arrange for some or all of such HEG Shares to be withdrawn from CCASS and transferred into your own name prior to the Meeting Record Date, if you wish to vote (in person or by proxy) at the Court Meeting and/or the SGM. The procedure for voting in respect of the Scheme by the Investor Participants and the other CCASS Participants with respect to HEG Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "*General Rules of CCASS*" and the "*CCASS Operational Procedures*" in effect from time to time.

Only Scheme Shareholders whose Scheme Shares are registered in their own names in the register of members of HEG on the Meeting Record Date will be counted as HEG Shareholders for the purpose of calculating whether or not a majority in number of HEG Shareholders have approved the Scheme at the Court Meeting under section 99 of the Companies Act. In accordance with the direction from the Court, HKSCC Nominees Limited will be counted as one Scheme Shareholder and may vote for or against the Scheme according to the majority of voting instructions as represented by the HEG Shares it receives. Beneficial Owners who wish to individually vote or be counted for such purposes should make arrangements to be registered as a HEG Shareholder in their own name prior to the Meeting Record Date.

20. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A HEG SHAREHOLDER OR A BENEFICIAL OWNER, YOU ARE STRONGLY URGED TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE SGM.

IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR HEG SHARES. IF YOU KEEP ANY HEG SHARES IN A SHARE LENDING PROGRAMME, YOU ARE STRONGLY URGED TO RECALL ANY OUTSTANDING HEG SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING HEG SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR HEG SHARES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

21. FURTHER INFORMATION

Further information is set out in the Appendices to this Explanatory Statement, all of which form part of this Explanatory Statement.

In addition to the documents available for inspection set out in Appendix E to this Scheme Document, each of HSH and HEG publishes its respective annual and interim reports, announcements or other corporate communications on their websites at https://smart-home.haier.com/cn/ and http://www.haier.hk/en/index.html, respectively, and on the Shanghai Stock Exchange (http://www.sse.com.cn) and on the Stock Exchange (http://www.hkexnews.hk).

You should rely only on the information contained or incorporated by reference in this Scheme Document in order to vote your Scheme Shares at the Court Meeting and the SGM. Neither HSH, HEG, CICC, J.P. Morgan, UBS, the Independent Financial Adviser nor any of their respective directors or associates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document. This Scheme Document is dated 16 November 2020. No assumption should be made that the information contained in this Scheme Document is accurate as at any date other than the Latest Practicable Date, and neither the despatch of this Scheme Document to the HEG Shareholders nor the payment of the consideration pursuant to the Privatisation Proposal shall create any implication to the contrary.

22. LANGUAGE

The English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text in the event of any inconsistency.

1. SUMMARY OF THE FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019 AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

The following is the summary of (i) the unaudited consolidated financial results of the HEG Group for the six months ended 30 June 2020 as extracted from the announcement of the interim results of the HEG Group for the six months ended 30 June 2020; and (ii) the audited consolidated financial results of the HEG Group for each of the three years ended 31 December 2017, 2018 and 2019 as extracted from the annual reports of HEG for the three years ended 31 December 2017, 2018 and 2019, respectively.

	For the six months ended 30 June 2020	For the year ended 31 December		
		2019	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Audited) (Restated)	RMB'000 (Audited) (Restated)
Continuing operations				
Revenue	35,075,412	75,879,970	76,335,602	71,316,298
Cost of sales	(28,209,001)	(59,348,597)	(60,403,519)	(56,965,474)
Gross profit	6,866,411	16,531,373	15,932,083	14,350,824
Profit before income tax	1,682,422	5,087,318	4,531,372	4,003,626
Income tax expense	(284,329)	(882,117)	(801,069)	(761,616)
Profit for the period/year from continuing operations	1,398,093	4,205,201	3,730,303	3,242,010
Profit for the period/year from a discontinued operation	—	3,312,865	367,266	353,442
Profit for the period/year	1,398,093	7,518,066	4,097,569	3,595,452
Profit for the period/year, attributable to				
— Owners of the Company	1,335,388	7,350,810	3,844,497	3,383,322
— Non-controlling interests	62,705	167,256	253,072	212,130
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	31,184	40,046	226,385	(115,712)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	(131,208)	50,793	(813)	—
Other comprehensive income/(loss) for the period/year, net of tax	(100,024)	90,839	225,572	(115,712)
Total comprehensive income/(loss) for the period/year	1,298,069	7,608,905	4,323,141	3,479,740
Total comprehensive income attributable to:				
— Owners of the Company	1,235,364	7,441,649	4,070,069	3,267,610
— Non-controlling interests	62,705	167,256	253,072	212,130
Basic earning per share attributable to owners of the Company	RMB0.48	RMB2.63	RMB1.38	RMB1.22
Basic earning per share attributable to owners of the Company for profit from continuing operations	RMB0.48	RMB1.47	RMB1.30	RMB1.13
Diluted earning per share attributable to owners of the Company	RMB0.47	RMB2.61	RMB1.37	RMB1.21
Diluted earning per share attributable to owners of the Company for profit from continuing operations	RMB0.47	RMB1.46	RMB1.29	RMB1.12

	For the six months ended 30 June 2020	For the year ended 31 December 2019	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Audited) (Restated)	RMB'000 (Audited) (Restated)
The amount of final dividends distributed to owners	N/A	1,251,193	936,564	685,405
Dividend per HEG Share	—	HK$49 cents	HK$38 cents	HK$29 cents

The HEG Group's consolidated financial statements as at and for each of the three years ended 31 December 2017, 2018 and 2019 had been audited by HEG's independent auditor, Ernst & Young, with unqualified and unmodified opinions issued, and did not contain any emphasis of matter or material uncertainty related to going concern.

Except for the one-off non-cash disposal gain of approximately RMB3.16 billion from the asset swap transaction, there was no other item of any income or expense which was material in the audited consolidated financial statements of the HEG Group for each of the three financial years ended 31 December 2017, 2018 and 2019.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE HEG GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019

HEG is required to set out or refer to in this Scheme Document the consolidated statement of profit or loss, the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the HEG Group for the year ended 31 December 2017 and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information (the "**2017 Financial Statements**"); (ii) the audited consolidated financial statements of the HEG Group for the year ended 31 December 2018 and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information (the "**2018 Financial Statements**"); and (iii) the audited consolidated financial statements of the HEG Group for the year ended 31 December 2019 and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information (the "**2019 Financial Statements**").

The 2017 Financial Statements before restatement are set out from page 83 to page 207 in the annual report of HEG for the year ended 31 December 2017 (the "**2017 Annual Report**"), which was published on 26 April 2018. The 2017 Annual Report is posted on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.haier.hk), and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn201804261507.pdf

The operating results previously reported by HEG for the year ended 31 December 2017 have been restated as a result of the application of merger accounting for business combination under common control, the classification to exclude the revenue and profit before tax of a discontinued operation, and the effect of adopting IFRS15, as set out below:

For the year ended 31 December 2017

	(As previously reported)	Merger accounting	Discontinued operation	IFRS15	(Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	78,798,324	461,229	(7,869,228)	(74,027)	71,316,298
Profit before tax	4,350,402	129,132	(447,148)	(28,760)	4,003,626
Profit for the year and attributable to owners of the Company	3,358,297	48,821	—	(23,796)	3,383,322

The 2018 Financial Statements before restatement are set out from page 79 to page 207 in the 2018 annual report of HEG for the year ended 31 December 2018 (the "**2018 Annual Report**"), which was published on 25 April 2019. The 2018 Annual Report is posted on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.haier.hk), and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425483.pdf

The operating results previously reported by HEG for the year ended 31 December 2018 have been restated as a result of the application of merger accounting for business combination under common control, and the classification to exclude the revenue and profit before tax of a discontinued operation, as set out below:

For the year ended 31 December 2018

	(As previously reported)	Merger accounting	Discontinued operation	(Restated)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	85,250,041	124,231	(9,038,670)	76,335,602
Profit before tax	4,864,081	123,368	(456,077)	4,531,372
Profit for the year and attributable to owners of the Company	3,789,679	54,818	—	3,844,497

The 2019 Financial Statements are set out from page 90 to page 219 in the 2019 annual report of HEG for the year ended 31 December 2019 (the "**2019 Annual Report**"), which was published on 28 April 2020. The 2019 Annual Report is posted on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.haier.hk), and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801748.pdf

The 2017 Financial Statements, the 2018 Financial Statements before restatement and the 2019 Financial Statements (but not any other part of the 2017 Annual Report, the 2018 Annual Report and the 2019 Annual Report in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE HEG GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2020

HEG is required to set out or refer to in this Scheme Document the consolidated statement of profit or loss and the consolidated statement of financial position as shown in the unaudited consolidated financial results of the HEG Group for the six months ended 30 June 2020, and the significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information (the "**2020 Interim Financial Statements**").

The 2020 Interim Financial Statements are set out from page 4 to page 37 in the 2020 interim report of HEG for the six months ended 30 June 2020 (the "**2020 Interim Report**"), which was published on 21 September 2020. The 2020 Interim Report is posted on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.haier.hk), and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0921/2020092100624.pdf

The 2020 Interim Financial Statements (but not any other part of the 2020 Interim Report) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

4. HEG OPERATIONAL UPDATE ANNOUNCEMENT

On 29 October 2020, HEG issued the HEG Operational Update Announcement in relation to, amongst others, the operational updates of the HEG Group for the nine months ended 30 September 2020. As the HEG Operational Update Announcement is issued subsequent to the Offer Period Commencement Date, the HEG Group's unaudited net profit and unaudited profit attributable to owners of HEG for the nine months ended 30 September 2020 (the "**HEG Profit Forecast**"), as set out in the HEG Operational Update Announcement, constitute a profit forecast and shall be reported on by each of the financial adviser to and auditor or accountants of HEG in accordance with Rule 10.1 and Rule 10.2 of the Takeovers Code. Accordingly, the HEG Profit Forecast has been reported on by Ernst & Young (being the independent auditor of HEG) and UBS (being the financial adviser to HEG), and the comfort letters issued by Ernst & Young and UBS have been set out in the HEG Operational Update Announcement.

Please refer to Appendix G to this Scheme Document for the full text of the HEG Operational Update Announcement.

5. INDEBTEDNESS STATEMENT

As at 30 September 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Scheme Document, the HEG Group had outstanding secured bank loans of approximately Euro 10 million and lease liability of approximately RMB78 million. The HEG Group had unutilised banking facilities of HK$3,500 million.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at 30 September 2020 the HEG Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts or loans or liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

6. MATERIAL CHANGE

The directors of HEG confirm that since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the HEG Group were made up, and up to and including the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the HEG Group.

I. Letter from the Joint Financial Advisers on the Valuation

The following is the text of the letter from the Joint Financial Advisers to the board of directors of HSH prepared for the purposes of incorporation into this Scheme Document.

CICC
中金公司

J.P.Morgan

29/F
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

28/F
Chater House
8 Connaught Road Central
Central, Hong Kong

The Board of Directors
Haier Smart Home Co., Ltd.
Haier Industrial Park
Laoshan District, Qingdao
The People's Republic of China

November 16, 2020

Dear Sirs,

PROPOSED PRIVATISATION OF
HAIER ELECTRONICS GROUP CO., LTD. BY HAIER SMART HOME CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT

We refer to the composite scheme document of even date jointly issued by Haier Smart Home Co., Ltd. and Haier Electronics Group Co., Ltd. in connection with the Privatisation Proposal and the Scheme (the "**Scheme Document**"). Capitalised terms used in this letter will, unless otherwise stated, have the same meaning as defined in the Scheme Document.

Pursuant to the requirements of the Takeovers Code, HSH has engaged Platinum Securities Company Limited (the "**Valuer**") to provide an estimate of value of the HSH H Shares, contained in the letter dated November 16, 2020 addressed to you from the Valuer as set out in the Scheme Document (the "**Estimate of Value**"). The Valuer is licensed for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

Pursuant to the requirements of Rule 11.1(b) of the Takeovers Code, we, in our capacity as the joint financial advisers solely to HSH in connection with the Privatisation Proposal and the Scheme, are required to report on the Estimate of Value and the qualifications and experience of the Valuer.

Our Review

For the purpose of providing this letter, we have conducted the following due diligence:

(a) conducted reasonable checks to assess the relevant qualifications and experience of the Valuer, including reviewing the supporting documents on the qualifications of the Valuer and discussing with the Valuer on its qualifications and experience;

(b) reviewed the Estimate of Value, for which you and the Valuer are solely responsible; and

(c) discussed, from the perspective of financial advisers, with the Valuer, the Estimate of Value and the bases and assumptions underlying the Estimate of Value.

Based on the information provided by the Valuer, you and your management team as of the date of this letter, without giving any other opinion or expressing any other view on the Estimate of Value, for which you and the Valuer and HSH are solely responsible, we are satisfied that the Estimate of Value has been made after due care and consideration. Based on the information provided by the Valuer, we are also satisfied that the Valuer is suitably qualified and experienced to prepare the Estimate of Value.

We have not independently verified the computations leading to the determination of the Estimate of Value. The valuation of non-publicly traded securities is inherently imprecise and subject to the underlying assumptions, which are in turn subject to uncertainties and affected by market conditions. In addition, our view is necessarily based on prevailing economic, market and other conditions which generally affect the value of companies and securities as in effect and the financial conditions of HSH available to us as of the date of this letter. It should be understood that subsequent developments may affect our view expressed herein and that save as required under the Takeovers Code, we do not have any obligation to update, revise or reaffirm this view.

General

This letter has been provided to the directors of HSH only and solely for the purposes of Rule 11.1(b) of the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever. It is not addressed to and may not be relied upon by any third party for any purpose whatsoever and we expressly disclaim any duty or liability to any third party with respect to the contents of this letter.

We are not the independent appraiser of the Estimate of Value, which was determined by the Valuer. We are acting as the joint financial advisers solely to HSH in connection with the Privatisation Proposal and the Scheme. We will not be responsible to any person other than HSH for providing advice in connection with the Privatisation Proposal and the Scheme, nor will we owe any responsibility to any person other than HSH.

In providing this letter, we express no opinion or recommendation to any person as to how such person should act on any matters relating to the Privatisation Proposal and the Scheme or as to the fairness of the financial terms of the Privatisation Proposal and the Scheme. Scheme Shareholders are recommended to seek their own independent financial advice.

Yours faithfully,

For and on behalf of
China International Capital Corporation Hong Kong Securities Limited

Pak Hiu Ching

Managing Director

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited

Sanjeev Malkani

Managing Director

II. LETTER FROM THE VALUATION ADVISER

The following is the text of the letter from Platinum Securities Company Limited to the Board of Directors of HSH prepared for the purpose of incorporation into this Scheme Document.

PLATINUM
Securities

The Board of Directors
HSH
Haier Information Industry Park
Laoshan District, Qingdao
The People's Republic of China

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Hong Kong

16 November 2020

Dear Sirs,

PROPOSED PRIVATISATION OF
HAIER ELECTRONIC GROUP CO. LTD
BY WAY OF A SCHEME OF ARRANGEMENT INVOLVING
A SECURITIES EXCHANGE OFFER FOR THE COMPANY
ESTIMATED VALUE OF
HAIER SMART HOME CO. LTD H SHARES

INTRODUCTION

We refer to our engagement as the adviser to the board of directors of HSH in respect of providing an estimated value of HSH H Shares ("**Estimated Value**"). The new HSH H Shares, which rank *pari passu* with the existing shares in HSH, are to be issued to the shareholders of HEG in relation to the proposed privatisation of HEG. Terms used in this letter shall have the same meanings as defined in the Scheme Document dated 16 November 2020 jointly issued by HSH and HEG (the "**Scheme Document**") unless the context requires otherwise.

Further to our letter of 30 July 2020 containing the Estimated Value, we have updated the Estimated Value using market information and exchange rate of RMB to HK dollars as at 12 November 2020. In determining the updated Estimated Value, we have used the same methodology as described in our letter of 30 July 2020.

As at the date of this letter, HSH and HSH Concert Parties, together hold and/or control in aggregate approximately 58.43% of the voting rights in HEG in the following manner:

- HSH's direct shareholding in HEG of approximately 13.94%;
- HSH's indirect shareholding in HEG of approximately 31.74% via FRL, a wholly-owned subsidiary of HSH;
- Haier Group's indirect interest in HEG of approximately 11.95%. HSH has been appointed through a voting entrustment agreement since July 2015 to exercise the voting rights attached to the aforementioned 11.95% shareholding in HEG; and
- Other HSH Concert Parties including directors of HSH/Haier Group and HKI/HIC Trustee's shareholdings of approximately 0.80%.

HSH proposes to privatise HEG by way of a scheme of arrangement under section 99 of the Companies Act whereby shareholders of HEG other than HSH are offered HSH H Shares in exchange for the cancellation of HEG Shares held by them. Currently the existing shares of HSH are listed on the Shanghai Stock Exchange (the "**Listed A Share**") and the Frankfurt Stock Exchange (the "**Listed D Share**") and it is proposed that HSH will list the HSH H Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of introduction under Rule 7.14(3) of the Listing Rules. As stated in the Announcement, after the successful listing by way of introduction, HSH will also be able to diversify its investors base through its H Share platform and H Shareholders of HSH are expected to include both existing HEG investors and new HSH investors, thus bringing about potential increase in liquidity.

We have been appointed to provide the Estimated Value of the HSH H Shares pursuant to paragraph 30 of Schedule I of the Takeovers Code. It is a condition of the Scheme becoming effective that the Listing Committee of the Stock Exchange approves the Listing of and gives permission to deal in HSH H Shares to be offered to the HEG shareholders under the Scheme.

Immediately following the Listing and the Scheme becoming effective, HEG will become a wholly-owned subsidiary of HSH and the HEG Shareholders, other than HSH, will become shareholders of the newly listed H Shares of HSH.

PURPOSE

The Estimated Value has been provided to the board of directors of HSH and the Financial Advisers solely for the purpose of paragraph 30 of Schedule I of the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever. This letter is not addressed to and may not be relied upon by any third party for any purposes whatsoever and we expressly disclaim any duty or liability to any third party with respect to the contents of this letter.

The Estimated Value assumes a willing buyer and seller, neither being under any compulsion to buy or sell, dealing on an arm's length basis, each having knowledge of all relevant facts. The Estimated Value is also prepared on the basis of a value as to investors acquiring a minority interest as a portfolio investment. It does not include any premium for control.

The Estimated Value does not constitute an opinion as to the price at which HSH H Shares may trade at any point in the future, or represent the value that a holder of HSH H Shares may realise on any future sale, where such a value may be higher or lower than the Estimated Value contained in this letter. We assume no obligation to update or revise the Estimated Value based upon circumstances or events occurring after the date of this letter.

In formulating the Estimated Value, we have reviewed, among other things, the following materials (the "**Materials**"):

(i) the Scheme Document;

(ii) the Listing Document;

(iii) the Rule 3.5 Announcement of HEG dated on 31 July 2020 (the **"Rule 3.5 Announcement"**);

(iv) the audited Accountants' Report of HSH for the year ended 31 December 2019, 31 December 2018 and for the six months ended 30 June 2020 from the Listing Document (the "**HSH Accountants' Report**");

(v) the unaudited interim financial reports of HSH for the nine months ended 30 September 2020 (the **"2020 HSH 9M Report"**) and 30 September 2019 (the "**2019 HSH 9M Report**") from the Listing Document;

(vi) the unaudited interim report of HSH for the six months ended 30 June 2020 (the "**2020 HSH Interim Report**") and 30 June 2019 (the "**2019 HSH Interim Report**");

(vii) the unaudited interim reports of HEG for the six months ended 30 June 2020 (the "**2020 HEG Interim Report**") and 30 June 2019 (the "**2019 HEG Interim Report**");

(viii) the audited annual reports of HSH for the year ended 31 December 2019 (the "**2019 HSH Annual Report**") and 31 December 2018 (the "**2018 HSH Annual Report**");

(ix) the audited annual reports of HEG for the year ended 31 December 2019 (the "**2019 HEG Annual Report**") and 31 December 2018 (the "**2018 HEG Annual Report**");

(x) the unaudited operational update of HEG for the nine months ended 30 September 2020 (the "**2020 HEG Q3 Operational Update**"); and

(xi) other publicly available information related to HSH and HEG.

In determining the Estimated Value, we have not taken into account any financial projections for HSH for fiscal year 2020 and beyond.

We have assumed that all information, facts, opinions and representations contained in the Materials, which we have relied on, are true, complete and accurate and not misleading in all material respects. We have not conducted any independent verification of the Materials.

We would like to draw your attention that the shares of HSH and HEG are publicly traded securities and will be subject to the fluctuations of the capital market. Those certain market uncertainties and contingencies are difficult to predict and are beyond our control. Consequently, the Estimated Value expressed in this letter is not necessarily indicative of the price at which the HSH H Shares might actually trade in any public market as at the date of this letter or at any future date, or the amount which might be realised upon a sale of HSH H Shares to a third party. The Estimated Value may differ substantially from estimates available from other sources such as research reports published by brokers. In addition, our view would be expected to fluctuate with changes in prevailing market conditions, the financial conditions and prospects of HSH and other factors which generally influence the valuation of securities. As a result, there can be no assurance that the actual price of HSH H Shares will be higher or lower than that implied by the Estimated Value.

METHODOLOGY

For the purpose of this valuation report, we have determined that the market approach is the most appropriate valuation methodology on the basis that: (i) we consider there is adequate and sufficient financial information (both audited and unaudited) publicly available in relation to both HSH and HEG as they have been in compliance of the relevant regulatory disclosure requirements under the Shanghai Stock Exchange, the Frankfurt Stock Exchange and the Stock Exchange respectively; and (ii) we consider there are sufficient number of companies comparable to HSH within the home appliance industry that are listed globally with financial information that are publicly available.

We have analysed the historical trading price movements of the shares of HSH and HEG, the respective businesses, financial performances and prospects of HSH and HEG and applied market approach analysing: (i) HSH's global comparable companies (ii) sum of the parts valuation by taking the market value of HSH's equity interest in HEG and the remaining part valued through global comparable valuation; and (iii) HEG as a direct comparable to HSH due to HEG's similarity to HSH in terms of business and financial profile.

We have determined the Estimated Value using these methodologies and taken into account the information, factors, assumptions and limitations set out above.

An exchange rate of RMB1=HK$1.1707[1] as at 12 November 2020, being the market reference date prior to the date of this Valuation Report for the purpose of ascertaining certain information contained in this report ("**Market Reference Date**"), was applied in our calculations.

The COVID-19 virus outbreak, which was declared by the World Health Organisation as a global pandemic on 11 March 2020, has severely impacted the global economy. We noted that different countries and regions have suffered various degrees of impacts from the COVID-19, where companies' performances are impacted differently. In order to isolate such unprecedented and abnormal impact happened in the first half of 2020, we consider using the financial figures as at and for the year ended 31 December 2019 in our valuations as a fairer and more reasonable base to evaluate the operational performance of the comparable companies.

1 Exchange rate quoted from the CNY Central Parity Rate offered by the State Administration of Foreign Exchange of PRC.

We have not taken into account of the effects of any taxation exemptions, allowances or relief available for purposes of income, capital gains, inheritance or any other applicable tax, duty or levy, as well as any potential transaction costs that a holder of HSH H Shares may incur, including any dealing costs that may be associated with the trading of such HSH H Shares.

All percentage changes and key figures were calculated using the underlying data in millions of RMB.

We have set out below the principal factors that have been taken into account in determining the Estimated Value.

1 Information on HSH

HSH is the world's leading provider of major home appliances and a pioneer of smart home solutions. HSH, committed to providing global users with complete sets of smart home solutions, mainly engages in research and development (R&D), manufacturing and distribution of products including refrigerators/freezers, kitchen appliances, air-conditioners, washing machines, water heaters, water purifiers and small home appliances. As a user-centric company, HSH has built up a comprehensive product & brand portfolio, industry-leading smart manufacturing capacity, extraordinary R&D capability, as well as an extensive distribution network worldwide. In 2019, HSH's revenue was RMB198.0 billion, 47.5% of which was overseas revenue. According to Euromonitor, HSH is recognised as the largest major home appliance enterprise in terms of retail volume of major home appliances for 9 consecutive years from 2011 to 2019. HSH has been listed on Shanghai Stock Exchange (SSE) since 1993 (stock code: 600690.SH) and on the D-shares market of China Europe International Exchange in Frankfurt since 2018 (stock code: 690D).

HSH has gained global recognition as the leader of global major home appliance industry. According to Euromonitor[2], HSH is the largest major home appliance enterprise in terms of retail volume of major home appliances for 9 consecutive years from 2011 to 2019. Haier brand also ranked first in terms of retail volume of refrigeration appliances and laundry appliances for 11 consecutive years from 2009 to 2019. HSH has a global portfolio of home appliance brands including Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel, and AQUA. It has operations in more than 160 countries and regions worldwide, including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.

2 Euromonitor is an international strategy research company for consumer markets and it provides market research and surveys on a wide range of industries and companies.

1.1 *Financial highlights of HSH*

	For the six months ended 30 June			For the year ended 31 December		
	2020	**2019**	**Variation**	**2019**	**2018**	**Variation**
	Audited (RMB m)	**Unaudited (RMB m)**	**%**	**Audited (RMB m)**	**Audited (RMB m)**	**%**
Revenue	**95,723**	97,274	(1.6%)	**198,006**	177,594	11.5%
Gross profit	**26,227**	28,300	(7.3%)	**58,613**	52,179	12.3%
Earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) (Note 1)	**6,137**	7,852	(21.8%)	**11,976**	12,095	(1.0%)
Earnings before interest and tax (“**EBIT**”) (Note 2)	**3,615**	5,948	(39.2%)	**7,605**	9,076	(16.2%)
Net profit from continuing operation attributable to shareholders of HSH (Note 3)	**2,781**	5,017	(44.6%)	**6,715**	7,391	(9.1%)
Net profit for the year	**3,612**	6,185	(41.6%)	**12,335**	9,900	24.6%
Net profit attributable to shareholders of HSH	**2,781**	5,058	(45.0%)	**8,206**	7,484	9.6%
Net profit attributable to minority interests	**831**	1,127	(26.3%)	**4,129**	2,416	70.9%

	As at 30 June	As at 31 December	
	2020	**2019**	**2018**
	Audited (RMB m)	**Audited (RMB m)**	**Audited (RMB m)**
Cash and cash equivalent (Note 4)	**46,254**	39,142	40,967
Total debt (Note 5)	**47,548**	36,265	34,141
Total asset	**198,043**	187,454	168,092
Net asset value attributable to shareholders of HSH	**48,331**	47,887	39,742
Net asset value attributable to minority interests	**18,177**	17,103	16,066

The following tables sets forth the latest unaudited financial figures of the Company:

	For the nine months ended 30 September		
	2020	**2019**	**Variation**
	Unaudited (RMB m)	**Unaudited (RMB m)**	**%**
Revenue	154,403	147,481	4.7%
Gross profit	42,488	42,472	0.0%
Earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) (Note 1)	10,154	10,769	(5.7%)
Earnings before interest and tax (“**EBIT**”) (Note 2)	6,290	7,676	(18.1%)
Net profit from continuing operation attributable to shareholders of HSH (Note 3)	6,301	6,121	2.9%
Net profit for the year	8,019	11,106	(27.8%)
Net profit attributable to shareholders of HSH	6,301	7,612	(17.2%)
Net profit attributable to minority interests	1,718	3,494	(50.8%)

	As at 30 September 2020 Unaudited (RMB m)
Cash and cash equivalent (Note 6)	43,330
Total debt (Note 5)	43,923
Total asset	200,206
Net asset value attributable to shareholders of HSH	50,440
Net asset value attributable to minority interests	17,938

Notes:

1. *Earnings before interest, tax, depreciation & amortisation ("**EBITDA**") refers to EBIT plus the total amounts of depreciation and amortisation.*
2. *Earnings before interest, tax ("**EBIT**") refers to the total revenue, minus the cost of sales, selling and distribution expenses and administrative expenses.*
3. *Net profit from the continuing operation attributable to shareholders of the company is the net profit attributable to shareholders of the company minus the net profit from discontinued operations attributable to shareholders of the company.*
4. *Cash and cash equivalent excludes the restricted portion and includes the short-term wealth management product.*
5. *Total debt refers to the summation of interest-bearing borrowings, lease liabilities, and bond instruments such as ultra-short-term financing bonds, convertible and exchangeable bonds, etc.*
6. *Cash and cash equivalent figures for the corresponding periods do not include short-term wealth management product portion. Therefore, the figures may not be comparable to those as at 30 June 2020 and 31 December 2019 disclosed above.*

Segment information for the nine months ended 30 September 2020

Continuing operations

Segment	Segment Revenue RMB billions	Segment Results RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	24.43	1.82
Kitchen appliances	1.94	0.03
Household Air Solutions		
Air-conditioners	20.48	0.04
Household Clothing Solutions		
Laundry appliances	18.04	1.23
Household Water Solutions		
Water Appliances	7.03	0.78
Smart Home Business Overseas	73.63	2.56
Other Business	68.47	0.22
Inter-segment Eliminations	(59.61)	0.05
Total	154.40	6.73

Segment information for the nine months ended 30 September 2019

Continuing operations

Segment	Segment Revenue	Segment Results
	RMB billions	RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	23.87	2.22
Kitchen appliances	1.92	0.06
Household Air Solutions		
Air-conditioners	19.40	0.84
Household Clothing Solutions		
Laundry appliances	17.15	1.51
Household Water Solutions		
Water Appliances	6.86	0.76
Smart Home Business Overseas	69.28	2.33
Other Business	59.66	0.37
Inter-segment Eliminations	(50.66)	0.03
Total	147.48	8.11

Segment information for the six months ended 30 June 2020

Continuing operations

Segment	Segment Revenue	Segment Results
	RMB billions	RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	14.68	1.46
Kitchen appliances	1.27	0.01
Household Air Solutions		
Air-conditioners	13.39	0.00
Household Clothing Solutions		
Laundry appliances	10.41	0.58
Household Water Solutions		
Water Appliances	4.48	0.53
Smart Home Business Overseas	46.11	1.51
Other Business	41.77	(0.23)
Inter-segment Eliminations	(36.40)	0.00
Total	95.72	3.85

Segment information for the six months ended 30 June 2019

Continuing operations

Segment	Segment Revenue RMB billions	Segment Results RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	16.01	1.99
Kitchen appliances	1.31	0.11
Household Air Solutions		
Air-conditioners	13.81	0.97
Household Clothing Solutions		
Laundry appliances	10.79	0.98
Household Water Solutions		
Water Appliances	4.69	0.55
Smart Home Business Overseas	45.86	1.63
Other Business	38.91	0.05
Inter-segment Eliminations	(34.11)	0.03
Total	97.27	6.31

Segment information for the year ended 31 December 2019

Continuing operations

Segment	Segment Revenue RMB billions	Segment Results RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	32.75	2.11
Kitchen appliances	2.44	0.02
Household Air Solutions		
Air-conditioners	23.49	0.01
Household Clothing Solutions		
Laundry appliances	24.44	2.12
Household Water Solutions		
Water Appliances	9.60	1.12
Smart Home Business Overseas	92.91	3.16
Other Business	83.67	0.05
Inter-segment Eliminations	(71.29)	0.04
Total	198.01	8.62

Segment information for the year ended 31 December 2018

Continuing operations

Segment	Segment Revenue	Segment Results
	RMB billions	RMB billions
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	31.61	2.09
Kitchen appliances	2.46	0.02
Household Air Solutions		
Air-conditioners	26.64	1.14
Household Clothing Solutions		
Laundry appliances	22.51	1.97
Household Water Solutions		
Water Appliances	8.86	1.03
Smart Home Business Overseas	75.42	3.08
Other Business	77.93	0.38
Inter-segment Eliminations	(67.84)	(0.05)
Total	177.59	9.65

Source: HSH Accountants' Report, 2020 HSH 9M Report

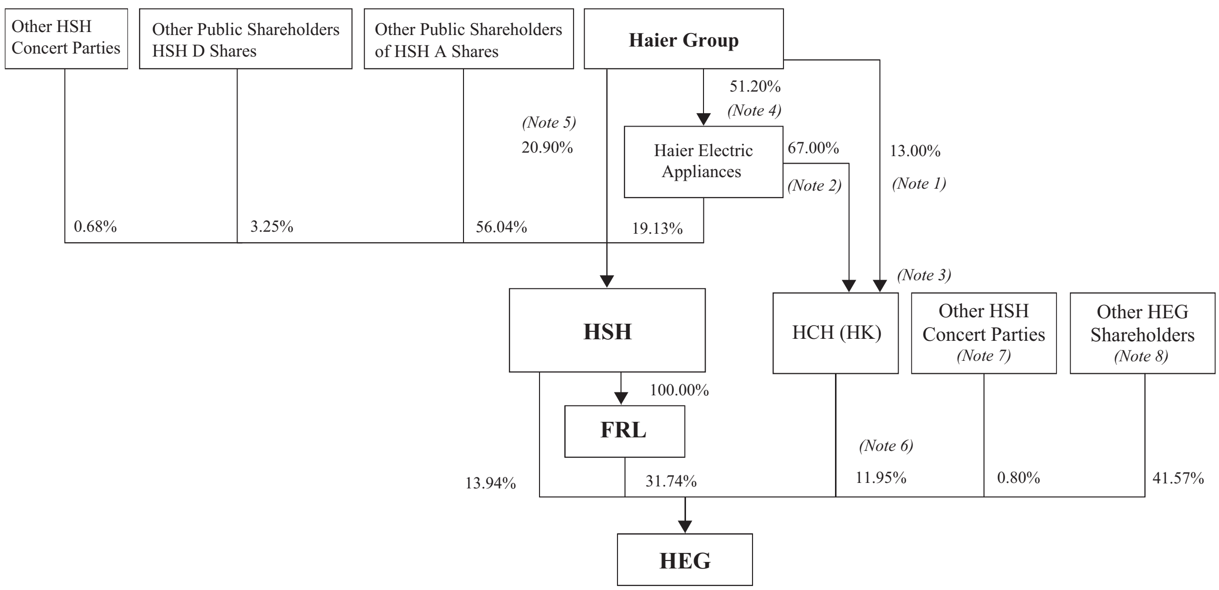
For the year ended 31 December 2019, HSH had revenue of approximately RMB198,006 million, representing an increase of 11.5% from RMB177,594 million for the year ended 31 December 2018. Net profits attributable to shareholders of HSH recorded approximately RMB8,206 million for the year ended 31 December 2019, increased by 9.6% from RMB7,484 million for the year ended 31 December 2018, which was primarily driven by the disposal gain from the asset swap transaction by HEG relating to Bingji (Shanghai) Enterprise Management Co., Ltd., an investment holding company with its non wholly-owned subsidiary Gooday Supply Chain Technologies Co., Ltd (formerly known as Qingdao Gooday Logistics Co., Ltd.) principally engaged in the provision of logistics services. Excluding such, the net profit from continuing operation attributable to shareholders of HSH was RMB6,715 million and RMB7,391 million, for the year ended 31 December 2019 and 31 December 2018 respectively.

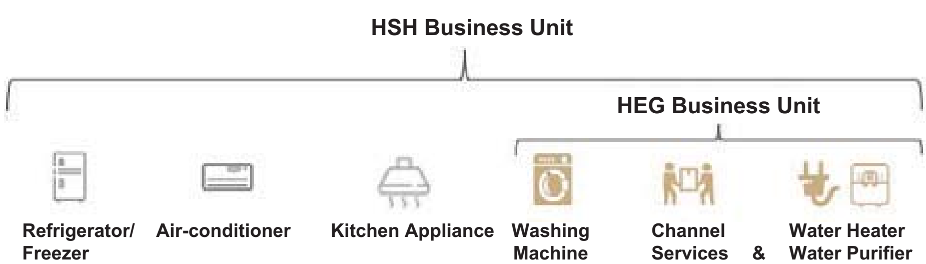
As at 31 December 2019, HSH had cash and cash equivalents of approximately RMB39,142 million, decreased by 4.5% as compared with approximately RMB40,967 million as at 31 December 2018. The net asset value attributable to owners of HSH was approximately RMB47,887 million as at 31 December 2019, increased by 20.5% comparing with approximately RMB39,742 million as at 31 December 2018.

The outbreak of 2020 COVID-19 epidemic impacted the Company's overall operations, with the domestic business affected by the epidemic in the first quarter and the originally good momentum of the overseas business tempered by the spread of the epidemic around the world in the second quarter. However, multiple measures have been taken by HSH in front of the challenges and they gradually came into effect, in which the business trend improved month by month in the second and the third quarter. In the first three quarters of 2020, revenue of the Company amounted to RMB154.40 billion, representing a year-on-year increase of 4.7%; and net profit from continuing operation attributable to shareholders of HSH amounted to RMB6.30 billion, representing a year-on-year increase of 2.9%. The quarterly revenue in the third quarter was RMB58.68 billion, representing a year-on-year increase of 16.9%, of which, revenue from China increased by 18.5% and revenue from overseas increased by 15.1%.

1.2 Shareholding structure and major business units

The diagram below shows the existing shareholding structure of HSH and major business units under HSH and HEG.





Notes:

1. *The shares held by Haier Group in HCH (HK) represent an aggregate of 13.00% economic interests, and 100% voting rights, in HCH (HK).*
2. *The shares held by Haier Electric Appliances in HCH (HK) represent an aggregate of 67.00% economic interests in HCH (HK). All of those shares are non-voting shares.*
3. *Certain directors of Haier Group and HSH indirectly through incentive arrangements hold economic interests in HCH (HK). Such holding of interests does not result in interests in HEG Shares required to be disclosed under Part XV of the SFO.*
4. *Haier Group holds 51.20% of the issued shares in Haier Electric Appliances and is also entitled to exercise the remaining 48.80% voting rights in Haier Electric Appliances through an irrevocable voting rights entrustment arrangement.*
5. *As at the Market Reference Date, in addition to the interest through Haier Electric Appliances referred to in Note 4, Haier Group directly holds approximately 16.30% shareholding in HSH (in respect of HSH A Shares) and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it) controls a further 4.60% shareholding in HSH (out of which 3.73% is in respect of HSH A Shares, and 0.87% is in respect of HSH D Shares indirectly held through its indirect wholly-owned subsidiary, Haier International Co., Limited).*
6. *HSH has been appointed through a voting rights entrustment arrangement to exercise the voting rights attached to the HEG Shares held by HCH (HK).*

7. *Other HSH Concert Parties exclude HCH (HK).*

8. *Other HEG Shareholders include the HEG Trustee and certain Directors.*

2. Information on HEG

HEG and its subsidiaries are principally engaged in the research, development, manufacturing and wholesale of washing machines, water heaters and water purifiers under Haier Group brands (Haier, Casarte and Leader); the distribution of electrical products of Haier Group in the PRC and logistics services under the name of "Gooday" (deconsolidated since 3Q 2019) in the PRC for large-format items, including but not limited to home appliances, home furnishings and fitness equipment.

2.1 Financial highlights of HEG

	For the six months ended 30 June			For the year ended 31 December		
	2020	**2019**	**Variation**	**2019**	**2018**	**Variation**
	Unaudited (RMB m)	**Unaudited (Restated) (RMB m)**	**%**	**Audited (RMB m)**	**Audited (Restated) (RMB m)**	**%**
Revenue	**35,075**	36,955	(5.1%)	**75,880**	76,336	(0.6%)
Gross profit	**6,866**	7,620	(9.9%)	**16,531**	15,932	3.8%
Earnings before interest, tax, depreciation and amortisation ("**EBITDA**") *(Note 1)*	**1,503**	1,909	(21.3%)	**3,729**	3,972	(6.1%)
Earnings before interest and tax ("**EBIT**") *(Note 2)*	**1,190**	1,754	(32.2%)	**3,359**	3,744	(10.3%)
Net profit from continuing operation attributable to shareholders of HEG *(Note 3)*	**1,335**	1,747	(23.6%)	**4,100**	3,638	12.7%
Net profit for the year	**1,398**	1,937	(27.8%)	**7,518**	4,097	83.5%
Net profit attributable to shareholders of HEG	**1,335**	1,836	(27.3%)	**7,351**	3,844	91.2%
Net profit attributable to minority interests	**63**	101	(37.6%)	**167**	253	(34.0%)

	As at 30 June	As at 31 December	
	2020	**2019**	**2018**
	Unaudited (RMB m)	**Audited (RMB m)**	**Audited (RMB m)**
Cash and cash equivalent *(Note 4)*	19,459	18,087	19,405
Total debt *(Note 5)*	141	134	92
Total asset	48,193	50,058	47,877
Net asset value attributable to shareholders of HEG	29,342	29,220	24,010
Net asset value attributable to minority interests	527	418	2,175

Notes:

1. *Earnings before interest, tax, depreciation & amortisation ("**EBITDA**") refers to EBIT plus the total amounts of depreciation and amortisation.*

2. *Earnings before interest, tax ("**EBIT**") refers to the total revenue, minus the cost of sales, selling and distribution expenses and administrative expenses.*

3. *Net profit from the continuing operation attributable to shareholders of the company is the net profit from continuing operation minus the net profit from discontinued operation attributable to shareholders of the company.*

4. *Cash and cash equivalent excludes the restricted portion and includes the short-term wealth management product.*

5. *Total debt refers to the summation of interest-bearing borrowings and lease liabilities.*

Source: 2020 HEG Interim Report and 2019 HEG Annual Report

For the year ended 31 December 2019, HEG had revenue of approximately RMB75,880 million, representing a slight decrease of 0.6% as compared with the previous financial year. Net profit attributable to shareholders of HEG recorded approximately RMB7,351 million for the year ended 31 December 2019, increased by 91.2% from RMB3,844 million for the year ended 31 December 2018, which was primarily driven by the disposal gain from the asset swap transaction by HEG relating to Bingji (Shanghai) Enterprise Management Co., Ltd., an investment holding company with its non wholly-owned subsidiary Gooday Supply Chain Technologies Co., Ltd (formerly known as Qingdao Gooday Logistics Co., Ltd.), which principally engaged in the provision of logistics services. Excluding such, the net profit from continuing operation attributable to shareholders of HEG was RMB4,100 million and RMB3,638 million, for the year ended 31 December 2019 and 31 December 2018 respectively.

As at 31 December 2019, HEG had cash & cash equivalents of approximately RMB18,087 million, a decrease of 6.8% as compared with approximately RMB19,405 million as at 31 December 2018. The net asset value attributable to owners of HEG was approximately RMB29,220 million as at 31 December 2019, increased by 21.7% comparing with approximately RMB24,010 million as at 31 December 2018, mainly due to the growth of reserves caused by the disposal gain as mentioned above.

Impacted by the COVID-19 pandemic, according to the 2020 HEG Q3 Operational Update, HEG recorded a revenue of RMB56.92 billion in the first three quarters of 2020, representing a year-on-year increase of 2.6%. Net profit attributable to shareholders was RMB2.66 billion, representing a year-on-year decrease of 56.6%. HEG's first quarter performance was significantly dragged down by COVID-19, with revenue decreased 22.4% year-on-year. As the pandemic situation in Mainland China was brought under effective control, HEG has responded to the market demand for health-boosting products by capitalising on its rich product mix and innovative smart home models. In the third quarter, the Group continued the recovery trend starting from the second quarter and recorded a revenue of RMB21.84 billion, representing a year-on-year increase of 18.1%.

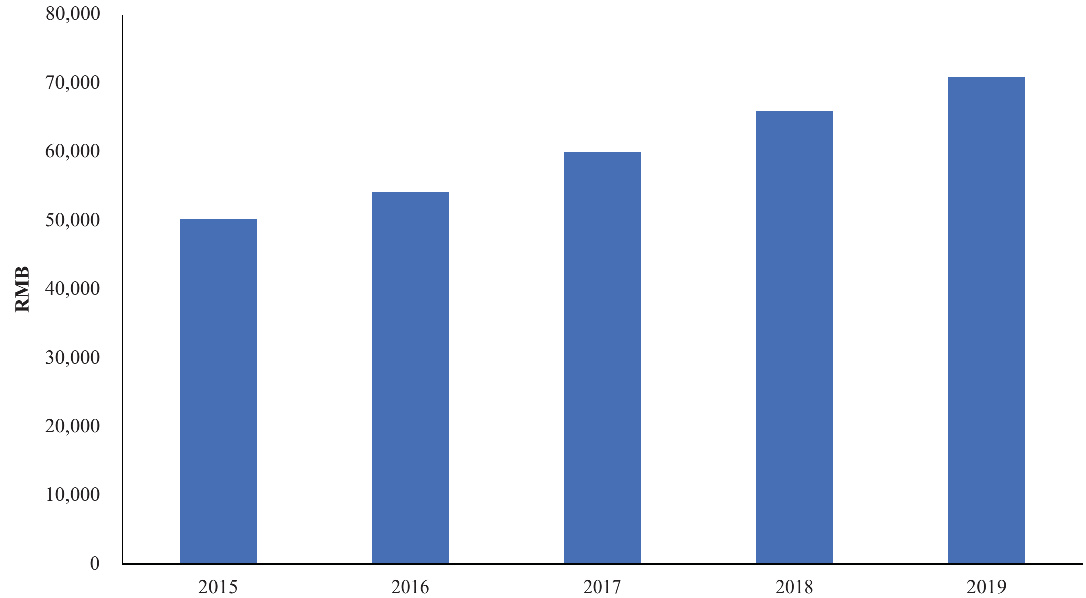
3. Dividend distribution impact on HSH

For the year ended 31 December 2019, HSH has announced a final dividend distribution of RMB3.75 per 10 shares. We note that the above final dividend distribution represents an implied dividend yield of 1.5% over the last 30 Trading Days' average closing share price of HSH. However, we consider that the final dividend distribution is a regular yearly dividend and is made in the ordinary course of business and we note that no special dividend has been announced by HSH, and therefore we consider that it will not impact on the valuation of the HSH.

4. Overview of home appliances market

The per capita income of the PRC has been gradually increasing from 2015 to 2019. During 2019, the GDP per capita of China has reached approximately RMB70,892, representing an increase of 7.4% as compared with 2018.

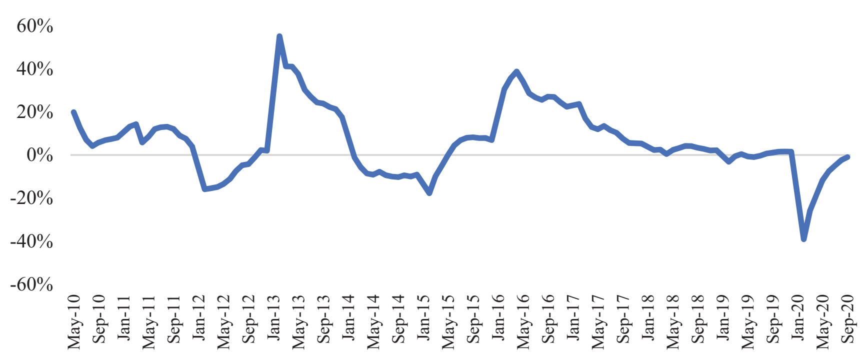
GDP per capita of China



Source: National Bureau of Statistics

Chinese real estate market has remained stable for the past one year. According to National Bureau of Statistics, despite concerns over the overall economic outlook in China caused by the trade disputes between PRC and US, 2019 property turnover has recorded an increase of 6.5% compared to 2018.

YoY Growth rate of the China's residential gross floor area sold



Source: National Bureau of Statistics

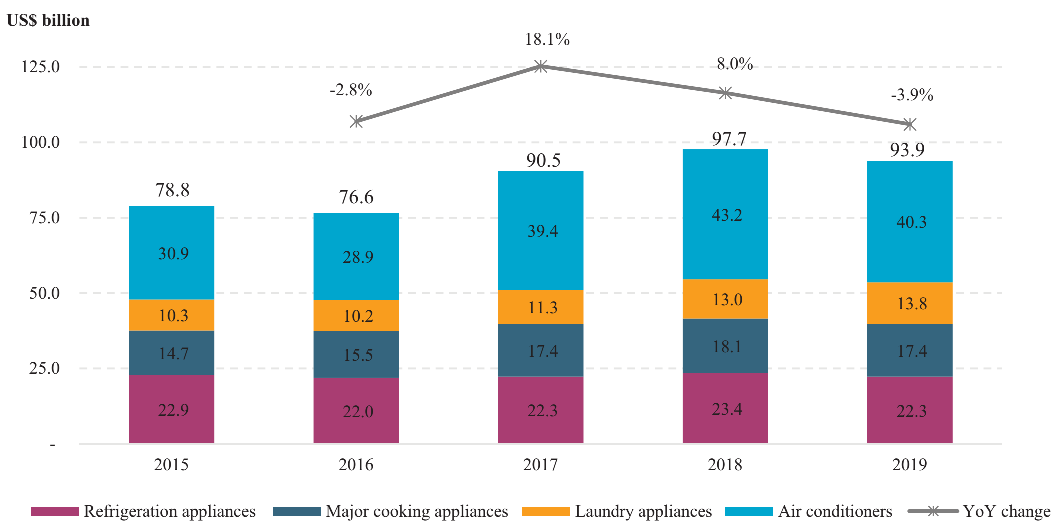
Residential sale is an important driving factor for the home appliance consumer market. Given the China's real estate property market has turned to a stable outlook and the stabilised level on the residential gross floor area sold in China as shown in the chart above, we think the overall home appliance industry would look more to replacement demand.

According to Euromonitor[3], the total retail value of China's whole-category major home appliances market was US$93.9 billion in 2019, decreased by 3.9% from the same period of 2018,

[3] Euromonitor is an international strategy research company for consumer markets and it provides market research and surveys on a wide range of industries and companies.

among which the retail sales of white goods such as refrigeration appliances, major cooking appliances and air conditioners decreased by 4.8%, 3.8% and 6.6% from the same period of last year, respectively, meanwhile the retail sales of laundry appliances increased by 6.4%. Driven by the demand for replacement and technology iteration, products continued to upgrade in a direction of healthy, energy saving, large capacity and intelligence. Sales of complete product sets were accelerated by the integration of home furnishing & appliances. Benefiting from sustained product innovation, products with low penetration, such as automatic dryers, dishwashers and range cookers, grew rapidly. Product experience was improved by the application of IoT, voice control and other technologies, and competition expanded from a single hardware to full range products combining hardware and software, interconnected platform and integrated ecosystem. The increasing industry-level trend towards a smart home ecosystem with comprehensive, full-suite and all-in-one product offerings creates challenges for companies in terms of their technological capabilities as well as the comprehensiveness of their product offerings.

Total retail value of China's whole-category major home appliances market



According to 2019 HSH Annual Report, in terms of channel reformation, the major e-commerce platforms worked to penetrate the low-end market by the construction of marketing and product, thus impacting the existing ecosystem and competition. The emergence of short video and live broadcast and other new tools give rise to user-centred content as a new marketing trend, further improving the conversion rate. Lastly, the offline channels promoted high-end transformation, and optimised the efficiency by focusing on scene experience, increasing the proportion of middle and high-end products and refining the operation. As sales channels become increasingly diversified, it is imperative for home appliances companies to manage the sales channels on a unified platform and to accelerate the integration of online and offline channels in order to improve operating efficiency and their core competitiveness.

According to the investor presentation relating to the proposed privatisation as disclosed in Appendix H of the Scheme Document, the performance of overseas market varied due to different levels of economic development and appliances penetration. With high penetration rate, the main driver in developed areas is the upgrading demand. The Chinese enterprises realise their expansion in developed areas' home appliance market by increasing their market share. The rising penetration rate in developing countries drives the rapid market growth, from which the newly entered Chinese companies benefit when increasing their market share. The majority of European countries show clear intellectualization trend, with their interconnected major home appliance proportion rising from less than 2.0% in 2015 to 4.0% in 2019. With traditional home appliances in saturation, interconnected products will become a new future growth driver. With the main U.S. market demand of upgrade and replacement, the replacement and development of smart and interconnected related products will continue to promote the overall growth of the home appliance market. As incomes further improve, the low penetration rate of home appliances in developing countries like India indicates the continuous market growth in future.

Despite the slow overall market growth and increasingly challenging environment, HSH has continuously gained market share of online and offline sales across major product categories in domestic market. HSH has increased investment in smart products development and introduced full set of smart home solutions to the customers. This creates new demands to upgrade their home appliances products. Through the world-renowned brand reputation, continuous efforts in research and development and innovation, HSH has obtained global leading position in smart home solutions and achieved leadership in high-end market. According to China Market Monitor[4] (“**CMM**”), the market share of retail sales of HSH in respect of the PRC offline market on refrigerators, washing machines, air conditioners, water heaters, kitchen appliances and water purifier increased by 2.3%, 3.6%, 2.3%, 4.3%, 0.9% and 3.5%, respectively in the first half of 2020 comparing with the same period of last year. Regarding to refrigerators and washing machines, HSH remained as the industry champion and continued to expand its leading advantages, with the offline market share being approximately 2.98 and 1.52 times as high as that of the second place. For PRC online market, the market shares of retail sales of HSH on refrigerators, washing machines, air conditioners, water heaters, kitchen appliances and water purifier have increased by 2.6%, 4.9%, 2.7%, 1.7%, 0.4% and 1.0%, respectively in the first half of 2020 as compared with same period of last year.

HSH's market share of domestic retail sales (1H2020) — Online & Offline

Domestic Catogories	Online Shares		Offline Shares	
Refrigerator	35.0%	↑ 2.6PCT	38.5%	↑ 2.3PCT
Washing Machine	39.3%	↑ 4.9PCT	39.2%	↑ 3.6PCT
Air Conditioner	11.5%	↑ 2.7PCT	14.0%	↑ 2.3PCT
Water Heater	25.8%	↑ 1.7PCT	23.5%	↑ 4.3PCT
Kitchen Appliances	5.8%	↑ 0.4PCT	4.9%	↑ 0.9PCT
Water Purifier	13.6%	↑ 1.0PCT	10.0%	↑ 3.5PCT

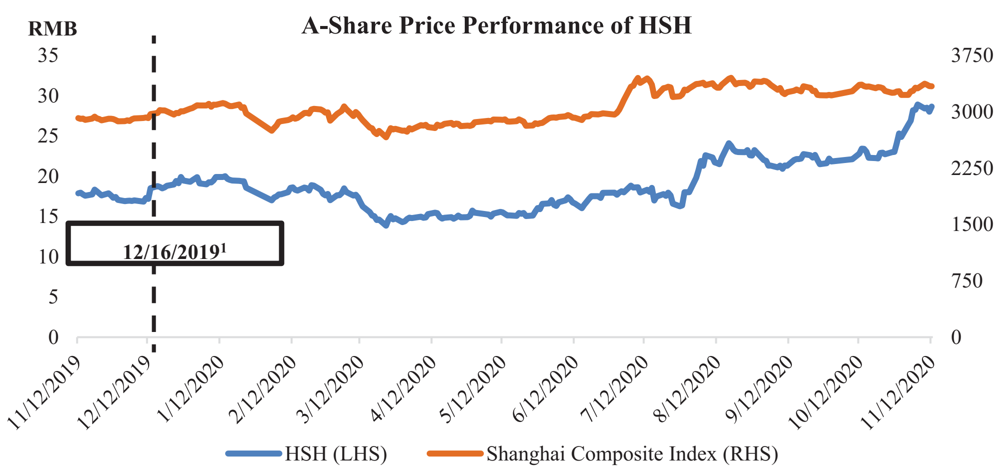
Source: According to 2020 HSH Interim Report, CMM

4 China Market Monitor is a business consultancy company that provides market research analysis on industry sectors and markets.

Overseas sales of HSH grew rapidly due to the consolidation of previously acquired Candy brand which drove overseas revenue higher while HSH gained a greater brand spectrum and an instant expansion of overseas market. According to Listing Document, overseas revenue for the year was RMB94.1 billion, representing a year-on-year increase of 22%, and the overseas revenue contributed to 47.5% of the HSH's total revenue, which was 4% greater than 2018. Meanwhile, with the support of a complete business chain and consolidating global operation capacity, HSH has managed to accelerate product update and optimised management and marketing system in the overseas market. Revenue from all regional markets soared.

5. Share price performance of HSH

Below chart shows the closing price of HSH's A Share for the past one year from 12 November 2019 to the Market Reference Date:



	RMB	HKD (converted at RMB1=HK$1.1707 as at 12 November 2020)
Market Reference Date	28.65	33.54
5 days average	28.49	33.36
10 days average	27.70	32.43
30 days average	24.38	28.55
60 days average	23.34	27.33
90 days average	21.83	25.56
180 days average	18.96	22.19
180 days low	13.85	16.21
180 days high	28.90	33.83
Closing price of 12 December 2019[1]	17.17	20.10
Closing price of 13 December 2019[1]	18.51	21.67
Closing price of 16 December 2019[1]	18.76	21.96

Note:

1. *Privatisation news leaked after the close of A share market on 12 December 2019. The first trading day after news leakage was 13 December 2019. On 16 December 2019, HSH published the announcement pursuant to Rule 3.7 of the Takeovers code in relation to the possible privatisation of HEG post market close.*

Source: Bloomberg

The total HSH Listed D shares represent only 4.12% of HSH's total shareholding, which is considered insignificant and with low trading liquidity. As such, analysis of HSH Listed D Share is considered to be less relevant in the valuation of HSH H Shares.

6. The valuation

We have adopted market approach by conducting a peer comparison of comparable companies (the "**Comparable Companies**"). The Comparable Companies are selected on the basis that (i) listed on a stock exchange globally; and (ii) engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America; and (iii) the market capitalisation is above RMB5 billion. We have identified ten Home Appliance Business Comparables (as set out in table below), which represent an exhaustive list based on the aforementioned selection criteria and publicly available information.

Company	Ticker	Average market capitalisation of the past 30 trading days prior to and including the Market Reference Date	Average closing price of the past 30 trading days prior to and including the Market Reference Date	P/E ratio *(Note 1)*	EV/EBITDA ratio *(Note 2)*
		(RMB m)	(RMB)	(x)	(x)
Midea Group Co	000333 CH	533,485	78.78	22.0	17.8
Daikin	6367 JP	368,222	1,256.24	34.3	15.4
Gree Electric Appliances	000651 CH	353,579	58.78	14.3	7.7
Whirlpool Corporation	WHR NYSE	82,640	1,287.22	14.7	8.9
HEG	1169 HK	72,385	25.7	17.7	13.2
A.O. Smith Corporation	AOS NYSE	60,025	360.06	24.5	16.3
AB Electrolux	ELUX ST	45,678	158.15	32.7	9.2
Hangzhou Robam	2508 CH	34,131	35.96	21.5	16.4
Arcelik A S	ARCLK TI	21,164	31.32	19.4	7.7
Hisense Home Appliances	921 HK	16,512	9.05	9.2	8.4
	000921 CH		13.68		
			Average	21.0	12.1
			Median	20.4	11.2
			Average (Excluding HEG)	21.4	12.0
			Median (Excluding HEG)	21.5	9.2

Notes:

1. *P/E ratio is the ratio of average closing prices of the companies of the past 30 trading days prior to and including the Market Reference Date divided by the earnings per share for the twelve-month trailing period ended 31 December 2019, based on data from their annual reports and Bloomberg. Earnings per share are calculated based on the net profit from continuing operations attributable to shareholders of the companies divided by the fully diluted shares outstanding;*

2. *Enterprise value-to-EBITDA ("**EV/EBITDA**") are calculated by using the enterprise value, derived from the average closing prices of the companies of the past 30 trading days prior to and including Market Reference Date, fully diluted shares outstanding and equity value to enterprise value bridge divided by EBITDA for the twelve-month trailing period ended 31 December 2019, from their annual report and Bloomberg; and*

3. *The calculation of net profit from continuing operations attributable to shareholders of the companies and EBITDA are consistent with HSH's and HEG's calculation methods.*

6.1 Global comparable valuation

In arriving at a valuation of HSH H Shares, we have applied the respective P/E ratios and EV/EBITDA ratios of the Comparable Companies as benchmarks. We note that for the financial year ended 31 December 2019, HSH made a net profit and EBITDA of approximately RMB6,715 million and approximately RMB11,976 million respectively.

The P/E ratio of the Comparable Companies range from approximately 9.2 times to approximately 34.3 times, with an average of approximately 21.0 and a median of approximately 20.4 times. Based on the valuation of the average and median P/E ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB137,290 million to RMB141,257 million, or from RMB20.87 per share to RMB21.47 per share (equivalent to HK$24.43 per share and HK$25.13 per share respectively), with the median of such range being RMB21.17 per share (equivalent to HK$24.78 per share).

The EV/EBITDA ratio of the Comparable Companies range from approximately 7.7 times to approximately 17.8 times, with an average of approximately 12.1 times and a median of approximately 11.2 times. Based on the valuation of the average and median EV/EBITDA ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB116,789 million to RMB127,711 million, or from RMB17.75 per share to RMB19.41 per share (equivalent to HK$20.78 per share and HK$22.72 per share respectively), with the median of such range being RMB18.58 per share (equivalent to HK$21.75 per share).

6.1.1 Global comparable valuation excluding HEG

The P/E ratio of the Comparable Companies excluding HEG range from approximately 9.2 times to approximately 34.3 times, with an average of approximately 21.4 and a median of approximately 21.5 times. Based on the valuation of the average and median P/E ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB143,778 million to RMB144,159 million, or from RMB21.85 per share to RMB21.91 per share (equivalent to HK$25.58 per share and HK$25.65 per share respectively), with the median of such range being RMB21.88 per share (equivalent to HK$25.62 per share).

The EV/EBITDA ratio of the Comparable Companies excluding HEG range from approximately 7.7 times to approximately 17.8 times, with an average of approximately 12.0 times and a median of approximately 9.2 times. Based on the valuation of the average and median EV/EBITDA ratios of the Comparable Companies, the Estimated Value ranges from approximately RMB92,760 million to RMB126,254 million, or from RMB14.10 per share to RMB19.19 per share (equivalent to HK$16.50 per share and HK$22.46 per share respectively), with the median of such range being RMB16.64 per share (equivalent to HK$19.48 per share).

Enterprise value of HSH is calculated as: the average market value of HSH over the last 30 Trading Days of RMB160,434 million + average market value of HSH's minority interest related to HEG over the last 30 Trading Days of RMB39,319 million + book value of total minority interest of RMB17,102 million – book value of minority interest for HEG of RMB16,109 million – the investment in associate of RMB20,461 million + debt of RMB36,265 million – cash of RMB39,142 million.

6.2 Sum of the Parts ("SOTP") valuation

Given the significant contribution from HEG within HSH's overall business and financial profile, we consider it proper to adopt the SOTP approach and detach the Estimated Value into two parts: HSH's share of HEG value and HSH's non-HEG value.

With respect to HSH's share of HEG value, we have multiplied HSH's current shareholding within HEG, which is approximately 45.68%, and the average market capitalisation of HEG over the last 30 Trading Days, which is approximately RMB72,385 million, and arrived at a valuation of RMB33,065 million.

With respect to HSH's non-HEG value, we have used the net profit from continuing operation attributable to shareholders of HSH from its stand-alone business (i.e. excluding the portion contributed by HEG) and applied a P/E ratio derived from a specific set of comparable companies suitable for such portion.

The net profit from continuing operation attributable to shareholders of HSH from its non-HEG business for the year ended 31 December 2019 is calculated as follows: Net profit from continuing operation attributable to shareholders of HSH of RMB6,715 million – (Net profit from continuing operation attributable to shareholders of HEG of RMB4,100 * HSH's equity interest in HEG of 45.68%) = RMB4,842 million.

A.O. Smith mainly operates in water heater and water purifier business, which has a similar business nature with HEG. Thus, it has a relatively low relevancy to non-HEG portion. Hence, in determining the specific set of comparable companies suitable for such non-HEG portion, we have removed HEG and A.O. Smith from our previous set of Global Comparable Companies given their relatively low relevancy to non-HEG portion.

Company	Ticker	Average market capitalisation of the past 30 trading days prior to and including the Market Reference Date	Average closing price of the past 30 trading days prior to and including the Market Reference Date	P/E ratio *(Note 1)*
		(RMB m)	(RMB)	(x)
Midea Group Co	000333 CH	533,485	78.78	22.0
Daikin	6367 JP	368,222	1,256.24	34.3
Gree Electric Appliances	000651 CH	353,579	58.78	14.3
Whirlpool Corporation	WHR NYSE	82,640	1,287.22	14.7
AB Electrolux	ELUX ST	45,678	158.15	32.7
Hangzhou Robam	2508 CH	34,131	35.96	21.5
Arcelik A S	ARCLK TI	21,164	31.32	19.4
Hisense Home Appliances	921 HK	16,512	9.05	9.2
	000921 CH		13.68	
			Average	21.0
			Median	20.4

Notes:

1. *P/E ratio is the ratio of average closing prices of the companies of the past 30 trading days prior to and including the Market Reference Date divided by the earnings per share for the twelve-month trailing period ended 31 December 2019, from their annual report and Bloomberg. Earnings per share are calculated based on the net profit from continuing operations attributable to shareholders of the companies divided by the fully diluted shares outstanding;*

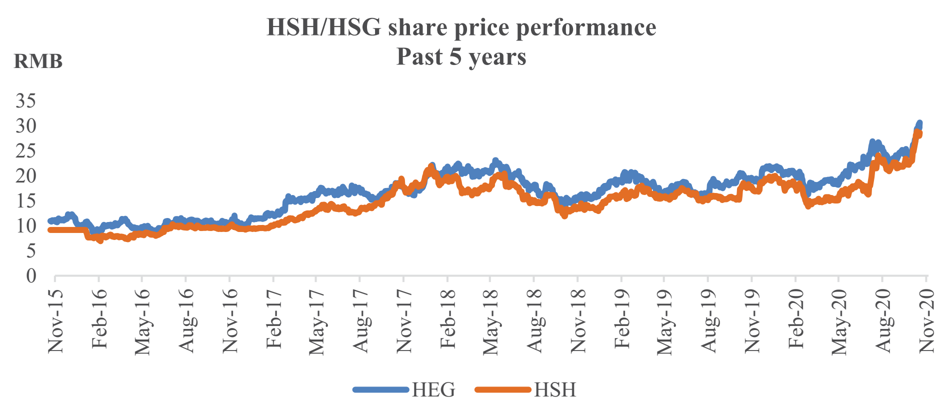
2. *The calculation of net profit from continuing operations attributable to shareholders of the companies and EBITDA are consistent with HSH's and HEG's calculation methods.*

The P/E ratio of the Comparable Companies range from approximately 9.2 times to approximately 34.3 times, with an average of approximately 21.0 times and a median of approximately 20.4 times. Based on the average P/E and median P/E, HSH's non-HEG value ranges from approximately RMB99,003 million to approximately RMB101,816 million.

Therefore, summing up the above two parts, the aggregated Estimated Value of HSH ranges from approximately RMB132,068 million to approximately RMB134,882 million, or from RMB20.07 per share to RMB20.50 per share (equivalent to HK$23.50 per share and HK$24.00 per share respectively), with an average of RMB20.29 per share (equivalent to HK$23.75 per share).

6.3 Direct comparable valuation

Comparing to other Comparable Companies from the above global comparable companies set, HEG offers a unique perspective when assessing the valuation of HSH's H Share to be issued considering the facts that (i) as a major subsidiary of HSH, HEG historically contributed c.40% of HSH's total revenue and its financial statements are consolidated by HSH; (ii) HEG and HSH's business enjoy a significant degree of overlapping in terms of product portfolio, client coverage and distribution channels; (iii) share prices of HSH's A Share and HEG have exhibited relatively high level of correlation historically; and (iv) HEG is one of the very few home appliances companies currently listed on the Hong Kong Stock Exchange, where the H Share of HSH will be listed.



Source: the Shanghai Stock Exchange and the Stock Exchange

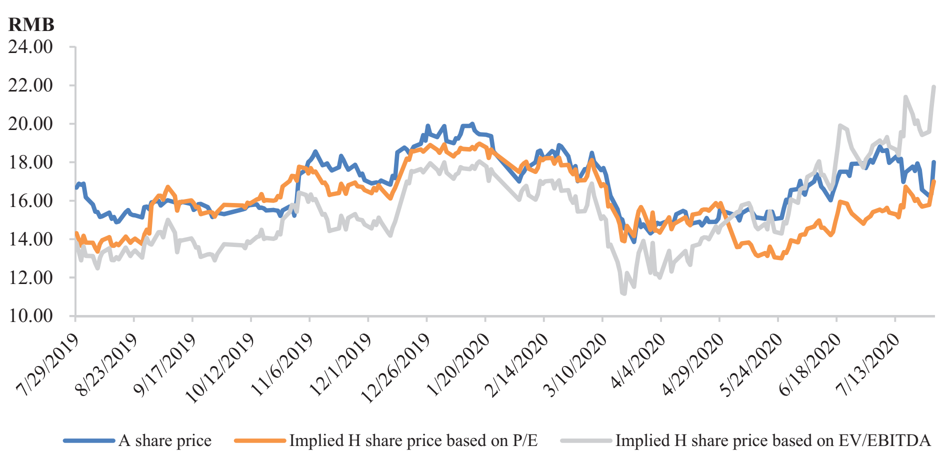
Based on the above, we consider it proper to use HEG's P/E and EV/EBITDA ratio as one of the benchmarks for the valuation of HSH's H Share to be issued.

Based on HEG's P/E ratio, the Estimated Value is approximately RMB118,565 million, or RMB18.02 per share (equivalent to HK$21.10 per share). Based on HEG's EV/EBITDA ratio, the Estimated Value is approximately RMB140,817 million, or RMB21.40 per share (equivalent to HK$25.06 per share).

6.3.1 Relationship between A Share and H Share of HSH

Given the parent-subsidiary relationship between HSH and HEG and the significant overlapping of their business operations & industry focus, we consider there to be certain correlations between HEG's share price and that of HSH's H Shares to be issued. Leveraging on such correlation, we analyse the relationship between the A Shares and the newly issued H Shares of HSH through reviewing the P/E ratios and EV/EBITDA ratios of both HEG and HSH, which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively, for the 1 year period as of the date of the Rule 3.5 Announcement. We consider such method as more effective in evaluating the A-H discount of HSH, rather than simply using the Hang Seng Stock Connect China AH Premium Index ("**A-H Index**") due to industry diversities, less comparability with HSH, differences in market capitalisations and trading liquidity of the A-H Index components with no obvious rule to follow.

Below chart shows the actual price of HSH's A Share, the implied share price of HSH's H Share based on HEG's historical P/E ratio, and the implied share price of HSH's H Share based on HEG's historical EV/EBITDA ratio, across the 1-year-period as of the date of the Rule 3.5 Announcement.



Source: the Shanghai Stock Exchange and the Stock Exchange

Based on the chart above, we note that the implied historical average discounts between (i) the price of HSH's A Share; and (ii) the prices of HSH's H Share to be issued implied by the P/E ratio and EV/EBITDA ratio of HEG over the 1-year-period as of the date of the Rule 3.5 Announcement, are approximately 4.7% and 7.6%, respectively. Considering the significant share price movements of both HSH and HEG post the Rule 3.5 Announcement, as well as the fact that the A share market price may have partly reflected public investors' expectation of HSH's future performance after the privatisation of HEG (including potential synergies arising from the transaction), and yet the estimated H Share value presented in this report is on the other hand based on historical financials of HSH, we do not think comparing the H Share value derived herewithin and the current A Share trading price gives a fair view regarding A-H discount that is applicable to HSH. We consider the above range as appropriate to assess the A/H discount between HSH's existing A Shares and H Shares to be issued.

CONCLUSION

We note that the range of the Estimated Value based on the above valuation methodologies are as follows: (i) valuation derived from Comparable Companies: RMB122,250 million or RMB18.58 per share to RMB139,274 million or RMB21.17 per share (equivalent to HK$21.75 per share and HK$24.78 per share respectively); (ii) valuation derived from Comparable Companies excluding HEG: RMB109,507 million or RMB16.64 per share to RMB143,969 million or RMB21.88 (equivalent to HK$19.48 per share and HK$25.62 per share respectively); (iii) SOTP valuation: RMB132,068 million or RMB20.07 per share to RMB134,882 million or RMB20.50 per share (equivalent to HK$23.50 per share and HK$24.00 per share respectively); and (iv) Direct comparable valuation: RMB118,565 million or RMB18.02 per share to RMB140,817 million or RMB21.40 per share (equivalent to HK$21.10 per share and HK$25.06 per share respectively). The figures are summarised in the table below.

	Valuation range			
	Lower end (RMB m)	**Upper end (RMB m)**	**RMB Per Share**	**HK$ Per Share**
Global comparable valuation	122,250	139,274	18.58 – 21.17	21.75 – 24.78
Global comparable valuation excluding HEG	109,507	143,969	16.64 – 21.88	19.48 – 25.62
SOTP valuation	132,068	134,882	20.07 – 20.50	23.50 – 24.00
Direct comparable valuation	118,565	140,817	18.02 – 21.40	21.10 – 25.06

When arriving at the conclusion, it is our intention to select a range that can reflect the consideration factors including (i) HSH being the leader of the global smart home appliance market; (ii) HEG's greater relevancy as a comparable company to HSH; and (iii) the implied HSH's H Share discount derived under section 6.3.1 of our report. In addition, given HEG's share price has likely been affected by the privatisation proposal after the date of the Rule 3.5 Announcement, we are of the view that the global comparable valuation excluding HEG is more appropriate for the valuation of HSH as of the Market Reference Date. Therefore, we are of the view that HSH's Estimated Value as of the Market Reference Date ranges from RMB109,507 million to RMB143,969 million, or RMB16.64 per share to RMB21.88 per share (equivalent to HK$19.48 per share to HK$25.62 per share respectively)[5], with the median of such range being RMB19.26 per share (equivalent to HK$22.55 per share).

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited

Liu Chee Ming
Managing Director

Mr. Liu Chee Ming is a licenced person registered with the Securities and Futures Commission and as responsible officers of Platinum Securities Company Limited to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Liu Chee Ming has over thirty years of experience in corporate finance industry.

5 The valuation range per share of HSH is RMB16.64354 to RMB21.88117, equivalent to HK$19.48436 to HK$25.61597 (figures rounded to 5 decimal places). All percentage changes and key figures were calculated using the underlying data in millions of RMB.

1. RESPONSIBILITY STATEMENT

As at the date of this Scheme Document, the HEG Board comprises Mr. Zhou Yunjie (Chairman), Mr. Xie Ju Zhi and Mr. Li Huagang as executive directors, Mr. Liang Haishan, Mr. Yang Guang as non-executive directors, and Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma as independent non-executive directors. The directors of HEG jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to HSH) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of HSH) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any of the statements in this Scheme Document misleading.

2. SHARE CAPITAL OF HEG

(a) As at the Latest Practicable Date, the authorised share capital of the HEG was HK$3,000,000,000 divided into 30,000,000,000 HEG Shares of HK$0.1 each. The number of issued and paid-up HEG Shares as at the Latest Practicable Date was 2,816,995,978 HEG Shares.

(b) All HEG Shares rank pari passu in all respects as regards rights to capital, dividends and voting.

(c) There is no outstanding option, warrant or conversion right affecting HEG Shares.

(d) From 31 December 2019 (i.e. the date on which HEG's previous financial year ends) to the Latest Practicable Date, HEG did not issue any HEG Shares, save as (i) 9,960,000 new HEG Shares which were allotted and issued on 10 February 2020 to the HEG Trustee at nil consideration under the HEG Restricted Share Award Scheme and (ii) the following new HEG Shares which were allotted and issued pursuant to the exercise of options granted under the share option scheme of HEG:

Date	Number of HEG Shares	Exercise Price (HK$)
2 January 2020	400	12.84
7 January 2020	10,000	12.84
10 January 2020	20,000	12.84
14 January 2020	24,000	12.84
7 February 2020	20,000	12.84
10 February 2020	1,000	12.84
4 March 2020	11,000	12.84
5 March 2020	211,000	12.84
6 March 2020	13,200	12.84
9 March 2020	72,000	12.84
10 March 2020	264,200	12.84
11 March 2020	154,000	12.84
12 March 2020	28,000	12.84
13 March 2020	10,000	12.84
16 March 2020	132,200	12.84
17 March 2020	35,800	12.84
18 March 2020	54,200	12.84

Date	Number of HEG Shares	Exercise Price (HK$)
19 March 2020	85,800	12.84
20 March 2020	53,800	12.84
23 March 2020	48,500	12.84
24 March 2020	9,600	12.84
27 March 2020	64,000	12.84
3 April 2020	36,000	12.84
15 April 2020	2,500	12.84
16 April 2020	7,000	12.84
17 April 2020	48,000	12.84
24 April 2020	5,000	12.84
27 April 2020	800	12.84
28 April 2020	60,000	12.84
29 April 2020	5,000	12.84
4 May 2020	29,274	12.84
6 May 2020	5,000	12.84
7 May 2020	19,500	12.84
8 May 2020	7,426	12.84

3. MARKET PRICES

The table below sets out the closing price of the HEG Shares on the Stock Exchange on (1) the last business day of each of the calendar months during the Relevant Period, (2) the Last Trading Day, (3) the Latest Practicable Date, and (4) the last day on which the HEG Shares were traded on the Stock Exchange prior to the publication of the initial announcement of HSH dated 16 December 2019 pursuant to Rule 3.7 of the Takeovers Code in relation to, amongst others, the proposed privatisation of HEG:

Date	Closing price of each HEG Share (HK$)
28 June 2019	21.60
31 July 2019	18.54
30 August 2019	20.40
30 September 2019	20.45
31 October 2019	22.40
29 November 2019	21.75
12 December 2019	21.85
31 December 2019	24.35
31 January 2020	23.55
28 February 2020	22.30
31 March 2020	20.65
29 April 2020	21.35
29 May 2020	21.60
30 June 2020	23.45
29 July 2020 (Last Trading Day)	26.85
31 July 2020	26.85
31 August 2020	26.55
30 September 2020	28.00
30 October 2020	29.40
13 November 2020 (Latest Practicable Date)	36.60

During the Relevant Period, the highest closing price of the HEG Shares as quoted on the Stock Exchange was HK$36.60 on 13 November 2020 and the lowest closing price of the HEG Shares as quoted on the Stock Exchange was HK$17.74 on 7 August 2020.

4. DISCLOSURE OF INTERESTS IN HEG SHARES

(a) Interests of the directors and chief executives of HEG in the securities of HEG and the securities of the associated corporations of HEG

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executives of HEG in HEG Shares, underlying shares or debentures of HEG, including their respective associates (within the meaning of Part XV of the SFO) which are required to be notified to HEG and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”); or (d) pursuant to the requirements of the Takeovers Code to be notified to HEG and the Stock Exchange, were as follows:

Name of Shareholder	Capacity/Nature of interests	Number of HEG Shares (shares)	Approximate percentage in the total share capital (Note 1)
Mr. Zhou Yunjie	Personal Interest	10,387,200	0.37
Mr. Li Huagang	Personal Interest	507,591	0.02
Mr. Xie Ju Zhi	Personal Interest	752,637	0.03
Mr. Yu Hon To, David	Personal Interest	537,500	0.02
Mrs. Eva Cheng Li Kam Fun	Personal Interest	262,000	0.01
Mr. Gong Shao Lin	Personal Interest	31,500	0.00
Dr. John Changzheng Ma	Personal Interest	16,500	0.00

Note:

1. *This was calculated on the basis that there were 2,816,995,978 HEG Shares as at the Latest Practicable Date.*

(b) Interests of substantial shareholders in the securities of HEG

As at the Latest Practicable Date, according to the register kept by HEG pursuant to Section 336 of the SFO and, so far as is known to the directors of HEG, the persons or entities who had an interest or a short position in HEG Shares or the underlying shares of HEG which would fall to be disclosed to HEG under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 5% or more of the issued voting shares of any other member of the HEG Group, or in any options in respect of such share capital were as follows:

Long positions:

Name of HEG Shareholder	Capacity/Nature of interests	Number of HEG Shares (shares)	Approximate percentage in the total share capital (Note 1)
HSH	Beneficial owner	392,677,482	13.94
FRL *(Note 2)*	Beneficial owner	894,143,110	31.74
HCH (HK) *(Note 3)*	Beneficial owner	336,600,000	11.95

Short positions:

Name of HEG Shareholder	Capacity/Nature of interests	Number of HEG Shares (shares)	Approximate percentage in the total share capital (Note 1)
HSH	Interest of controlled corporation	255,153,451	9.06

Notes:

1. *It was calculated on the basis that there were 2,816,995,978 HEG Shares as at the Latest Practicable Date.*
2. *FRL is a wholly-owned subsidiary of HSH.*
3. *HCH (HK) has appointed HSH to exercise the voting rights in respect of the 336,600,000 HEG Shares held by it.*

(c) Additional disclosure of interests

As at the Latest Practicable Date:

(a) save as disclosed in the section headed "Interests of the directors and chief executives of HEG in the securities of HEG and the securities of the associated corporations of HEG" above, none of the directors of HEG was interested in HEG Shares or any warrants, options, convertible securities or derivatives in respect of any HEG Shares;

(b) none of the subsidiaries of HEG, pension funds of HEG or of a subsidiary of HEG, or any person who is presumed to be acting in concert with HEG by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of HEG by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader and any exempt fund manager, owned or controlled any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares;

(c) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between HEG, or any person who is presumed to be acting in concert with HEG by virtue of classes (1), (2), (3) or (5) of the "definition of acting in concert" in the Takeovers Code, or any of HEG's associates by virtue of classes (2), (3) or (4) of the definition of "associate" in the Takeovers Code, and any other person;

(d) no fund manager (other than exempt fund manager) connected with HEG had managed any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares on a discretionary basis;

(e) save as disclosed in the section headed "Interests of the directors and chief executives of HEG in the securities of HEG and the securities of the associated corporations of HEG" above, none of the directors of HEG held any beneficial shareholdings in HEG which would otherwise entitle them to vote for or against the Scheme; and

(f) none of HEG or the directors of HEG had borrowed or lent any HEG Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any HEG Shares.

5. DISCLOSURE OF INTERESTS IN THE SECURITIES OF HSH

As at the Latest Practicable Date:

(1) HEG did not own any HSH Shares, convertible securities, warrants, options, or derivatives in respect of any HSH Shares;

(2) save as disclosed below, none of the directors of HEG had any interest in HSH Shares, convertible securities, warrants, options, or derivatives in respect of any HSH Shares:

Name of director of HEG	Capacity/Nature of interests	Class of HSH Shares involved	Number of HSH Shares	Approximate percentage in the total share capital of HSH *(Note 1)*
Mr. Liang Haishan	Personal Interest	HSH A Shares	14,923,047	0.227
Mr. Zhou Yunjie	Personal Interest	HSH A Shares	196,596	0.003
Mr. Li Huagang	Personal Interest	HSH A Shares	694,607	0.011

Note:

1. *It was calculated on the basis that there were 6,579,566,627 HSH Shares as at the Latest Practicable Date.*

(3) none of the subsidiaries of HEG, pension funds of HEG or of a subsidiary of HEG, or any person who is presumed to be acting in concert with HEG by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of HEG by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader and any exempt fund manager, owned or controlled any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares;

(4) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between HEG, or any person who is presumed to be acting in concert with HEG by virtue of classes (1), (2), (3) or (5) of the definition of "acting in concert" in the Takeovers Code, or any of HEG's associates by virtue of classes (2), (3) or (4) of the definition of "associate" in the Takeovers Code, and any other person;

(5) no fund manager (other than exempt fund manager) connected with HEG had managed any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares on a discretionary basis; and

(6) none of HEG or the directors of HEG had borrowed or lent any HSH Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any HSH Shares.

6. DEALINGS IN HEG SHARES

(a) Save as disclosed below, during the Relevant Period, none of the directors of HEG had dealt for value in any HEG Shares, convertible securities, warrants, options, or derivatives in respect of any HEG Shares;

Name	Date of transaction (D/M/Y)	Nature of transaction	On / off the Stock Exchange	No. of HEG Shares involved	Transaction price per HEG Share (HK$)
Mr. Zhou Yunjie	25/7/2019	Vesting of restricted share awards	Off	867,840	—
	14/7/2020	Vesting of restricted share awards	Off	706,400	—
	12/11/2020	Vesting of restricted share awards	Off	402,960	—
Mr. Xie Ju Zhi	25/7/2019	Vesting of restricted share awards	Off	246,867	—
	14/7/2020	Vesting of restricted share awards	Off	110,750	—
	12/11/2020	Vesting of restricted share awards	Off	198,020	—
Mr. Li Huagang	12/11/2020	Vesting of restricted share awards	Off	277,591	—
Mr. Yu Hon To, David	25/7/2019	Vesting of restricted share awards	Off	30,000	—
	14/7/2020	Vesting of restricted share awards	Off	11,000	—
	12/11/2020	Vesting of restricted share awards	Off	16,500	—
Mrs. Eva Cheng Li Kam Fun	25/7/2019	Vesting of restricted share awards	Off	24,000	—
	14/7/2020	Vesting of restricted share awards	Off	8,800	—
	12/11/2020	Vesting of restricted share awards	Off	13,200	—
Mr. Gong Shao Lin	14/7/2020	Vesting of restricted share awards	Off	12,600	—
	12/11/2020	Vesting of restricted share awards	Off	18,900	—
Dr. John Changzheng Ma	14/7/2020	Vesting of restricted share awards	Off	6,600	—
	12/11/2020	Vesting of restricted share awards	Off	9,900	—

(b) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, none of the subsidiaries of HEG, or pension funds of HEG or of a subsidiary of HEG, or any person who is presumed to be acting in concert with HEG by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of HEG by virtue of class (2) of the definition of "associate" in the Takeovers Code (but excluding any exempt principal trader and any exempt fund manager) had dealt for value in any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares;

(c) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no fund manager connected with HEG (other than any exempt fund manager) who managed funds on a discretionary basis had dealt for value in any HEG Shares or any other convertible securities, warrants, options or derivatives in respect of any HEG Shares;

(d) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no person between whom there is an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and HEG, or any person who is presumed to be acting in concert with HEG virtue of classes (1), (2), (3) or (5) of the definition of "acting in concert" in the Takeovers Code, or any of HEG's associates by virtue of classes (2), (3) or (4) of the definition of "associate" in the Takeovers Code had dealt for value in any HEG Shares or any convertible securities, warrants, options, or derivatives in respect of any HEG Shares;

(e) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, none of the subsidiaries of HEG, or pension funds of HEG or of a subsidiary of HEG, or any person who is presumed to be acting in concert with HEG by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of HEG by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding exempt principal traders had dealt for value in any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares;

(f) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no fund managers connected with HEG (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any HSH Shares or any other convertible securities, warrants, options or derivatives in respect of any HSH Shares; and

(g) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no person between whom there is arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and HEG, or any person who is presumed to be acting in concert with HEG virtue of classes (1), (2), (3) and (5) of the definition of acting in concert, or any of HEG's associates by virtue of classes, (2), (3) or (4) of the definition of "associate" under the Takeovers Code had dealt for value in any HSH Shares or any convertible securities, warrants, options, or derivatives in respect of any HSH Shares.

7. DEALINGS IN THE SECURITIES OF HSH

(a) Save as disclosed below, during the Relevant Period, neither HEG nor any of the directors of HEG had dealt for value in any HSH Shares, convertible securities, warrants, options or derivatives in respect of any HSH Shares:

Name	Date of transaction (D/M/Y)	Nature of transaction	On / off the Stock Exchange	Class of HSH Shares involved	No. of HSH Shares involved	Transaction price per HSH Share
						(HK$)
Mr. Liang Haishan	28/7/2020	Vesting of restricted share awards	Off	HSH A Shares	439,581	—
Mr. Li Huagang	28/7/2020	Vesting of restricted share awards	Off	HSH A Shares	41,301	—

(b) save as disclosed below, during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, none of the subsidiaries of HEG, or pension funds of HEG or of a subsidiary of HEG, or any person who is presumed to be acting in concert with HEG by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of HEG by virtue of class (2) of the definition of "associate" in the Takeovers Code (but excluding any exempt principal trader and any exempt fund manager) had dealt for value in any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares;

Date of the relevant transaction	Relevant party	Nature of transaction	Number of HSH Shares involved	Trading price per HSH Share (RMB)
16/1/20	UBS Hana Asset Management	Sale	104,900	19.58
20/1/20	UBS Hana Asset Management	Sale	25,600	19.34
4/2/20	UBS Hana Asset Management	Sale	88,200	17.30
2/7/20	UBS Hana Asset Management	Sale	27,900	17.94
3/7/20	UBS Hana Asset Management	Sale	35,000	17.99
7/7/20	UBS Hana Asset Management	Sale	17,822	18.91
8/7/20	UBS Hana Asset Management	Sale	216,900	18.51
24/7/20	UBS Hana Asset Management	Purchase	160,000	16.91

Note: UBS HANA Asset Management, being a 51% owned joint venture by UBS AG, conducts portfolio management and trading activities and holds HSH Shares in a portfolio.

(c) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no fund manager connected with HEG (other than any exempt fund manager) who managed funds on a discretionary basis had dealt for value in any HSH Shares or any other convertible securities, warrants, options or derivatives in respect of any HSH Shares; and

(d) during the period beginning from the Offer Period Commencement Date and up to and including the Latest Practicable Date, no person between whom there is an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and HEG, or any person who is presumed to be "acting in concert" in the Takeovers Code with HEG virtue of classes (1), (2), (3) or (5) of the definition of acting in concert, or any of HEG's associates by virtue of classes, (2), (3) or (4) of the definition of "associate" in the Takeovers Code had dealt for value in any HSH Shares or any convertible securities, warrants, options, or derivatives in respect of any HSH Shares.

8. ARRANGEMENTS IN CONNECTION WITH THE PRIVATISATION PROPOSAL

(a) Arrangements affecting the directors of HEG

As at the Latest Practicable Date:

(i) no benefit (save for statutory compensation required under applicable laws) would be given to any director of HEG as compensation for loss of office or otherwise in connection with the Privatisation Proposal;

(ii) save for the Privatisation Proposal, there were no agreements or arrangements between any director of HEG and any other person which was conditional on or dependent upon the outcome of the Privatisation Proposal or otherwise connected with Privatisation Proposal; and

(iii) there were no material contracts entered into by HSH in which any director of HEG had a material personal interest.

(b) Arrangements with HEG in connection with the Privatisation Proposal

(i) The emolument of the directors of HEG will not be affected by the Privatisation Proposal or by any associated transactions.

9. MATERIAL CONTRACTS

There were no material contracts entered into by the HEG Group after the date which was two year before the Offer Period Commencement Date up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried or intended to be carried on by HEG Group.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, neither HEG nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the directors of HEG to be pending or threatened by or against HEG or any of its subsidiaries.

11. EXPERTS' QUALIFICATIONS AND CONSENT

The following are the names and qualifications of the experts to HEG whose letter, opinions or advice are contained or referred to in this Scheme Document:

Name	Qualifications
UBS AG (acting through its Hong Kong Branch)	the financial adviser to HEG in relation to the Privatisation Proposal, a registered institution under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
Somerley Capital Limited	the Independent Financial Adviser, a corporation licenced to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of its opinions, and the references to its name and opinions in the form and context in which they respectively appear.

12. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the directors of HEG had any existing service contract with HEG or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the Offer Period Commencement Date; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by HEG within one year without payment of compensation (other than statutory compensation).

13. OTHER INFORMATION

(1) The registered office of HEG is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(2) The principal place of business of HEG in Hong Kong is at Unit 3513, 35/F., The Centre 99 Queen's Road Central, Hong Kong.

(3) The executive directors of HEG are Mr. Zhou Yunjie (Chairman), Mr. Xie Ju Zhi and Mr. Li Huagang; the non-executive directors of the Company are Mr. Liang Haishan and Mr. Yang Guang; the independent non-executive directors of the Company are Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma.

(4) The registered office of UBS AG (acting through its Hong Kong Branch) is at 52/F, IFC 2, 8 Finance Street, Central, Hong Kong.

(5) The registered office of the Independent Financial Adviser is at 20/F, China Building, 29 Queen's Road Central, Hong Kong.

(6) The Hong Kong branch share registrar and transfer office of HEG is Tricor Tengis Limited, which is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

1. RESPONSIBILITY STATEMENT

As at the date of this Scheme Document, the directors of HSH are Liang Haishan, Tan Lixia, Wu Changqi, Li Huagang, Lin Sui Martin, Chien Da-Chun, Dai Deming and Wong Hak Kun. The directors of HSH jointly and severally accept full responsibility for the accuracy of the information in this Scheme Document (other than any information relating to HEG) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of HEG), have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

(a) As at the Latest Practicable Date, the registered share capital of HSH was RMB6,579,566,627 divided into 6,579,566,627 HSH Shares comprising 6,308,552,654 HSH A Shares and 271,013,973 HSH D Shares.

(b) As at the Latest Practicable Date, all of the HSH Shares ranked *pari passu* in all respects with each other, including all rights as to dividends, voting and interests in capital.

(c) All of the HSH Shares and the HSH H Shares (when allotted and issued) will rank *pari passu* in all respects with each other, including all rights as to dividends, voting and interests in capital.

(d) HSH had not issued any HSH Shares since 31 December 2019, being the end of the last financial year of HSH, up to the Latest Practicable Date.

(e) No HSH Shares have been repurchased by HSH since 31 December 2019, being the end of the last financial year of HSH, up to the Latest Practicable Date.

(f) As at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives or other convertible securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into HSH Shares.

(g) Save for (i) the issuance of a total of 211,149,927 HSH A Shares as a result of the exercise of the conversion rights of the convertible corporate bonds issued by HSH and (ii) the issuance of a total of 271,013,973 HSH D Shares in connection with the listing of such HSH D Shares on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange, there has been no reorganisation of the capital of HSH during the two financial years preceding the Offer Period Commencement Date.

3. MARKET PRICES OF THE HSH SHARES

The table below sets out the closing price of the HSH Shares on (in the case of HSH A Shares) the Shanghai Stock Exchange and (in the case of HSH D Shares) the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange on (1) the last Business Day of each of the calendar months during the Relevant Period, (2) the Last Trading Day, (3) the Latest Practicable Date, and (4) the last day on which the HSH Shares were traded on (in the case of HSH A Shares) the

Shanghai Stock Exchange and (in the case of HSH D Shares) the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange prior to the publication of the initial announcement of HSH dated 16 December 2019 pursuant to Rule 3.7 of the Takeovers Code in relation to, amongst others, the proposed privatisation of HEG:

Date	Closing price of each HSH A Share	Closing price of each HSH D Share
	RMB	Euro
28 June 2019	17.29	0.97
31 July 2019	16.83	1.03
30 August 2019	15.91	0.97
30 September 2019	15.30	1.02
31 October 2019	16.00	1.00
29 November 2019	17.06	0.98
12 December 2019	17.17	0.99
31 December 2019	19.50	N/A*
31 January 2020	N/A*	0.95
28 February 2020	17.02	0.87
31 March 2020	14.40	0.66
29 April 2020	15.73	0.68
29 May 2020	16.55	0.62
30 June 2020	17.70	0.62
29 July 2020 (Last Trading Day)	18.00	0.80
31 July 2020	N/A**	0.78
31 August 2020	22.30	0.75
30 September 2020	21.82	0.81
30 October 2020	24.86	0.80
13 November 2020 (Latest Practicable Date)	28.40	N/A***

* *The relevant date is not a trading day for the relevant stock exchange.*

** *Trading of the HSH A Shares was suspended on the relevant date.*

*** *Not available as of market close of Hong Kong Stock Exchange.*

During the Relevant Period, the highest closing price of the HSH A Shares as quoted on the Shanghai Stock Exchange was RMB28.90 on 6 November 2020 and the lowest closing price of the HSH A Shares as quoted on the Shanghai Stock Exchange was RMB13.85 on 23 March 2020.

During the Relevant Period, the highest closing price of the HSH D Shares as quoted on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange was Euro1.06 on 24 July 2019 and the lowest closing price of the HSH D Shares as quoted on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange was Euro0.58 on 26 May 2020.

4. SHAREHOLDINGS IN HEG SHARES

As at the Latest Practicable Date:

(a) HSH directly holds 392,677,482 HEG Shares, representing approximately 13.94% of the issued share capital of HEG, and FRL, a wholly-owned subsidiary of HSH, holds 894,143,110 HEG Shares, representing approximately 31.74% of the issued share capital of HEG;

(b) the details of the interests (within the meaning of Part XV of the SFO) of the directors of HSH in any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares were as follows:

Name	No. of HEG Shares held	Approximate % of the existing share capital of HEG (Note 3)
Mr. Li Huagang (Note 1)	507,591	0.02
Ms. Tan Lixia (Note 2)	230,532	0.01

Notes:

1. *Mr. Li Huagang is a director of HSH and a director of HEG.*

2. *Ms. Tan Lixia is a director of HSH and a director of Haier Group, the controlling shareholder of HSH.*

3. *Based on 2,816,995,978 HEG Shares in issue as at the Latest Practicable Date.*

(c) the details of the shareholdings in HEG owned or controlled by the HSH Concert Parties (other than directors of HSH) were as follows:

Name	No. of HEG Shares held	Approximate % of the existing share capital of HEG (Note 5)
FRL (Note 1)	894,143,110	31.74
HCH (HK)	336,600,000	11.95
Mr. Zhou Yunjie (Note 2)	10,387,200	0.37
Mr. Zhang Ruimin (Note 2)	461,062	0.02
Mr. Liu Chi (Note 2)	361,445	0.01
Mr. Liu Gang (Note 2)	21,312	0.00
Mr. Zhan Bo (Note 2)	368,056	0.01
HKI/HIC Trustee (Note 3)	10,339,439	0.37

Notes:

1. *FRL is a wholly-owned subsidiary of HSH and is presumed to be acting in concert with HSH under class (1) in the definition of "acting in concert" under the Takeovers Code.*

2. *Each a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

3. *The HKI/HIC Restricted Share Award Schemes were adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited, each of which is a wholly-owned subsidiary of Haier Group, for the benefit of eligible participants (which include certain directors of Haier Group, HSH and HEG). The HKI/HIC Trustee, in its capacity as trustee of the HKI/HIC Restricted Share Award Schemes, is presumed to be acting in concert with HSH in accordance with class (3) of the presumptions in the definition of "acting in concert" under the Takeovers Code.*

   No vesting has occurred so far since the Offer Period Commencement Date until the Latest Practicable Date.

   It is expected that, during the offer period, no further share awards will be granted under the HKI/HIC Restricted Share Award Schemes, and the HKI/HIC Trustee will not acquire further HEG Shares to satisfy the awards.

   As at the Latest Practicable Date, the HKI/HIC Trustee holds a total of 10,339,439 HEG Shares as trustee under the HKI/HIC Restricted Share Award Schemes, comprising:

   (i) a total of 4,121,063 HEG Shares held for the purpose of covering awards already granted but being subject to satisfaction of relevant vesting conditions;

   (ii) a total of 5,315,426 HEG Shares held for the purpose of covering awards already granted with relevant vesting conditions having been met, but the vesting procedures have not been completed and so the corresponding HEG Shares are still held by the HKI/HIC Trustee; and

   (iii) a total of 902,950 HEG Shares held for covering awards to be made in the future under the HKI/HIC Restricted Share Award Schemes, as well as, held to cover the fees of the HKI/HIC Trustee.

   Pursuant to the rules of the HKI/HIC Restricted Share Award Schemes, the selected participants shall have no voting rights in respect of HEG Shares held under the HKI/HIC Restricted Share Award Schemes.

The HEG Shares held by the HKI/HIC Trustee under the HKI/HIC Restricted Share Award Schemes will form part of the Scheme Shares. Accordingly, subject to the Scheme becoming effective, as part of the Scheme, HSH will issue such number of HSH H Shares in accordance with the Share Exchange Ratio, and HEG will make the Cash Payment, multiplied by the number of HEG Shares held by the HKI/HIC Trustee as at the Scheme Record Time, to the HKI/HIC Trustee.

The rules of the HKI/HIC Restricted Share Award Schemes prohibit the HKI/HIC Trustee from exercising the voting rights attached to the HEG Shares held by it under the HKI/HIC Restricted Share Award Schemes. The HKI/HIC Trustee will be required to abstain from voting on such HEG Shares at the Court Meeting and the SGM.

4. *As confirmed by CICC and J.P. Morgan, as at the Latest Practicable Date, members of the CICC group and J.P. Morgan group, being HSH Concert Parties, do not legally or beneficially own, control or have direction over any HEG Shares (except in respect of HEG Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HEG Shares held on behalf of non-discretionary investment clients of the CICC group and J.P. Morgan group). Nor were there any borrowing or lending of, or dealing in, HEG Shares (or options, rights over HEG Shares, warrants or derivatives in respect of them) by any members of the CICC group and J.P. Morgan group during the Relevant Period (except in respect of HEG Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HEG Shares held on behalf of non-discretionary investment clients of the CICC group and J.P. Morgan group). Notwithstanding that connected exempt principal traders within the CICC group and J.P. Morgan group are not HSH Concert Parties, HEG Shares held by any such connected exempt principal traders must not be voted in the context of the Privatisation Proposal in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the HEG Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant HEG Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no votes shall be cast for the relevant HEG Shares held by the relevant connected exempt principal trader. For this purpose, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Privatisation Proposal will be submitted to the Executive prior to the Court Meeting.*

5. *Based on 2,816,995,978 HEG Shares in issue as at the Latest Practicable Date.*

(d) as at the Latest Practicable Date, none of HSH and HSH Concert Parties have received any irrevocable commitment from any persons who owned or controlled HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares to vote in favour of or against all of the resolutions to approve the Scheme and any related matters for the implementation of the Scheme to be proposed at the Court Meetings and the SGM;

(e) there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between HSH or HSH Concert Parties and any other person;

(f) none of HSH and HSH Concert Parties had borrowed or lent any HEG Shares, or any convertible securities, warrants, options or derivatives in respect of any HEG Shares save for any borrowed shares which have been either on-lent or returned; and

(g) save as disclosed above, none of HSH, the directors of HSH and HSH Concert Parties owned or controlled any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares or any other security in respect of any HEG Shares.

5. DEALINGS IN HEG SHARES

During the Relevant Period:

(a) save as disclosed below, none of HSH, the directors of HSH and the HSH Concert Parties had dealt for value in any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares:

Name	Date of transaction (D/M/Y)	Nature of transaction	On / off the Stock Exchange	No. of HEG Shares involved	Average transaction price per HEG Share (HK$)	Highest price per HEG Share for the transaction (HK$)	Lowest price per HEG Share for the transaction (HK$)
Mr. Yang Chuanxin (Note 1)	24/7/2019	Vesting of restricted share awards (Note 13)	Off	27,570	—	—	—
	5/9/2019	Sale	On	27,000	20.9926	21.05	21.05
Mr. Zhou Yunjie (Note 2)	25/7/2019	Vesting of restricted share awards (Note 12)	Off	867,840	—	—	—
	14/7/2020	Vesting of restricted share awards (Note 12)	Off	706,400	—	—	—
	12/11/2020	Vesting of restricted share awards (Note 12)	Off	402,960	—	—	—
Mr. Zhang Ruimin (Note 3)	16/8/2019	Vesting of restricted share awards (Note 13)	Off	461,062	—	—	—
Mr. Zhan Bo (Note 4)	24/7/2020	Vesting of restricted share awards (Note 12)	Off	79,900	—	—	—
	12/11/2020	Vesting of restricted share awards (Note 12)	Off	24,501	—	—	—
Mr. Liu Gang (Note 5)	24/7/2020	Vesting of restricted share awards (Note 12)	Off	21,312	—	—	—
Ms. Tan Lixia (Note 6)	24/7/2019	Vesting of restricted share awards (Note 13)	Off	230,532	—	—	—
Mr. Li Huagang (Note 7)	12/11/2020	Vesting of restricted share awards (Note 12)	Off	277,591	—	—	—
HS (HK) (Note 8)	26/6/2019	Purchase	On	67,000	21.05	21.05	21.05
	5/7/2019	Purchase	On	9,000	21.65	21.65	21.65
	8-12/7/2019	Purchase	On	1,696,000	21.0112	21.60	20.75
	15-19/7/2019	Purchase	On	1,620,000	20.4824	20.75	20.30
	22-26/7/2019	Purchase	On	4,014,000	19.4689	20.1	18.90

Name	Date of transaction (D/M/Y)	Nature of transaction	On / off the Stock Exchange	No. of HEG Shares involved	Average transaction price per HEG Share (HK$)	Highest price per HEG Share for the transaction (HK$)	Lowest price per HEG Share for the transaction (HK$)
Bank of Communications Trustee Limited — T144 *(Note 9)*	24-28/6/2019	Sale	On	107,400	21.5233	21.6	21.5
	28/10/2019	Sale	On	35,000	22.0429	22.15	22
	4/11/2019	Sale	On	18,400	23.5717	23.6	23.3
Bank of Communications Trustee Limited— T168 *(Note 10)*	17/6/2019	Sale	On	29,000	19.9972	20	19.98
	3/7/2019	Vesting of restricted share awards *(Note 14)*	Off	4,704	—	—	—
	24/7/2019	Vesting of restricted share awards *(Note 14)*	Off	345,070	—	—	—
	15/8/2019	Vesting of restricted share awards *(Note 14)*	Off	461,062	—	—	—
HEG *(Note 11)*	4/9/2019	Purchase	On	42,000	20.52	20.65	20.45
	9-13/9/2019	Purchase	On	830,000	20.6174	21.15	19.88
	16/9/2019	Purchase	On	275,000	20.83	20.95	20.65
	17/9/2019	Purchase	On	120,000	20.75	20.80	20.60
	19/9/2019	Purchase	On	200,000	20.29	20.40	20.15
	20/9/2019	Purchase	On	270,000	20.00	20.15	19.86

Notes:

1. *Mr. Yang Chuanxin was a former director of Haier Group, the controlling shareholder of HSH, and was presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

2. *Mr. Zhou Yunjie is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code. Mr. Zhou Yunjie is also a Director and the chairman of HEG.*

3. *Mr. Zhang Ruimin is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

4. *Mr. Zhan Bo is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

5. *Mr. Liu Gang is a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

6. *Ms. Tan Lixia is a director of HSH and is therefore presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

7. *Mr. Li Huagang is a director of HSH and is therefore presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

8. *HS (HK) is a wholly-owned subsidiary of HSH and is presumed to be acting in concert with HSH under class (1) in the definition of "acting in concert" under the Takeovers Code.*

9. *Bank of Communications Trustee Limited — T144 is a professional trustee for the administration of the corresponding HKI/HIC Restricted Share Award Scheme and is presumed to be acting in concert with HSH under class (3) in the definition of "acting in concert" under the Takeovers Code.*

10. *Bank of Communications Trustee Limited — T168 is a professional trustee for the administration of the corresponding HKI/HIC Restricted Share Award Scheme and is presumed to be acting in concert with HSH under class (3) in the definition of "acting in concert" under the Takeovers Code.*

11. *HEG is a subsidiary of HSH, and is presumed to be acting in concert with HSH under class (1) in the definition of "acting in concert" under the Takeovers Code.*

12. *The HEG Shares were vested with the relevant individual pursuant to the scheme rules of the HEG Restricted Share Award Scheme.*

13. *The HEG Shares were vested with the relevant individual pursuant to the scheme rules of the respective HKI/HIC Restricted Share Award Schemes.*

14. *The transfer of HEG Shares from Bank of Communications Trustee Limited — T168 to the relevant individuals were as a result of vesting share awards pursuant to the scheme rules of the respective HKI/HIC Restricted Share Award Schemes.*

6. SHAREHOLDINGS IN HSH SHARES

As at the Latest Practicable Date,

(a) the details of the interests (within the meaning of Part XV of the SFO) of the directors of HSH in any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares were as follows:

Name	Class of HSH Shares held	Nature of Interest	No. of HSH Shares	Approximate % of the existing share capital of HSH *(Note 6)*
Mr. Liang Haishan	HSH A Shares	Beneficial Owner	14,923,047	0.23
Ms. Tan Lixia	HSH A Shares	Beneficial Owner	8,535,920	0.13
Mr. Li Huagang	HSH A Shares	Beneficial Owner	694,607	0.01

(b) the details of the shareholdings in HSH owned or controlled by the HSH Concert Parties (other than directors of HSH) were as follows:

Name	Class of HSH Shares held	Nature of Interest	No. of HSH Shares	Approximate % of the existing share capital of HSH *(Note 6)*
Haier Group *(Notes 1 to 3)*	HSH A Shares	Beneficial owner, Interest in controlled corporation and interest through voting arrangements	2,576,559,148	39.16
	HSH D Shares	Interest in controlled corporation	57,142,857	0.87
Haier Electric Appliances International Co., Ltd. *(Notes 1 and 2)*	HSH A Shares	Beneficial owner	1,258,684,824	19.13
Haier International Co., Ltd. *(Note 3)*	HSH D Shares	Beneficial owner	57,142,857	0.87
Mr. Zhang Ruimin *(Note 4)* . . .	HSH A Shares	Beneficial owner	245,344	0.00
Mr. Zhou Yunjie *(Notes 4 and 5)*	HSH A Shares	Beneficial owner	196,596	0.00
Mr. Liu Gang *(Note 4)*	HSH A Shares	Beneficial owner	273,926	0.00
GF Securities Assets Management uangdong) Co., Ltd.	HSH A Shares	Trustee	19,918,417	0.30

Notes:

1. *As at the Latest Practicable Date, Haier Group holds directly 1,072,610,764 HSH A Shares. In addition, Haier Group indirectly owns or controls (i) 1,258,684,824 HSH A Shares through Haier Electric Appliances International Co., Ltd., one of its subsidiaries; (ii) 172,252,560 HSH A Shares through Qingdao Haier Venture & Investment Information Co., Ltd., one of its subsidiaries; and (iii) 73,011,000 HSH A Shares through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), a party acting in concert with Haier Group.*

2. *As at the Latest Practicable Date, Haier Group holds 51.20% of the issued shares in Haier Electric Appliances International Co., Ltd., and is also entitled to exercise the remaining 48.80% voting rights in Haier Electric Appliances International Co., Ltd. through an irrevocable voting rights entrustment arrangement.*

3. *Haier International Co., Limited is a wholly-owned subsidiary of Haier Group. Therefore, Haier Group is deemed to be interested in the 57,142,857 HSH D Shares (representing approximately 0.87% of existing share capital of HSH) held by Haier International Co., Ltd.*

4. *Each a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code.*

5. *A director of HEG.*

6. *On the basis of 6,579,566,627 HSH Shares in issue as at the Latest Practicable Date.*

(c) As at the Latest Practicable Date, none of HSH and HSH Concert Parties have received any irrevocable commitment from any persons who owned or controlled HSH Shares, or any convertible securities, warrants, options or derivatives in respect of any HSH Shares to vote in favour of or against all of the resolutions to approve the Scheme and any related matters for the implementation of the Scheme to be proposed at the Court Meetings and the SGM;

(d) there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between HSH or HSH Concert Parties and any other person;

(e) none of HSH and HSH Concert Parties had borrowed or lent any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares, save for any borrowed shares which have been either on-lent or sold; and

(f) save as disclosed above, none of HSH, the directors of HSH and HSH Concert Parties owned or controlled any HSH Shares or any convertible securities, warrants, options or derivatives in respect of any HSH Shares or any other security in respect of any HSH Shares.

7. DEALINGS IN HSH SHARES

During the Relevant Period:

(a) save as disclosed below, none of the directors of HSH and HSH Concert Parties had dealt for value in any HSH Shares, or any convertible securities, warrants, options or derivatives in respect of any HSH Shares:

Name	Date of transaction (D/M/Y)	Nature of transaction	On/off the Stock Exchange	Class of HSH Shares involved	No. of HSH Shares involved	Average transaction price per HSH Share	Highest price per HSH Share for the transaction	Lowest price per HSH Share for the transaction
						(RMB)	(RMB)	(RMB)
Mr. Liu Gang(Note 1)	3/7/2019	Sale	On	HSH A Shares	10,000	18.1	18.1	18.1
	1/11/2019	Sale	On	HSH A Shares	10,000	17.2	17.2	17.2
	5/11/2019	Sale	On	HSH A Shares	10,000	17.95	17.95	17.95
	7/11/2019	Sale	On	HSH A Shares	10,000	18.02	18.02	18.02
	8/11/2019	Sale	On	HSH A Shares	10,000	18.63	18.63	18.63
	26/12/2019	Sale	On	HSH A Shares	10,000	19.89	19.89	19.89
	14/1/2020	Sale	On	HSH A Shares	10,000	20.15	20.15	20.15
	7/7/2020	Sale	On	HSH A Shares	10,000	19	19	19
Mr. Yang Chuanxin (Note 2)	10/7/2020	Purchase	On	HSH A Shares	1,000	18.00	18.00	18.00

Notes:

1. *Mr. Liu Gang has been a director of Haier Group, the controlling shareholder of HSH, and is presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code since 14 July 2020. Prior to 14 July 2020, Mr. Liu Gang was neither presumed to be nor actually acting in concert with HSH.*

2. *Mr. Yang Chuanxin is a former director of Haier Group, the controlling shareholder of HSH, and was presumed to be acting in concert with HSH under class (2) in the definition of "acting in concert" under the Takeovers Code, Mr. Yang Chuanxin resigned as a director of Haier Group on 14 July 2020.*

8. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the HSH Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known to the directors of HSH to be pending or threatened by or against any member of the HSH Group.

9. ARRANGEMENTS IN CONNECTION WITH THE PRIVATISATION PROPOSAL

As at the Latest Practicable Date:

(a) there was no agreement, arrangement or understanding that any securities acquired pursuant to the Scheme will be transferred, charged or pledged to any other persons and

HSH has no intention to transfer, charge or pledge any Shares acquired pursuant to the Privatisation Proposal to any other person;

(b) no benefit (save for statutory compensation required under applicable laws) would be given to any director of HEG as compensation for loss of office or otherwise in connection with the Privatisation Proposal;

(c) there was no agreement, arrangement or understanding (including any compensation agreement) between HSH or HSH Concert Parties and any of the directors, recent directors, shareholders or recent shareholders of HEG having any connection with or dependence upon the Privatisation Proposal;

(d) there were no agreements or arrangements to which HSH is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Privatisation Proposal;

(e) the emoluments of the directors of HSH will not be affected by the Privatisation Proposal or by any other associated transaction;

(f) other than the 1.60 new HSH H Shares to be issued by HSH and the Cash Payment of HK$1.95 to be paid by HEG under the Scheme for every Scheme Share cancelled, there is no other consideration, compensation or benefit in whatever form paid or to be paid to the Scheme Shareholders by HSH or persons acting in concert with it in connection with the cancellation of the Scheme Shares under the Scheme; and

(g) there is no understanding, arrangement or agreement which constituted a special deal (as defined under Rule 25 of the Takeovers Code) between HSH and HSH Concert Parties on one hand and the Scheme Shareholders on the other hand.

10. INDEBTEDNESS

For details of the statement of indebtedness of HSH Group, please refer to the section headed "Financial Information" of the Listing Document set out in Appendix F of this Scheme Document.

Save as disclosed in this section and apart from intergroup liabilities, the HSH Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities as at 30 September 2020; and the HSH Directors confirm that there were no material changes in indebtedness and contingent liabilities of the HSH Group since 30 September 2020 up to and including the Latest Practicable Date.

11. MATERIAL CHANGE

On 30 July 2020, HSH entered into a share transfer agreement, pursuant to which HSH agrees to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment, a wholly-owned subsidiary of Haier Group, at the consideration of RMB4.06 billion. The consideration was determined based on the valuation from an independent valuer of the total equity interests of COSMO as well as a capital increase of RMB200 million from series A+ funding which took place after the record date of the aforementioned valuation and based on arm's length negotiation between HSH and Haier Ecological Investment with certain transaction premium. The consideration for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020.

Save as disclosed above, the HSH Directors confirm that, since 30 June 2020, being the date to which the latest published audited consolidated financial statements of HSH were made up, and up to and including the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the HSH Group.

12. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts entered into by HSH or any of its subsidiaries after the date which was two years before the Offer Period Commencement Date up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by HSH or any of its subsidiaries:

(a) an equity transfer agreement entered into between HSH (as seller) and Qingdao Haier Ecological Investment Co., Ltd. (as buyer) dated 30 July 2020, pursuant to which HSH agreed to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment at a consideration of RMB4.06 billion; and

(b) the sponsor agreement entered into between HSH, CICC and J.P. Morgan Securities (Far East) Limited dated 15 November 2020 in respect of the Introduction.

13. EXPERTS

The names and qualifications of the professional advisers to HSH who have been named in this Scheme Document or given their opinion or advice which are contained in this Scheme Document are set out below:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A corporation licenced to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO
J.P. Morgan Securities (Asia Pacific) Limited	A corporation licenced to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO. For Type 6 regulated activity, the person shall not act as sponsor in respect of an application for the listing on a recognised stock market of any securities

Name	Qualification
Platinum Securities Company Limited	A corporation licenced to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

14. CONSENTS

Each of the experts mentioned in paragraph 13 above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

15. MISCELLANEOUS

(a) The principal members of HSH's concert group are (1) Haier Group, (2) HCH (HK), (3) FRL; and (4) HKI/HIC Trustee.

(b) Haier Group is the ultimate controlling shareholder of HSH. As at the Latest Practicable Date, Haier Group directly holds approximately 16.30% shareholding in HSH (in respect of HSH A Shares) and indirectly (through its wholly-owned subsidiaries and parties acting in concert with it) controls a further 4.60% shareholding in HSH (out of which 3.73% is in respect of HSH A Shares, and 0.87% is in respect of HSH D Shares indirectly held through its indirect wholly-owned subsidiary, Haier International Co., Limited). The directors of Haier Group are Mr. ZHANG Ruimin, Mr. LIANG Haishan, Mr. ZHOU Yunjie, Ms. TAN Lixia, Mr. LIU Chi, Mr. LIU Gang and Mr. ZHAN Bo. The registered address of Haier Group is situate at Haier Road, Haier Industry Park, Qingdao, PRC.

(c) HCH (HK) is an indirect subsidiary of Haier Group and also a fellow subsidiary of HSH. The directors of HCH (HK) are Mr. SHAO Zhenhu and Mr. SHAO Xinzhi. The registered address of HCH (HK) is situate at Unit 3513, 35/F., The Center, 99 Queen's Road Central, Hong Kong.

(d) FRL is a wholly-owned subsidiary of HSH. The sole director of FRL is Mr. GONG Wei. The registered address of FRL is situate at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

(e) HKI/HIC Trustee is a professional trustee for the administration of the corresponding HKI/HIC Restricted Share Award Scheme. The directors of HKI/HIC Trustee are NG Ping Kwong, LI Siu Kei, LAU Kwok Ying, LUI Yu Hon, CHAN Wai Hing, FAN Chaorong and YEUNG Wai Ping. The registered address of HKI/HIC Trustee is situate at 1/F., Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong. HKI/HIC Trustee is a subsidiary of Bank of Communications Co., Ltd., whose A shares (stock code: 601328) and domestic preference shares (stock code: 360021) are listed on the Shanghai Stock Exchange, and whose H shares are listed on the Main Board of the Hong Kong Stock

Exchange (stock code: 3328). The directors of Bank of Communications Co., Ltd. are RN Deqi, LIU Jun, HE Zhaobin, SONG Guobin, LI Longcheng, CHAN Siu Chung, SONG Hongjun, CHEN Junkui, LIU Haoyang, LIU Li, Jason YEUNG Chi Wai, Raymond WOO Chin Wan, CAI Haoyi, SHI Lei and ZHANG Xiangdong.

(f) CICC and J.P. Morgan are the joint financial advisers to HSH. Their respective addresses are as follows:

Joint financial adviser	Address
China International Capital Corporation Hong Kong Securities Limited	29/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
J.P. Morgan Securities (Asia Pacific) Limited	28/F Chater House, 8 Connaught Road Central, Hong Kong

(g) The directors of HSH are Liang Haishan, Tan Lixia, Wu Changqi, Li Huagang, Lin Sui Martin, Chien Da-Chun, Dai Deming and Wong Hak Kun.

(h) The registered office of HSH is situate at Haier Industrial Park, Laoshan District, Qingdao, Shandong Province, the People’s Republic of China. Its principal office in Hong Kong is situate at Unit 3513, 35/F., The Center, 99 Queen’s Road Central, Hong Kong.

Copies of the following documents are available for inspection from the date of this Scheme Document until the date on which the offer period (as defined under the Takeovers Code) in respect of the Privatisation Proposal ends (both dates inclusive): (1) at HEG's principal place of business at Unit 3513, 35/F., The Centre, 99 Queen's Road Central, Hong Kong during normal business hours (i.e. from 9:30 a.m. to 5:00 p.m. from Monday to Friday, excluding public holidays); (2) on HEG's website at http://www.haier.hk; and (3) on the SFC's website at www.sfc.hk:

(1) the memorandum of association and bye-laws of HEG;

(2) the articles of association of HSH (in Chinese);

(3) the annual reports containing the audited consolidated financial statements of HEG for each of the three financial years ended 31 December 2017, 2018 and 2019;

(4) the interim report of HEG containing the unaudited consolidated financial statements of HEG for the six months ended 30 June 2020;

(5) the letter from the HEG Board, the full text of which is set out in this Scheme Document from pages 28 to 41;

(6) the letter from the Independent Board Committee, the full text of which is set out in this Scheme Document from pages 42 to 43;

(7) the letter from the Independent Financial Adviser, the full text of which is set out in this Scheme Document from pages 44 to 96;

(8) the Valuation Report from Platinum Securities, the full text of which is set out in Appendix B to this Scheme Document;

(9) the letter from CICC and J.P. Morgan on the Valuation Report, the full text of which is set out in Appendix B to this Scheme Document;

(10) the Listing Document, the full text of which is set out in Appendix F to this Scheme Document;

(11) copies of each document as set out in the section headed "Appendix VIII – Documents Available for Inspection" of the Listing Document, including:

   (a) the Accountants' Report prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to the Listing Document;

   (b) the review report on the unaudited condensed consolidated financial statements for the three and nine months ended 30 September 2020 from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II to the Listing Document;

   (c) the report on the unaudited pro forma financial information from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix III to the Listing Document;

   (d) the audited consolidated financial statements of the HSH Group for each of three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020;

(e) the PRC legal opinions issued by King & Wood Mallesons, HSH's PRC legal advisor in respect of its general matters and property interests;

(f) the market research report prepared by Euromonitor International (Shanghai) Co., Ltd.;

(g) the material contracts referred to in the section headed "Appendix D – General Information of HSH – 12. Material Contracts" and the paragraph headed "Statutory and General Information — 2. Further Information about our Business — A. Summary of Material Contracts" in Appendix VII to the Listing Document;

(h) the written consents referred to in the paragraph headed "Statutory and General Information— 5. Other Information— N. Consents" in Appendix VII to the Listing Document;

(i) the service contracts referred to in the paragraph headed "Statutory and General Information — 3. Further Information about our Directors, Supervisors and Substantial Shareholders — A. Directors and Supervisors" in Appendix VII to the Listing Document;

(j) the Company Law of the PRC (《中華人民共和國公司法》), the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994 and the "Mandatory Provisions for Articles of Association of Companies to be Listed Overseas" (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on 27 August 1994 together with unofficial English translations thereof;

(k) the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, together with an unofficial English translation; and

(l) the Exchange Rules for the Frankfurter Wertpapierbörse (FWB) (listing rules of the Frankfurt Stock Exchange);

(m) the China Europe International Exchange AG's General Terms and Conditions for CEINEX D-Share Market; and

(n) the Share Award Schemes as defined in "Appendix VII – Statutory and General Information" to the Listing Document;

(12) the material contracts referred to in the section headed "Appendix D – General Information of HSH - 12. Material Contracts";

(13) a full list of all dealings by HSH, the directors of HSH and the HSH Concert Parties in any HEG Shares or any convertible securities, warrants, options or derivatives in respect of any HEG Shares during the Relevant Period;

(14) the letters of consent referred to in the sections headed "Appendix C – General Information of HEG - 11. Experts' Qualifications and Consent and Appendix D – General Information of HSH - 14. Consents";

(15) the HEG Operational Update Announcement;

(16) the comfort letter issued by Ernst & Young in respect of the HEG Profit Forecast;

(17) the comfort letter issued by UBS in respect of the HEG Profit Forecast; and

(18) this Scheme Document.

IMPORTANT

If you are in any doubt about any of the contents of this Listing Document, you should obtain independent professional advice.

HAIER SMART HOME CO., LTD.*
海爾智家股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 6690

LISTING BY WAY OF INTRODUCTION OF H SHARES OF HAIER SMART HOME CO., LTD. ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Nominal Value RMB1.00 each

Joint Sponsors

CICC 中金公司

J.P.Morgan

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Listing Document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Listing Document.

This Listing Document is published in connection with the Introduction on the Main Board of the Stock Exchange and contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules solely for the purpose of giving information with regard to the Company and its subsidiaries.

This Listing Document does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to or subscription by the public.

Your attention is drawn to the section headed "Risk Factors" of this Listing Document.

Our Company is incorporated, and a majority part of its businesses and assets are located, in mainland China. Potential investors should be aware of the differences in the legal, economic and financial systems between mainland China and Hong Kong (both are integral parts of China) and that there are different risk factors relating to making an investment in our Company. Potential investors should also be aware that the regulatory framework in mainland China is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix V — Summary of Legal and Regulatory Provisions" and "Appendix VI — Summary of the Articles of Association" of this Listing Document.

Information regarding the proposed arrangements for the listing and registration of, and for dealings and settlement of dealings in, the H Shares following the Introduction is set out in the section headed "Information about this Listing Document and the Introduction" of this Listing Document.

The H Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act, as amended, provided by Section 3(a)(10) thereof based on the sanctioning of the Scheme by the Supreme Court of Bermuda, and in reliance on applicable exemptions under U.S. state securities laws.

* *For identification purpose only*

16 November 2020

EXPECTED TIMETABLE

Latest time for lodging transfers of HEG Shares in order to qualify for attending and voting at the Court Meeting and the SGM	4:30 p.m. on Thursday, 3 December 2020
Register of members of HEG closed for determination of entitlements to attend and vote at the Court Meeting and at the SGM(3)	Friday, 4 December 2020 to Wednesday, 9 December 2020 (both days inclusive)
Latest time for lodging forms of proxy in respect of:	
Court Meeting	9:30 a.m. on Monday, 7 December 2020
SGM	10:00 a.m. on Monday, 7 December 2020
Record date for determining the entitlement to attend and vote at the Court Meeting and the SGM	Wednesday, 9 December 2020
Court Meeting(4)	9:30 a.m. on Wednesday, 9 December 2020
SGM(4)	10:00 a.m. on Wednesday, 9 December 2020 (or so soon thereafter as the Count Meeting has concluded or adjourned)
Announcement of the results of the Court Meeting and the SGM published on the Stock Exchange's website and HEG's website	no later than 7:00 p.m. on Wednesday, 9 December 2020
Expected last day for dealings in HEG Shares on the Stock Exchange	Friday, 11 December 2020
Latest time for lodging transfers of the HEG Shares to qualify for entitlements under the Scheme	4:30 p.m. on Wednesday, 16 December 2020
Closure of register of members of HEG for determination of entitlement of Scheme Shareholders	from Thursday, 17 December 2020 onwards
Court Hearing(5)	Thursday, 17 December 2020 *(Bermuda Time)*
Announcement of (1) the results of the Court Hearing and (2) the expected withdrawal of the listing of the HEG Shares from the Stock Exchange on the Stock Exchange's website and HEG's website	at or before 8:30 a.m. on Friday, 18 December 2020
Scheme Record Time	4:30 p.m. on Friday, 18 December 2020
Scheme Effective Date	Friday, 18 December 2020 *(Bermuda time)*
Announcement of (1) the Scheme Effective Date and (2) the withdrawal of the listing of the HEG Shares from the Stock Exchange published on the Stock Exchange's website and HEG's website	at or before 8:30 a.m. on Monday, 21 December 2020
Certificates for the HSH H Shares to be despatched on(7)	Monday, 21 December 2020

EXPECTED TIMETABLE

Withdrawal of listing of the HEG Shares on the Stock Exchange	9:00 a.m. on Tuesday, 22 December 2020
Dealings in the HSH H Shares on the Stock Exchange expected to commence at	9:00 a.m. on Tuesday, 22 December 2020
Latest time to despatch cheques for payment of the Cash Payment to the Scheme Shareholders	Wednesday, 30 December 2020

Notes:

(1) The timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

(2) All references in this Listing Document to times and dates are references to Hong Kong times and dates, other than references to the expected date of the Court Hearing in Bermuda and the Scheme Effective Date, which are the relevant times and dates in Bermuda. Bermuda time is 12 hours behind Hong Kong time.

(3) The closure of the register of members of HEG during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements to attend and vote at the Court Meeting and the SGM, respectively.

(4) The Court Meeting and the SGM will be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong at the times and dates specified above.

(5) The Court Hearing will be held at the Supreme Court of Bermuda.

(6) The Scheme shall become effective upon all the conditions to the Privatisation Proposal being fulfilled and/or otherwise waived (as the case may be) on or before the Scheme Long Stop Date.

(7) The HSH H Share certificates are expected to be despatched to Scheme Shareholders (other than the Non-Qualifying Overseas Shareholders (as defined in the Scheme Document)) on Monday, 21 December 2020 after the Stock Exchange grants its approval for the Listing. The HSH H Share certificates will not become valid unless the formal letter of approval for the Listing is obtained, and the Introduction has become effective. In the event that the approval for the Listing is not obtained on Friday, 18 December 2020, the HSH H Share certificates will not be despatched on Monday, 21 December 2020, dealings in the HSH H Shares on the Stock Exchange will not commence on Tuesday, 22 December 2020 and the listing of the HEG Shares will also not be withdrawn on Tuesday, 22 December 2020. In such event, we will make an announcement of the above and of a revised timetable as soon as practicable. Investors who trade in the HSH H Shares prior to the receipt of the HSH H Share certificates or prior to the HSH H Share certificates becoming valid do so entirely at their own risk.

CONTENTS

This Listing Document is issued by our Company solely in connection with the Introduction and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security. This Listing Document may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of our Shares or the distribution of this Listing Document in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this Listing Document, the Scheme Document and the public filings made by us and/or HEG in relation to the Introduction and the Privatisation to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained therein. Any information or representation not included in this Listing Document must not be relied on by you as having been authorised by us, the Joint Sponsors, any of our or their respective directors or advisors, or any other person or party involved in the Introduction and the Privatisation. Information contained on our website, located at http://smart-home.haier.com, does not form part of this Listing Document.

CONTENTS

SUMMARY

This summary aims to give you an overview of the information contained in this Listing Document. As it is a summary, it does not contain all the information that may be important to you and all content of such information is subject to the full text of this Listing Document. It should be read in conjunction with the full text of this Listing Document. You should read this listing document in its entirety before you decide to invest in our Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in "Risk Factors" beginning on page F-44 of this Listing Document. You should read that section carefully before you decide to invest in our Shares.

OUR MISSION AND VISION

Our mission is to provide users with delightful lifestyle experiences through dedicated innovation. We are committed to creating an IoT smart home ecosystem brand and being a pioneer in the era of IoT.

We always adhere to Haier's philosophy which is to "prioritise users over ourselves". Capitalising on our *RenDanHeYi* (人單合一) management model, we endeavour to continuously anticipate and meet users' needs for a better life experience, and provide users globally with whole-process, customised smart home solutions.

COMPANY OVERVIEW

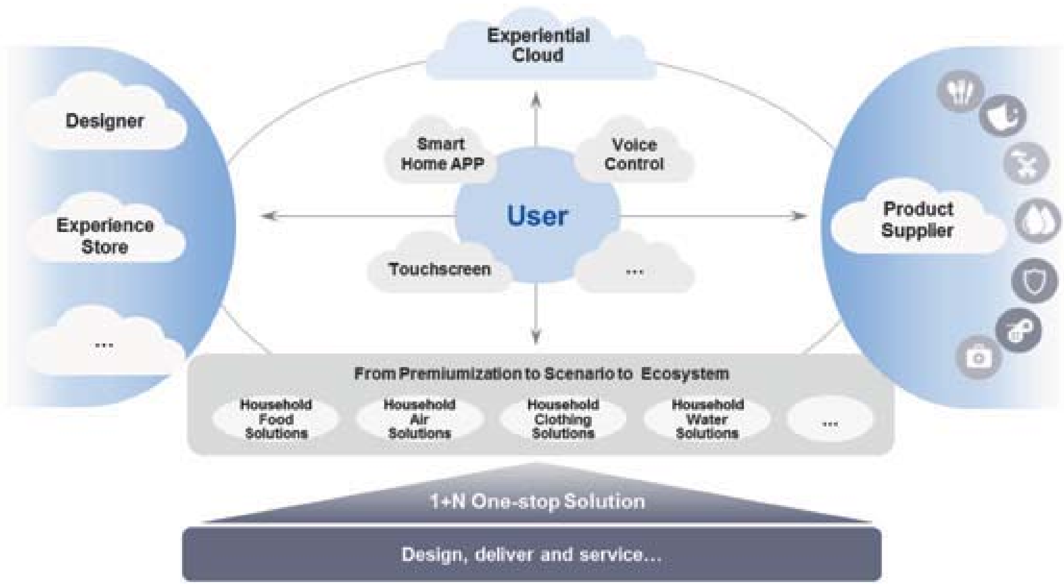
We are a leader in the global major home appliance industry. According to Euromonitor, we ranked first in the major home appliance industry in the world in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019, with a market share of 14.7% in 2019. We have a global portfolio of home appliance brands consisting of Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Our Haier brand refrigeration appliances and laundry appliances also ranked first among major home appliance brands in the world in terms of retail volume for 11 consecutive years from 2009 to 2019. As at the Latest Practicable Date, our business covered more than 160 countries and regions around the world including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.

We are also a global pioneer in providing smart home solutions. Capitalising on our full-range home appliances products, according to Euromonitor, we are one of the first home appliance enterprises in the industry to launch smart home solutions, supported by the introduction of our cloud-based platform that offers integrated smart home solutions covering various lifestyle scenarios. Centring on our interconnected home appliance products, and supported by Haier Smart Home App and Haier Smart Home Experiential Cloud Platform as well as our experience stores and franchised stores, we provide smart home solutions suited for various lifestyle scenarios for users to satisfy their pursuit for a better life.

Users can use our Haier Smart Home App as the gateway to interact with their home appliances. Users can adopt the pre-set smart home lifestyle scenarios on the App, such as leaving home, coming home, getting up, and going to bed, so that the connected smart home appliances can work automatically to the pre-set orders. Users can also design their own lifestyle scenarios tailored to their personalised preferences. Our smart home appliances can also collect user's personalised needs and habits to provide customised smart home solutions. In addition, our Haier Smart Home App can provide other comprehensive services, such as online store for our smart home appliances, voice control, maintenance and repairment services, as well as after-sale services.

In 2019, we launched our self-developed Haier Smart Home Experiential Cloud Platform, which enables connection and integration among digitalised systems available to users, franchisees and their stores. Capitalising on our digital infrastructure of the Haier Smart Home Experiential Cloud Platform and extensive access to our users, through deeply integrated online and offline channels, we consolidate resources from various product suppliers, designers, experience stores and other business partners, and provide our users with more comprehensive products and services for different scenarios, centring on our own interconnected home appliances. We aim to design, build and service a home for our users.

The Haier Smart Home Experiential Cloud Platform also helps us effectively access users and facilitates our in-depth personalised interaction with users in the era of IoT, allowing us to retain and improve customer loyalty and to promote the transformation from simple product sales towards a more service-oriented retail model. Such a transformation centring on user services could build a higher barrier against competition and is expected to help us achieve long-term stable development.



Our business are divided into the following three business segments:

- Smart home business in China: Our smart home business in China evolves around our comprehensive portfolio of home appliances established over the years, covering primarily refrigeration appliances, kitchen appliances, air-conditioners, laundry appliances and water appliances. Supported by our comprehensive portfolio of home appliances and our online Haier Smart Home App, as supplemented by offline experience stores and franchised stores, we provide smart home solutions, which combine smart home appliances with value-added services, to meet users' needs in different scenarios in life.

SUMMARY

- Smart home business overseas: we started our business in China. We have successfully expanded our footprint to the global market over the years. In addition to our self-grown brands and business, through cross-border acquisitions, we have also integrated other famous home appliances brands and businesses, and formed our comprehensive product portfolio and global resources. As at the Latest Practicable Date, in addition to our Chinese market, we provide a comprehensive portfolio of home appliance products and value-added services in more than 160 countries and regions including North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa.
- Other businesses: based on our established capability of major home appliance and smart home business, we also developed other businesses such as parts and components, small home appliances and distribution services.

The table below sets forth revenue breakdown by business segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June				Nine months ended 30 September			
	2017		2018		2019		2019		2020		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)				(unaudited)			
	(RMB in millions, except percentage)													
Smart Home Business in China														
Household Food Solutions														
Refrigerators/freezers	26,416	17.1	29,638	16.7	30,424	15.4	14,902	15.3	13,240	13.8	22,136	15.0	21,701	14.1
Kitchen appliances	1,940	1.3	2,271	1.3	2,149	1.1	1,169	1.2	1,137	1.2	1,685	1.1	1,840	1.2
Household Air Solutions														
Air-conditioners	21,555	14.0	23,420	13.2	20,366	10.3	11,646	12.0	10,819	11.3	16,999	11.5	17,384	11.3
Household Clothing Solutions														
Laundry appliances	18,421	11.9	20,853	11.7	22,113	11.1	9,748	10.0	8,958	9.4	15,288	10.4	15,414	10.0
Household Water Solutions														
Water appliances	7,932	5.1	8,812	4.9	9,521	4.8	4,656	4.8	4,405	4.6	6,771	4.6	6,778	4.4
Smart Home Business Overseas	**69,914**	**45.4**	**74,896**	**42.2**	**92,392**	**46.7**	**45,689**	**47.0**	**45,890**	**47.9**	**69,235**	**46.9**	**72,928**	**47.2**
Other businesses	**7,987**	**5.2**	**17,704**	**10.0**	**21,041**	**10.6**	**9,464**	**9.7**	**11,274**	**11.8**	**15,367**	**10.4**	**18,358**	**11.9**
Total	**154,165**	**100.0**	**177,594**	**100.0**	**198,006**	**100.0**	**97,274**	**100.0**	**95,723**	**100.0**	**147,481**	**100.0**	**154,403**	**100.0**

The following table sets forth the percentage revenue contribution from each of our major overseas markets for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue
Major Overseas Markets					
North America	30.6	29.7	29.3	28.5	30.8
Europe	2.1	2.3	7.7	7.4	7.0
South Asia	3.1	3.4	3.2	4.4	2.8
Australia and New Zealand	3.3	2.8	2.7	2.6	2.6
Southeast Asia	2.5	1.8	1.9	2.0	2.2
Japan	1.8	1.7	1.6	1.6	1.9
Middle East and Africa	0.7	0.5	0.6	0.7	0.8

SUMMARY

The following table sets forth the percentage revenue contribution by product type for the periods indicated:

	Year ended 31 December			Six month ended 30 June	
	2017	2018	2019	2019	2020
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue
refrigerators/freezers	34.9	33.7	31.3	31.0	30.7
kitchen appliances	30.1	29.4	29.6	27.6	27.6
air-conditioners	11.1	12.1	10.4	14.6	13.4
washing machines/dryers	20.4	21.3	25.0	23.4	24.9
others	3.6	3.6	3.7	3.4	3.4

The table below sets forth revenue breakdown by geographical location for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Mainland China	82,715	53.7	100,394	56.5	103,887	52.5	50,561	52.0	48,725	50.9
Other countries/ regions	71,450	46.3	77,200	43.5	94,119	47.5	46,713	48.0	46,998	49.1
Total	**154,165**	**100.0**	**177,594**	**100.0**	**198,006**	**100.0**	**97,274**	**100.0**	**95,723**	**100.0**

The table below sets forth further information of our gross profit and gross profit margin by geographical location for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
							(unaudited)			
	(RMB in millions, except percentages)									
Mainland China	27,966	33.2	32,832	32.0	33,989	32.2	16,369	31.7	14,789	29.7
Other countries/ regions	22,198	31.8	19,347	25.8	24,624	26.7	11,930	26.1	11,438	24.9
Total	50,164	32.5	52,179	29.4	58,613	29.6	28,299	29.1	26,227	27.4

During the Track Record Period, our revenue was mainly generated from sales of home appliances. In 2017, 2018 and 2019, our revenue amounted to RMB154.2 billion, RMB177.6 billion, RMB198.0 billion, respectively, with a CAGR of 13.3%, and our gross profit amounted to RMB50.2 billion, RMB52.2 billion and RMB58.6 billion, respectively, with a CAGR of 8.0%. For the six months ended 30 June 2020, our revenue amounted to RMB95.7 billion and our gross profit amounted to RMB26.2 billion, with a decrease of 1.6% and 7.3%, respectively, compared to those for the six months ended 30 June 2019, primarily due to (i) the impact of the COVID-19 pandemic, (ii) decrease in average selling price for our smart home business in China, (iii) increase in revenue and contribution from smart home business overseas which has a relatively low profit margin, and (iv) fixed costs such as production overhead and production staff costs remaining relatively stable despite the decrease in revenue.

In 2017, 2018 and 2019, our operating profit margin was 4.2%, 4.0% and 3.2%, respectively. The decrease was mainly due to decrease in operating profit margin of our air-conditioners business in China and smart home business overseas. The decrease in operating profit margin of our air-conditioners business in China was mainly due to escalated price competition in the second half of 2019. The decline in operating profit margin of our smart home business overseas during the Track Record Period was mainly due to our acquisition of Fisher&Paykel and Candy which entailed relatively low profit margins as these businesses incurred higher labour costs and marketing expenses and had higher expense ratio during the Track Record Period. Our operating profit margin decreased significantly from 4.8% in the six months ended 30 June 2019 to 2.9% in the six months ended 30 June 2020, primarily due to increase in revenue contribution from our smart home business overseas which entailed relatively low profit margin and decreased sales and selling price of our products under the impact of COVID-19 in the first quarter of 2020, whilst fixed costs and expenses including staff costs and maintenance expenses such as amortisation and depreciation remaining relatively stable despite the decrease in revenue.

In 2017, 2018 and 2019, our profit from continuing operations amounted to RMB8.8 billion, RMB9.5 billion and RMB9.0 billion, respectively, with a CAGR of 1.3%. For the six months ended 30 June 2020, our revenue decreased by 1.6% from RMB97.2 billion to RMB95.7 billion while our profit from continuing operations decreased by 40.1% from RMB6.0 billion to RMB3.6 billion, compared to those for the six months ended 30 June 2019. The major home appliances industry has been highly competitive, and the industry participants traditionally recorded relatively thin profit margins. Due to the impact of COVID-19, customer demand in the six months ended 30 June 2020 was significantly affected, which led to further intensified competition, resulting in decrease in average selling prices for most of our major products. As the fixed costs and expenses including staff costs and maintenance expenses remain relatively stable despite the decrease in revenue, our net profit margin experienced significant decline during the period, primarily attributable to (i) a decrease in revenue of RMB1.6 billion primarily resulting from the impact of the COVID-19 pandemic, (ii) a decrease in other gains or losses of RMB0.7 billion primarily resulting from a decrease in foreign exchange recognition by RMB0.3 billion, (iii) an increase in administrative expenses of RMB0.7 billion primarily resulting from the increase in research and development expenses by RMB0.2 billion and staff costs by RMB0.2 billion resulting from our continued investment in product innovation, especially in high-end home appliance products with health concepts addressing the increasing user demands for such products affected by the outbreak of COVID-19 pandemic, and (iv) an increase in cost of sales of RMB0.5 billion primarily resulting from an increase in direct labour costs of RMB0.3 billion due to increased market labour costs caused by COVID-19 and additional labour costs paid as certain of our employees could not resume work due to lock-downs and social distancing measures during the COVID-19 pandemic.

In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, our net profit margin for continuing operations was 5.7%, 5.4%, 4.6%, 6.2% and 3.8%, respectively. In the second half of 2019, increasingly intensified market competition in the air-conditioner market has led to escalated price competition. In anticipation of the release of the new national standard on air-conditioner energy efficiency index, several of our major competitors initiated substantial price decrease for their low energy-efficient and high electricity consuming air-conditioners to reduce inventories of such products which could not satisfy the new national standard before the release and effectiveness of the such standard. In order to maintain and enhance our market position, we are forced to react by significantly decreasing the price of our air-conditioners in response to the price pressure. We experienced sharp decline in segment operating profit margin of our air-conditioners business in China in 2019 as a result and our net profit margin for continuing operations also decreased substantially. Due to the impact of COVID-19, our segment operating profit margin of our air-conditioners business in China and our net profit margin for continuing operations further decreased in the six months ended 30 June 2020. We seek to seize the opportunities brought by strengthened health awareness of consumers after the COVID-19 outbreak and focus on high-end segment such as our germ-free refrigerators and washing machines, and self-cleaning air-conditioners which were highly recognised by the users during the COVID-19 pandemic to improve our profit margin in the future.

SUMMARY

KEY MILESTONES

The following table sets forth certain important milestones in our history:

Haier

1984
- Qingdao Refrigerator General Factory was established

1989
- "Qingdao Qindao Haier Co., Ltd.", our predecessor, was established

1993
- Our Company was renamed as "Qingdao Haier Refrigerator Co., Ltd.", and our A Shares were listed on the Shanghai Stock Exchange (stock code: 600690)

2001
- After obtaining control of Qingdao Haier Air Conditioner Gen Corp. Ltd. (青島海爾空調有限總公司), our Company acquired the air-conditioners business and was renamed as "Qingdao Haier Co., Ltd."

2007
- Our Company launched a high-end brand, Casarte

2010
- After obtaining control of HEG, our Company acquired the washing machines and water heaters businesses

2011
- Our Company started the transitions (i) from a traditional business model to the *Rendanheyi* Model; and (ii) from a traditional manufacturer to a user-centric service provider
- Our Company ranked first among home appliances enterprises in the world in terms of retail volume of major home appliances, according to Euromonitor

2013
- The first interconnected factory of our Company commenced operations

2014
- Our Company placed 10% equity in our Company to KKR Home Investment S.à.r.l. **("KKR")**, establishing a long-term strategic cooperation relationship with KKR

2015
- Our Company was entrusted by Haier Group to manage Fisher & Paykel
- Our Company acquired Haier Group's overseas white goods business, including the white goods business of Sanyo Electric Co., Ltd. in Japan and Southeast Asia.

2016
- Our Company acquired General Electric Company's home appliances business, gaining a strong foothold in the North American market

2018
- Our Company was named a Fortune Global 500 company
- Our Company acquired Fisher & Paykel
- Our D Shares were listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (ticker symbol: 690D)
- Our Company's Qingdao Central Air-Conditioner Interconnected Factory was selected as the "lighthouse factory" of the fourth industrial revolution

2019
- Our Company acquired Candy to further expand the European market
- Our Company was renamed as "Haier Smart Home Co., Ltd."
- Our Company's Shenyang Refrigerator Interconnected Factory was selected as the "lighthouse factory" of the fourth industrial revolution

OUR COMPETITIVE STRENGTHS

We are a leading provider of major home appliances and a pioneer of smart home solutions in the world. We believe that the following competitive strengths have contributed, and will continue to contribute, to our success.

- Competitive Advantages in Chinese Market
  - Maintaining our long-term leadership positions in China's major home appliance market
  - Dominance in high-end market

    - Continuous expansion and upgrades of smart home solutions
- Competitive Advantages in Overseas Market
    - Comprehensive and deep-rooted global layout with localised operation capabilities
    - Constantly increasing market share
    - Comprehensive self-managed brand portfolio, generating strong brand image
    - Cross-border acquisition and integration capabilities
- Comprehensive and Effective Global Collaboration Ability
- Industry-leading R&D and Technical Strengths
- Focus on Improvement of Whole-process Efficiency through Digitalisation
- *RenDanHeYi* Management Model and Visionary Management Team

OUR STRATEGIES

We are committed to being a leading smart home solution provider in the world through the following strategies:

- Continuously Strengthen the Construction of Haier Smart Home Experiential Cloud Platform Connecting Users, Products and Full-process Services
- Persist in Promoting Global Operational Synergies and Leading Overseas Market Brand Creation
- Persist in Strengthening Leadership in High-end Segment
- Promote Digital Transformation to Improve Efficiency
- Drive Continuous Innovation and Long-term Development through *RenDanHeYi* Management Model

OUR BRANDS

The following map illustrates the global presence of our seven brands:

R&D PLATFORM

We are devoted to continuously developing innovative, advanced technologies that respond to evolving customer demands and preferences. We carry out our research and development activities through an extensive global R&D resource network of research centres. With our iterative R&D system, we have gained strong R&D ability that has competitive edges over our peers. Our strong R&D ability is evidenced by our worldwide network of research centres, our HOPE innovation platform, our numerous patents and awards, and our participation in the formulation of international industry standards for households.

As at 30 June 2020, we had 10 R&D centres worldwide, two of which are located in China and the rest in the United States, New Zealand, Japan, Italy, Mexico, India and South Korea. Each research centre has its own competitive strength, and the network of research centres facilitates global collaboration in resource sharing. We also partner with leading research institutions in developing cutting edge technologies and products.

In addition, we launched HOPE platform, an online platform for technology exchange and innovation that supports collaborative interaction among innovators, enterprises and other stakeholders to solve technical challenges. Our HOPE platform has joint forces with 10 major global R&D centres and multiple innovation centres that could realise real-time interconnection based on consumer demands, that could utilise our resources worldwide and connect our global resources with our users and business partners to consistently innovate. Users may use the platform to post consumer pain points and requests, and seek solutions from tens of thousands of registered problem solvers including more than 13,000 certified experts. Activities range from problem solving for traditional home appliance-related issues to the creation of product concepts.

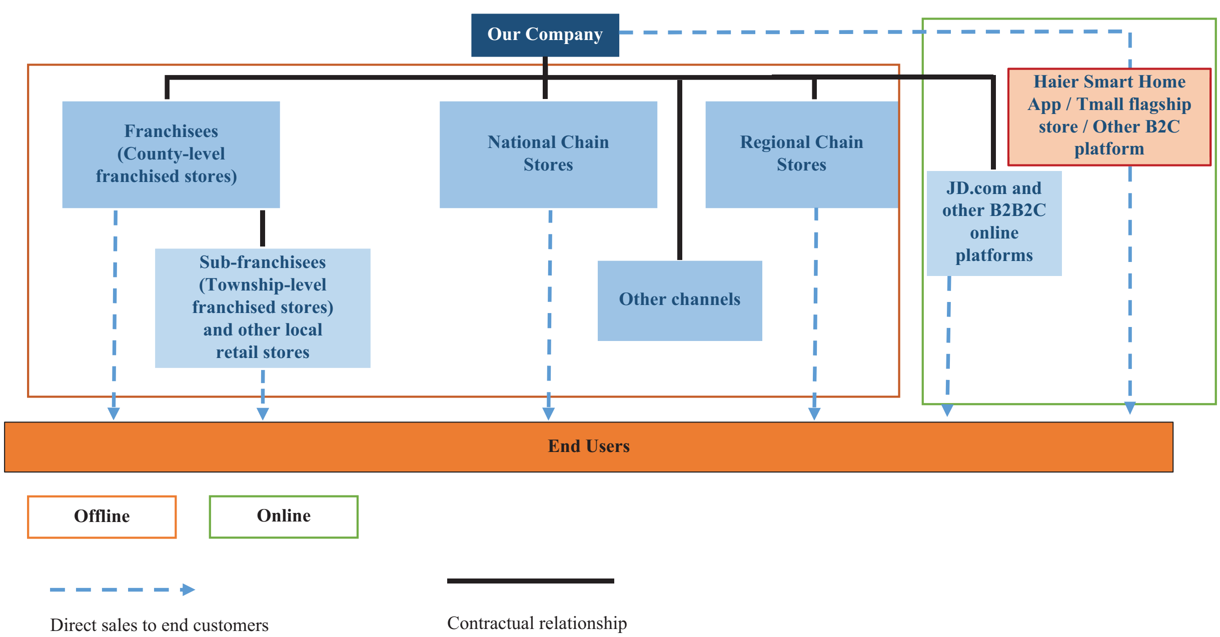
In 2017, 2018 and 2019 and the six months ended 30 June 2020, we incurred R&D expenses of RMB4.5 billion, RMB5.1 billion, RMB6.2 billion and RMB2.9 billion, respectively.

OUR SALES NETWORK

We have established an omni-channel sales network to best serve our users. Capitalising on the integrated online and offline channels, we take advantage of the synergies between our broad network of franchised stores and the national and regional footprint of our retail partners, and achieve full-spectrum coverage of the domestic markets of all tiers. Through our user-centric omni-channel sales network, we strive to achieve close interaction with our users and provide our users with a convenient shopping experience.

We tailor our sales and distribution strategy to the specific features of Chinese market and the international markets we operate in. Our widespread global sales network echoes our global brand strategy. As at 30 June 2020, our sales and marketing team is spread across 108 of our sales centres across the world, 42 located in China and 66 located overseas. Our sales and marketing team is responsible for overseeing and managing our relationships with our global sales network. We also maintain approximately 18,000 customer services centres across the world, including approximately 10,000 in China and approximately 8,000 overseas.

The chart below sets forth our major offline and online sales channels in China.



Our overseas sales are made mainly through our overseas subsidiaries and associates, which then establish direct sales relationship with local sales channels. We carefully tailor our sales strategies and channels to different markets.

MANAGEMENT MODEL

Our *RenDanHeYi* management model is pioneered by our management team, which is the driving force for our self-motivating and empowering corporate culture. As "Ren" refers to employees who have the spirit of entrepreneurship and innovation, and "Dan" refers to the value created for users, the management model of *RenDanHeYi* encourage employees to generate value for users with an entrepreneur mindset, and align their self-value with the value of our Company and the value for the shareholders. After an iterative process of experimentation and learning, the *RenDanHeYi* management model lays a solid foundation for our relentless pursuit for people empowering, and maximise the value for our employees, shareholders and users.

By nature, our *RenDanHeYi* management model is self-evolving and can be easily introduced and adapted to different environment and endure changes. It encourages employees to proactively discover areas where value of users can be created and generate their own "Dan" (meaning literally orders or missions in Chinese), instead of being assigned with specific tasks in traditional management models. In the process of completing such tasks, generating value for users and being directly accountable to users, employees are empowered with decision-making rights, manpower allocation rights, and resource allocation rights. Roles of senior management are reversed in our *RenDanHeYi* management model compared to traditional management model – under our *RenDanHeyi* management model, senior management serves more as a supportive and collaborative role rather than a centralised directing and commanding role. In this way, our *RenDanHeYi* management model effectively destructs corporate bureaucracy, promotes innovation and efficiency, and has been studied by various companies and research institutions.

OUR SUPPLIERS

During the Track Record Period, we primarily procure raw materials, parts and components, finished goods for our distribution business and logistics service from our suppliers. We have dedicated teams to actively manage our suppliers, from price negotiation to quality control, to ensure our overall effective management of suppliers. Purchases from our five largest suppliers for 2017, 2018 and 2019 and for the six months ended 30 June 2020 amounted to RMB26.9 billion, RMB23.6 billion, RMB25.7 billion and RMB10.7 billion, respectively, which accounted for approximately 26.1%, 20.7%, 19.9% and 18.0% of our total purchase costs during those periods, respectively. We believe that we have good relationships with our major suppliers. See "Business – Procurement and Supply Chain Management".

OUR CUSTOMERS

During the Track Record Period, our five largest customers mainly included national chain stores and e-commerce providers. Revenue from our five largest customers for 2017, 2018 and 2019 and for the six months ended 30 June 2020 amounted to RMB31.8 billion, RMB36.8 billion, RMB40.3 billion and RMB20.4 billion, respectively, which accounted for approximately 20.6%, 20.7%, 20.3% and 21.3% of our total revenue during those periods, respectively. We believe that we have good relationships with our major customers. See "Business – Sales and Customers".

SUMMARY

INDUSTRY AND COMPETITIVE LANDSCAPE

The markets for our products and services are highly competitive and we face aggressive competition in all aspects of our business. We generally compete with other domestic and global home appliance industry leaders and leaders providing smart home solutions. Principal competitive factors that are important to us include product features, relative price and performance, product quality and reliability, design innovation, brands, consumer experience, marketing and distribution capability, customer service and support and corporate reputation. See "Industry Overview – Competitive Landscape".

CONTROLLING SHAREHOLDER

As at the Latest Practicable Date, Haier Group directly and indirectly through its subsidiaries and voting rights arrangements, holds approximately 40.03% of the issued share capital of our Company (as to approximately 16.30% being held directly, and approximately 23.73% being held through its subsidiaries and voting rights arrangements, i.e., Haier International Appliances (as to approximately 19.13%), Qingdao Haier Venture & Investment Information Co., Ltd. (as to approximately 2.62%), Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership) (as to approximately 1.11%) and Haier International Co., Limited (as to approximately 0.87%), respectively).

Immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), Haier Group will continue to hold approximately 35.14% of the issued share capital of our Company directly and indirectly through subsidiaries and voting rights arrangements, thus remain our Controlling Shareholder.

For further details about our Controlling Shareholder, see "Relationship with our Controlling Shareholder".

CONTINUING CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions after the Listing which will constitute our non-exempt continuing connected transactions under Chapter 14A of Listing Rules upon Listing. See "Connected Transactions" and "Waivers from Strict Compliance with the Listing Rules".

STRUCTURE OF THE INTRODUCTION AND THE PRIVATISATION

Our Company has made the Privatisation Proposal to privatise HEG by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda by issuing new HSH H Shares as consideration for the cancellation of the Scheme Shares. Accordingly, our Company has made an application to the Stock Exchange for the listing of the HSH H Shares by way of a listing by introduction. For every Scheme Share cancelled under the Scheme, an exchange ratio of 1.60 new HSH H Shares will be adopted (the "**Share Exchange Ratio**") and a corresponding number of HSH

H Shares will be issued. In addition, as an integral part of the Privatisation Proposal, upon the Scheme becoming effective, HEG will make the Cash Payment of HK$1.95 for every Scheme Share cancelled to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time.

Upon the fulfilment of the conditions to the implementation and following completion of the Privatisation Proposal:

(a) the listing of HEG Shares on the Stock Exchange will be withdrawn;

(b) HSH H Shares will be listed on the Stock Exchange;

(c) the Scheme Shareholders will become shareholders of HSH; and

(d) the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes unconditional and effective, and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), while HSH will remain a subsidiary of Haier Group.

See “History and Corporate Structure – Structure of the Introduction and the Privatisation”.

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION

Our Directors believe that the completion of the Privatisation and the Introduction benefits both Scheme Shareholders and the Company and marks a significant milestone in the development of the Company. The Privatisation and the Introduction represent an opportunity for Scheme Shareholders to become shareholders of the Enlarged HSH Group, and will benefit Scheme Shareholders and the Company in the following aspects:

Long-term potential benefits for Scheme Shareholders include:

- Achieve stronger growth supported by full-suite home appliance products and smart home solutions on a global platform
- Improve operational efficiency, expand scale effect and improve prospects
- Raise capital market profile to further improve liquidity

Long-term potential benefits for our Company include:

- Accelerate growth through the continued expansion of smart home solutions
- Reduce restrictions from competition and related party transactions and enhance operational efficiency
- Improve capital efficiency
- Increase shareholder returns
- Establish a global capital market platform in sync with its globalised operation

For further details, see “Benefits of the Introduction and the Privatisation”.

SUMMARY

FUTURE PLANS AND PROSPECTS

During the Track Record Period, we have established our global footprint, and strengthened our leading position in providing smart home solutions. We plan to take further integration initiatives in business, finance and corporate governance after completion of Privatisation and the Introduction, so as to accelerate the full implementation of the IoT smart home ecosystem brand strategy.

Our business integration plans include:

- Continue to expand smart home solutions
- Strengthen global collaboration and enhance competitiveness
- Improve operating efficiency through full-process digital transformation

Our financial integration plans include:

- Improve capital efficiency and optimise capital structure
- Increase shareholder returns

Our corporate governance plans include:

- Simplify decision-making process and improve efficiency
- Continue to attract and retain talents through comprehensive and effective employee incentive schemes
- Adhere to the green development strategy and continuously improve the level of ESG disclosure

For details, see "Future Plans and Prospects".

SUMMARY

SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants' Reports set out in Appendix I to this Listing Document, as well as summary unaudited financial data as at and for the nine months ended 30 September 2020, extracted from the unaudited condensed consolidated financial statements set out in Appendix II to this Listing Document. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, our consolidated financial statements contained in this Listing Document, including the related notes, which are prepared in accordance with IFRS and IAS 34, as specified.

Summary Consolidated Income Statement

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2017	2018	2019	2019	2020	2019	2020
				(unaudited)		(unaudited)	
			(RMB in millions)				
CONTINUING OPERATIONS							
Revenue	154,165	177,594	198,006	97,274	95,723	147,481	154,403
Cost of sales	(104,001)	(125,415)	(139,393)	(68,974)	(69,496)	(105,009)	(111,915)
Gross profit	50,164	52,179	58,613	28,300	26,227	42,472	42,488
Other gains or losses	2,228	2,389	3,324	1,404	688	1,781	3,371
Selling and distribution expenses	(29,979)	(29,076)	(33,843)	(14,939)	(14,527)	(23,006)	(23,362)
Administrative expenses	(11,994)	(14,027)	(17,165)	(7,413)	(8,085)	(11,790)	(12,836)
Finance costs	(1,396)	(1,464)	(1,732)	(851)	(709)	(1,290)	(1,029)
Share of profits and losses of associates	1,189	1,325	1,409	543	679	888	1,108
Profit before tax from continuing operations	10,212	11,326	10,606	7,044	4,273	9,055	9,740
Income tax expenses	(1,421)	(1,793)	(1,584)	(1,009)	(661)	(1,262)	(1,721)
Profit for the year/period from continuing operations	8,791	9,533	9,022	6,035	3,612	7,793	8,019
DISCONTINUED OPERATION							
Profit for the year/period from a discontinued operation	353	367	3,313	150	-	3,313	-
PROFIT FOR THE YEAR/ PERIOD	**9,144**	**9,900**	**12,335**	**6,185**	**3,612**	**11,106**	**8,019**
Profit for the year/period attributable to owners of the Company							
from continuing operations	6,844	7,391	6,715	5,017	2,781	6,121	6,301
from discontinued operations	100	93	1,491	41	-	1,491	-
	6,944	7,484	8,206	5,058	2,781	7,612	6,301
Profit for the year/period attributable to non-controlling interests							
from continuing operations	1,947	2,142	2,307	1,018	831	1,672	1,718
from discontinued operations	253	274	1,822	109	-	1,822	-
	2,200	2,416	4,129	1,127	831	3,494	1,718
	9,144	**9,900**	**12,335**	**6,185**	**3,612**	**11,106**	**8,019**

SUMMARY

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June	As at 30 September
	2017	2018	2019	2020	2020
					(unaudited)
	(RMB in millions)				
Total current assets	91,608	95,459	100,568	109,683	111,560
Total non-current assets	66,693	72,633	86,886	88,360	88,646
Total assets	158,301	168,092	187,454	198,043	200,206
Total current liabilities	83,568	82,518	95,690	102,791	103,338
Total non-current liabilities	26,338	29,766	26,774	28,744	28,490
Total liabilities	109,906	112,284	122,464	131,535	131,828
Net current assets	8,040	12,941	4,878	6,892	8,222
Equity attributable to owners of the Company	33,600	39,742	47,887	48,331	50,440
Equity attributable to non-controlling interests	14,795	16,066	17,103	18,177	17,938
Total equity	48,395	55,808	64,990	66,508	68,378

As at 30 June 2020, we had RMB24,141 million in goodwill and RMB9,584 millions of other intangibles assets recorded in our consolidated financial statements. Under the IFRS, we are required to test our recorded goodwill and indefinite-lived intangible assets and may be required to book impairment charges in our statement of profit or loss. As such, our operating results may vary significantly due to the impairment of goodwill and other intangible assets. See "Financial Information — Significant Accounting Policies and Estimates — Estimation uncertainty — Estimated impairment of goodwill" and "Risk Factors — Risks relating to our Business and Industry — We recorded significant amount of goodwill and other intangible assets, and our operating results may vary significantly due to the impairment of goodwill and other intangible assets."

SUMMARY CONSOLIDATED CASH FLOWS

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2017	2018	2019	2019	2020	2019	2020
				(unaudited)		(unaudited)	
	(RMB in millions)						
Operating cash inflow before movements in working capital	**14,014**	**15,236**	**16,090**	**9,610**	**7,466**	**N/A**	**N/A**
Cash generated from/(used in) operations	18,753	20,318	16,304	4,712	(123)	N/A	N/A
Interest received	244	394	488	170	291	N/A	N/A
Income tax paid	(1,773)	(1,569)	(1,709)	(1,263)	(712)	N/A	N/A
Net cash generated from/(used in) operating activities	**17,224**	**19,143**	**15,083**	**3,619**	**(544)**	**8,476**	**5,711**
Net cash used in investing activities	(5,778)	(7,651)	(10,960)	(7,858)	(2,063)	(8,978)	(2,695)
Net cash (used in)/generated from financing activities	(25)	(10,502)	(6,013)	887	10,582	(1,249)	5,751
Net increase/(decrease) in cash and cash equivalents	**11,421**	**990**	**(1,890)**	**(3,352)**	**7,975**	**(1,751)**	**8,767**
Cash and cash equivalents at the beginning of the year/period	24,233	35,292	36,561	36,561	34,963	36,561	34,963
Net effect of foreign exchange rate changes	(362)	279	292	109	84	283	(400)
Cash and cash equivalents at the end of year/period	**35,292**	**36,561**	**34,963**	**33,318**	**43,022**	**35,093**	**43,330**

We incurred net cash used in operating activities of RMB544 million in the six months ended 30 June 2020 mainly due to the increase in trade and bill receivables, prepayment, deposits and other receivables and contract assets resulting from prolonged settlement of receivables due to the impact of the COVID-19 pandemic especially in the first quarter of 2020 and decrease in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities as we settled substantial amount of payables during the period. Our operating cash flow position substantially improved in the second quarter of 2020 as we gradually recovered from the impact of COVID-19 and generated net operating cash inflows during the period. We intend to further improve our operating cash flow position in the future by enhancing credit control and increasing the turnover of our inventories and receivables.

KEY FINANCIAL RATIOS

	As at/For the year ended 31 December			As at/For the six months ended 30 June
	2017	2018	2019	2020
			(%)	
Gearing ratio[(1)]	117.2	85.9	75.7	98.4
Net gearing ratio[(2)]	12.1	(6.1)	2.7	9.4
Return on equity (ROE)[(3)]	20.4	18.6	14.0	11.5
Return on assets (ROA)[(4)]	5.6	5.7	4.8	3.6

Notes:

(1) Gearing ratio is calculated by dividing the closing balance of total debt (interest bearing indebtedness including interest bearing borrowings, lease liabilities and convertible and exchangeable bonds) by the closing balance of equity attributable to owners of the Company.

(2) Net gearing ratio is calculated by dividing the closing balance of net debt (total debt less cash and cash equivalent) by the closing balance of equity attributable to owners of the Company.

(3) ROE is calculated by dividing profit for the year/period attributable to owners of the Company from continuing operations by the closing balance of equity attributable to owners of the Company. For the six months ended 30 June 2020, ROE is annualised by multiplying the number by two.

(4) ROA is calculated by dividing profit for the year/period from continuing operations by the closing balance of total assets. For the six months ended 30 June 2020, ROA is annualised by multiplying the number by two.

Our gearing ratio decreased in 2018 and 2019 and our net gearing ratio decreased in 2018 as we managed to decrease our indebtedness during the periods. Our net gearing ratio increased in 2019 primarily due to our bank loan incurred for acquisition of Candy in 2019. Our gearing ratio and net gearing ratio increased in the six months ended 30 June 2020 primarily due to the increase in our bank loan for operations in response to the COVID-19 pandemic.

Our ROE and ROA declined throughout the Track Record Period, mainly resulting from our acquisitions and reorganisation during the Track Record Period, the intensive market competition and the impact of COVID-19.

RECENT DEVELOPMENT

Disposal of Equity Interest in COSMO

On 30 July 2020, our Company entered into a share transfer agreement, pursuant to which our Company agrees to transfer 54.50% of its equity interests in Haier COSMO IoT Ecosystem Technology Co., Ltd. (海爾卡奧斯物聯生態科技有限公司) ("COSMO") to Qingdao Haier Ecological Investment Co., Ltd. ("**Haier Ecological Investment**"), a wholly-owned subsidiary of Haier Group, at the consideration of RMB4.06 billion. The consideration was determined based on the valuation from independent valuer of the total equity interests of COSMO, as well as a capital increase of RMB200 million from series A+ funding which took place after the record date of the aforementioned valuation and at arm's length negotiation between us and Haier Ecological Investment on a certain extent of transaction premium. The consideration for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020.

We generated revenue from COSMO of RMB726 million, RMB7,988 million, RMB14,012 million and RMB7,949 million in 2017, 2018 and 2019 and for the six months ended 30 June 2020, accounting for 0.5%, 4.5%, 7.1% and 8.3% of our total revenue, respectively. We gained net profits from COSMO of RMB297 million, RMB393 million, RMB250 million and RMB120 million in 2017, 2018 and 2019 and for the six months ended 30 June 2020, accounting for 3.2%, 4.0%, 2.0% and 3.3% of our total net profits, respectively. The net assets of COSMO were RMB2,158 million, RMB2,594 million, RMB3,327 million and RMB4,447 million as at 31 December 2017, 2018, 2019 and 30 June 2020, accounting for 4.5%, 4.6%, 5.1% and 6.7% of our total net assets, respectively. During the Track Record Period, revenue and net profits from COSMO and the net assets of COSMO accounted for no more than 10% of our total revenue, net profits or net assets.

Our operating profit which excludes the one-off gain of RMB2,267 million from transfer of 54.50% equity interest in COSMO was RMB6,674 million for the nine months ended 30 September 2020, decreasing by 17.5% from RMB8,085 million for the nine months ended 30 September 2019, and our operating profit margin was 4.3% for the nine months ended 30 September 2020, decreasing from 5.5% for the nine months ended 30 September 2019. But for the one-off gain of RMB2,267 million from transfer of 54.50% equity interest in COSMO, our net profit from continuing operations would have been RMB5,752 million for the nine months ended 30 September 2020, decreasing by 26.2% from RMB7,793 million for the nine months ended 30 September 2019, and our net profit margin for continuing operations would have been 3.7% for the nine months ended 30 September 2020, decreasing from 5.3% for the nine months ended 30 September 2019.

Unaudited Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2020

As required by the SSE Listing Rules, we published our quarterly report on 29 October 2020, containing our unaudited consolidated financial statements as at and for the nine months ended 30 September 2020 prepared under PRC GAAP. We have included our unaudited consolidated financial statements prepared in accordance with IAS 34 as at and for the nine months ended 30 September 2020, in condensed form, in the unaudited interim financial report set forth in Appendix II to this Listing Document. Our unaudited condensed consolidated financial statements have been reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410. See "Recent Developments".

Directors' Confirmation of No Material Adverse Change

Our Directors have confirmed that save as disclosed in the Listing Document, up to the date of this Listing Document there has been no material adverse change in our financial or trading position or prospects since 30 June 2020 (being the date of our latest audited financial statements) and there has been no event since 30 June 2020 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this Listing Document.

Discontinued Operation During the Track Record Period

On 30 August 2018, we via an indirect subsidiary, entered into an asset swap agreement with Haier International Appliances, a subsidiary of Haier Group, pursuant to which we acquired 51% equity interest in Qingdao Haishi from Haier International Appliances. In satisfaction of the consideration, we transferred a 55% equity interest in Bingji Company, to Haier International Appliances. On 26 July 2019, we completed this asset swap. As a result, Bingji Company has become an associate to us, and its business is classified as a discontinued operation. We recorded net profit from a discontinued operation of RMB3,313 million in 2019.

IMPACTS OF THE COVID-19 OUTBREAK

General

Since the end of December 2019, the outbreak of COVID-19 pandemic has materially and adversely affected the global economy. Governments around the world have implemented strict measures of varying degrees to control such outbreak. In particular, school and business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19 pandemic. Demand for home appliance products and the operations of the home appliance industry were both significantly affected.

Since February 2020, resumption of work in China has gradually taken place at locations less affected by the COVID-19 pandemic outbreak. According to the Ministry of Industry and Information Technology, as at 28 March 2020, 98.6% of industrial enterprises of national scale had resumed operation and as at 10 April 2020, over 80% of small and medium enterprises in China had resumed operation. With gradual containment of COVID-19 pandemic in China, people's life and production activities had gradually returned to normal. Currently, many countries around the world have relaxed the previously imposed strict measures and allowed gradual resumption of work and normalisation of social contacts and businesses.

Upon the outbreak, we have taken measures to make sure our employees around the world work under safe conditions. We have implemented strict pandemic prevention measures and stored necessities including masks and hand sanitisers to create a safe working environment.

Sales and Customers

Due to the impact of the COVID-19 outbreak, our revenue decreased by 1.6% from RMB97,274 million in the six months ended 30 June 2019 to RMB95,723 million in the six months ended 30 June 2020, our operating profit decreased by 38.7% from RMB6,282 million to RMB3,852 million, and we recorded net cash used in operating activities of RMB544 million in the six months ended 30 June 2020. With the outbreak gradually becoming under control, resumption of work and business in various locations has gradually taken place since April 2020 and people's life gradually returned to normal. We have not experienced any delayed delivery or cancellation of orders due to COVID-19 that materially and adversely affected our business, results of operations and financial conditions.

Offline channels, including national and regional chain stores and franchised stores, were temporarily closed due to the impact of COVID-19 pandemic. By April 2020, our offline sales channels in China have generally resumed operation and by June 2020, our offline sales channels in our overseas markets have generally resumed operation, subject to local requirements which may be changed from time to time. E-commerce channels became the population's first choice of shopping channel, but the sales growth from online channels when lock-downs and stringent social distancing measures were implemented was also limited, primarily due to limitations in logistics and distribution in the early stage of the outbreak. For example, according to public information, while online sales volume of refrigerators, freezers and washing machines in China still increased in January 2020 by approximately 4.5%, 11.7% and 7.2%, respectively, compared to the same period last year, it recorded decreases in February 2020 by approximately 4.3%, 21.3% and 12.0%, respectively, compared to the same periods last year, when China announced and implemented draconian containment and social distancing measures to combat the COVID-19 pandemic. Comparatively, according to the same public information, offline sales volume of refrigerators, freezers and washing machines in China generally decreased in the first half of 2020, particularly in February 2020 when the offline sales volume of refrigerators, freezers and washing machines in China decreased by approximately 69.9%, 80.7% and 65.1%, respectively, compared to the same period in 2019. During the pandemic, the restricted economic and social activities, reduction in household income and adverse impact and delays in the real estate and construction industry all contributed to the decreased demand for home appliances.

Our revenue from sales of home appliances in China was generally affected by the pandemic and experienced decrease in the first quarter of 2020 by approximately 20.6% compared to the same period last year, and was substantially offset by the increased sales in the second quarter of 2020 by approximately 12.8% compared to the same period last year. Affected by the temporary closing down of offline shops, slower logistics and distribution arrangement and the public awareness of social distancing, we experienced reduced sales volume of products and decreased revenue from sales of home appliances in China in the first quarter of 2020. Market competition has intensified under such pressures, resulting in decreases in average retail prices for products of most business lines. According to Euromonitor, the average retail price of refrigeration appliances, major cooking appliances, laundry appliances and air-conditioners are generally expected to decrease in 2020 compared to 2019. For example, the average retail price of air-conditioners in China was US$432 in 2019, and is expected to decrease to US$408 in 2020, representing a decrease of 5.4% from 2019. We have strengthened our cooperation with offline sales partners and increased the placement of our products with national and regional chain stores and franchised stores during the pandemic. We have also strengthened our sales efforts through online channels by enhancing our e-commerce flagship store construction and user interaction experiences. We have also promoted our digitalised marketing through new channels including live broadcast and marketing on the e-commerce platforms and other social medias, and cloud broadcasting around the globe. As a result of our active measures, as well as the containment of COVID-19 outbreak in China, our revenue from sales of home appliances in China increased in the second quarter of 2020.

Our revenue from overseas smart home business slightly increased from RMB45,689 million for the six months ended 30 June 2019 to RMB45,890 million for the six months ended 30 June 2020. The outbreak of COVID-19 has generally resulted in a decrease in the total sales revenue across the major home appliances industry in our major overseas markets in the second quarter of 2020. Despite negative impact caused by recurring outbreaks in our major overseas markets, we have gained steady increase in the first quarter of 2020 by approximately 5.1% compared to the same period in 2019, and managed to stabilise our overseas sales by accelerating the business development of online channels and focusing on high-end products with health concepts. The increase of our revenue from overseas smart home business in the first quarter of 2020 reflected our steady business development in the overseas markets, which was partially offset by the decrease of our revenue from overseas smart home business in the second quarter of 2020 by approximately 4.0% compared to the same period in 2019 primarily due to the impacts of COVID-19 pandemic.

During the COVID-19 outbreak, the health awareness of consumers has been strengthened. Home appliance products with health concepts, such as germ-free refrigerators and washing machines, and self-cleaning air-conditioners have attracted consumers with higher sensitivity requirements for health and quality. We have devoted our resources to the development of products with health concepts, including washing machines with sterilisation functions and air-conditioners with self-cleaning functions, which were highly recognised by the consumers. We believe the increased health awareness among consumers around the world will have a long-term positive effect on the demand for our products in the future, which matches our strategies to tap into the global high-end markets with innovation and advanced technologies.

Production and Supply Chain

Affected by the COVID-19 outbreak and the relevant control measures imposed by governments globally, business operations of our production sites in areas severely impacted by the outbreak, such as Wuhan, Italy and India, were temporarily suspended. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, established the health and safety management system and implemented emergency plans. We incurred additional costs, for example, costs related to disinfection activities and purchase of hygiene supplies, to maintain our production process. Such additional costs will not have material adverse impact on our financial performance, given that the amount is not material. We have fully resumed our business operations in China since the end of March 2020 and in other countries and regions by June 2020, except that in India and Italy, the operation schedules are subject to adjustment in accordance with local requirements. We did not experience material operation disruption or deterioration in financial performance taken as a whole due to temporary suspension in these countries. We have leveraged our experiences of COVID-19 prevention in China to implement similar measures to our overseas production sites. As travel restrictions have gradually been uplifted, the adverse effects on the supply chain, including logistics and distribution, have also gradually subsided.

Liquidity Position

Under the very unlikely circumstance that the outbreak of COVID-19 pandemic further prolongs leading to the worst case scenario, where we:

- cease all operations from October 2020 onward, and therefore, we cease to earn any revenue in relation to sales and services activities, or incur any expenses in relation to (i) the production of products, (ii) marketing activities, (iii) warehousing and logistics of products, (iv) the after sales activities, and (v) R&D activities from October 2020 onward;
- do not lay-off any of our employees or reduce their salaries;

- continue to make payment of all interest expenses when they fall due;
- settle all of our outstanding trade payables, other payables and accruals as at 30 September 2020;
- receive settlement of all of our trade receivables, estimated by prudently taking into account our historical settlement patterns;
- sell all of our inventories as at 30 September 2020;
- make the Cash Payment of RMB2,686 million to Scheme Shareholders in respect of the Privatisation;
- incur and pay RMB279 million (excluding tax) for the listing expenses;
- use our unutilised and unconditional credit facilities as at 30 September 2020 when needed;
- repay all of our short term borrowings;
- settle lease payments when they fall due; and
- settle payment of capital commitments of property, plant and equipment as at 30 September 2020;

we would have sufficient cashflow for our business to remain financially viable for at least 12 months ending 30 September 2021. The above analysis under the worst case scenario is for illustrative purpose only and our Directors currently assessed that the likelihood of such situation arising would be remote.

DIVIDEND POLICY

Our Company has implemented a proactive and flexible dividend policy. Future profit distributions may be carried out in the form of cash dividends or stock dividends or by interim cash profit distributions. The dividend policy shall maintain consistency and stability. In case that the legal conditions as mentioned below for both cash dividends and stock dividends are satisfied, cash dividends shall prevail.

Our Company's dividend policy shall be determined by the Board of Directors based on the business development and performance of our Company and will be subject to the approval of the shareholders' general meeting.

Subject to the satisfaction of conditions for cash dividend distribution provided in the PRC Company Law, our Company shall in principle pay cash dividend once each fiscal year. The Board of Directors may propose to pay an interim profit distribution depending on the profitability and capital reserve of our Company. In addition, the Board of Directors may put forward a stock dividend distribution proposal in addition to cash dividend after considering factors such as our Company's performance, share price, share capital scale and debt structure.

Our Company expects that, in the future, the principal source of profits for the payment of dividends will be income from its operating business, and dividends and other payments received from current and future direct and indirect subsidiaries. The determination of each subsidiary's ability to pay dividends is subject to applicable law.

SUMMARY

On the basis of the unconsolidated financial statements of the Company and subject to PRC law, the Articles of Association and the Company's capital needs for normal production and operation, planned investments and other significant capital outlays, the annual cash dividends shall, in principle, account for at least 20%, and contingent upon each year's performance, not less than 15% of the Company's net profits for the prior fiscal year which are available for distribution and attributable to the ordinary equity holders of the Company, calculated in accordance with PRC GAAP. The cash dividend or any other payments which are paid in Euro shall be converted from Renminbi to Euro based on the exchange rate which shall be the average exchange rate of the medium rates of converting Renminbi into Euro as quoted by the People's Bank of China for the week immediately prior to the announcement of the dividend or the decision to pay any other payment. Instead of paying a cash amount the Company may decide to make the dividend distribution in the form of A-Share(s) or D-Share(s), as the case may be, or a combination of cash and shares.

In 2017 and 2018, we declared cash dividends of RMB2,085 million and RMB2,235 million, respectively, representing a dividend of RMB0.342 and RMB0.351 per share, respectively. In 2019, we proposed a dividend of RMB2,467 million, representing a dividend of RMB0.375 per share, which was approved by our Company's shareholders at the annual general meeting on 3 June 2020 and distributed in July 2020.

After the completion of the Privatisation Proposal and with the improvement in the efficiency of capital use and operating capacity, the Company plans to gradually increase the dividend rate to 33%, 36% and 40% for 2021, 2022 and 2023 to enhance the return of all shareholders.

DISTRIBUTABLE RESERVES

As at 30 June 2020, we had distributable reserve of approximately RMB36,762 million.

LISTING AND PRIVATISATION EXPENSES

The estimated listing and privatisation expenses, which are non-recurring in nature, are approximately RMB279 million. We expect to charge approximately RMB22 million of the estimated listing and privatisation expenses to profit or loss and to capitalise approximately RMB257 million following the Listing. The listing expenses above are the current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared by the directors of our Company in accordance with Rule 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the Privatisation and Introduction on the consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 if the Privatisation and Introduction had taken place on 30 June 2020.

SUMMARY

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared for illustrative purpose only, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 or at any future dates following the Privatisation and the Introduction.

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared based on the audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 as shown in the Accountants' Report as set out in Appendix I to the Listing Document and adjusted as described below.

Adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020(1)	Effect of the Privatisation and Introduction(2)	Effect of the Scheme Shares payable(3)	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company(4)
RMB' million	RMB' million	RMB' million	RMB' million
14,606	15,565	(2,725)	27,446

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 is extracted from the Accountants' Report set out in Appendix I to this Listing Document, and is based on the audited consolidated net assets of our Group as at 30 June 2020 of RMB66,508 million adjusted for intangible assets including goodwill and other intangible assets as at 30 June 2020 of RMB33,725 million and non-controlling interests of RMB18,177 million.

(2) The adjustment represents the decrease in non-controlling interest in HEG upon the completion of the Privatisation and Introduction, and a corresponding increase in equity attributable to the owners of our Company, net of listing and privatisation expenses of approximately RMB279 million.

(3) The adjustment represents upon the completion of the Privatisation and the Scheme becoming unconditional and effective, the payment of approximately HK$2,984 million (equivalent to approximately RMB2,725 million based on the exchange rate of HK$1.00 to RMB0.9134) is calculated based on the total number of Scheme Share of 1,530,174,884 at HK$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG as at 30 June 2020.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2020.

RISK FACTORS

There are certain risks involved in our operations, which are categorised into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; (iii) risks relating to our triple listing; and (iv) risks relating to statements made in this Listing Document. Our business may be materially and adversely affected by these risks, including the following:

- Our growth and profitability depend on economic conditions and the level of consumer spending in the PRC and our other key markets;
- We operate in a highly competitive environment and failure to compete successfully would adversely affect our market position, business and financial results;
- Our business may be adversely affected if we fail to introduce new products and services on a timely basis to adapt to rapidly evolving customer needs and advancements in technology, and our investments in research and development may not yield the expected results;
- If we fail to develop, maintain and enhance recognition of our brands, or if we incur excessive expenses in this effort, our business and results of operations may be adversely affected;

- We may face challenges managing our growth and any expansion into new products, services and business activities may not be successful; and
- The outbreak of COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.
- We recorded significant amount of goodwill and other intangible assets, and our operating results may vary significantly due to the impairment of goodwill and other intangible assets.

See “Risk Factors”.

LISTINGS ON THE SHANGHAI STOCK EXCHANGE AND THE FRANKFURT STOCK EXCHANGE AND REASONS FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Our A Shares are listed on the Shanghai Stock Exchange (stock code: 600690) since 19 November 1993 and our D Shares are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D) since 24 October 2018. Since the dates of our listings on the Shanghai Stock Exchange and the Frankfurt Stock Exchange and up to the Latest Practicable Date, our Directors confirm that we had no instances of non-compliance with the rules of the Shanghai Stock Exchange and the Frankfurt Stock Exchange in any material respects and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to investors’ attention in relation to our compliance record on the Shanghai Stock Exchange and the Frankfurt Stock Exchange. Based on the independent due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors’ attention that would cause them to disagree with the Directors’ confirmations above with regard to the compliance records of the Company on the Shanghai Stock Exchange and the Frankfurt Stock Exchange.

We are seeking to list our H Shares on the Hong Kong Stock Exchange in order to offer valuable and liquid consideration in the form of H Shares for the Privatisation. The Listing also allows our Company to, among other things, expand business scale, improve cash management and operational efficiency by integrating resources of HEG, so as to pursue our dedication to create an IoT smart home ecosystem brand and being a leader in the era of IoT. The Directors believe that the completion of the Privatisation and the Introduction benefits both Scheme Shareholders and the Company and marks a significant milestone in the development of the Company.

Our H Shares cannot be converted or exchanged into D Shares or A Shares, and they are not fungible with D Shares or A Shares.

For details, please refer to the section headed “History and Corporate Structure — Listings on The Shanghai Stock Exchange and The Frankfurt Stock Exchange and Reasons for Listing on The Hong Kong Stock Exchange”.

CHAIRMAN'S LETTER TO INVESTORS

Dear investors,

On 31 July 2020, we announced the proposal of issuing H Shares to privatise HEG and started the process of listing by way of introduction in Hong Kong. The unique nature of this arrangement might not seem to be entirely straightforward, many investors, in particular those with long time interest in Haier might wonder what is the thinking behind this transaction and what fundamentally lies ahead for this new company.

In 36 years of operations, Haier has risen from a small factory on the verge of bankruptcy to a global leader in home appliances industry and become one of the pioneers in providing smart home solutions; behind this growth, amid three decades of economic ups and downs, lies Haier's enduring commitment to our users.

People's desire for a better experience inspires our growth

In the early 1980's, instead of selling at a discount, Mr. Ruimin Zhang, our founder, decided to dismantle a batch of refrigerators with minor defects as a demonstration of our commitment to quality, and we spent the next three years building Haier into a household name that provided millions of Chinese families with home appliances that were worthy of their trust. In the age of IoT, users are often overwhelmed with choices and their demands have become so much more sophisticated, which require the products we offer to be interconnected and customised with user participation. On the other hand, increasing level of appliances penetration also promotes us to tap into scenario-based smart home solutions in order to stay competitive in a dynamic environment.

A truly successful enterprise that can withstand the test of the times

The success of an enterprise is often transitory. Looking back, I am grateful to have the privilege of working with a group of talented and dedicated colleagues. Haier Smart Home values our people, treasures our brand and desires sustainability. We are also a group of individuals with persistence and determination to fulfil our users' demand. Here are a few thoughts on the future plan and implementation that I would like to share with you.

Can Chinese local businesses become dominating premium brands?

About 15 years ago, Chinese appliances industry was crowded with local players tangled in price competition, while Japanese and European names occupied the higher end of the market. However, after consolidating leadership in the mass market, we were determined to build our own premium brand, while others were satisfied with double digit industry growth. Leveraging on our previous overseas expansion, cooperation with global partners, strict alignment with international standards and introduction of first class services, we dedicated more than a decade to creating Casarte brand. In the first half of 2020, 38% of refrigerators over RMB10,000 sold in the offline market in China were Casarte; 28% of air-conditioners over RMB15,000 sold in the offline market in China were Casarte, an overwhelming 68% of washing machines over RMB10,000 sold in the offline market in China were Casarte.

CHAIRMAN'S LETTER TO INVESTORS

Can Chinese enterprises achieve effective integration and realise synergy in overseas M&A?

The success of cross border M&A lies in coordinating the development of products, channels and services on multiple dimensions. In reality, the management is faced with a number of difficulties, among which the most challenging ones being bridging cultural differences and coordinating business operations.

GE Appliances became part of Haier family in 2016. On one hand, we were thrilled by its appliance expertise and long standing reputation; on the other hand, the integration between two companies of this size was complicated. In the first year following the acquisition, I spent six months working with my new colleagues in the United States and witnessed how the century-old GE Appliances flourished with the introduction of Haier's *RenDanHeYi* model.

In order to consolidate our business operations, enormous efforts have been made to facilitate back-end integration in supply chain management, product offering, brand recognition and efficiency enhancement. From 2015 to 2019, GE Appliances generated an unprecedented compounded annual revenue growth of 10.3%, with 10.7% compounded annual growth on the bottom line, and its market share in terms of retail volume grew from 15.7% in 2017 to 17.4% in 2019 in North America where it also became the top selling brand (in volume) in the same year.

Can Chinese home appliance enterprises successfully achieve digital transformation in the so-called fourth industrial revolution?

Chinese appliances industry has long been competing internationally supported by the advantages from having access to the world's largest consumer market as well as the most extensive supply chain network. However, we always believe that technological innovation is the only answer to long term sustainability.

We are proud to be one of the major home appliances companies in adopting smart manufacturing and mass customisation. What makes us unique is that our entire supply chain has been adapted to promote seamless integration with user insight, IoT technologies and cloud-based computing in anticipating explosive demand for mass customisation catering to individual characteristics. In 2019, Haier's Shenyang Interconnected Refrigerator Factory joined the World Economic Forum's Global Lighthouse Network, it is our second end-to-end lighthouse facility integrating 4IR technologies to realise intelligent manufacturing, with demonstrated benefits for the Company's operation, finance and for the environment.

Why now?

Through decades of strategic investment and integration, together with my dedicated colleagues, we have established an integrated operation system that is fundamental to Haier's global leadership and we believe that the time has come for us to consolidate our assets, streamline our structure, enhance our efficiency and unlock greater potentials.

To implement the IoT based ecosystem brand strategy in providing more pleasant lifestyle for our users, our proprietary Haier Smart Home Experiential Cloud Platform has been put into operation, which not only accelerates our marketing and distribution digitalisation, but also consolidates the design, delivery and services units of our smart home solution business. The potential integration with HEG Group is thus vital in facilitating omni-channel integration with comprehensive product offering and services, in order to provide our users with enhanced experiences.

COVID-19 outbreak dealt a heavy blow to the global market. Swift actions were taken to minimise its impact on our factories, warehouses, and logistics network. In the second quarter of 2020, we gradually resumed operation and returned to growth in the Chinese market. Meanwhile, fundamentals of the overseas business were better preserved with support from our Chinese headquarter. None of the above could be made possible without our digitalised cloud platform whose resilience and flexibility reinforce our commitment in accelerating the strategic implementation of ecosystem strategy.

Stay in Hong Kong and stay with Haier for a brighter future

With Chinese origin and global presence, every investment decision we make is for the sustainable future. In China, Casarte is growing as the leader in the high end market and once again, we are leading in the industry in exploring smart home solution business; internationally, localised operations on globalised platform is supporting revenue momentum with improvement in profitability.

Over the past decade, we remain grateful to your trust in HEG Group and its management. I have always appreciated the unique position of Hong Kong in bridging China and the rest of the world in the capital market. By listing our Company in Hong Kong we cast our vote of confidence in Hong Kong, and together with our shareholders, I very much look forward to embarking upon another new journey.

Thank you all for committing to creating a better future with us, and for believing in the value of fundamental investment.

Haishan Liang
Chairman of Haier Smart Home Co., Ltd.

DEFINITIONS

In this Listing Document, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"3.5 Announcement"	joint announcement issued by our Company and HEG on 31 July 2020 regarding the Privatisation Proposal
"A Share(s)"	the A shares in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange (stock code: 600690)
"Articles of Association" or "Articles"	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix VI to this Listing Document
"associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Board" or "Board of Directors"	the board of Directors of our Company
"Board of Supervisors"	the board of Supervisors of our Company
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"Candy"	Candy S.p.A, a company incorporated in Italy in 1961 with a registered capital of EUR42,000,000, which is an indirectly wholly-owned subsidiary of our Company
"Cash Payment"	a cash payment of HK$1.95 for every Scheme Share cancelled which will be made by HEG to the Scheme Shareholders
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China", "mainland China" or "PRC"	the People's Republic of China, excluding, for the purposes of this Listing Document only, Taiwan, Hong Kong and Macau, except where the context indicates or requires otherwise
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Act of Bermuda"	the Companies Act 1981 of Bermuda (as amended)

DEFINITIONS

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "HSH"	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose A Shares are listed on the Shanghai Stock Exchange (stock code: 600690) and whose D Shares are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D)
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Haier Group
"Court Hearing"	the hearing of the petition by the Supreme Court of Bermuda for the sanction of the Scheme
"Court Meeting"	a meeting of the Scheme Shareholders convened at the direction of the Supreme Court of Bermuda at which this Scheme will be voted upon, or any adjournment thereof
"Court Order"	the order of the Supreme Court of Bermuda pursuant to Section 99(2) of the Companies Act of Bermuda sanctioning the Scheme
"CSDCC"	China Securities Depositary and Clearing Corporation Limited (中國證券登記結算有限責任公司)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"D Share(s)"	the D shares in the ordinary share capital of our Company, with a par value of RMB1.00 each, which are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D)
"Director(s)"	director(s) of our Company
"Disinterested Scheme Shareholder(s)"	the Scheme Shareholder(s) other than the HSH Concert Parties

DEFINITIONS

"EB-to-CB Proposal"	has the meaning ascribed to it in the section headed "History and Corporate Structure — Exchangeable Bonds" of this Listing Document
"EIT Law"	Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), as amended, supplemented or otherwise modified from time to time
"Enlarged HSH Group"	our Group together with the privatised HEG
"Euro" or "EUR"	the single currency of the member states of the European Communities that adopt or have adopted the euro as their lawful currency under the legislation of the European Community for Economic and Monetary Union
"Euromonitor"	Euromonitor International (Shanghai) Co., Ltd., an independent market research and consulting company
"Euromonitor Report"	an independent market research report prepared by Euromonitor as commissioned by us
"Exchange Participant(s)"	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
"FRL" or "Flourishing Reach Limited"	Flourishing Reach Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of our Company
"Gooday Supply Chain"	Gooday Supply Chain Technologies Co., Ltd., a company incorporated under the laws of the PRC and a subsidiary of Haier Group
"Group", "our Group", "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
"H Share Registrar"	Tricor Investor Services Limited

DEFINITIONS

"H Shares" or "HSH H Shares"	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, which are to be issued and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
"Haier Group"	Haier Group Corporation, a company incorporated under the laws of the PRC and our Controlling Shareholder, which includes its subsidiaries where the context requires
"Haier International Appliances"	Haier Electric Appliances International Co., Ltd., a company incorporated in the PRC with joint stock limited liability and a subsidiary of Haier Group
"Haier NZ Investment"	Haier New Zealand Investment Holding Company Limited, a company incorporated in New Zealand on 29 August 2012, which is an indirectly wholly-owned subsidiary of our Company
"Haier Singapore Investment Holding"	Haier Singapore Investment Holding Pte. Ltd., a company incorporated in Singapore on 30 September 2011, which is an indirectly wholly-owned subsidiary of our Company
"HCH (HK)"	HCH (HK) Investment Management Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect subsidiary of Haier Group
"HEG"	Haier Electronics Group Co., Ltd., shares of which are listed on the Stock Exchange (stock code: 1169)
"HEG Group"	HEG and its subsidiaries
"HEG Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of HEG
"HEG Shareholder(s)"	the registered holder(s) of the HEG Share(s)
"HKD", "HK$" or "HK dollars"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"HKI/HIC Restricted Share Award Schemes"	the restricted share award schemes adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited (each being a wholly-owned subsidiary of Haier Group) for the benefit of their

	respective participants, in their present form or as amended from time to time in accordance with their rules, and HKI/HIC Restricted Share Award Scheme means any of the aforementioned scheme. Under the rules of those schemes, the selected participants will, after the vesting of awards made, either be entitled to HEG Shares or cash, except that awards granted to any selected participant who is a director or a chief executive of HEG will only be cash-settled
"HKI/HIC Trustee"	Bank of Communications Trustee Limited (i.e. Bank of Communications Trustee Limited — T144 and Bank of Communications Trustee Limited — T168), a professional trustee who is an independent third party not associated or connected with Haier (HK) Investment Co., Limited or Haier International Co., Limited (as the case may be) or its respective connected persons appointed by Haier (HK) Investment Co., Limited and Haier International Co., Limited (as the case may be) for the administration of the corresponding HKI/HIC Restricted Share Award Scheme
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange" or "Stock Exchange"	the Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HS (HK)"	Haier Shareholdings (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of our Company
"HSH Concert Parties"	parties acting in concert with us in relation to HEG under the Takeovers Code

DEFINITIONS

"HSH Convertible Bonds"	has the meaning ascribed to it in the section headed "History and Corporate Structure — Exchangeable Bonds" of this Listing Document
"HSH Exchangeable Bonds"	HK$8,000,000,000 Zero Coupon Guaranteed Exchangeable Bonds due on 21 November 2022, which are listed on the Stock Exchange (stock code: 5024)
"IFRS"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
"Independent Third Party(ies)"	party(ies) not connected with us within the meaning of the Hong Kong Listing Rules as far as our Directors are aware after having made all reasonable enquiries
"Introduction"	the proposed Listing of our Company by way of introduction on the Main Board of the Hong Kong Stock Exchange, which include the creation of listed equity consideration (in the form of H Shares) for the Privatisation
"Joint Sponsors"	China International Capital Corporation Hong Kong Securities Limited and J.P. Morgan Securities (Far East) Limited
"Latest Practicable Date"	6 November 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this Listing Document prior to its publication
"Listing"	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or around Tuesday, 22 December 2020, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Document"	the listing document dated 16 November 2020 and issued by our Company pursuant to the Introduction

DEFINITIONS

"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Mandatory Provisions"	the "Mandatory Provisions for Articles of Association of Companies to be Listed Overseas" (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on 27 August 1994
"Ministry of Finance" or "MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"Ministry of Land and Resources"	the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部), the predecessor of Ministry of Natural Resources of the PRC (中華人民共和國自然資源部)
"MOC"	the former Ministry of Construction of the PRC（中華人民共和國建設部), the predecessor of the MOHURD
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOHURD"	the Ministry of Housing and Urban-rural Development of the PRC (中華人民共和國住房和城鄉建設部), formerly known as the MOC
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Company Law"	Company Law of the People's Republic of China (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"PRC GAAP"	generally accepted accounting principles of PRC
"Privatisation"	the privatisation of HEG by HSH by way of the Scheme and the withdrawal of the listing of the HEG Shares from the Stock Exchange
"Privatisation Proposal"	the proposal for the Privatisation
"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
"Scheme"	a scheme of arrangement under Section 99 of the Companies Act of Bermuda involving, among other matters, the cancellation of all of the Scheme Shares and making of the Cash Payment upon the Scheme becoming effective, with or subject to any modification, addition or condition approved or imposed by the Supreme Court of Bermuda or agreed by HSH and HEG
"Scheme Document"	the composite scheme document of HSH and HEG containing, among other things, further details of the Privatisation Proposal
"Scheme Effective Date"	the date on which the Scheme becomes effective in accordance with the Companies Act of Bermuda
"Scheme Long Stop Date"	30 June 2021 or such later date as may be agreed by the Company and HEG, or to the extent applicable, as the Supreme Court of Bermuda may direct and, in all cases, as permitted by the Executive
"Scheme Record Time"	the record time (to be jointly announced by HSH and HEG) for determining entitlements under the Scheme

DEFINITIONS

"Scheme Share(s)"	all of the HEG Shares in issue and such further HEG Shares as may be issued prior to the Scheme Record Time, other than those held by our Company and those held by any of its wholly-owned subsidiaries (including but not limited to FRL). For the avoidance of doubt, the Scheme Shares shall include HEG Shares held by HCH (HK) and the other HSH Concert Parties
"Scheme Shareholder(s)"	the registered holder(s) of the Scheme Shares
"Securities and Futures Ordinance" or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SGM"	a special general meeting of the HEG Shareholders to be convened to consider and if thought fit, approve, among other things, the necessary resolutions for the implementation of the Privatisation or any adjournment thereof
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Share(s)"	A Share(s), D Share(s) and H Share(s) of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994
"SSE Listing Rules"	Listing Rules of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》)
"State Council"	State Council of the People's Republic of China (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"Supervisor(s)"	member(s) of our Board of Supervisors
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Track Record Period"	the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020

DEFINITIONS

"U.S.", "US" or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933 (as amended), including the related rules and regulations promulgated thereunder
"USD", "US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

In this Listing Document, the terms "associate", "close associate", "connected person", "core connected person", "connected transaction", "controlling shareholder" and "substantial shareholder" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this Listing Document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this Listing Document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this Listing Document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"5G"	the fifth generation technology standard for cellular networks in telecommunications, which cellular phone companies began deploying worldwide in 2019 as the planned successor to the 4G networks that provide connectivity to most current cellphones
"AI"	artificial intelligence
"B2B"	business to business
"B2B2C"	business to business to consumer
"B2C"	business to consumer
"black goods"	home appliances providing entertainment for people (such as colour TVs, stereos and DVD players)
"direct delivery rate" (不入庫率)	a measurement used by our Group to evaluate effectiveness of our mass customisation. It is calculated by dividing the aggregate volume of orders of customised products by the total volume of orders for the same period
"HOPE"	Haier Open Partnership Ecosystem, a network platform where Haier and global partners share innovation requests and ideas and develop solutions, aimed at building a professional network of individuals and an interactive community of global innovation through knowledge and resource sharing
"Household Air Solutions"	a term used by our Group, referring to an IoT business segment centring on our air-conditioners, which combines provision of both smart home appliances and related value-added services, and may further evolve as our business develops
"Household Clothing Solutions"	a term used by our Group, referring to an IoT business segment centring on our laundry appliances (primarily our washing machines and dryers), which combines provision of both smart home appliances and related value-added services, and may further evolve as our business develops

GLOSSARY OF TECHNICAL TERMS

"Household Food Solutions"	a term used by our Group, referring to an IoT business segment centring on our refrigeration appliances (primarily our refrigerators and freezers) and kitchen appliances, which combines provision of both smart home appliances and related value-added services, and may further evolve as our business develops
"Household Water Solutions"	a term used by our Group, referring to an IoT business segment centring on our water appliances (primarily our water heaters and water purifiers), which combines provision of both smart home appliances and related value-added services, and may further evolve as our business develops
"IEEE"	the Institute of Electrical and Electronics Engineers, an international association of electronic technology and information science engineers
"interconnected home appliances"	home appliances that are connected to Internet and are capable of interconnecting with other devices connected to the network and interacting with consumers
"International Electrotechnical Commission" or "IEC"	the International Electrotechnical Commission, an international organisation for the preparation and publication of international electrotechnical standards and responsible for international standardisation for electrical, electronic and related technologies, and provides a platform to companies, industries and governments for meeting, discussing and setting necessary for the international standardisation
"IoT" or "Internet of Things"	the Internet of Things, a system of interconnected computing devices, mechanical and digital machines provided with unique identifiers and the ability to transfer data over a network and to realise intelligent identification, positioning, tracking, monitoring and management
"lighthouse factories"	factories that are selected by the World Economic Forum in the Global Lighthouse Network of advanced manufacturers which have demonstrated exceptional leadership in applying the revolutionary technologies to drive operational, financial and environmental improvements
"major home appliances"	refers to refrigeration appliances, laundry appliances, air-conditioners and major kitchen appliances

GLOSSARY OF TECHNICAL TERMS

"mass customisation"	a manufacturing technique which combines the flexibility and personalisation of customised products with the low unit costs associated with mass production
"MAU"	monthly active users, the number of users who log on an app or operating system at least once during a given calendar month
"OCF"	the Open Connectivity Foundation, an industry organisation that can provide certification for devices involved in the Internet of Things
"Predicted Mean Vote" or "PMV"	a system developed as an empirical fit to the human sensation of thermal comfort, which was later adopted as a standard by Internet Organisation for Standardisation
"prioritise users over ourselves (以用戶為是，以自己為非)"	refers to a set of value that are imbued in our operating philosophy, which have been motivating us to get close to and be directly accountable to our users. With this principle, we have always prioritised users over us. We are never satisfied by simply meeting users demands; we create and shape customer demands. We stay humble and open, leave the old self behind, keep challenging and reinventing ourselves, and achieve greater value with relentless focus on innovation
"*RenDanHeYi(人單合一)*"	a management model of Haier created by Haier's management team. 'Ren' refers to individual employee inspired with entrepreneurship and innovation; 'Dan' refers to the mission to create value for our users
"RFID"	radio-frequency identification, an identification system which uses electromagnetic fields to automatically identify and track tags attached to objects. A RFID tag consists of a tiny radio transponder and a radio receiver
"SKU"	stock keeping unit, to help identify and track inventories
"white goods"	home appliances doing housework for people (such as washing machines) or those improving living conditions and life qualify for people (such as air-conditioners and freezers)

FORWARD-LOOKING STATEMENTS

This Listing Document includes forward-looking statements. All statements other than statements of historical facts contained in this Listing Document, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe”, “expect”, “estimate”, “predict”, “aim”, “intend”, “will”, “may”, “plan”, “consider”, “anticipate”, “seek”, “should”, “could”, “would”, “continue”, or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general political and economic conditions, including those related to the PRC and other jurisdictions in which we operate;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue;
- macro-economic measures adopted by the relevant government to manage economic growth; and
- changes in the global economic conditions and material volatility in the global financial markets.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed “Risk Factors” and elsewhere

FORWARD-LOOKING STATEMENTS

in this Listing Document. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as at the date of this Listing Document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Listing Document might not occur. All forward-looking statements contained in this Listing Document are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information in this Listing Document, including the following risk factors before making any investment decision in relation to the H Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the H Shares could fall significantly due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; (iii) risks relating to our triple listing; and (iv) risks relating to statements made in this Listing Document. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our growth and profitability depend on economic conditions and the level of consumer spending in the PRC and our other key markets.

Our results of operations depend significantly on economic conditions and non-essential spending in our key markets including, in particular, the PRC, where we derived 53.7%, 56.5%, 52.5%, 52.0% and 50.9% of our revenues in the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively. Non-essential spending is affected by a number of economic factors, including gross domestic product, the availability of consumer credit, consumer sentiment and debt levels, retail trends, housing starts, sales of existing homes, the level of mortgage refinancing and defaults, interest rates, unemployment and inflation. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain customers to postpone, cancel or refrain from placing orders for our products.

Continued instability in the global markets, including geopolitical events and instability in the global political environment, such as the deterioration in the relationship between China and the United States and UK's withdrawal from the European Union, has contributed to periods of increased economic uncertainty in recent years and may lead to a general reduction in the level of consumer spending, which could in turn adversely affect our growth and profitability. Despite China and the United States reaching a partial trade deal in January 2020, under which the U.S. agreed to cancel some new tariffs and reduce rates for other duties in exchange for China to purchase more U.S. agricultural products and to make changes regarding intellectual property and technology, the trade tension between China and the U.S. has continued. Any escalation in trade tensions or a trade war, or the perception that such escalation or trade war could occur, may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole, and may jeopardise economic growth in the PRC and other markets in which we sell our products, and adversely affect the competitiveness of our products in these markets. See also "— Our imports and exported products may be adversely affected by trade barriers, including tariffs, antidumping measures, countervailing duties or quotas.", "— Economic, political and social conditions in the PRC and PRC government policies could affect our results of operations, financial condition and prospects." and

"— Geopolitical tensions resulting in worsening relationship between countries in which we operate may continue, which might negatively affect our business and results of operations."

In addition, on 11 March 2020, the World Health Organisation declared the pandemic of COVID-19 ("**COVID-19 pandemic**"). The COVID-19 pandemic has significantly affected normal business operations and social life globally and governments around the world, including the markets where we operate, have taken various drastic measures to curb the spread of COVID-19, such as lock-downs, social distancing measures, travel restrictions, among others. Such measures have materially and adversely affected consumer spending and have resulted in a material adverse effect on the global economy. Any material changes in the global economy, the PRC economy and the economies in which we operate may materially and adversely affect our business, financial condition and results of operations. Given the high uncertainties associated with the COVID-19 pandemic at the moment, it remains difficult to predict how long these conditions will exist and the extent to which we may be affected. See also "— The outbreak of COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions."

An economic downturn, lower than expected growth or an otherwise uncertain economic outlook in China or any other key market in which we operate could have a material adverse effect on consumer spending and therefore adversely affect our business, results of operations and financial condition.

We operate in a highly competitive environment which may involve price competition from time to time resulting in declined average selling prices and profit margins, and failure to compete successfully would adversely affect our market position, business and financial results.

We face significant competition in our home appliance business both in the PRC and in the overseas markets we operate. Competition in the global home appliance market is based on a number of factors, including product pricing, product features and design, quality, performance, innovation, reputation, energy efficiency, distribution and financial incentives, such as cooperative advertising, co-marketing funds, salesforce incentives and sales rebates. In July 2018, China lowered the average most-favoured-nation import duties rate on household appliances such as washing machines and refrigerators from 20.5% to 8%, which could increase competition for us in the domestic market in China. In addition, the major appliance market is a relatively mature sector characterised by intense price competition, frequent introduction of new products, rapid adoption of technological and product advancements by competitors, and the individual preferences of consumers. Significant new competitors or increased competition from existing competitors may adversely affect our business, results of operations and financial condition. For example, in the air-conditioners sector, increasingly intensified market competition has resulted in intense price competition, and has adversely affected our results of operations for the air-conditioners business during the Track Record Period.

Our competitors include large multinational major home appliance companies. We have a variety of local and international competitors in each region. We compete with our competitors in a variety of aspects including market experience, brand recognition, product breadth, manufacturing scale, cost efficiencies, and financial, sales and marketing, manufacturing, research and development or technological resources. Furthermore, due to rapid technological advancements, scarce talents in the industry, shortened product life cycles and ease of imitation, it is becoming increasingly difficult for us to take advantage of the higher selling prices typically associated with new products, services and technologies while having to invest more in research and development. Some of our competitors may also be willing to reduce prices and accept lower profit margins to compete with us. As a result of this competition, we could lose market share and sales, or be forced to reduce our prices to meet competition, which could adversely impact our margin. For example, in the second half of 2019, in anticipation of the release of the new national standard on air-conditioner energy efficiency index, several of our major competitors initiated substantial price decrease for their low energy-efficient and high electricity consuming air-conditioners to reduce inventories of such products before the release and effectiveness of the new national standard. In order to maintain and enhance our market position, we are forced to react by significantly decreasing the price of our air conditioners in response to the price pressure. Furthermore, in response to the decrease in consumer demand caused by the outbreak of COVID-19 pandemic and the increase in market competition, we had lowered our average selling prices of air-conditioners in China, which led to the decrease of its segmental operating profit to approximately break-even level in the six months ended 30 June 2020 from RMB972 million in the six months ended 30 June 2019. For further details, see "Summary — Company Overview". In addition, further increase in market concentration of the household appliances industry may result in stronger competition for us and a decline in our relative market position, and any price competition from time to time may result in declined average selling prices and profit margins, which could adversely affect our business and financial results.

There can be no assurance that we will be able to compete successfully and failure to do so would have an adverse effect on our business, results of operations and financial condition.

Our business may be adversely affected if we fail to introduce new products and services on a timely basis to adapt to rapidly evolving customer needs and advancements in technology, and our investments in research and development may not yield the expected results.

We compete in highly competitive global home appliance markets characterised by iterative technologies, evolving industry standards and continual improvements in performance characteristics and product features. To be able to compete effectively, we must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products and services. New examples of such new products and services include the self-cleaning air-conditioners, the ultrasonic air wash washing machines, and various smart appliances that are connected to the internet and are able to connect with one another. The success of new product introductions depends on a number of factors, such as timely and successful completion of development efforts, successful production ramp-ups and market acceptance of the products.

Consumer demands, preferences and lifestyle trends in the PRC and in our overseas markets may change from time to time and depend upon various factors, including, among other things, global lifestyle trends, consumption patterns, disposable income, consumer confidence and other factors beyond our control. Our success in turn also depends on our ability to anticipate, identify and respond in a timely manner to these trends.

Advancements in technology, the introduction of new products and changing consumer demands, preferences and lifestyle trends typically lead to rapid declines in retail volumes for products made with older technologies and their loss of competitiveness or even obsolescence. If we are unable to compete successfully by introducing competitive new products that meet the demands and preferences of customers, our business, results of operations and financial condition would be adversely affected.

As a result, we seek to continuously design new products, upgrade existing products, develop new technologies, develop and promote more appealing smart home solutions, and invest in the marketing of new products and solutions. These investments require significant management time and a high level of financial and other commitments to research and development, and we may need to increase expenditure on research and development in response to changes in consumer demand. Further, there can be no assurance that our investments of research and development resources will yield the desired results. Our business, results of operations and financial condition may be adversely affected if we fail to successfully anticipate and react in a timely manner to changes in customer preferences or if our investments in research and development do not result in successful product introductions. Following the development of new products, we will also need to invest in promoting such new products. If we fail to balance the marketing efforts or optimise the pricing strategies of our existing and new products, we may fail in promoting our new products but increase competition among our own products, which in turn could lead to overall decrease in sales.

If we are not able to continue to innovate or if we fail to adapt to changes in our industry, our business, financial condition and results of operations would be materially and adversely affected.

We are committed to innovation and providing a better life for our customers. The home appliance industry is characterised by rapidly changing technology, evolving industry standards, new products and services and changing user demands and trends. As a result, we continue to invest significant resources in our infrastructure, research and development and other areas in order to remain competitive in our businesses and operations, as well as to explore new growth strategies and introduce new high-quality products and services. Our investments in innovations and new technologies, which may be significant, may not increase our competitiveness or generate financial returns in the short term, or at all, and we may not be successful in adopting and implementing new technologies, such as IoT. The changes and developments taking place in our industry may also require us to re-evaluate our business model and adopt significant changes to our long-term strategies and business plans. Our failure to innovate and adapt to these changes and developments would have a material adverse effect on our business, financial condition and results of operations. Even if we timely innovate and adopt changes in our strategies and plans, we may nevertheless fail to realise the anticipated benefits of these changes or even generate lower levels of revenue as a result.

If we fail to develop, maintain and enhance recognition of our brands, or if we incur excessive expenses in this effort, our business and results of operations may be adversely affected.

Our business depends significantly on the strength of our brands and their reputation. We primarily operate under seven brands, being Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Each of these brands have their specific market positioning in their primary market and are at different stages of development. Therefore, developing maintaining and enhancing the recognition, image and acceptance of our brands is critical to our ability to differentiate our products and services from, and to compete effectively with, our competitors. The ability of each brand to successfully target its designated market and consumer group is also important in minimising risks of cannibalisation among our own products. The success of our brands depends on our design and marketing efforts, including advertising and consumer campaigns, and on product innovation. Costs associated with the promotion of our brands can be significant, and we may incur substantial expenses to establish our brands in new markets. Expenses related to the promotion of our brand may have an adverse impact on our results if they do not produce the desired outcomes.

Our brands, reputation and product sales could be harmed if, for example, our products fail to meet expectations of our consumers or contain defects or fail. If we provide poor or ineffective customer services or are subject to product liability claims, our brands and reputation could be adversely affected.

In particular, although we have not experienced any product recalls that materially and adversely affected our business, results of operations and financial conditions during the Track Record Period, our reputation could be adversely impacted in the event of a significant product recall or product-related litigation due to product defects. We are subject to warranty and product liability claims in the ordinary course of our business. There can be no assurance that we will not experience material product liability losses arising from such claims in the future and that these will not have a negative impact on our reputation and, consequently, our sales. We generally make product warranty provisions with reference to the retail volume and the expected unit costs for warranty services, but there can be no assurance that such provisions will be adequate for liability ultimately incurred. In addition, consumer products are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur. This trend may increase our product quality and liability exposure. Given the association of our individual products with our overall brand, an issue with one of our products could negatively affect demand for other products of ours or the reputation of us as a whole, which could have an adverse impact on the business, results of operations and financial condition of us. In addition, adverse publicity about regulatory or legal action against us could damage our reputation and brand image, undermine customer confidence in us and reduce long-term demand for our products.

Further, our success in maintaining and improving our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. Negative posts or comments about us on social networking platforms and other websites that spread rapidly through such forums could seriously damage our reputation and brand image. In order to attract and retain customers, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. As a result, our sales and marketing related expenses may increase significantly.

If we are unable to develop, maintain and enhance the recognition of our brands, our business, results of operations and financial condition could be adversely affected.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

Our business has grown and is expected to continue growing, so is our business network and number of employees. In addition, as we expand our product profile and geographic markets, we will need to work with a larger number of suppliers and partners efficiently and maintain and expand mutually-beneficial relationships with our existing and new suppliers and partners. We also need to continuously enhance and upgrade our infrastructure and technology, improve control over our operational, financial and management aspects, strengthen our supplier and sales network management, refine our reporting systems and procedures, and expand, train and manage our growing employee base. All these efforts will require significant managerial, financial and human resources. In addition, we are constructing and operating interconnected factories to lower our costs as well as improve our efficiency, and undergoing various transformation strategies such as construction of our Experiential Cloud Platform in the IoT era, promotion of global operation synergy, and enhancing our competitive advantages in the high-end product markets. See "Business — Our Strategies". We cannot assure you that such operation and transformations will reach our expected success. We also cannot assure you that we will be able to effectively manage our growth, that our current infrastructure, systems, procedures and controls or any new measures to enhance them will be adequate and successful to support our expanding operations or that our strategies and new business initiatives will be executed successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

We may face challenges managing our growth and any expansion into new products, services and business activities may not be successful.

As we continue to grow our businesses, our operations will become more widespread and complex. Expansion of our business activities exposes us to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services and dealing with new counterparties and customers, which may prevent us from effectively competing in these areas;
- stricter regulation and increased credit, market and operational risks;
- failure to achieve investment returns from our new businesses;
- imitation or replication of our products and services by our competitors;
- failure of our new products and services to be accepted by our customers or meet the expected targets;
- failure to make accurate analysis or judgement regarding market conditions facing our new business;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support our expanded range of products and services;

RISK FACTORS

- failure to obtain sufficient financing from internal and external sources to support our business expansion;
- inability to obtain regulatory approvals for our new products or services;
- increasing difficulty for us in directing and monitoring the day-to-day operations of our businesses;
- increasing difficulty in preventing and detecting fraud and protecting our assets, both physical and intangible; and
- failure to enhance our risk management capabilities, internal control capabilities and IT systems in a timely manner to support new businesses and a broader range of products and services.

Our planned expansion is based on our assessment of market prospects. There is no assurance that our assessments will turn out to be accurate. If we are not able to successfully expand into or grow new products, services and related business areas, our business, financial condition and results of operations may be materially adversely affected.

We conduct operations worldwide and are exposed to legal, regulatory, political, economic, commercial and other risks in each country in which we operate.

During the Track Record Period, approximately 46.3%, 43.5%, 47.5% and 49.1% of our revenue were generated outside of the PRC. As at the Latest Practicable Date, our products were sold in over 160 countries and areas. In addition, we also have overseas investments in subsidiaries, joint ventures, associates, and other entities. As a result of our global footprint, we are subject to legal, regulatory, political, economic, commercial and other risks associated with cross-border business, including:

- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand local markets and follow their trends, as well as develop and maintain an effective marketing and distribution presence;
- difficulty in providing efficient customer service and support in markets abroad;
- risks associated with dealing with regulatory regimes, regulatory bodies and government policies with which we might be unfamiliar, in order to obtain overseas permits, licences and approvals necessary to manufacture or import, market and sell products in or to overseas jurisdictions;
- high costs relating to compliance with the commercial and legal requirements of overseas markets, including those relating to labour, environmental and industry-specific regulations;
- risks associated with local unions and employment disputes, including allegations of discrimination, harassment, violation of collective bargaining agreements, wrongful termination, among others;

- difficulty in obtaining or enforcing intellectual property rights;
- strict foreign exchange controls and cash repatriation restrictions;
- unanticipated changes in prevailing economic conditions and regulatory requirements;
- political instability and civil unrest, cultural and religious conflicts, and acts of terrorism;
- risks associated with compliance with local tax laws and regulations including but not limited to timely filing of tax returns, tax payment, and disputes or disagreements with local tax authorities with respect to matters including but not limited to calculation of tax liabilities and preferential tax treatments;
- risks associated with disputes with local tax authorities on the judgement of transfer pricing arising out of our intragroup transactions, which may result in reallocation or adjustment of our taxable income and a different tax amount payable;
- difficulties in enforcing agreements and collecting overdue receivables through local legal systems; and
- trade barriers such as export requirements, sanctions, tariffs and other restrictions and expenses.

Our overall success as a global business depends, in part, on our ability to succeed in managing such risks. The risks and their potential impact on us or our business partners vary from country to country and are difficult to predict with any degree of accuracy. We may not be able to develop and implement policies and strategies that address these risks effectively in each location in which we conduct business, and there can be no assurance that our exposure to such risks, which may become greater as we expand our international operations, will not adversely affect our reputation, business, results of operations and financial condition or otherwise divert our resources in handling any lawsuits, legal proceedings or complaints.

We are subject to applicable antitrust and competition laws in the jurisdictions in which we operate, and we may be subject to certain regulatory scrutiny procedures and investigations, from time to time, by antitrust or competition regulatory authorities relating to claims of infringement of antitrust or competition laws, or civil lawsuits and criminal proceedings with respect to anticompetitive behaviours, in certain of these jurisdictions. Such regulatory scrutiny procedures and investigations, may be carried out by the relevant antitrust or competition regulatory authorities on an individual entity or a group of entities within an industry or a segment of an industry and may relate to a range of activities including acquisitions, pricing and other behaviours. These investigations and scrutiny procedures may be carried out by antitrust or competition regulatory authorities in confidence and we may not become aware of the details of such scrutiny procedures or investigations until we are formally notified of the outcome. In addition, our competitors may resort to making allegations or complaints against us to regulators without our knowledge which may give rise to further scrutiny and investigations. Such scrutiny procedures, investigations, lawsuits and proceedings may result in fines, civil liability or criminal liabilities or may result in a change in the way we operate. Further, there can be no assurance that our business, results of operations and financial condition will not be adversely affected by the introduction of new antirust or competition laws in the jurisdictions in which we operate, the interpretation of existing antirust or competition laws, or the enforcement of existing antitrust or competition laws by competent regulatory authorities or civil antitrust litigation by private parties against us or our subsidiaries.

In addition, our business can be subject to rules and regulations under economic sanctions programmes, including, for example, those administered by the European Union and the Office of Foreign Assets Control of the U.S. Department of the Treasury ("**OFAC**") and associated U.S. sanctions laws. While we do not currently have any new business in jurisdictions that are subject to territory-wide sanctions imposed by OFAC or other relevant sanctions authorities ("**Comprehensive Sanctioned Jurisdictions**"), we had previously exported some of our appliances to such countries namely, Cuba, Iran, North Korea and Syria which we ceased to continue, and certain relevant agreement with entities in those countries, specifically, a trademark licensing arrangement, under which we do not presently generate any revenue, is still outstanding (collectively, the "**Previous Activities**"). Revenue generated from our past sales of appliances to these countries accounted for less than 1.6% of our total annual revenue in any of the past five years, and less than 0.05% of our total revenue for 2019. Based on the information provided by us, our legal advisers believe that the Previous Activities (i) under the U.S. sanction regime, did not constitute primary sanctioned activities given that no U.S. jurisdictional elements were involved, and could not constitute secondary sanctionable activities as none of such activities was targeted under the then effective U.S. secondary sanctions measures; (ii) under the respective sanction regimes of the United Nations, European Union and United Kingdom, did not fall within the scope of activity specifically prohibited by such sanction regimes. In addition, because (i) our Company will not raise any proceeds from the Listing, and (ii) we do not currently have any new business in the Comprehensive Sanctioned Jurisdictions, neither OFAC nor the member states of the United Nations, European Union or the United Kingdom would have any basis or reason to assert that the Listing would fund or facilitate any of our Group's limited Previous Activities. As such, our legal advisers believe that (i) we did not incur any apparent or material sanctions risk from the Previous Activities, and (ii) participants would not violate any OFAC sanctions or engage in a sanctionable activity under U.S. secondary sanctions by participating in the Listing. We also believe that our policies, procedures and controls have enabled us to comply with any applicable OFAC sanctions requirements.

However, economic sanctions programmes do and will continue to restrict our ability to engage in business dealings with certain sanctioned countries. Sanctions programmes moreover evolve over time and it is difficult for us to predict the interpretation, implementation or enforcement of governmental policies or sanctions with respect to our activities, currently or in the future or whether U.S. sanctions in particular will expand in ways that impair and restrict our business. Our policies, procedures and controls may not be able to react timely or comprehensively to such changes. There is no assurance that our activities in any particular country will be in compliance with evolving applicable rules and regulations or that they will not result in negative media attention or reputational damage.

The outbreak of COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.

The outbreak of COVID-19 pandemic has materially and adversely affected the global economy. During the COVID-19 outbreak, governments around the world, including the markets in which we operate, implemented strict measures to control the outbreak, such as lock-downs, social distancing measures, travel restrictions. The mobility of consumers was reduced and retail points of sale were closed.

Consequently, consumer demand was significantly affected by the outbreak and the government's relevant control measures. For example, according to the National Bureau of Statistics, China's GDP in the first quarter of 2020 was RMB20,650.4 billion, which decreased by 6.8% compared with the first quarter in 2019. As China's outbreak has come under control, the COVID-19 pandemic have created a "new normal" and the second quarter of 2020 had witnessed a gradual recovery. According to the National Bureau of Statistics, China's GDP in the second quarter of 2020 was RMB25,011.0 billion, which increased by 3.2% compared with the second quarter in 2019. Meanwhile, according to the National Bureau of Statistics, China's total retail sales started to increase in July 2020 on a year-on-year basis, compared to consecutive decreases for each month in the first half of 2020. In the second quarter of 2020, impacts from the COVID-19 pandemic continued in our overseas market. For example, the U.S. GDP decreased at an annual rate of 32.9% in the second quarter of 2020, which is allegedly the worst since the Great Depression. For the global major home appliance market, the outbreak of COVID-19 pandemic is expected to cause some deferred impacts on the consumption.

Our Directors and management team have been closely monitoring the outbreak of COVID-19 pandemic, and are constantly assessing its actual and potential impact on our business and results of operations. The outbreak of COVID-19 has led to a decrease in customer demands for our products caused by the suspension of operations of our customers, shortfall in our customers' in-store shopping, as well as interruptions in the logistics for delivery of our products to online-shopping customers in the first quarter of 2020. In the second quarter of 2020, our business gradually resumed normal and experienced revenue increase on a quarter-over-quarter basis.

In addition, affected by the COVID-19 outbreak and the government's relevant control measures, business operation of our production bases in areas severely by the outbreak, such as Wuhan, Italy and India was temporarily suspended. We have fully resumed our business operations in China since the end of March 2020 and in other countries and regions by June 2020, except that in certain countries and regions, the operation schedules are subject to adjustment in accordance with local requirements. While there was no material disruption in the logistics services provided to us in China, the COVID-19 outbreak affected our logistics suppliers in the overseas markets and by June 2020, our overseas third-party logistics suppliers have gradually resumed work. Furthermore, in 2020 and up to the Latest Practicable Date, capitalising on our advantages in global coordination and optimisation in resources allocation, we were not materially affected by the disruption of raw materials supplies as a result of the COVID-19 pandemic. Our revenue and gross profit in the six months ended 30 June 2020 decreased by 1.6% and 7.3%, respectively, compared with those in the six months ended 30 June 2019. See "Financial Information — Impact of the COVID-19 Outbreak". We cannot assure you that the outbreak will not persist, or that there will not be similar events in the future. If the COVID-19 outbreak continues, our business, results of operations and financial condition may continue to be adversely affected.

Any interruption in the operation throughout our entire operation process for an extended period may have an adverse impact on our business.

Our operation process covers from R&D through production, storage, logistics, marketing and sales. Operational and other failures in such an extensive process (including through the use of components received from third-party suppliers) could result in quality problems or potential product, labour safety, regulatory or environmental risks. Such risks are particularly present in relation to our production facilities. We also rely on the smooth operation of our distribution centres, warehouses and delivery and pickup stations to provide our distribution services. Our operation process may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any parts of our operation process were rendered incapable of operations, then we may be unable to fulfil the orders we have received in a timely manner and to the customer's specifications or at all. In addition, our products are manufactured using processes that are increasingly complex and require sophisticated and costly equipment and information technology. The use of advanced technologies increases our exposure to the risk of production difficulties, including as a result of construction delays, difficulties in upgrading or modifying existing production lines or ramping up new plants, or difficulties in changing production technologies. Interruptions at any of our production facilities could result in failure to achieve acceptable manufacturing yields or an inability to deliver quality products to customers in a timely manner, which may adversely affect our business, results of operations and financial condition.

In addition, unforeseen product quality problems in the development and production of new and existing products could result in loss of customer orders, and market share and significantly higher warranty expenses. While there is a provision in our financial statements to cover warranty expenses, there can be no assurance that it will be adequate to cover all future contingencies.

The materialisation of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may undertake acquisitions, investments, partnerships and new business lines, which may not be successful.

We have in the past increased market positions in our product and service areas and entered into new geographic and product areas through acquisitions and may continue to do so in the future. Such transactions and initiatives could require our management to develop expertise in new areas, manage new business relationships and attract new types of customers. Furthermore, such transactions and initiatives may require significant attention from our management, and the diversion of our management's attention and resources could have a material adverse effect on our ability to manage our business. In addition, we may incur significant acquisition, administrative and other costs in connection with such transactions, including costs related to the integration of acquired or restructured businesses. These costs may include unanticipated costs or expenses, including post-closing asset impairment charges, legal, regulatory and contractual costs, and expenses associated with eliminating duplicate facilities.

We may also experience difficulties integrating any investments, acquisitions, distribution arrangements and/or partnerships into our existing business and operations. There is no assurance that we will be able to successfully implement these initiatives or that we will be able to identify successful initiatives in the future. These acquisitions and business initiatives may also expose us to potential risks, including risks associated with:

- the integration of new business lines, operations and personnel;
- cultural integration;
- compliance with the laws, regulations and policies that are applicable to the acquired businesses and local business practises;
- failure to achieve the anticipated synergies, cost savings or revenues, enhancing opportunities resulting from the acquisition of new businesses and operating those businesses at a level of profitability acceptable to us;
- difficulty exercising control and supervision over the newly acquired operations, including failure to implement our risk management procedures;
- the potential loss of, or harm to, relationships with employees or customers; and
- unforeseen or hidden liabilities.

There can be no assurance that we will be able to successfully integrate any businesses we acquire into existing operations or that such businesses will perform according to expectations once integrated. When we acquire new businesses and companies, we will assume the outstanding liabilities and risks of such business and companies, including any ongoing and potential lawsuits, legal proceedings, regulatory investigations, among other risks. Accordingly, there can be no assurance that our business, results of operations and financial conditions will not be adversely affected by any of the potential lawsuits, legal proceedings, regulatory sanctions such as antitrust penalties, or other unforeseen liabilities that may result from such acquisitions. There also can be no assurance that we will reach the synergy we expect from our Privatisation. Similarly, disposals of certain non-core assets may prove not profitable than anticipated and may affect our net sales and results of operations.

There can be no assurance that we will be able to identify and acquire, on reasonable terms, if at all, suitable acquisition candidates or investment opportunities. With continuing consolidation a likely industry trend, we could be faced with increasing competition for attractive acquisition candidates. Compliance with antitrust or any other regulations may delay proposed acquisitions or prevent us from closing such acquisitions or investments in the manner proposed, if at all. Such delay or failure to close proposed acquisitions could impair our ability to achieve our strategic objectives. Failure to successfully identify or undertake future investments, acquisitions, partnerships and new business lines and strategies may have a material adverse effect on our business, financial condition and results of operations.

We may not achieve the anticipated benefits of the Privatisation and it may be difficult for potential investors to evaluate our prospects.

Our Directors believe that, after the completion of the Privatisation and Listing, the Enlarged HSH Group represents an attractive investment opportunity for the Scheme Shareholders. Other than the investment benefits, we also expect that the Privatisation will bring further streamlined processes and enhanced integration to the Enlarged HSH Group. However, there is no guarantee that we can achieve the anticipated benefits and it may be difficult for potential investors to evaluate our prospects. In addition, the Privatisation and the Cash Payment to be made to Scheme Shareholders by HEG may give rise to additional tax liabilities and costs.

Our success depends on our ability to maintain and expand our offline and online sales channels.

Our sales and distribution network in China comprise (i) an extensive network of franchised stores and their extended sales network; (ii) national chain store retailers such as GOME and Suning; (iii) regional chain store retailors; (iv) other channels primarily selling to our business partners in real estate projects; and (v) online e-commerce sales channels. In North America, we sell our products primarily through our established relationships with large retailors, such as Home Depot, Lowe's and Best Buy, as well as through cooperation with property developers to fit out their real estate projects. In Europe, we sell our products primarily through retailors. We also sell our products through online channels in our overseas markets. To maintain and increase our market share, we actively evaluate the operational performance of our sales and distribution network and we may enter into new franchise arrangements with our franchisees or sales and purchase arrangements with our retailors and business partners. We may not be successful in any of these respects. Our ability to maintain and expand our offline and online sales channels depend on a number of factors, including among others, our ability to maintain relationships with the large national and overseas retailors, regional chain store retailors, our franchisees and major e-commerce platforms on terms that are commercially acceptable to us and our ability to respond to changes in their needs, including providing network infrastructure and logistics support. If we are unable to effectively maintain or expand our sales and distribution network, our results of operations, growth potential and profitability could be materially and adversely affected.

We have an extensive sales network at county-level and township-level through franchisees and sub-franchisees in China. Our failure to maintain and expand our network of franchised stores or maintain control over our franchisees could negatively impact our business, financial condition, results of operations, and prospects.

In addition to the sales network through national chain stores and, to a lesser extent, regional chain stores, we also established an extensive sales network covering urban and rural China at county-level and township-level. We typically engage our franchisees at county level. Our franchisees are allowed to sub-franchise and extend our sales network to township-level. They also sell our products to local retailers. All our Haier franchised stores are required to sell our products exclusively. To effectively reach rural areas in China and raise consumer awareness of our products, our franchisees may also sell our products to local retailors, who are not required to sell our products exclusively. See "Business — Sales and Customers — Our Sales Networks — China — Regional Offline Sales Network — (i) Franchised Stores" for more information. If our franchised stores fail to perform or fail to fit our sales and marketing strategy, we may need to adjust the number of our franchised stores and the footprint they cover. This may affect the width and depth of our offline sales network which would in turn affect consumers' access to our products offline. If we fail to renew our agreements with our existing franchisees and if our franchisees fail to renew their agreements with their sub-franchisees or enter into new agreements on favourable terms or at all, or if they reduce, delay or cancel their orders from us or enter into relationships with our competitors, our revenue and our market share and growth opportunities could suffer, which would negatively impact on our business, financial condition, results of operations and cash flows. To the best of our knowledge, all of our franchisees are Independent Third Parties. Therefore, our ability to manage the activities of our franchisees is limited. We allow our franchisees to have certain discretion over how to sell our products to local retailers. We regulate our relationships with our franchisees through our franchise agreements and we generally do not directly establish relationships with sub-franchisees or other local retailors.

Our franchised stores may take one or more of the following actions, each of which may lead to our inability to react appropriately to changes in consumer preferences, compromise on the quality of our products and customer services, and damages to our reputation and brand image, which in turn could have a material adverse effect on our business, prospects and reputation:

- breaching our agreements with them or the policies that we require them to adhere to, including by selling products at below our recommended retail prices or selling products of our competitors in our franchised stores;
- failing to adequately promote our products;
- failing to maintain our brand image at our franchised stores;
- failing to maintain relationships with their landlords or breach of their tenancy agreements;
- failing to provide proper training to their staff, thereby affecting the quality of services they provide; and
- violating laws and regulations of China or other countries and regions, including anti-money laundering, anti-bribery, competition or other.

Although we supervise the sales activities of our franchisees and sub-franchisees, we cannot assure you that they will comply with our pricing policies at all times and will not compete using aggressive discounts, which could lead to negative customer perception of the products we sell among our sales channels. We do not directly supervise the sales activities of local retailers that our franchisees sell our products to. In addition, we cannot independently audit or verify the sales performance and other financial information made available to us via our platforms. As such, we may not have a true picture of the sales performance of our franchisees and whether or not they have complied with our franchise agreements, policies or the demand that our customers have for our product offerings. Given our limited ability to monitor or control the sales performance of our franchisees, sub-franchisees and the local retail stores they may sell to, we cannot assure you that they will not make decisions or take actions that are not in our best interests, thereby harming our business and reputation. Similarly, we cannot ensure you that each of our franchisees and sub-franchisees will fully comply with the franchise agreements with us or the policies we require them to adhere to or that we have accurate and up-to-date information to assess our franchisees' or sub-franchisees' performance.

We rely on large third-party online and offline retailors to sell certain of our products.

We offer our products offline to end customers through a variety of large national and regional chain stores. We also offer our products through online platforms such as Tmall and JD.com in China.

During the Track Record Periods, a majority part of our sales were made through these online and offline retailors. In 2017, 2018 and 2019 and the six months ended 30 June 2020, our five largest customers were all online and offline retailors, accounting for, in the aggregate, approximately 20.6%, 20.7%, 20.3% and 21.3%, respectively, to our total revenue for the same periods.

We rely on the breadth and depth of our national, regional and overseas retailors to reach our end customers and promote our products. Nevertheless, most of these offline retailors and online platforms also market products that compete with our products. They may seek to use their position to improve their profitability by various means, including lower pricing and increased requirements regarding promotional programmes from the manufacturers of products they sell, such as us. If we are required to lower prices or accept requirements that are not favourable to us, it may affect the sales performance of our products or we may have to accept greater credit and other risks which could negatively affect our financial results. If the terms required by our offline retailors and the online platforms we partner with are commercially unacceptable or we fail to maintain our relationships with them, the loss or termination of our contracts with them, or a substantial decline in volume of sales to, any one or more of them, or the failure of any one or more of them to effectively promote our products, could affect our ability to bring our products to market and therefore adversely affect our financial performance.

To the best of our knowledge, all of our offline retailors and the online platforms we partner with are Independent Third Parties. Typically, we do not regulate or have control over their sales activities or how they promote and sell our products. Our offline retailors and the online platforms we partner with may take one or more of the following actions, any of which could have a material adverse effect on our business, prospects and reputation:

- selling products at below our recommended retail prices;
- failing or refusing to cooperate with us in the promotion of our products or our brand image;
- promoting our competitors' products rather than our products;
- failing to provide proper training to their staff regarding our products; and
- violating laws and regulations of China or other countries, including anti-money laundering, anti-bribery, competition or other.

We are not able to independently verify the sales performance of our offline retailors and the online platforms we partner with, so we may not have accurate information to ascertain the market perception of our products or to react to changing consumers' preferences for our products, which could affect our ability to maintain our market position and market share.

In addition, we may provide credit terms to some key retailors. Therefore, adverse changes in the financial or business condition of these retailors, and our inability to fully collect our account receivables from them due to bankruptcy or for any other reason, could also adversely affect our business, results of operations and financial condition.

We are exposed to credit risk of our customers.

Depending on the credit history of our customers and their transaction amounts with us, we allow the flexibility by offering a credit period of 30 to 90 days to certain customers. As at 30 June 2020, our trade and bills receivables amounted to RMB30,177 million. In the event that the credit worthiness of our customers deteriorate or a significant number of our customers fail to settle their trade and bill receivables in full for any reason, particularly in light of the impacts of the COVID-19 pandemic, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment by our customers from their respective credit period, which in turn may also result in an impairment loss provisions. There is no assurance that we will be able to fully recover our trade receivables from our customers or that they will settle our trade receivables in a timely manner. In the event the settlement from our customers are not made on a timely manner, our business, financial condition and results of operations may be adversely affected.

We experienced net operating cash outflow for the six months ended 30 June 2020.

We incurred net cash used in operating activities of RMB544 million in the six months ended 30 June 2020 mainly due to the increase in trade and bill receivables, prepayment, deposits and other receivables and contract assets resulting from prolonged settlement of receivables due to the impact of COVID-19 especially in the first quarter of 2020 and decrease in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities as we settled substantial amount of payables during the period. See "Financial Information — Liquidity and Capital Resources — Cash Flows."

Our future liquidity, the payment of trade payables and other payables, and the repayment of any potential debt obligations as and when they become due, will primarily depend on our ability to maintain adequate cash inflows. Although we seek to manage our working capital at sufficient levels, we cannot assure you that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. As a result, we cannot assure you that we will not experience negative net operating cash flows in the future. Negative operating cash flow requires us to utilise cash reserve or obtain sufficient external financing to finance our business operations, and meet our financing needs and obligations. If we are unable to do so, we may be in default of our payment obligations and our daily business activities may be impacted. Thus, our business, financial position and results of operations may be materially adversely affected.

We depend on a large number of third-party suppliers for key raw materials, components and manufacturing equipment as well as OEM suppliers, and any disruption in their supply or significant increase in their prices will negatively affect our business.

Our business is affected by the price, quality, availability and timely delivery of the various raw materials, electronic components and manufacturing equipment that we use in the manufacture of our products. Raw materials are the largest component of our total cost of sales. The raw materials that we mainly use in our products are copper, aluminium, steel, plastic and foam materials for the manufacturing of electronic appliances. The prices of these materials and components containing those materials are susceptible to significant fluctuations due to supply/demand trends in the commodities markets, transportation costs, government regulations and tariffs, geopolitical events, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances. For example, the imposition of tariffs by the U.S. administration on steel and aluminium imports into the United States in 2018 has resulted in significant increases in the prices of these materials, which in turn increased our cost of manufacturing home appliances in the United States. Our supply agreements for raw materials may allow pricing adjustments depending on the contract. Similarly, temporary shortages of some of these raw materials or components and delivery delays have occurred in the past and may occur again in the future. Our results of operations could be adversely affected if we were unable to obtain adequate supplies of high quality raw materials or components in a timely manner at reasonable prices or make alternative arrangements for such supplies, or if there were significant increases in the costs of raw materials or components that we could not pass on to our customers in full. Moreover, for some materials and components we rely on a single source of supply, which increases our dependence and may subject us to pricing pressures.

We have also purchased, and expect to continue to purchase, a substantial portion of our equipment from qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by equipment vendors. Shortages of equipment, delays in the delivery of equipment or the delivery of equipment that does not meet our specifications could result in a delay in bringing products to market, which consequently could result in loss of market share and revenues and adversely affect our results of operations and financial position.

We may subcontract our manufacturing to OEM suppliers from time to time, some of which we may not be able to exercise direct control over.

In addition, an unfavourable change in any of the following could have a material adverse effect on our business, results of operations and financial condition:

- our ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which we purchase products from our suppliers, including applicable exchange rates, transport costs and other costs, our suppliers' willingness to extend credit to finance our inventory purchases and other factors beyond our control;
- the financial condition of our suppliers;
- political instability in the countries in which our suppliers are located;
- our ability to import outsourced products and any export controls that may be imposed on such products;
- our suppliers' non-compliance with applicable laws, trade restrictions and tariffs; or
- our suppliers' ability to manufacture and deliver outsourced products according to our standards of quality on a timely and efficient basis.

If our relationships with any of our key suppliers deteriorates due to the factors set out above, or for any other reason, we may not be able to quickly or effectively replace such supplier, which may have a material adverse effect on our business, results of operations and financial condition.

If our logistics service providers fail to provide reliable and timely logistics services, our business, financial condition and results of operations may be materially and adversely affected.

We use third-party logistics service providers to fulfil and deliver our orders. In China, we primarily rely on Gooday Supply Chain, in which we hold strategic investments, and in overseas markets, we use independent third-party service providers. Interruptions to or failures in these third parties' logistics services could prevent the timely or proper delivery of products to customers, which would harm the businesses we operate. These interruptions or failures may be due to events that are beyond our control or the control of any of these logistics service providers, such as inclement weather, natural disasters, accidents, transportation disruptions, including special or temporary restrictions or closings of facilities or transportation networks due to regulatory or political reasons, or labour unrest or shortages. These logistics services could also be affected or interrupted by business disputes, industry consolidation, insolvency or government shut-downs. We may not be able to find alternative logistics service providers to provide logistics services in a timely and reliable manner, or at all.

We may face increasing acquisition and leasing costs with respect to warehouses at suitable locations, and may not be able to find suitable locations for warehouses on commercially acceptable terms, if at all.

Performance of our services business depends, to a significant extent, on the location of our warehouses. Our warehouses are primarily on lease terms, but we may also acquire warehouses. When selecting a site for a warehouse, we take into account various factors, including:

- its convenience and accessibility for our target consumers;
- the size of the available space; and
- the availability of supporting facilities, including parking lots.

The supply of suitable locations for warehouses is limited, and competition for these locations is intense. Therefore, we may face increasing cost in acquiring or leasing these prime locations for our warehouses. In addition, with the development of our unified warehousing and distribution system in China which aims to improve our operational efficiency, we may require additional warehouses and face increasing leasing costs. Furthermore, there can be no assurance that we will be able to identify and acquire or lease suitable locations on terms commercially acceptable to us or at all. In the event that we encounter difficulties in securing suitable largescale warehouses sites in regions where we operate or plan to expand, our business, financial conditions and results of operations could be adversely affected.

Certain of our existing properties owned and leased in the PRC lack property title certificates or other documents evidence the authorisation or consent from the property owners for leasing.

We own and lease properties in the PRC primarily for industrial use, dormitories, factories and offices. As at 30 June 2020, for certain parcels of land that we own, we have not obtained the land use right certificates or real property certificates. For certain of our own properties, we have not obtained ownership certificates. During the Track Record Period, the defective legal titles of such land and properties did not have any material adverse effect on our business operations. For details, see

"Business — Properties — Our Properties in the PRC — Owned Land" and "Business — Properties — Our Properties in the PRC — Owned Properties".

For some of our leased offices and manufacturing sites in the PRC, the lessors may not be able to provide property title certificates or other documents evidencing the authorisation or consent from the property owners for subleasing. In such case, our rights in relation to such properties might not be entirely protected. Any claim or disputes related to the title of the properties leased by us may affect our ability to continue to lease such properties and may result in relocation. We cannot guarantee that the legality of our use and occupation of the relevant buildings will not be challenged. If we have to find alternative properties, additional relocation costs will be incurred, and our business operations may be disrupted, any of which may have a material and adverse effect on our business, financial condition and results of operations. Furthermore, under PRC law certain leases are required to be registered with the PRC government. We have several leases that have not been registered with the relevant PRC governmental authorities. Although non-registration of lease agreements will not affect the validity of such lease agreements, we may be subject to penalties and may result in adverse effects on our results of operations, financial position or prospects. For details, see "Business — Properties — Our Properties in the PRC — Leased Properties".

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales.

We are exposed to inventory risks as a result of a variety of factors beyond our control, including changing consumption trends and customer preferences and launches of competing products. Maintaining an optimal level of inventory is critical to the success of our business. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the products we sell, for example, due to the recent outbreak of COVID-19 pandemic, could lead to excessive inventory, and we may be forced to offer discounts or conduct promotional activities to dispose of slow-moving inventory, sometimes at prices below cost. On the other hand, inventory under-stock may cause us to lose sales. In 2017, 2018, 2019 and the six months ended 30 June 2020, our inventory turnover days were 79.2 days, 65.2 days, 73.9 days and 66.2 days, respectively. We manage our inventories and make adjustments based on market conditions, unexpected increases or decreases in orders may greatly reduce our ability to manage our inventories, which could have an adverse effect on our business, results of operations and financial condition.

Further, frequent new product introductions in the home appliances industry can result in a decline in the average selling prices of our products and the obsolescence of our existing inventory. This can result in a decrease in the stated value of our inventory. Generally, we periodically assess impairment of inventories and typically recognise write-down of inventories when their cost is lower than their net realisable value. However, due to the volatile nature of the value of some of our inventory, there can be no assurance that actual inventory loss will not exceed our provisions for inventory loss. Differences in the estimation of expected future values and the discount rates used could result in different asset valuations. Such differences and any inventory or asset related write-downs or provision could affect our business, results of operations and financial condition.

Significant delivery, return and exchange may adversely affect our results of operations.

We generally allow end users to return products for any reason and to exchange defective products within certain periods in compliance with regulatory requirements. Our franchisees may also have their product replaced for specific types of defects or quality issues. In addition, we may allow some of our key retailors to return goods that have not been sold for a particular period of time. We may also be required by law to adopt new or amend existing return policies from time to time. Generally, our retailors in China will arrange for product return and repairment if needed. In cases where we are liable for any of such cost, our suppliers generally indemnify us for losses due to their handling of the products. If after all these arrangements, we are still responsible for the costs of delivery, return and exchange of products, our results of operations may be materially and adversely affected. In addition, in the United States and other markets where it is customary to allow customers to return products for any reason within a specified timeframe, our results of operations may be materially and adversely affected if we sell products that do not meet users expectations, whether related to a product defect or quality issue or not. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in loss of existing users or failure to acquire new users at a desirable pace, which may materially and adversely affect our results of operations.

We may not be able to successfully monetise traffic on our platforms.

We have been developing our online platforms, such as Haier Smart Home App and Haier Smart Home Experiential Cloud Platform, to provide our users with comprehensive products and smart home solutions. As at 30 June 2020, the total number of registered users of Haier Smart Home App reached over 24.0 million. We expect to further develop our online platforms and see an increasing percentage of our customers and users accessing our products through computer or mobile devices. We may face a number of challenges to successfully monetising our platform or mobile user traffic, including:

- our ability to continue to provide compelling commerce platforms and tools in a multi-device environment;
- offering a comprehensive user experience on our platforms or apps; and
- ensuring that the services we provide on our platforms are secure and trusted, and that the upgrades of our platforms and expansion in their functions are in compliance with relevant laws and regulations.

Our current focus is not on maximising short-term platform monetisation, but to attract participants to our platform and enhance their stickiness to our platforms. Going forward, we believe our financial results could be improved by our ability to monetise the use of platform related or mobile devices to access our products. If we experience increased use of platform related or mobile devices for our commerce but are unable to monetise the increased use, our business, financial condition and results of operations may be adversely affected.

If the third-party providers on our platforms fail to provide reliable or attractive services, our business, financial condition and results of operations may be adversely affected, and our reputation may be harmed.

In addition to the services provided by us, a number of third-party participants, including product suppliers and independent third-party service providers, provide products and services to the participants of our platforms. To the extent that these third-party providers are unable to provide attractive products and services to these participants on commercially acceptable terms or at all or if we fail to retain existing or attract new quality third-party providers to these participants, our ability to retain or attract participants may be severely limited, which may have a material adverse effect on our business, financial condition and results of operations.

Our imports and exported products may be adversely affected by trade barriers, including tariffs, antidumping measures, countervailing duties or quotas.

We have been and may continue to be adversely affected by trade barriers, including tariffs, quotas, antidumping measures, and countervailing duties imposed on imports from jurisdictions in which we manufacture our products or otherwise sources merchandise, parts and components.

Further, international market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs of the jurisdictions in which we operate, or the perception that these changes could occur, could adversely affect the financial and economic conditions of the jurisdictions in which we operate, and subsequently our financial condition and results of operations. For example, since May 2018, the U.S. administration has launched a series of tariff increases at different levels targeting designated Chinese goods. In retaliation, the Chinese government imposed additional tariffs on U.S. goods as well as lodged a WTO tariff case against the United States. On 15 January 2020, China and the United States signed phase one trade deal, easing trade tensions between the two countries. However, the two governments postponed the review of their phase one trade deal scheduled for 15 August 2020, which may impose some uncertainties on its implementation. We have established and well-developed supply chain and production capacity in North American. During the Track Record Period, our sales in the North America did not rely on imports from China, as majority of products sold in North America were manufactured overseas. Certain raw materials, parts and components, refrigeration appliances, washing machines, air-conditioners, water heaters and kitchen appliances exported from China to the United States were subject to the additional U.S. tariffs. In 2019 and the six months ended 30 June 2020, our customs duties expenses arising out of the additional U.S. tariffs accounted for approximately 1% and 1%, respectively, of our cost of sales for the same periods. We have actively taken measures to mitigate such impacts on our profit by various measures, including (i) actively discussing and cooperating with our suppliers and customers to reduce the impacts from the additional U.S. tariffs, (ii) increase our production efficiency to offset such impacts on our cost of sales as a whole, and (iii) potentially expanding our supplies resources to other countries. However, if such trade tension continues or escalates, the imposition of tariff may increase our cost of sales, and consequently lower our profit margin, or we may have to adjust our product offering in North America which may decrease the desirability of our products to customers in comparison with competing products. Non-tariff trade barriers, such as potential restrictions on transfer of technology or intellectual property rights, may adversely affect the technology know-how we may rely on for the development of and the innovation in our products. If any of such situations happens, our business, results of operations and financial conditions may be adversely affected.

The tariffs described above, together with any further tariffs that the U.S. administration may impose on Chinese goods, or any similar additional tariffs imposed by other jurisdictions in which we operate, may further adversely affect our results of operations. Further, any other barriers to trade or protectionist measures imposed on goods that include our products exported to our key overseas markets could materially adversely affect our exports to those regions and, in turn, our results of operations and financial position.

Geopolitical tensions resulting in worsening relationship between countries in which we operate may continue, which might negatively affect our business and results of operations.

In recent years, there has been a deterioration in the relationship between China and the United States which has resulted in intense potential conflicts between the two countries in trade, technology, finance and other areas, and this has led to greater uncertainties in the geopolitical situations in other parts of the world affecting China and Chinese companies. For example, export controls, economic and trade sanctions have been threatened and/or imposed by the U.S. government on a number of Chinese technology companies. The United States has also threatened to impose further export controls, sanctions, trade embargoes, and other heightened regulatory requirements on China and Chinese companies for alleged activities both inside and outside of China. These have raised concerns that there may be increasing regulatory challenges or enhanced restrictions against China.

Trade tension between the United States and China could place pressure on the economic growth in China as well as the rest of the world. The U.S. government has recently advocated for and taken steps toward restricting trade in certain goods, particularly from China. While the two nations have reached a phase one trade agreement in January 2020, the progress of future trade talks between China and the United States are subject to uncertainties, and there can be no assurance as to whether the United States will maintain or reduce tariffs, or impose additional tariffs on Chinese products in the near future. Trade tension between China and the United States may intensify and the United States may adopt even more drastic measures in the future. China has retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. Any further escalation in trade or other tensions between the United States and China or news and rumours of any escalation, could introduce uncertainties to China's economy and the global economy, which in turn could affect Chinese companies with international operations like us. We cannot assure you that the current trade tension will not have a negative impact on our business operations, or that the related trend will not further deteriorate in the future.

In August 2020, the U.S. government has announced a series of restrictions on certain Chinese companies, which among other things, may restrict their ability to acquire or use technologies, systems, devices or components, to access U.S. cloud-based systems and other infrastructure, and to operate in the United States. While we are not subject to these restriction and there is no reason for us to believe that we will become subject to similar restrictions, such policies and measures directed at China and Chinese companies could have the effect of discouraging U.S. citizens to work for Chinese companies, which could hinder our ability to hire or retain qualified personnel to work for our business. Furthermore, policies of the United States tend to be followed by certain other countries, and these countries may adopt similar policies regarding their relationships with China or against Chinese companies and restricting their operations.

In addition, President Donald Trump in 2019 once threatened to impose additional tariffs on imports from Mexico, trying to tackle illegal immigration issue, which could have negative impacts on our operations in the United States, given we import certain products from Mexico for our operation and sales in the United States. Though the threatened additional tariffs were not substantiated, there is no assurance that the United States will not impose additional tariffs on imports from Mexico in the future, which could in turn adversely affect our business and results of operations.

Furthermore, the government of India has revised Indian investment laws to, among other things, impose more stringent government scrutiny over cross-border acquisitions and, to require approval from relevant Indian authorities for any direct or indirect changes to equity interests by Chinese parties in Indian entities including our subsidiaries in India. The revised Indian investment laws became effective since 22 April 2020. As at the Latest Practicable Date, we have not been notified by Indian authorities of any restrictions including on share transfers, increase in share capital or capital injections in our subsidiaries in India, among others, such new laws may have on our current operations in India, however there is no assurance that such restrictions will not materialise, in which case we will be unable to maintain or expand our operations in India in the future.

Moreover, if we, our business partners, or other parties that have collaborative relationships with us or our affiliates were to become targeted under sanctions or export control restrictions, this may result in significant interruption in our business, regulatory investigations and reputational harm to us.

We depend on our senior management and other important staff members and our ability to attract and retain qualified management personnel.

We depend on the efforts and skill of our senior management and other important staff members. As a result, our future success depends to a significant extent on the continuing service and coordination of these individuals, who are not obligated to remain employed with us. Our success also depends on our ability to identify, hire, train and retain suitably skilled and qualified employees with requisite industry expertise. The loss of any member of our senior management team or our other key employees could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. Competition for such personnel is intense and any failure to recruit and retain the necessary personnel or the loss of a significant number of employees at any time could harm our business and prospects.

We rely on researchers and engineers and the loss of the services of such personnel or the inability to attract and retain them may negatively affect our business.

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel and on our ability to continue to attract, retain and motivate qualified researchers and engineers, especially during periods of rapid growth or technical change. In particular, our focus on introducing new products and advanced manufacturing processes means that we must aggressively recruit engineers with expertise in cutting-edge technologies. There is substantial competition for top research and development and engineering personnel in the household appliances industry, both in the PRC and in the overseas jurisdictions in which we operate, and there can be no assurance that we will be able to attract or retain such personnel. The loss of the services of our research and development and engineering personnel without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect on our business, results of operations and financial condition.

Our business and prospects may be harmed if we cannot adequately protect our intellectual property rights and litigation to protect our intellectual property rights may be costly and may not be resolved in our favour.

Our success in maintaining our competitive position depends, to a significant extent, on our ability to obtain and enforce intellectual property rights worldwide. We seek to protect our intellectual property and proprietary rights primarily through intellectual property laws, relying on a combination of patents, trade secrets, trademarks, copyrights and similar protections, as well as through contractual restrictions in our licencing arrangements. With respect to proprietary know-how that is not patentable and production processes for which patents are difficult to enforce, we rely on trade secret protections and confidentiality agreements to safeguard its interests.

Steps taken by us to protect our intellectual property and proprietary information may not be adequate to prevent misappropriation of our technology as the existence of laws or contracts prohibiting such actions may not always serve as sufficient deterrents, and policing the unauthorised use of our intellectual property may be expensive and time consuming. Pending patent applications or patents already issued to us or our licensors may become subject to dispute, which could be resolved against us, thereby causing such patents to be invalid or unenforceable. Reverse engineering, unauthorised copying or other misappropriation of our intellectual property and proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so, and we may be unable to determine the extent of any unauthorised use of our intellectual property. Our competitors may also independently develop substantially equivalent technologies, or otherwise gain access to our proprietary technologies, and obtain patents for such intellectual properties in other jurisdictions where our products are sold.

In order to protect our intellectual property rights and maintain our competitive position, we may file suits against parties that we believe infringe our intellectual property. Such litigation may divert management's attention and resources from the operation of our business. We may also have to bring suits in foreign jurisdictions, in which case we would be subject to additional risks as to the result of the proceedings and the amount of damages that we can recover. Some countries in which we conduct our business may not protect intellectual property rights to the same extent as developed countries, and effective patent, copyright and trade secret protection may be unavailable or limited. In addition, depending on the jurisdiction, statutory differences in patentable subject matter may limit the protection we can obtain under a patent. Our competitive position may be undermined if we do not adequately protect our intellectual property rights, which may have a material adverse effect on our business, results of operations and financial condition.

We are subject to, and may in the future be required to defend against, charges of infringement of patents or other proprietary rights of third parties.

Although we take steps to ensure that our products do not infringe upon third-party rights, the rapid technological changes that characterise the household appliances industry require that we quickly implement new processes and components with respect to many of our products. With respect to recently developed processes and components, a degree of uncertainty often exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims that such components or processes infringe upon third-party rights may be brought against us. In addition, patent holding companies may seek to monetize patents they have purchased or otherwise obtained. As a result, we face the risk of litigation and regulatory proceedings relating to infringement of intellectual property rights in various countries. In particular, we compete with manufacturers that hold significant patent portfolios. Because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of pending patent applications that relate to our products or processes.

If our products or manufacturing processes are found to infringe upon third-party rights, we may be subject to significant liabilities and be required to seek licences from third parties, pay ongoing royalties or redesign certain products, or become subject to injunctions prohibiting the manufacture and sale of certain products or the use of intellectual property in certain jurisdictions.

The defence of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Protracted litigation could also discourage certain of our industrial customers from purchasing our component products until the resolution of such litigation. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We rely on technology and intellectual properties licenced to us by third parties and our businesses may suffer if we are unable to renew our licencing arrangements with them on acceptable terms.

From time to time, we obtain licences for patent, copyright, trademark and other intellectual property rights that are important to certain processes and technologies used in the production of our products. We have entered into licencing arrangements with third parties pursuant to which we have made, and continue to make, periodic licence fee payments. In addition, we also have cross-licence agreements with various third parties. These agreements terminate upon the expiration of the respective terms of each patent.

If we are unable to obtain or renew such licencing arrangements on acceptable terms, we may lose the legal protection to use or become prohibited from using the relevant intellectual property, which may prevent us from manufacturing, marketing and selling certain of our home appliance products. In addition, we could be at a disadvantage if our competitors obtain licences for protected technologies on more favourable terms than we do. There can be no assurance that these licencing agreements can be obtained or renewed on acceptable terms or at all, and inability to do so may adversely affect our business, results of operations and financial condition.

Our business is subject to extensive governmental regulations and approvals.

In order to operate our businesses and in response to our expanded international markets, we are required to obtain and comply with various permits, licences, certificates, consents and other approvals from administrative authorities. Each approval is dependent on the satisfaction of certain conditions and failure to obtain governmental approvals could have an adverse effect on our operations. We are also subject to inspections, examinations, inquiries and audits by governmental authorities as part of the process of maintaining or renewing our permits, licences or certificates.

There can be no assurance that we will be able to fulfil the pre-conditions necessary to obtain the required governmental approvals or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to our operations. There may be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals.

We are subject to a broad range of regulations and may be subject to fines or restrictions that could cause our operations to be interrupted.

We are subject to a broad range of increasingly strict laws and regulations relating to, among other areas, the environment, occupational health and safety and labour practises, both in China and in other jurisdictions in which we operate. Compliance with such regulations is costly, and failure to comply could subject us to legal liability, fines and other sanctions.

In the area of environmental regulation, we are required to comply with laws and regulations relating to air emissions, discharges into water, noise pollution, toxic chemicals, waste treatment, and the energy efficiency of certain products, among other things. We are also subject to periodic monitoring by environmental protection authorities in various jurisdictions. Any failure on our part to comply with any present or future environmental regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a loss of licence to operate certain facilities. In addition, new environmental regulations could require us to acquire costly equipment or to incur other significant compliance expenses that may adversely affect our business, results of operations and financial condition.

In addition, we may in the future be subject to potentially material liability relating to the investigation and clean-up of contaminated areas, including groundwater, at properties owned or formerly owned, operated or used by us and to claims alleging personal injury or damage to natural resources. There can be no assurance that we will not incur environmental liability beyond the limits, or outside the coverage, of any insurance or that our provisions for environmental remediation will be sufficient to cover the ultimate loss or expenditure.

Further, we may be required to make additional investments and change our product design and manufacturing processes to meet energy efficiency standards necessary to market such products in certain jurisdictions, including the United States and Europe.

Finally, there is a growing global consumer focus on the labour and environmental practises of manufacturers, particularly in low-cost countries. Additional, more stringent social responsibility laws and regulations may be adopted in the future, which may result in an increase in our cost of compliance. In addition, if we fail to comply with such laws and regulations, we may be subject to fines, penalties, legal judgements or other costs, which may adversely affect our operating results and financial condition. In addition, a finding of noncompliance, or the perception that we have not responded appropriately to growing consumer concern for issues relating to social responsibility, whether or not we are legally required to do so, may adversely affect our reputation, and consequently our operating results and financial condition.

Our compliance and risk management systems may not be sufficient to prevent us from the effects of credit, market, liquidity, operation and other risks.

In connection with our worldwide business operations, we must comply with a broad range of legal and regulatory requirements in numerous jurisdictions and local operational business processes, particularly relating to sales of products and services. While we have established compliance and risk management systems that support our operational business processes, help address compliance with legislative provisions and, where necessary, initiate appropriate countermeasures to misconduct, there can be no assurance that our internal controls and compliance systems are adequate to address all applicable risks in every jurisdiction. Similarly, we can provide no assurance that such controls and systems of joint ventures and other partnering arrangements can be aligned with our own, and we may have to rely on their controls and systems for compliance with respect to their business practises.

The policies we have put in place to prevent direct or indirect acts of corruption, bribery, anti-competitive behaviour, money laundering, breaches of sanctions, fraud, deception, tax evasion and other criminal or otherwise unacceptable conduct may be insufficient to prevent all non-compliance in these areas.

The materialisation of any of these risks may result in reputational loss and materially adverse legal consequences, such as debarment, the imposition of fines or sanctions and penalties on us or the members of our governing bodies or employees and could lead to the assertion of damages claims by third parties or to other detrimental legal consequences, including civil and criminal penalties. If any of these risks were to materialise, this could also have a material adverse effect on our business, financial condition and results of operations, reputation or prospects.

Our business may suffer as a result of adverse outcomes of current or future litigation and regulatory actions, including with respect to anti-competitive practises.

We face the risk of litigation and regulatory proceedings in different countries in the ordinary course of our business. Legal proceedings, including regulatory actions, may seek to recover large indeterminate amounts or to limit our operations, and the possibility that they may arise, and their magnitude may remain unknown for substantial periods of time. In particular, legal proceedings, including regulatory actions, may result from product defects and antitrust scrutiny of market practises for anti-competitive conduct both in the PRC and in other jurisdictions. For example, as we expand our operations globally, antitrust or competition regulatory authorities in certain jurisdictions may find our cooperation with other entities, or our conduct of business with other entities in a coordinated way, is not compliant with certain antitrust or competition laws and regulations. Consequently, we may be subject to certain antitrust investigations, lawsuits or regulatory proceedings, and may be subject to fines, civil liability or criminal liability. Further, the nature of our business and operations is such that we are subject to product liability claims or claims arising from defects in our products from time to time. Such claims, including the damages being sought, whether or not they have any basis, may be substantial and could extend beyond the direct losses suffered by our counterparties. A substantial legal liability or adverse regulatory outcome and the substantial cost of defending litigation or regulatory proceedings may have an adverse effect on our business, results of operations, financial condition, cash flows and reputation. Further, such lawsuits, regulatory proceedings and investigations could also divert significant resources from our normal operations.

Our business and platforms generate and process a large amount of consumer and other data, and the improper use or disclosure of such data could subject us to fines and legal liability and harm our reputation.

Our business and platforms generate and process a large quantity of transaction, user demographic and behavioural data, as well as confidential customer and employee data. We face a variety of risks inherent in handling large volumes of data, including:

- protecting the data in and hosted on our systems or platforms;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

We are subject to data protection laws and regulations both in the PRC and in other jurisdictions where our customers, suppliers, platform users and other counterparties are located. The laws, rules and regulations of other jurisdictions may impose more stringent or conflicting requirements and penalties than those in China, and compliance with these requirements could require significant resources and costs. For example, within the European Economic Area ("**EEA**") and in the United States, data protection legislation is comprehensive and complex and there has been a recent trend toward more stringent enforcement of requirements regarding protection and confidentiality of personal data.

Failure or partial failure to comply with data protection rules and regulations could result in substantial monetary fines. There can be no assurance that measures taken by us to implement the requirements are sufficient to ensure compliance with applicable data protection laws and regulations. Even if we believe we will be in compliance with such laws and regulations as a result of these measures, the competent regulatory authorities may conclude otherwise, including as a result of the lack of practical experience in the application and enforcement of such legislation.

Failure, if any, on our part or on the part of third-parties to adequately safeguard consumer data and any wrongful use of such information or disclosure to unauthorised persons or entities could subject us to claims for damages or other liability, fines, a loss of customers and reputational damage, all of which could have a material adverse effect on our business, results of operations, or financial condition.

In the era of IoT, our products and services involve the storage and transmission of users' and customers' proprietary information, and theft and security breaches expose us to a risk of loss of this information, improper use and disclosure of such information, litigation, and potential liability. Any systems failure or compromise of our security that results in the release of our users' data, or in our or our users' ability to access such data, could seriously harm our reputation and brand and, therefore, our business, and impair our ability to attract and retain users. We will continue to maintain internal procedures and security protections that shield against theft and security breaches. We have implemented systems and processes intended to secure our information technology systems and prevent unauthorised access to or loss of sensitive data, including through the use of encryption and authentication technologies. These security measures may not be sufficient for all eventualities and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. To help protect users and ourselves, we monitor our services and systems for unusual activity and may block unauthorised operations under suspicious circumstances, which, among other things, may result in the delay or loss of user orders, impede user access to our products and services, or subject us to claims or other legal proceedings against us.

We may not be able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties.

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties that could affect our reputation and subject us to litigation, financial losses and sanctions imposed by governmental authorities. Such misconduct could include:

- hiding unauthorised or unlawful activities, resulting in unknown and unmanaged risks or losses;
- intentionally concealing material facts or failing to perform necessary due diligence procedures designed to identify potential risks that are material to our decision to make or dispose of investments and to engage in certain projects;
- improperly using or disclosing confidential information;
- engaging in improper activities such as offering bribes to, or receiving bribes from, counterparties in return for any type of benefit or gain;
- misappropriating funds;
- conducting transactions that exceed authorised limits;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities;
- engaging in unauthorised or excessive transactions to the detriment of our customers; or
- otherwise failing to comply with applicable laws or our internal policies and procedures.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, such internal control procedures may be unable to identify all instances of non-compliance or suspicious transactions in a timely manner, if at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct and the precautions we take to prevent and detect such activities may not be effective. There is no assurance that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may result in negative publicity for us.

We will have significant capital requirements in connection with our business strategy and if capital resources are not available on a timely, adequate and matched basis, we may not be able to implement our strategy and future plans.

We incurred significant expenditure during the Track Record Period in connection with our strategy to expand into new geographic markets and enhance our global presences through acquisitions. We may continue incur additional capital expenditures in the future. In the event of adverse market conditions, or if our actual expenditures significantly exceed our planned expenditures, our external financing activities combined with our internal sources of liquidity may not be sufficient to implement our current and future operational plans.

To the extent that our existing sources of capital are not sufficient to satisfy our needs, we may have to seek external sources, including through the issuance of additional equity or debt securities in the domestic or international capital markets or additional bank borrowings. Our ability to obtain additional capital from external sources in the future is subject to a variety of uncertainties, including:

- the liquidity and volatility of the Chinese and international capital markets;
- the PRC government's policies regarding Renminbi and foreign currency borrowings;
- our future financial condition, results of operations and cash flows;
- our ability to obtain the necessary regulatory approvals on a timely basis;
- any tightening of credit markets and general market conditions for debt and equity raising activities by financial institutions;
- foreign exchange controls; and
- economic, political and social conditions in the geographical markets in which we operate and elsewhere.

There is no assurance that we will be able to obtain additional capital in a timely manner or on acceptable terms, if at all. The failure to obtain sufficient financing on commercially reasonable terms could delay or derail our ability to pursue our business strategy, which could adversely affect our product development, business and results of operations. Future debt financing could include terms that restrict our financial flexibility or restrict our ability to manage our business. If we are not able to issue shares in the future, we may need to explore other avenues of raising capital.

Our operations may be restricted by our current and future debt covenants, failure to comply with the terms of our indebtedness could result in acceleration of debt, and our leverage could make it difficult for us to operate our business.

Under the terms of our principal bank loans and under any debt financing arrangement that we may enter into in the future, we are, and may in the future be, subject to covenants that could, among other things, restrict the business and operations of our Group and/or one or more of our subsidiaries. For example, our USD3.3 billion term loan to finance the acquisition of GE Appliances contains a number of covenants and other restrictions, including with regard to mergers and acquisitions, disposals, payment of dividends and other distributions and the granting of security. Specifically, we are required to, among other things, comply with certain financial thresholds imposed on liabilities/asset ratio and EBITDA ratio. If we breach any of these covenants, our lenders and the holders of our debt securities will be entitled to accelerate our debt obligations. Any default under our debt obligations could require that we repay these debts prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity. In addition, our loan agreements with certain banks may contain cross-default clauses which state that if we breach the provisions of another loan agreement, we will also be in breach of the first loan agreement. If any cross-default occurs, such banks are entitled under these agreements to accelerate the repayment of all or part of the relevant loans and to recover against the security for such indebtedness. Furthermore, our indebtedness may be accelerated if our lenders conclude that we are at risk of not being able to repay the indebtedness. If our indebtedness is accelerated or declared default, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing. Our Directors confirm that we had neither material defaults in payment of loans and borrowings, nor any breach of financial covenants during the Track Record Period.

We have and will continue to have a substantial amount of outstanding debt. Our total interest-bearing borrowings as at 31 July 2020 amounted to RMB35 billion. Our significant leverage could have important consequences for our business and operations, including making it more difficult for us to satisfy our obligations under our financing arrangements; increasing our vulnerability to a downturn in our business or general economic and industry conditions; requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt and reducing the availability of our cash flow to fund internal growth through capital expenditures and for other general corporate purposes; negatively impacting credit terms with our creditors; and limiting, among other things, our ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional capital.

We have investments in associates, joint ventures and other entities which we do not fully own or over which we do not have full control.

We have investments in associates, joint ventures and other entities which we do not fully own or control. Such investments involve risks, including the possibility that partners or co-investors may become bankrupt, fail to fund their required capital contributions or perform their obligations poorly or not at all. Our co-investors may have objectives that are inconsistent or that conflict with our business interests or goals and may be in a position to block or impede action with respect to our investments or take actions contrary to our policies, objectives or interests. In some joint ventures we are bound by shareholders' and other agreements which further limit our control over the relevant joint venture vehicle. Disputes between us and our co-investors may result in litigation or arbitration that may consume significant financial and other resources and result in the loss of business opportunities and growth. Furthermore, actions by our co-investors, of which we may be unaware, or which we may be unable to control, such as political affiliations, illegal or corrupt practises and other activities, may cause reputational damage to us or result in adverse consequences for our investments, including incurring costs, damages, fines or penalties, construction delays, reputational losses or the loss of key customer relationships. In addition, since our investment would sometimes involve commitment over a certain period of time, in the event there is no dividend declared by those entities, the cash flow and financial positions of our Group could be adversely affected. Furthermore, since investments in associates and joint ventures are not as liquid as other investment products, even if profits are reported under equity accounting methods for such investments, there will be no cash flow until we receive dividends, which may subject us to liquidity risks. The above risks could have a material adverse effect on our business, financial condition and results of operations.

We recorded significant amount of goodwill and other intangible assets, and our operating results may vary significantly due to the impairment of goodwill and other intangible assets.

As at 30 June 2020, we had RMB24,141 million in goodwill and RMB9,584 millions of other intangibles assets recorded in our consolidated financial statements. Under the IFRS, we are required to annually (or more frequently) test our recorded goodwill and indefinite-lived intangible assets and to assess the carrying values of other intangible assets when impairment indicators exist. As a result of such tests, we could be required to book impairment charges in our statement of profit or loss if the carrying amount of an asset or a cash-generating unit is in excess of its recoverable amount. The amount of any potential impairment is not predictable. Factors that could trigger an impairment of such assets include the underperformance of our business relative to projected future operating results, negative industry or economic trends, including changes in market rates or weighted average cost of capital or applicable tax rates. Any potential future impairment, if required, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks relating to fluctuations in foreign exchange rates.

We are exposed to foreign exchange risk primarily through sales and purchases, capital expenditures and expenses that are denominated in a currency other than the functional currency of the relevant subsidiary. In 2017 and for the six months ended 30 June 2020, we incurred a net foreign exchange loss of RMB589 million and RMB217 million, respectively. In 2018 and 2019, we incurred a net foreign exchange gain of RMB2 million and RMB276 million, respectively. In addition, we are also subject to currency conversion risks as our consolidated financial statements are denominated in Renminbi while the financial statements of our subsidiaries are measured and presented in the currency of the primary economic environment in which the entity operates. In 2017 and for the six months ended 30 June 2020, we incurred other comprehensive loss through exchange differences on translating foreign operations of RMB251 million and RMB78 million, respectively. In 2018 and 2019, we incurred other comprehensive income through exchange differences on translating foreign operations of RMB632 million and RMB500 million, respectively. Our foreign currency exposure mainly arises from the exposure of Renminbi against the U.S. dollar, the Euro and, to a lesser extent, the Japanese yen. Our results of operations in 2017 were adversely affected by the appreciation of the Renminbi against other currencies, including, in particular, the U.S. dollar. There may be limited hedging instruments we can use to reduce our exposure to exchange rate fluctuation, and the hedging instrument we use to reduce our foreign exchange risk exposure may not be effective. Also, the cost of such foreign exchange rate hedging instruments may fluctuate significantly over time and may outweigh the potential benefit from the reduced currency volatility.

On 21 July 2005, the PBOC announced changes to the Renminbi exchange rate regime. Subsequent to that date, the PRC moved into a managed floating exchange rate regime based on market supply and demand for Renminbi with reference to a basket of currencies so that Renminbi would no longer be pegged specifically to the U.S. dollar. On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change of primary international currencies. On the same day, the central parity of the Renminbi against the U.S. dollar depreciated by nearly 2.0% as compared to 10 August 2015, and further depreciated by nearly 1.6% on 12 August 2015 as compared to 11 August 2015. On 11 December 2015, the China Foreign Exchange Trade System ("**CFETS**"), "a sub institutional organisation" of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. On 1 October 2016, the International Monetary Fund ("**IMF**") included Renminbi in the basket of currencies that make up the Special Drawing Right ("**SDR**"), along with the U.S. dollar, the Euro, Japanese yen and the British Pound.

The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of the PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the midpoint exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currency may result in a decrease in the value of our foreign currency denominated revenue or assets.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. However, there is no assurance if or when these further reforms will occur. Any volatility of the Renminbi exchange rate in the future may materially affect our businesses, financial condition, operating results and future prospects and any devaluation of the Renminbi against the U.S. dollar, the Euro or the Japanese yen will increase the amount of Renminbi we would need to service our obligations denominated in these currencies.

Increases in interest rates may have an adverse effect on our results of operations.

Certain of our borrowings are subject to variable interest rates. As a consequence, any rise in short-term interest rates exposes us to increased borrowing costs. We seek to manage interest rate risk with interest-rate swaps and forward rate agreements, which have the effect of converting floating rates to fixed interest rates. As at 31 December 2017, 2018, we had interest rate swaps assets of RMB82 million and RMB58 million, respectively. As at 31 December 2019 and 30 June 2020, we had interest rate swaps liabilities of RMB14 million and RMB92 million, respectively. We also seek to manage our interest rate risk by maintaining a balance between fixed rate and floating rate exposure. However, no assurance can be given that these measures will be effective in protecting we against interest rate risk and a failure to manage this risk could have an adverse effect on our business, results of operations and financial condition.

Our current preferential tax treatment may be amended or abolished, and we may not always be eligible for government grants.

During the Track Record Period, our Company and certain of our subsidiaries enjoyed preferential tax treatment after approval by the local tax authorities. The amount of such preferential tax treatment were determined at the sole discretion of the respective local government authorities. There can be no assurance that the amount of preferential tax treatment granted to these subsidiaries in the past will be granted to them in the future. Our eligibility to receive such preferential tax treatment requires that we continue to qualify for such treatment, and there can be no assurance that our determination regarding our qualification to enjoy the preferential tax treatment in the future will not be challenged by the relevant PRC tax authority.

In 2017, 2018, 2019 and the six months ended 30 June 2020, we received government grants of approximately RMB902 million, RMB899 million, RMB1,256 million and RMB448 million, respectively. Our government grants primarily include fiscal grants from the government for our contribution to local economy, the amounts of which were determined and paid at the sole discretion of the respective local government authorities. We cannot assure you that we will continue to be eligible for such government grants in the same amount, or at all.

Since our receipt of such preferential tax treatment and government grants may be subject to changing governmental practice, as long as we continue to receive these preferential tax treatment and government grants, our results of operations in a particular period may be better or worse relative to other period depending on the potential changes in these financial incentives in addition to any business or operational factors that we may otherwise experience. In the event that such preferential tax treatment or government grants is amended, abolished or otherwise no longer granted to us, our financial results, particularly the after-tax financial results, could be adversely affected.

Our limited insurance coverage may not cover all losses, which may increase our operational costs.

We currently have insurance coverage for our properties and fixed assets, plant and equipment and inventories, which we consider to be exposed to major business risks. We also maintain third-party insurance policies covering certain potential risks and liabilities including product liability and property liability. We do not however, carry business interruption insurance and insurance in respect of certain risks that we believe are not insured under customary industry practise in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war, nuclear contamination, tsunami, pollution, acts of terrorism and civil disorder. Accordingly, there may be circumstances in which we will not be covered or compensated, in part or at all, for specific losses, damages and liabilities. Although we carry insurance on our properties with respect to specified catastrophic events such as certain natural disasters or outbreaks of contagious diseases of types and in amounts and with deductibles that we believe to be in line with coverage customarily obtained by owners of similar properties, we cannot guarantee that our insurance coverage is sufficient to cover potential losses. Nevertheless, we would remain obliged for any bank borrowings or other financial obligations related to the property.

In addition, we are subject to the risks of losses arising from the misappropriation of cash or other assets by our employees or third parties, which losses may not be sufficiently covered by our insurance policies. Any risk that is not adequately covered by insurance may have an adverse effect on our business, results of operations and financial condition.

The fair value measurements of certain financial assets and liabilities require the use of estimates that are based on unobservable inputs, which inherently involves a certain degree of uncertainty, and our financial position and results of operations may be adversely affected by fair value changes in our financial assets measured at fair value through profit or loss.

Some of our financial assets and liabilities are measured at fair value, which include our wealth management products, foreign currency forward contracts, forward currency option and equity investment in listed and unlisted companies. For financial reporting purposes, fair value measurements of these financial assets and liabilities are categorised into level 1, 2 or 3, based on, among other things, the degree to which the inputs to the fair value measurements are "observable". The fair value of financial assets and liabilities classified in levels 1 and 2 is determined on observable prices and inputs, while the determination of the fair value of level 3 financial assets and liabilities is based on valuation techniques and various assumptions of inputs that are unobservable which inherently involve a certain degree of uncertainty. See "Summary of Significant Accounting Policies" in Note 2.3 to the Accountants' Report as included in Appendix I to this Listing Document for more information.

Changes in these unobservable inputs will affect the estimated fair value of our level 3 financial assets and liabilities, which leads to uncertainty in accounting estimation. A range of factors, many of which are beyond our control, may influence and cause adverse changes to the estimates we use and thereby affect the fair value of these assets and liabilities. These factors include but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Many of these factors, as well as others, could cause our estimates to vary from actual results and cause the fair value of our financial assets and liabilities to fluctuate substantially. We are also subject to credit risks of our counterparties for our financial assets and liabilities measured at fair value. A substantial decrease in the fair value of our financial assets may have an adverse effect on our financial position and may cause us to recognise a significant fair value change in financial assets at fair value through profit or loss which may in turn adversely affect our results of operations.

The amount of our deferred tax asset is subject to uncertainties of accounting estimates.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. We believe that the amount of our deferred tax asset is subject to the uncertainties of accounting estimates.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our deferred tax assets amounted to RMB2,088 million, RMB1,822 million, RMB1,579 million and RMB1,432 million, respectively. Based on our accounting policies, significant management judgment 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. Where the actual or expected tax position of the relevant companies of our Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and liabilities and income tax charge in the period in which such estimate has been changed.

Our franchisees and sub-franchisees may not be able to find suitable locations for new stores on commercially acceptable terms, or at all.

Our performance depends to some extent on the location of our franchised stores. When selecting a site for a new franchised store, we will take into account various factors, including among others:

- market demand for and local economic conditions;
- local demographics;
- geographic coverage of the location and available lettable area; and
- customer traffic, financial condition and sustainability of the relevant department store or shopping mall.

When our franchisees and sub-franchisees open their stores, they generally secure retail locations through lease. The supply of prime locations is scarce and the competition to secure these locations is intense. As a result, our franchisees and sub-franchisees may not be able to identify and lease suitable locations. In the past few years, the overall cost of leasing suitable locations in the PRC has increased significantly. This is particularly the case for prime retail locations. The ability to lease suitable properties on terms acceptable to our franchisees and sub-franchisees is critical to the success of our business and expansion strategy. We cannot assure you that our franchisees and sub-franchisees will be able to lease suitable locations on terms commercially acceptable. In the event that our franchisees and sub-franchisees encounter difficulties in securing suitable sites in the localities we plan to expand into, our business and growth prospects will be adversely affected.

As the tech-savvy millennials have become the major consumption force and as the internet and smartphone penetration rates have rapidly grown in China, e-commerce has witnessed remarkable growth in the recent decade. During the Track Record Period, approximately 8.5%, 7.9%, 8.9% and 11.5% of our revenue was generated through online sales channels in China. Increased preference over online shopping may reduce sales made through offline sales channels. Consequently, investments by our franchisees and sub-franchisees in our franchised stores may not be successful.

We may not be able to effectively manage any overlap or potential competition among our different sales channels.

During the Track Record Period, we sold our products through our omni-channel sales network, which covers various offline and online channels. Although we have implemented measures to manage overlap or potential competition among our sales channels, we cannot assure you that these measures will be effective. As a result, the expansion of our sales network may not lead to proportionate expansion of our sales revenue. Furthermore, adverse competition or cannibalisation among our sales channels may have a negative impact on the stability of our sales network, which may have a material and adverse effect on our profitability, business, financial condition and results of operations.

We rely on certain utilities such as electricity and water in our manufacturing process, and any failure or shortage in the supply of such utilities may adversely affect our business.

Our manufacturing process is dependent on certain utilities, such as electricity and water. Any shortage or interruption in the supply of utilities could disrupt our operations and increase our cost of production or result in delays in the shipment of products to customers. For example, although we have entered into long-term supply contracts for key utilities with the government, state-owned or other utility suppliers in the PRC, there can be no assurance that we will not experience any disruptions in utility supply in future. Moreover, the price of various kinds of utilities may fluctuate and we cannot predict future price trends or the degree of any price volatility. In most cases, local governments regulate tariffs for industrial enterprises such as us, and we cannot predict whether the local governments will raise tariffs in the future. Any significant increase in the prices of utilities, any shortage or government-imposed curtailment on utilities usage or any interruption in utilities supply could increase our cost of sales and/or cause disruptions to our operations. This, in turn, may adversely affect our business, results of operations and financial condition.

Our operations rely on complex information technology systems and networks, and any disruptions in such systems or networks, including as a result of cybercrime, could have a material adverse effect on our business.

We rely heavily on information technology systems and networks to support research, procurement, manufacturing, sales, logistics, services and business processes as well as internal and external communications. The consistent, efficient and secure operation of our IT systems, including computer hardware, software, platforms and networks, is critical to the successful performance of our operations and its reputation. Computer systems are important to, among other business-critical processes, our manufacturing processes, production planning, inventory management, sales, customer service, order fulfilment and logistics processes.

Despite IT maintenance and security measures, our internal IT systems and networks are exposed to the risk of malfunctions and interruptions from a variety of sources, including due to unauthorised access, cyberattacks, equipment damage, deficient database design, power outages, computer viruses and a range of other hardware, software and network problems, and we have in the past experienced malfunctions and interruptions. Our IT personnel may not be able to resolve such issues in a timely manner or at all. Some potential causes that can lead to a malfunction or interruption of our IT systems or networks are difficult to detect and may only be detected once the risk has already materialised. A significant or large-scale malfunction or interruption, whether malicious or otherwise, of one or more of our IT systems or networks could adversely affect our ability to keep our operations running efficiently and affect manufacturing processes, production planning, inventory management, customer service and order fulfilment, particularly in the country or region in which the malfunction occurs. Moreover, an extended outage at a telecommunications network utilised by our IT systems or networks or a similar event outside our control could lead to an extended unanticipated interruption of our IT systems or networks, which could have an adverse effect on our business. Furthermore, any data leaks resulting from information technology security breaches may result in the disclosure or misuse of proprietary or confidential information, including customer and employee data, which may subject us to fines, claims for damages, and reputational damage. See also "—Our business and platforms generate and process a large amount of consumer and other data, and the improper use or disclosure of such data could subject us to fines and legal liability and harm our reputation."

In addition, certain information about customers and processes may be stored on shared services centres provided by third parties. The concentration of information and processes in shared services centres means that any technology disruption could impact a large portion of our business within the operating regions served. Any transitions of processes to, from or within shared services centres as well as other transformational projects could lead to business disruptions.

We may suffer losses caused by the occurrence of extraordinary events, including natural disasters or outbreaks of contagious diseases, and these losses may not be fully covered by insurance.

Our business may be adversely affected by the occurrence of typhoons, severe storms, earthquakes, floods, wildfires or other natural disasters or similar events in China and other areas where we operate. In addition, any outbreak of a contagious disease, such as severe acute respiratory syndrome (SARS), Middle East respiratory syndrome, avian influenza or novel coronavirus disease (COVID-19), could disrupt our operations in terms of our global supply chain, production, delivery as well as sales. Such events could decrease demand for our products, impact the productivity of our workforce, make it difficult or impossible for us to make and deliver products to our customers, or to receive components or products from our suppliers, and create delays and inefficiencies in our supply chain. While our suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to our business and harm to our reputation. Should major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of our suppliers and logistics providers. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

RISKS RELATING TO THE PRC

A significant portion of our operations and investment assets are located in the PRC. Accordingly, our business, financial condition, results of operations and prospects are subject to the economic, political and legal developments in the PRC.

Economic, political and social conditions in the PRC and PRC government policies could affect our results of operations, financial condition and prospects.

A significant portion of our Group's assets are located in China, and a majority of our revenue is derived from our businesses in China. Accordingly, our Group's business, financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. While the Chinese economy has experienced significant growth in the past few decades, its growth rate has slowed down since 2012, and growth has been uneven across different regions and among various economic sectors.

RISK FACTORS

Our operating performance has been and will continue to be affected by the PRC economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy and the political environment in various regions of the world will continue to impact PRC's economic growth. See "— Risks Relating to Our Business and Industry — Our growth and profitability depend on economic conditions and the level of consumer spending in the PRC and our other key markets". We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social and regulatory developments, and many of these risks are beyond our control. All such factors may adversely affect our business, financial condition and results of operations. There can be no assurance that we will not be adversely affected by current or future government measures or reform policies or the PRC government's continuing influence on business and the economy in China.

Holders of H Shares may not be able to enforce their rights successfully as shareholders in the PRC Company Law or Hong Kong Regulatory provisions.

Our Articles of Association provide that disputes or claims between holders of H Shares and the Company, the Directors, Supervisors or senior management, or holders of our domestic shares, arising out of any rights or obligations conferred or imposed upon us by our Articles of Association, the PRC Company Law and related rules and regulations concerning our affairs, are to be resolved through arbitration. A claimant may elect to submit a dispute to either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Centre in accordance with their respective applicable rules. Pursuant to the Arrangement on the Mutual Enforcement of Arbitration Award between the Mainland and the Hong Kong Special Administrative Region (關於內地與香港特別行政區相互執行仲裁裁決的安排), awards that are made by the PRC arbitral authorities under the Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) can be recognised and enforced by Hong Kong courts. Hong Kong arbitration awards pursuant to the Arbitration Ordinance of Hong Kong (香港仲裁條例) may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, no assurance can be given as to the outcome of any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favour of holders of H Shares.

Restrictions on the remittance of Renminbi out of the PRC and governmental control over currency conversion may limit our liquidity, our ability to pay dividends and other obligations, and may affect the value of your investment.

A significant portion of our revenue and expenses are denominated in Renminbi, which is currently not freely convertible to other foreign currencies. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations, which affect exchange rates and our foreign exchange transactions. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from the SAFE but are subject to procedural requirements, including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have licences to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of returns on direct capital investment and investment in negotiable instruments are also subject to restrictions. There is no assurance that we will be able to obtain such approval in a timely manner, or at all.

The policies regarding foreign exchange transactions under the current account and the capital account may not necessarily continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an adverse effect on our foreign exchange transactions and the fulfilment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from SAFE to convert Renminbi into any foreign currency for foreign exchange transactions, our business, financial condition and results of operations may be adversely affected.

Investors will be subject to PRC taxation on dividends and on gains on sale or other disposition of their H Shares.

Pursuant to the Circular on Some Policy Issues Concerning Individual Income Tax from the MOF and the SAT (Caishuizi No. 020 1994) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) (財稅字[1994] 020號), the incomes in relation to dividends from foreign invested companies are exempt from individual income tax for individual foreigners. Therefore, holders of H shares may have the opportunity to exempt individual income tax from the dividends distributing by us. However, it may be difficult to distinguish individual investors and enterprise investors in practice, under this circumstance the PRC enterprises with foreign investment will usually withhold individual tax at a rate of 10% when distributing dividends to non-PRC resident individual holders. Notwithstanding the above, withholding tax on distributions paid by us to non-PRC resident individuals may be imposed at other rates pursuant to applicable tax treaties (up to 20% if no tax treaty is applicable) if the identity of the individual holder of H shares and the tax rate applicable thereto are known to us.

In addition, under the Individual Income Tax Law of the PRC and its implementing regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realised upon the sale or other disposition of H Shares. To our knowledge, as at the date of this Listing Document, in practise the PRC tax authorities have not sought to collect individual income tax on non-PRC resident individual holders for such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be adversely affected.

Under the EIT Law and its implementing regulations, non-PRC resident enterprises (referring to those enterprises which do not establish any organisation or maintain any venue in mainland China, or even with an established organisation or held venue in mainland China, do not have any actual connections with such organisation or venue) are generally subject to enterprise income tax at a rate of 10% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction of taxation residency of the non-PRC resident enterprise; the payable income taxes that a non-resident enterprise earns shall be withheld by income sources, with the payer acting as the obligatory withholder. The tax amount shall be withheld by the obligatory withholder from each payment or payment due. For additional information, see "Appendix IV—Taxation and Foreign Exchange—PRC Taxation".

Further, there are uncertainties regarding the interpretation and implementation of the EIT Law and its implementing rules by the PRC tax authorities, including whether and how enterprise income tax on gains derived from the sale or other disposition of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC resident enterprise holders' investments in H Shares may be adversely affected.

It may be difficult to effect service of process upon us or our senior management members outside of the PRC or to enforce judgements of non-PRC courts against them.

A significant portion of our assets and subsidiaries are located in China. In addition, a majority of our directors and senior management reside within China, and the assets of the directors and senior management may also be located within China. As a result, it may not be possible to effect service of process outside China upon most of our directors and senior management, including for matters arising under applicable securities law. A judgement of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal enforcement of judgements of courts with Germany, Japan, the United Kingdom, the United States and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgements with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgements from various jurisdictions is uncertain.

Our Controlling Shareholder has substantial influence over our Company, and its interests may not be aligned with the interests of the public shareholders who subscribe for H Shares in the Listing.

Immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), Haier Group will continue to hold approximately 35.14% of the issued share capital of our Company directly and indirectly through subsidiaries and voting rights arrangements, thus remain our Controlling Shareholder. The interests of the Controlling Shareholder may differ from the interests of other shareholders of us, including public shareholders who subscribe for H Shares. The Controlling Shareholder will have significant influence on the outcome of any corporate transaction or other matters submitted to our public shareholders for approval, including mergers, consolidations, sales of all or substantially all of our assets, election of directors and other significant corporate actions. To the extent that the interests of our Controlling Shareholder conflict with those of other public shareholders of us, the interests of the other public shareholders may be disadvantaged or harmed.

RISKS RELATING TO OUR TRIPLE LISTING

There are uncertainties relating to the Privatisation

As stated in the 3.5 Announcement and the Scheme Document, our Listing is in connection with the Privatisation to enable us to offer listed H Shares as consideration for the cancellation of the

Scheme Shares. Accordingly, the success of the Listing is conditional upon the Privatisation becoming successful and it is a condition to the Scheme becoming effective that the Listing Committee of the Stock Exchange approves the listing of, and permission to deal in, our H Shares on the Stock Exchange issued pursuant to the Introduction.

The Scheme is subject to various conditions as set forth in detail in the Scheme Document. As at the date of this Listing Document, the following conditions, amongst others, remain unfulfilled:

- the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders;
- the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH of such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act of Bermuda;
- the sanction of the Scheme (with or without modifications) by the Court, and the delivery to the Registrar of Companies in Bermuda of a copy of the Court Order for registration; and
- the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act of Bermuda in relation to the reduction of the issued share capital of HEG.

The above conditions cannot be waived. Accordingly, if any of the conditions are not satisfied on or before the Scheme Long Stop Date, the Privatisation will lapse and the Listing will be aborted.

There are different characteristics between the Shanghai stock market, Frankfurt stock market and the Hong Kong stock market.

Our A Shares were listed on the Shanghai Stock Exchange in 1993 and our D Shares were listed on the China Europe International Exchange (CEINEX D-Share Market) through admission to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (*Prime Standard*) in 2018. Following the Listing, our A Shares will continue to be traded on the Shanghai Stock Exchange and our D Shares will continue to be traded on the Frankfurt Stock Exchange. Our H Shares traded on the Stock Exchange will be registered by the Hong Kong Branch Share Registrar. Our A Shares, D Shares and H Shares are neither interchangeable nor fungible, and there is no trading or settlement between the stock markets of Shanghai, Frankfurt and Hong Kong. With different trading characteristics, the A-Share, D-Share and H-Share markets have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our A Share, D Shares and H Shares may not be comparable. Nonetheless, fluctuations in the prices of our A Shares, D Shares and H Shares may adversely affect each other. Due to the different characteristics of the A-Share, D-Share and H-Share markets, the historical prices of our D Shares and A Shares may not be indicative of the performance of our H Shares. Moreover, fluctuations in the exchange rates between Euros and Hong Kong dollars as well as between Renminbi and Hong Kong dollars can also adversely affect the trading prices of our A Shares, D Shares and H Shares. Prospective investors should therefore not place undue reliance on the prior trading history of our D Shares and A Shares when evaluating an investment in our H Shares.

We will be concurrently subject to Shanghai, Frankfurt and Hong Kong listing and regulatory requirements.

As we are listed on the Shanghai Stock Exchange, China Europe International Exchange (CEINEX D-Share Market) through admission to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (*Prime Standard*) and will be listed on the Main Board in Hong Kong, we will be required to comply with the listing rules (where applicable) and other regulatory regimes of all the three jurisdictions, unless an exemption is available or a waiver has been obtained. Accordingly, we may incur additional costs and resources in continuously complying with all sets of listing rules in all three jurisdictions.

There has been no prior public market for our H Shares in Hong Kong, and there can be no assurance that an active market will develop.

Prior to the Listing, there has not been a public market for our H Shares in Hong Kong. An active public market in Hong Kong may not develop or be sustained after the Listing. We have applied to list and deal in our H Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our H Shares in Hong Kong will develop. Moreover, the market price for the H Shares in Hong Kong may be different from the trading prices of A Shares and D Shares. If an active market for our Shares does not develop after the Listing, the market price and liquidity of our H Shares may be adversely affected. There can be no assurance as to the ability of Shareholders to sell their Shares or the prices at which Shareholders would be able to sell their Shares.

According to Article 57 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 58 of the *Implementing Measures of the Shenzhen*

Stock Exchange for the Shenzhen-Hong Kong Stock Connect, where a company listed on the Shanghai Stock Exchange seeks H-share listing on the Stock Exchange, its H shares can be included in the stocks for southbound trading after the end of the price stabilisation period of H shares and the lapse of 10 trading days after the listing of the corresponding A shares. According to Article 59 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 61 of the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect*, the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange shall announce the list of stocks for southbound trading through the website designated by it, the time when relevant stocks are included in or removed out of the stocks for southbound trading shall be that announced by the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange. As the Joint Sponsors have no current plans to effect stabilisation actions for our H Shares after the Listing and our A Shares have been listed on the Shanghai Stock Exchange, pursuant to Article 57 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 58 of the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect*, the earliest possible time for our H Shares to be eligible for the Southbound Trading Link of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect is the Listing Date. However, as mentioned above, the exact time when our H Shares will be included in or removed out of the stocks for southbound trading is subject to the determination by the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange, which would be beyond control of our Company.

The market price and trading volume of the Company's H Shares may fluctuate significantly and could decline upon completion of the Listing, and investors could lose some or all of their investment.

The trading volume and price of our H Shares may fluctuate significantly. The trading price of our H Shares may fluctuate after the Listing as the public offer price is not available for our H Shares in the Introduction. Prior to the Listing, there is no public offer price for our H Shares. The intrinsic value of our H Shares may be derived from the disclosure in this Listing Document and the Scheme Document and by reference to (i) the trading price of the HEG Shares on its last trading day; and (ii) the ratio of the H Shares to be issued in exchange for each HEG Share. This implied price may differ significantly from the market price for the H Shares following the Listing.

It cannot be determined whether internationally acting investors prefer to invest in H Shares, A Shares or D Shares. H Shares can moreover not be converted or exchanged into D Shares or A Shares, and they are not fungible with D Shares or A Shares. The share price is determined by the supply of and demand for the H Shares and may not necessarily reflect the fair value of our Company. Some of the factors that could negatively affect the share price or result in fluctuations in the price or trading volume of the H Shares include, for example, *ad hoc* developments, fluctuations in our actual or projected operating results, fluctuations in the share price of our D Shares or A Shares, changes in projected or expected financial performance, variations in quarterly results, failure to meet securities analysts' expectations, the contents of published research reports about us or our industry segments or securities analysts failing or ceasing to cover us following the Listing, actions by institutional shareholders and general market conditions or special factors influencing companies in the industry in general. Furthermore, the share price could also decline due to future sales or market expectations of sales of a substantial number of shares in us by significant shareholders. Fluctuations in the equity markets could also cause the share price to decline, though such general fluctuations may not necessarily have any particular basis in our business or prospects. In particular, the trading prices of the A Shares and D Shares may not be indicators for the price of the H Shares. If the share price declines, investors may be unable to resell their shares at or above their purchase price and may lose some or all of their investment in our H Shares.

Payment of dividends is subject to restrictions, including the requirement that we have sufficient distributable profits enabling us to make dividend distributions to our shareholders, and we may elect to pay any dividend in the form of A Shares, D Shares or H Shares rather than cash.

Under applicable PRC law, we may only pay dividends to shareholders out of our distributable profits. Distributable profits are our after-tax profits as determined under generally accepted accounting principles as adopted by the PRC ("**PRC GAAP**"), less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules promulgated by the CSRC, we may not distribute gains from changes in the fair value of financial assets that are included in distributable profits as cash dividends. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, we paid cash dividends of RMB1,512 million, RMB2,085 million, RMB2,235 million and nil, respectively. However, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including for the periods in which our financial statements indicate that our operations have been unprofitable. In addition, under applicable PRC law we may, at our sole discretion, elect to pay any dividends in the form of A Shares, D Shares or H Shares rather than cash. See also "— Restrictions on the remittance of Renminbi out of the PRC and governmental control over currency conversion may limit our liquidity, our ability to pay dividends and other obligations, and may affect the value of your investment".

Future offerings of equity or equity-linked debt securities by us, or future sales or perceived sales of substantial amounts of our Shares in the public market, may adversely affect the market price of our H Shares.

In the future, the Company may seek to raise capital through offerings of equity or debt securities (including convertible debt securities). An issuance of additional equity securities, including A Shares, D Shares or H Shares, or securities with rights to convert into equity could materially adversely affect the market price of our H Shares and would dilute the economic position and voting rights of existing shareholders. Similarly, exercise of rights to convert into our equity under existing equity-linked debt securities could have the same impacts. Pursuant to the PRC Company Law, the holders of A Shares, D Shares or H Shares are not entitled to any statutory subscription rights in relation to the A Shares, D Shares or H Shares. Because the timing and nature of any future offering would depend on market conditions at the time of such an offering, we cannot predict or estimate the amount, timing or nature of future offerings. Thus, holders of H Shares bear the risk of future offerings reducing the market price of the H Shares and/or diluting their shareholdings in us. In addition, the acquisition of other companies or investments in companies in exchange for newly issued shares of us, as well as the exercise of stock options by employees in the context of future stock option programmes or the issuance of new shares to employees in the context of employee equity programmes, such as restricted stock units and stock options scheme, could lead to such dilution. Any additional offering of shares by us, or the public perception that an offering may occur, could also have a negative impact on, or increase the volatility of, the market price of our H Shares.

Similarly, the market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to our Shares in the public market. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise additional capital in the future.

Investors should not place any reliance on any information released by our Company in connection with our listing on the Shanghai Stock Exchange and the Frankfurt Stock Exchange.

As a company listed on the Shanghai Stock Exchange and the China Europe International Exchange (CEINEX D-Share Market) through admission to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (*Prime Standard*), we have been subject to periodic reporting and other information disclosure requirements in the PRC and Germany. As a result, from time to time we publicly release information relating to our Company on the Shanghai Stock Exchange, Frankfurt Stock Exchange or other media outlets designated by the securities authorities. However, the information released by us in connection with our listing on the Shanghai Stock Exchange and the Frankfurt Stock Exchange is based on the regulatory requirements of the securities authorities and market practises in the PRC and Germany which are different from those applicable to our Listing on the Stock Exchange. Such information, except for such information that is incorporated by reference to this Listing Document, does not and will not form a part of this Listing Document. As a result, prospective investors of our H Shares are reminded that, they should rely only on the financial, operating and other information included in this Listing Document in making their investment decisions. By receiving H Shares in consideration for the cancellation of your issued shares in HEG, investors will be deemed to have agreed that you will not rely on any information other than that contained in this Listing Document.

The unaudited pro forma adjusted consolidated net tangible assets of our Group may not be comparable to the valuation of the Company upon its Listing and the expected share price may not be correct.

The unaudited pro forma financial information in the Unaudited Pro Forma Financial Information set out in Appendix III to this Listing Document is prepared for illustrative purposes only. Because of its hypothetical nature, it may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the Enlarged HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. Particularly, the unaudited pro forma adjusted consolidated net tangible assets of our Group may not be comparable to the valuation of the Company upon its Listing and the expected share price may not be correct. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in this Listing Document.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS LISTING DOCUMENT

Certain facts and statistics derived from government and third-party sources contained in this Listing Document may not be reliable.

We have derived certain facts and other statistics in this Listing Document, particularly those relating to the PRC, the PRC economy and the PRC home appliance industry, from information provided by the PRC and other government agencies, industry associations, independent research institutes and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Joint Sponsors or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside the PRC. The facts and other statistics include the facts and statistics included in the sections entitled "Risk Factors", "Industry Overview" and "Business". Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practise and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding ourselves and the Listing.

Prior to the publication of this Listing Document, there had been press and media coverage regarding us and the Listing, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Listing. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this Listing Document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this Listing Document only, and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Introduction, our Company has sought and have been granted the following waivers from strict compliance with the relevant provisions of the Listing Rules:

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions and expect to continue such transactions after the Listing, which would constitute non-exempt continuing connected transactions under the Listing Rules after the Listing. Pursuant to Chapter 14A of the Listing Rules, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the rules regarding the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. For further details of such non-exempt continuing connected transactions and the waiver, please refer to the section headed "Connected Transactions" in this Listing Document.

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, our Company must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our head office is based in the mainland China and substantially all of our business operations are based, managed and conducted in the PRC, North America and Europe, our Company does not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, all of the executive Directors of our Company reside in mainland China.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. Our Company has made the following arrangements to maintain effective communication between the Stock Exchange and us:

(i) our Company has appointed Mr. LIANG Haishan (梁海山), Chairman of the Board and executive Director, and Ms. SUEN Pui Chun Hannah (孫佩真), the company secretary of the Company who is a Hong Kong resident, as authorised representatives for the purpose of Rule 3.05 and 19A.07 of the Hong Kong Listing Rules. They will serve as our Company's principal channel of communication with the Stock Exchange. They can be readily contactable by phone, fax and email to deal promptly with enquiries from the Stock Exchange. Accordingly, the authorised representatives of our Company will be able to meet with the relevant members of the Stock Exchange on reasonable notice;

(ii) both of the authorised representatives of our Company have means of contacting all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange proposes to contact a Director with respect to any matter;

(iii) each Director has provided his/her mobile phone number, office phone number, fax number and e-mail address to the authorised representatives of our Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of the office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives;

(iv) each of the Directors of our Company not ordinarily residing in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period; and

(vi) our Company has appointed Anglo Chinese Corporate Finance, Limited as the compliance advisor of our Company, who will also act as an additional channel of communication with the Stock Exchange from the Listing Date to the date when our Company dispatches the annual reports to the Shareholders for the first full financial year immediately after the Listing. Anglo Chinese Corporate Finance, Limited will maintain constant contact with the authorised representatives, Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary.

DISCLOSURE REQUIREMENTS WITH RESPECT TO CHANGES IN SHARE CAPITAL

Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us waiver from strict compliance with paragraph 26 of Part A of Appendix 1 to the Listing Rules in relation to the disclosure of information relating to the changes to the share capital of any member of our Group.

Globally, our Group has over 300 subsidiaries, across more than 30 different jurisdictions, for which our subsidiaries have had hundreds times of alterations in the capital within the two years immediately preceding the date of this Listing Document. It would be unduly burdensome for our Company to disclose this information, which would not be material or meaningful to investors.

We have identified 17 entities which we consider are the major subsidiaries primarily responsible for the track record results of our Group (the "**Principal Entities**", and each a "**Principal Entity**"). For further details, please see section headed "History and Corporate Structure — Our Principal Entities". These Principal Entities are identified after comprehensive consideration by our Company, taking into account various factors including from business and financial perspective. We select the representatives with the largest revenue contribution, or subsidiaries which best represent our business from strategic importance or brand name perspectives, in each of our major business sectors and major investment holding entities, including but not limited to sales of refrigerators, washing machines, kitchen appliances, air-conditioners and water heaters, procurement and distribution platforms, and research and development services. We have also taken into account the geographic coverage of the Principal Entities, material operations of which span across the PRC and various overseas jurisdictions. The particulars of the place of incorporation and principle business activities of each of the Principle Entities are disclosed in the section headed "History and Corporate Structure — Our Principal Entities". The Principal Entities are also representative of our Company's business in various material aspects, including but not limited to ownership of our Group's major intellectual properties and proprietary technologies. These Principal Entities also contributed to our major financial performance during the Track Record Period. By way of illustration, for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the total revenue of the Principal Entities represented approximately 86.3%, 81.5%, 80.5% and 78.7% of our Group's total revenue, respectively; the total assets of the Principal Entities represented approximately 74.8%, 71.9%, 73.6% and 73.1% of our Group's total assets, respectively; and the net profit of the Principal Entities represented approximately 55.2%, 53.7%, 65.3% and 85.7% of our Group's net profit, respectively. Although the proportion of revenue contribution by the Principal Entities has a gradual and slight decrease across the Track Record Period, it is mainly due to the continuous expansion of our Group, adding 64 new subsidiaries through establishments and acquisitions, which leads to a natural and minor dilution to the revenue contribution by the Principal Entities to our Group. Other than the Principal Entities, no other remaining subsidiaries in our Group contribute more than 10% of our Group's total revenue, total assets and net profit for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020. Furthermore, it would be unduly burdensome for our Company to disclose the changes in share capital of these remaining subsidiaries, and the non-disclosure of which would not prejudice the interests of the investing public.

The particulars of the share capital changes of the Principal Entities are disclosed in the section headed "Statutory and General Information — Further Information about Our Company — Change in Share Capital of Our Company's Principal Entities" in Appendix VII. Further, all major shareholding changes steps taken by our Group have been included in the "History and Corporate Structure".

WAIVER FROM STRICT COMPLIANCE WITH RULES 4.04(2) AND 4.04(4) OF THE HONG KONG LISTING RULES

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountants' report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

As clarified in Note (4) to Rule 4.04(4), acquisitions of business include acquisitions of associates and any equity interest in another company.

Furthermore, the Stock Exchange has indicated in Note (4) to Rule 4.04(4) that it may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances.

Listing Rules Requirements

The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions:

(a) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent financial year of the applicant's trading record period;

(b) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and

(c) the listing document should include at least the information that would be required for a disclosable transaction under Chapter 14 of the Listing Rules on each acquisition.

The Acquisitions

The Company made and is considering to make certain investments in the following target companies (the "**Target Companies**") after the Track Record Period and up to the Latest Practicable Date, details of which are set out below (the "**Acquisitions**"):

No.	Name of the Target Companies	Expected investment amount (in thousands)	Percentage of shareholding / equity interest	Principal business	Reasons for acquisitions	Basis for determining the investment amount
1.	Company A	RMB107,100	51%	Air-bearing related refrigeration compressors, air compressors, generators, etc.	To strengthen our corporation with Company A in terms of our air-conditioner production business	Discounted future cash flow of the target company after the acquisition
2.	Company B	RMB3,750	7.258%	Platform services for the online operation of washing machines in campus	To strengthen our cooperation with Company B in terms of our manufacture and sales of washing machines business	Investment amount of the counterparty in September 2016
3.	Company C	RMB5,000	5%	Development and sales of and services relating to computer hardware and software and information products	Our Company is currently promoting smart home solutions, and we intend to apply voice recognition technology and relevant software to be developed by Company C into our development of smart appliances and Haier Smart Home App.	Amount of registered share capital corresponding to 5% shareholding in the target company after the acquisition
4.	Company D	RMB150,000	10.75%	E-commerce platform for wine	Our Company is currently producing wine cabinets and Company D is mainly engaged in E-commerce platform for wine, and we intend to cooperate with Company D in terms of sale of wine cabinets	Prices of the shares issued by the target company by private placement in December 2019

The Company has entered into agreements with the counterparties for Acquisitions of interests in Companies B and C, consideration for these Acquisitions have been paid by our Company in cash, but their completion are subject to regulatory filings and approvals. Agreements for Acquisitions of interests in Companies A and D are still under negotiation between our Company and the counterparties. Acquisition of interests in Company A is expected to be settled in cash, and acquisition interests in Company D is expected to be settled in cash and wine-related assets of a member of our Group. The final terms and conditions of the above Acquisitions that have yet to be completed may be subject to change. Upon completion of the Acquisitions, the Company will not control the board of directors of the Target Companies, nor will the Company involve in the day-to-day management of the Target Companies. Our Directors will ensure that the terms of the transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The counterparties for the Acquisitions and the ultimate beneficial owners of the counterparties are Independent Third Parties of the Company or its connected persons. The above-mentioned Acquisitions could enable us to establish long-term strategic relationship with the counterparties.

Conditions to the waivers granted by the Hong Kong Stock Exchange

Based on the following reasons, the Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules:

(a) The percentage ratios of the Acquisitions are less than 5% by reference to the most recent financial year of the Company's Track Record Period

The percentage ratios for the Acquisitions are all significantly less than 5% by reference to the most recent financial year of the Company's Track Record Period.

Accordingly, the Company considers that the Acquisitions are immaterial and does not expect them to have any material effect on the business, financial condition or operations of the Group.

(b) The historical financial information of the Target Companies is not available or would be unduly burdensome to obtain or prepare

The Company currently has no control in the Target Companies and does not have any representation at their board of directors. Therefore, the Company is unable to compel the Target Companies to disclose their historical financial information in the Company's Listing Document. In addition, as the Target Companies adopt different accounting policies from the Company, it will require considerable time and resources for the Company and its reporting accountant to fully familiarise with the management accounting policies of the Target Companies and compile the necessary financial information and supporting documents for disclosure in the Listing Document. As such, it would be impracticable and unduly burdensome within the tight timeframe for the Company to prepare and disclose the audited financial information of the Target Companies as required under Rules 4.04(2) and 4.04(4) of the Listing Rules.

In addition, having considered the Acquisitions are immaterial and does not expect them to have any material effect on the business, financial condition or operations of the Group, it would not be meaningful and would be unduly burdensome for the Company to prepare and include the financial information of the Target Companies during the Track Record Period in the Listing Document.

(c) Alternative disclosure in the Listing Document

The Company will provide alternative information in the Listing Document in connection with the Acquisitions. Such information include, where applicable, those which would be required for a disclosable transaction under Chapter 14 of the Listing Rules including, for example, reasons for the investments and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the Company or its connected persons. For the avoidance of doubt, the identities of the Target Companies are not disclosed in the Listing Document because (i) disclosure of the names of the Target Companies in the Listing Document is commercially sensitive and may jeopardise the Company's ability to consummate the proposed investments; (ii) given the competitive nature of the industry in which the Company operate, it is commercially sensitive to disclose the identities of the Target Companies to avoid our competitors to anticipate our plans of business growth; and (iii) the Company has sought but failed to obtain consents from the counterparties for disclosure of the identities of the Target Companies.

There is no proceeds from the proposed Listing and the Company expects to fund the Acquisitions by internal resources.

On the bases above, the Stock Exchange has granted us waiver from strict compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in respect of the Acquisitions.

Financial Information of the Target Companies

The assets, revenue and profits of the Target Companies (based on their audited financial information as at 31 December 2019 except as otherwise stated) are set out below:

		As at 31 December 2019		
No.	**Name of the Target Companies**	**Revenue (RMB thousands)**	**Profit/ (loss) before income tax (RMB thousands)**	**Asset (RMB thousands)**
1.	Company A	6,811	(4,086)	15,373
2.	Company B (*Note*)	8,274	(7,469)	10,447
3.	Company C	7,392	(8,105)	7,186
4.	Company D	95,104	(29,657)	239,477

Note : The financial information of Company B is based on its unaudited financial information as at 31 December 2019.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS LISTING DOCUMENT

This Listing Document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Listing Document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Listing Document misleading.

CSRC APPROVAL

Our Company obtained approval letter from CSRC on 30 October 2020, for the submission of the application to list our H Shares on the Stock Exchange. In granting such approval, CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this Listing Document. As advised by our PRC Legal Advisors, our Company has obtained all necessary approvals and authorisations in the PRC in relation to the Introduction.

INFORMATION AND REPRESENTATIONS

Our Company has not authorised anyone to provide any information or to make any representation not contained in this Listing Document. You should not rely on any information or representation not contained in this Listing Document as having been authorised by our Group, the Joint Sponsors, or any of our or their respective directors, officers or representatives or any other person involved in the Listing. The delivery of this Listing Document should not, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Listing Document or imply that the information contained in this Listing Document is correct as at any date subsequent to the date of this Listing Document.

RESTRICTIONS ON THE USE OF THIS LISTING DOCUMENT

This Listing Document is published solely in connection with providing information on the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this Listing Document or any part thereof in connection with any offering of H Shares or other securities of our Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of our Company and/or the Joint Sponsors to subscribe for or purchase, any of the H Shares or other securities of our Company. Neither this Listing Document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of, and the delivery, distribution and availability of this Listing Document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of our Company and/or the Joint Sponsors, to subscribe for or purchase any of the H Shares or other securities of our Company.

This Listing Document does not constitute a disclosure document under Chapter 6D.2 of the *Corporation Act 2001* (Cth) of Australia ("Australian Corporations Act"), and has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purposes of the Australian Corporations Act and does not purport to include the information required of a disclosure document under Chapter 6D.2 of the Australian Corporations Act. The securities referred to in this Listing Document do not constitute an offer of, nor is it calculated to invite offers for, securities of the Company, and therefore are not offered for subscription to any person in Australia, nor are any of the securities referred to be offered or sold, or made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Australia. We do not issue this Listing Document or any of the securities referred to in this Listing Document with the purpose of the person to whom they are or may be issued, or any person acting on their behalf, selling or transferring the securities, or granting, issuing or transferring interests in, or options over, them.

NO CHANGE IN THE NATURE OF OUR BUSINESS

No change in the nature of our business is contemplated immediately following the Introduction.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our A Shares are listed on the Shanghai Stock Exchange and our D Shares are listed on the CEINEX D-Share Market through an admission to trading on the regulated market of the Frankfurt Stock Exchange. We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our H Shares to be issued as mentioned in this Listing Document. Please see the section headed "Share Capital" in this Listing Document for more details. Save as disclosed aforesaid, no part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The Introduction does not involve a public offering of H Shares or any other securities of our Company for purchase or subscription and no money will be raised in conjunction with the Introduction.

CONDITIONS OF THE INTRODUCTION

The Introduction is conditional on the Scheme becoming effective, and the Listing Committee granting the listing of, and permission to deal in, the H Shares on the Main Board of the Stock Exchange and such approval not having been revoked prior to the Introduction. If such conditions are not satisfied, the Introduction will not take place, in which case an announcement to that effect will be made.

H SHARE REGISTRAR AND STAMP DUTY

All of the H Shares to be issued will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar, Tricor Investor Services Limited. Our principal register of members will be maintained by us at our head office in the PRC. Dealings in our H Shares registered on our H Share Registrar will be subject to Hong Kong stamp duty. Please see the section headed "Appendix IV—Taxation and Foreign Exchange" in this Listing Document for more details.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

i. agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and our Articles of Association;

ii. agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agrees with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

iii. agrees with us and each of our Shareholders that the H Shares are freely transferable by the H Shares holders; and

iv. authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the operational procedures of HKSCC in relation to CCASS in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisors.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of receiving, purchasing, holding, disposing of and dealing in our H Shares. It is emphasised that none of our Company, the Joint Sponsors, any member of our Group or the respective directors, officers or representatives of our Company, the Joint Sponsors and members of our Group or any other person involved in the Listing accepts responsibility for any tax effects or liabilities resulting from the receipt of, purchase, holding or disposing of, or dealing in, our H Shares or your exercise of any rights attaching to our H Shares.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in our H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on 22 December 2020. Our H Shares will be traded in board lots of 200 H Shares each and will be quoted and traded on the Main Board of the Stock Exchange in Hong Kong dollars. The stock code of our H Shares is 6690.

LANGUAGE

English translations of the Chinese names or words which are included in this Listing Document are for identification purposes only, and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency, the Chinese names or words shall prevail.

ROUNDING

Certain amounts and percentage figures included in this Listing Document have been subject to rounding adjustments. Any discrepancies in any table, chart or elsewhere between the total shown and the sum of the amounts listed are due to rounding.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE INTRODUCTION

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. LIANG Haishan (梁海山)	Room 101 Unit 2, Building 3 No. 107, Xianggang East Road Laoshan District Qingdao City Shandong PRC	Chinese
Mr. LI Huagang (李華剛)	No. 19, Miaoling Road Laoshan District Qingdao City Shandong PRC	Chinese
Non-executive Directors		
Ms. TAN Lixia (譚麗霞)	No. 71, Tuandao 1st Road Shinan District Qingdao City Shandong PRC	Chinese
Mr. WU Changqi (武常岐)	Room 1305, Building 2 Phase I, Renji Villa No. 1, Zizhuyuan Road Haidian District Beijing PRC	Chinese (Hong Kong)
Mr. LIN Sui (林綏)	20 Second Street Jersey City, NJ073023074 United States	American
Independent Non-executive Directors		
Mr. DAI Deming (戴德明)	Flat D, 12/F, Unit 2, Building 2 Landian Factory Shiyuyuan Haidian District Beijing PRC	Chinese
Mr. CHIEN, Da-chun (錢大群)	Room 1238 The St. Regis Beijing Apartment No. 21, Jianguomenwai Street Chaoyang District Beijing PRC	Chinese (Taiwan)
Mr. WONG, Hak Kun (王克勤)	Room 1, 13th Floor Block A 8 Wong Nai Chung Gap Road Hong Kong	Chinese (Hong Kong)

SUPERVISORS

Name	Address	Nationality
Mr. WANG Peihua (王培華)	Room 302, Unit 5 No. 232, Weihai Road Shibei District Qingdao City Shandong PRC	Chinese
Mr. MING Guoqing (明國慶)	Room 201, Building 1 No. 79, Yan'an 3rd Road Shibei District Qingdao City Shandong PRC	Chinese
Mr. YU Miao (于淼)	Room 301 Unit 2, Building 5 Phase II, Weidong Xingfu City Jinshui Road Qingdao City Shandong PRC	Chinese

Please see "Directors, Supervisors and Senior Management" for details of our Directors and Supervisors.

PARTIES INVOLVED IN THE INTRODUCTION

Joint Sponsors	**China International Capital Corporation Hong Kong Securities Limited** 29/F One International Finance Centre 1 Harbour View Street, Central Hong Kong **J.P. Morgan Securities (Far East) Limited** 28/F Chater House 8 Connaught Road Central Hong Kong
Financial Advisors to our Company in respect of the Privatisation	**China International Capital Corporation Hong Kong Securities Limited** 29/F One International Finance Centre 1 Harbour View Street, Central Hong Kong **J.P. Morgan Securities (Asia Pacific) Limited** 28/F Chater House 8 Connaught Road Central Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE INTRODUCTION

Legal Advisors to our Company	*As to Hong Kong law* **Clifford Chance** 27/F, Jardine House One Connaught Place Central Hong Kong *As to PRC law* **King & Wood Mallesons** 18/F, East Tower, World Financial Centre 1 Dongsanhuan Zhonglu Chaoyang District Beijing PRC
Legal Advisors to the Joint Sponsors	*As to Hong Kong law* **Sullivan & Cromwell (Hong Kong) LLP** 28th Floor, Nine Queen's Road Central Hong Kong *As to PRC law* **Zhong Lun Law Firm** 28/31/33/36/37th Floor, SK Tower 6A Jianguomenwai Avenue Chaoyang District Beijing PRC
Compliance Advisor	**Anglo Chinese Corporate Finance, Limited** 40/F Two Exchange Square 8 Connaught Place Central Hong Kong
Reporting Accountants	**HLB Hodgson Impey Cheng Limited** 31/F, Gloucester Tower The Landmark, 11 Pedder Street Central Hong Kong
Auditors[(1)]	**Hexin Certified Public Accountants LLP** 26th-27th Floor, Century Building No.39 Donghai Road West Qingdao City Shandong PRC

[(1)] Hexin Certified Public Accountants LLP has prepared the audit reports for our Company in accordance with PRC GAAP during the Track Record Period, for publications on both the A Share and D Share markets. Upon completion of our internal approval process, we will decide on our auditor to prepare audit financial statements in accordance with IFRS subsequent to the Listing, and will update the Stock Exchange accordingly.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE INTRODUCTION

Industry Consultant	**Euromonitor International (Shanghai) Co., Ltd.** Room 01-08, 11/F, Cross Tower No.318 Fuzhou Road Shanghai PRC

CORPORATE INFORMATION

Registered office and Headquarters	Haier Industrial Park Laoshan District Qingdao, Shandong Province PRC
Principal place of business in Hong Kong	Unit 3513, 35/F, The Centre 99 Queen's Road Central Hong Kong
Website of the Company	http://smart-home.haier.com *(Information on this website does not form part of this Listing Document)*
Company Secretary	Ms. SUEN Pui Chun Hannah (孫佩真) *Associate of the Hong Kong Institute of Chartered Secretaries* Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorised representatives	Mr. LIANG Haishan (梁海山) Room 101 Unit 2, Building 3 No. 107, Xianggang East Road Laoshan District Qingdao City Shandong PRC
	Ms. SUEN Pui Chun Hannah (孫佩真) *Associate of the Hong Kong Institute of Chartered Secretaries* Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Strategy Committee	Mr. LIANG Haishan (梁海山) (chairman of the committee) Ms. TAN Lixia (譚麗霞) Mr. WU Changqi (武常岐) Mr. LI Huagang (李華剛) Mr. LIN Sui (林綏) Mr. CHIEN, Da-chun (錢大群) Mr. DAI Deming (戴德明) Mr. WONG, Hak Kun (王克勤)
Audit Committee	Mr. DAI Deming (戴德明) (chairman of the committee) Ms. TAN Lixia (譚麗霞) Mr. CHIEN, Da-chun (錢大群) Mr. LIN Sui (林綏) Mr. WONG, Hak Kun (王克勤)

CORPORATE INFORMATION

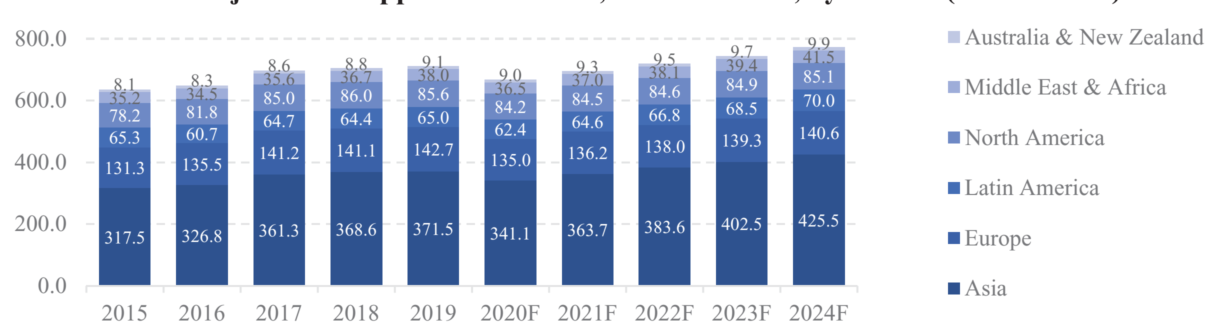
Nomination Committee	Mr. WONG, Hak Kun (王克勤) (chairman of the committee) Mr. LIANG Haishan (梁海山) Mr. WU Changqi (武常岐) Mr. CHIEN, Da-chun (錢大群) Mr. DAI Deming (戴德明)
Remuneration and Assessment Committee	Mr. CHIEN, Da-chun (錢大群) (chairman of the committee) Mr. LIANG Haishan (梁海山) Ms. TAN Lixia (譚麗霞) Mr. DAI Deming (戴德明) Mr. WONG, Hak Kun (王克勤)
H Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal Banker	China Construction Bank Corporation Qingdao Haier Road Branch Qingdao High-Tech Industrial Park, Haier Road Laoshan District Qingdao, Shandong Province PRC

The information that appears in this Industry Overview has been derived from the report prepared by Euromonitor International (Shanghai) Co., Ltd. as well as various official or publicly available publications. The information derived from the report prepared by Euromonitor reflects estimates of market conditions based on publicly available sources and surveys. References to Euromonitor International (Shanghai) Co., Ltd. should not be considered as the opinion of Euromonitor International (Shanghai) Co., Ltd. as to the value of any security or the advisability of investing in the Group. We believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor International (Shanghai) Co., Ltd., and set out in this Industry Overview has not been independently verified by the Group, the Joint Sponsors, or their respective affiliates or advisors or any other party involved in the Listing, except the Industry Consultant, and no representation is given as to its accuracy. Accordingly, the official government and other third-party sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after due and reasonable consideration, there is no material adverse change in the market information since the date of the Euromonitor Report up to the date of this Listing Document which may qualify, conflict with or have an impact on, the information in this section.

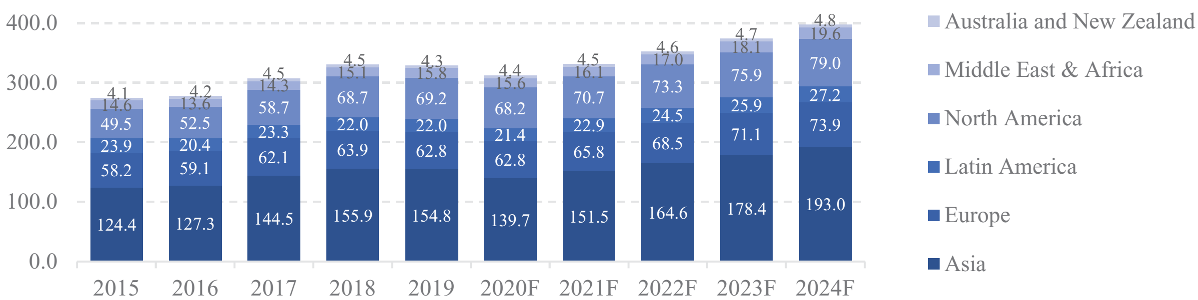
OVERVIEW OF THE GLOBAL MAJOR HOME APPLIANCE MARKET

The global market for major home appliances (including refrigeration appliances, laundry appliances, air-conditioners and major kitchen appliances) is characterised by its steady growth, primarily driven by the robust growth potential in three major markets including Asia, North America and Europe, and the rapid growth in developing countries. In terms of retail value, the global major home appliances market grew at a CAGR of 4.6% from 2015 to 2019, and is expected to steadily grow at a CAGR of 3.9% from 2019 to 2024. Asia, North America and Europe, the three largest markets in terms of retail value, representing 47.1%, 21.0% and 19.1% of global total retail value in 2019, respectively, are expected to grow at a CAGR of 4.5%, 2.7%, 3.3%, respectively, from 2019 to 2024. The current low penetration rate and the rapid growth in major home appliances market in developing countries is expected to further drive the continuous growth of the global major home appliances market in the future. For example, the India major home appliances market is expected to increase at a CAGR of 7.5% in terms of retail value from 2019 to 2024.

Global Major Home Appliances Market, Retail Volume, by market (million units)



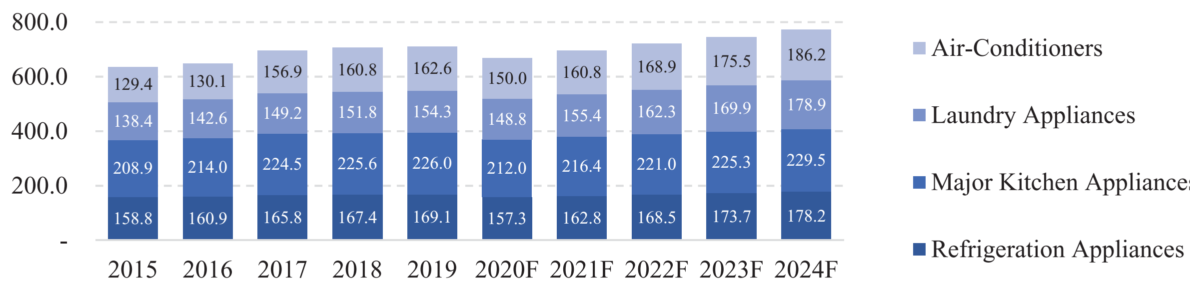
Global Major Home Appliances Market, Retail Value, by market (billion US$)



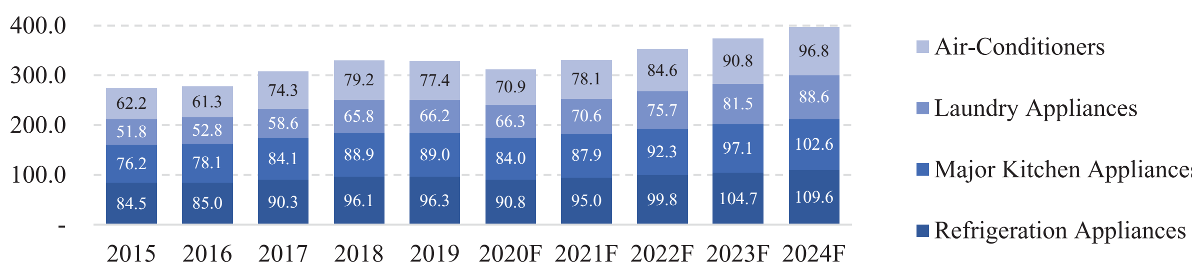
Source: Euromonitor Report

In terms of product types, the global major home appliances market is split relatively evenly among refrigeration appliances, major kitchen appliances, laundry appliances and air-conditioners, which accounted for 29.3%, 27.1%, 20.1% and 23.5% of the global major appliances market in terms of retail value in 2019, respectively, and are expected to grow at a CAGR of 2.6%, 2.9%, 6.0% and 4.6% in terms of retail value, respectively, from 2019 to 2024.

Global Major Home Appliances Market, Retail Volume, by product type (million units)



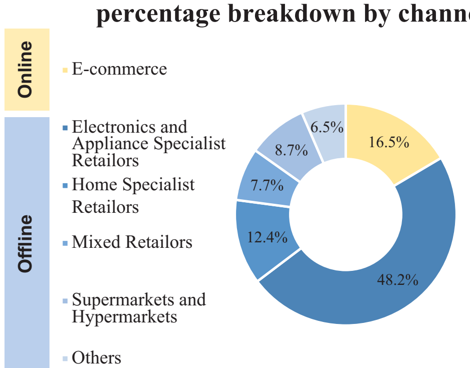
Global Major Home Appliances Market, Retail Value, by product type (billion US$)



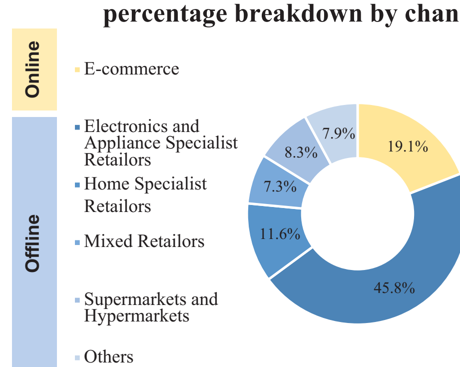
Source: Euromonitor Report

In 2019, the distribution channels in the global major home appliances market (excluding air-conditioners) demonstrate a trend towards increasing diversity, with offline channel remaining dominant while the online channel is developing rapidly. Among the offline channels, electronics and appliance specialist retailors remain to be the largest and consistently favoured by consumers because of their outstanding services. Market shares of sales through electronics and appliance specialist retailors, in terms of retail volume, has diminished from 48.2% in 2017 to 45.8% in 2019 due to the fast development of online channels, and the revolutions in traditional retail business model and the integration of online and offline sales channels has further strengthened the growth potential of online channels. With a CAGR of nearly 8.7% from 2017 to 2019, online e-commerce channels has become one of the fastest-growing channels in recent years in terms of retail volume, with its market share increased from 16.5% in 2017 to 19.1% in 2019.

2017 Global Major Home Appliances Market (excluding air-conditioners), retail volume percentage breakdown by channel



2019 Global Major Home Appliances Market (excluding air-conditioners), retail volume percentage breakdown by channel



Source: Euromonitor Report

The outbreak of COVID-19 in 2020 is expected to cause some deferral impacts on the consumption side of the global major home appliance market, and the retail volume of major home appliances is expected to be negatively impacted in the short term. As a result of the outbreak of COVID-19, in terms of retail value, the global major home appliances market is expected to decline to US$312.1 billion in 2020, representing a decrease of 5.1% from 2019. During the COVID-19 outbreak, the restricted economic and social activities, reduction in resident income and adverse impact and delays in the real estate and construction industry all contributed to the decreased demand for major home appliances. However, consumer's long-term demand for major home appliance remains strong, as factors affecting long-term demand for major home appliances, such as purchase of properties and upgrade of existing appliances, are not significantly affected by COVID-19. Therefore, as basic necessity for consumers, demand for major home appliances are relatively less affected by the COVID-19 pandemic. In addition, social operations have gradually resumed in many countries, therefore, in the long run, the COVID-19 outbreak is not expected to severely impact the overall trend of the major home appliances market, and the retail value of global major home appliances market is expected to resume growth from 2021.

China Major Home Appliance Market

China is a key player in the global major home appliances market, with large market size and strong consumption power. In 2019, in terms of retail value, the major home appliances market in China reached US$93.9 billion, accounting for 28.5% of the global market in 2019. From 2017 to 2019, the major home appliances market in China had been relatively stable with slight fluctuations. Due to the COVID-19 outbreak, the retail value of major home appliances in China is expected to decline to US$80.4 billion, representing a decrease of 14.3% from 2019. However, as the COVID-19 outbreak had been effectively contained in China, the sales of major home appliances in China is expected to resume growth in 2021 and to steadily grow in the near future. The China home appliances market also demonstrates fast and revolutionary evolvement of new products driven by both consumer demand and technology improvement.

Consumers in China desires for smarter, healthier, and more environmental-friendly major home appliances. The advancement of technology is going to drive the interconnectedness between different major home appliances, and is expected to create demand for intelligent, full-suite and scenario-based smart home solutions. Such trends generate greater opportunities for major home appliances companies that are well equipped with a comprehensive product portfolio and leading technology. The competitive landscape among major home appliance companies in China is expected to shift from competition in single appliances to competitions in integrated, interconnected smart home platforms. The outbreak of COVID-19 has increased consumers' awareness of healthy lifestyle, and major home appliances that address consumers' demand for healthy life are expected to further drive demand. In addition, the increasing awareness of environment protection, the implementation of environment policies and the improvement in relevant major home appliances technology drives demand for environment-friendly home appliances.

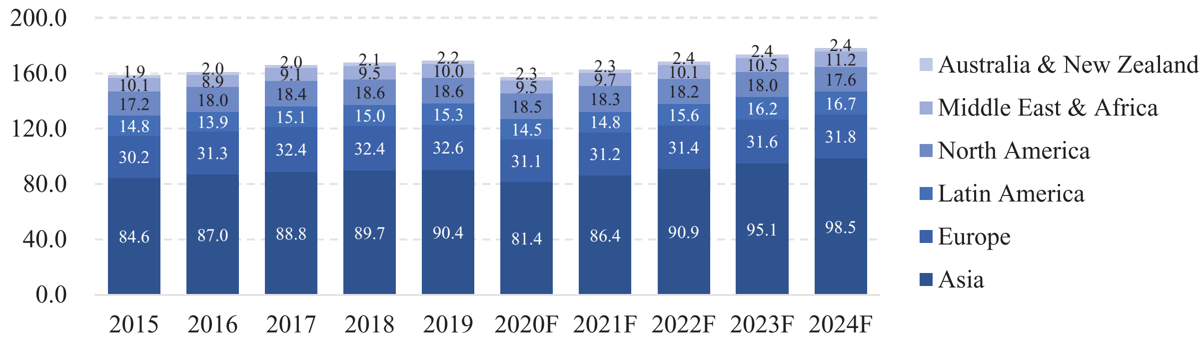
In the future, offline sales are expected to remain the mainstream channel for an extended period. However, the market share by retail volume (excluding air-conditioners) of e-commerce channel has been consistently growing from 2017 to 2019 in China, with the retail volume increasing at a CAGR of approximately 6.7%, significantly outpacing the growth of mainstream, offline sales channels. The online channel is expected to grow rapidly, taking advantage of new marketing tools such as short videos and streamings, and capitalising on the emerging opportunities for e-commerce channels in township and rural areas, so as to realise better integration with offline channels, and to improve the efficiency for the entire sales channel of major home appliances in China.

GLOBAL MARKETS FOR HOME APPLIANCES, BY PRODUCT TYPES

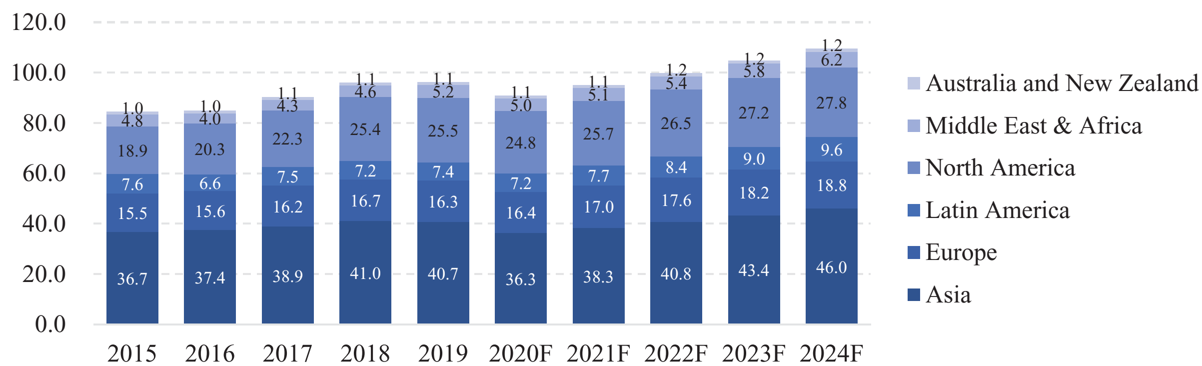
Refrigeration Appliances

The global market for refrigeration appliances grew steadily from 2015 to 2019, in terms of both retail volume and retail value, mainly driven by the steady growth in Asia, North America and European market due to the increase in income per capita, increasing urbanisation and consumers' health awareness for new products and consumption upgrades. In terms of retail value, the global market for refrigeration appliances grew at a CAGR of 3.3% from 2015 to 2019, reached US$96.3 billion in 2019, and is expected to continue to grow at a CAGR of 2.6% from 2019 to 2024. Asia, North America and Europe are the three largest markets, accounting for 42.3%, 26.5% and 17.0% of global retail value in 2019, and are expected to grow at a CAGR of 2.4%, 1.7% and 2.9%, respectively, from 2019 to 2024.

Global Refrigeration Appliances Market, Retail Volume (million units)



Global Refrigeration Appliances Market, Retail Value (billion US$)

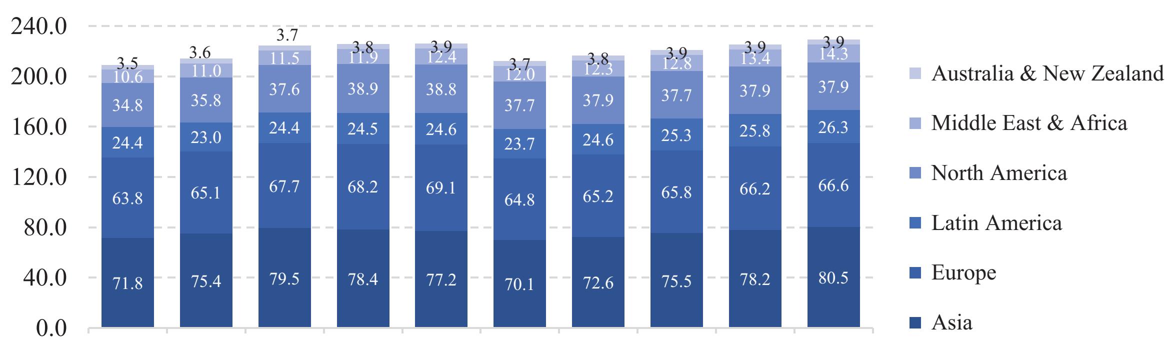


Source: Euromonitor Report

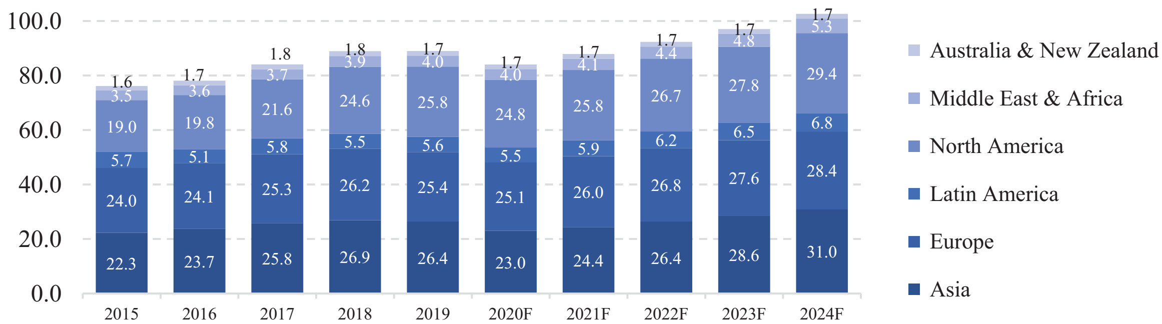
Major Kitchen Appliances

The growth in global major kitchen appliances market is primarily driven by steady growth in Asia, North America and European market due to the increasing urbanisation, fast-paced lifestyle, and economic development of developing markets. The global retail value for major kitchen appliances grew steadily from 2015 to 2019 at a CAGR of 4.0%, reached US$89.0 billion in 2019, and is expected to continue to grow at a CAGR of 2.9% from 2019 to 2024. Asia, North America and Europe are the three largest markets, accounting for 29.7%, 29.0% and 28.6% of global retail value in 2019, and are expected to grow at a CAGR of 3.2%, 2.7% and 2.2%, respectively, from 2019 to 2024.

Global Major Kitchen Appliances Market, Retail Volume (million units)



Global Major Kitchen Appliances Market, Retail Value (billion US$)

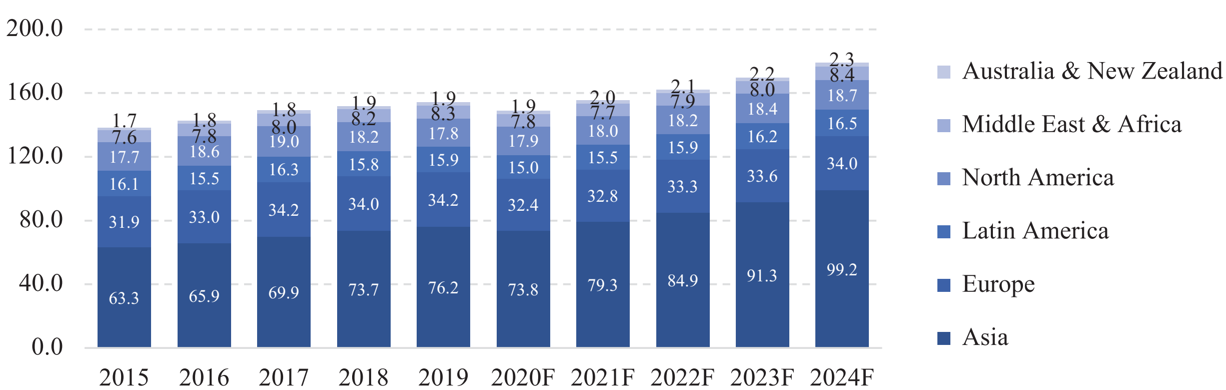


Source: Euromonitor Report

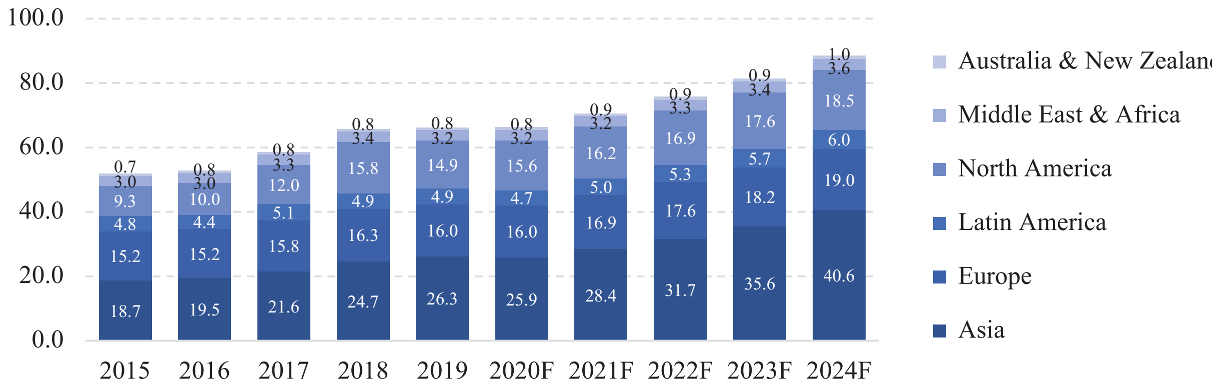
Laundry Appliances

The global market for laundry appliances grew steadily from 2015 to 2019, driven by steady growth in Asia, North America and European market due to the increasing demand for multi-function products and high-end products. The global retail value for laundry appliances grew at a CAGR of 6.3% from 2015 to 2019, reached US$66.2 billion in 2019, and is expected to continue to grow at a CAGR of 6.0% from 2019 to 2024. Asia, Europe and North America are the three largest markets, accounting for 39.7%, 24.2% and 22.5% of global retail value in 2019, and are expected to grow at a CAGR of 9.0%, 3.4% and 4.4%, respectively, from 2019 to 2024.

Global Laundry Appliances Market, Retail Volume (million units)



Global Laundry Appliances Market, Retail Value (billion US$)

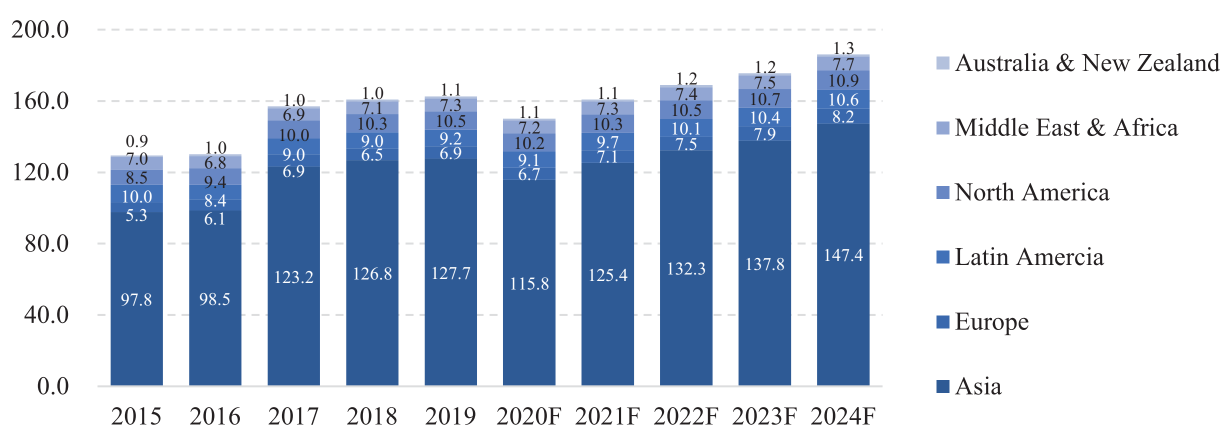


Source: Euromonitor Report

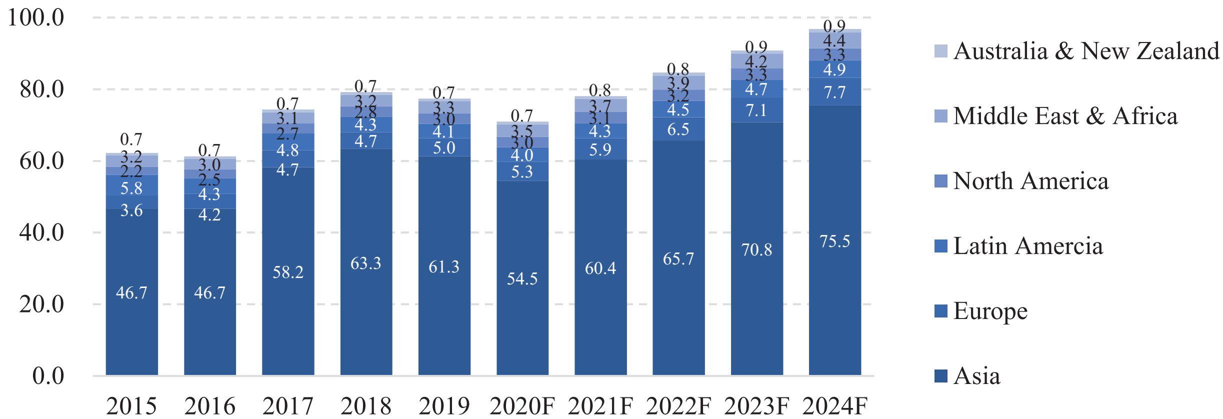
Air-Conditioners

The growth in global air-conditioners market is primarily driven by the growth in Asia, due to factors such as large population base, low penetration rate and weather conditions. The global retail value for air-conditioners grew steadily from 2015 to 2019 at a CAGR of 5.6%, reached US$77.4 billion in 2019, and is expected to continue to grow at a CAGR of 4.6% from 2019 to 2024. Asia is the dominant market, accounting for 79.2% of global retail value in 2019, and is expected to grow at a CAGR of 4.3% from 2019 to 2024. Among other markets, Europe is the fastest growing one, with a CAGR of 8.6% from 2015 to 2019 and an expected CAGR of 9.1% from 2019 to 2024.

Global Air-Conditioners Market, Retail Volume (million units)



Global Air-Conditioners Market, Retail Value (billion US$)

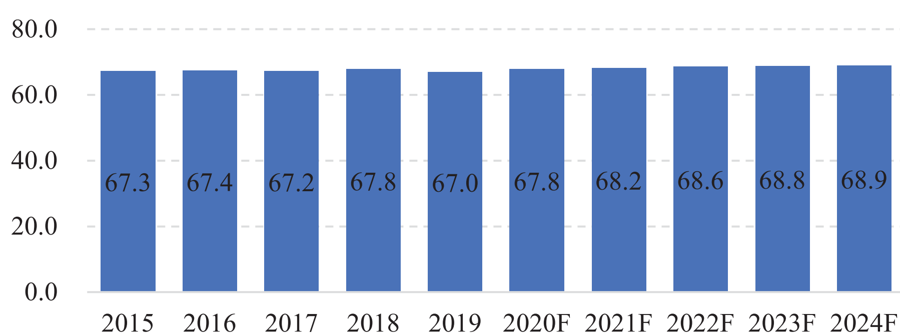


Source: Euromonitor Report

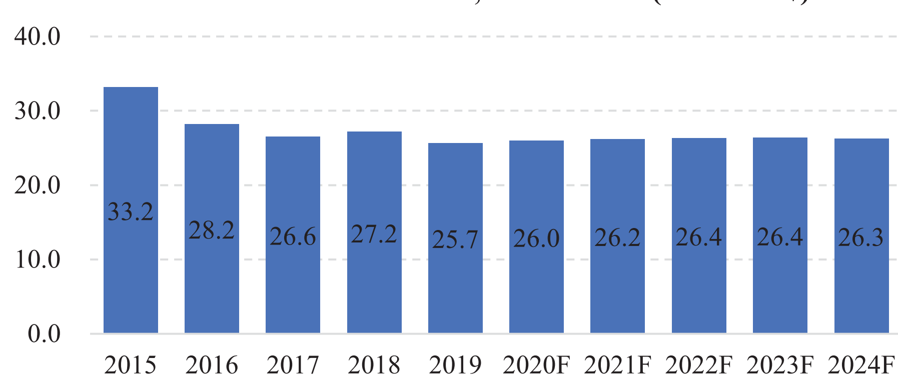
Water Heaters

The global market for water heaters (generally not classified as major home appliances) remained relatively constant from 2015 to 2019 and is expected to moderately increase from 2019 to 2024, in terms of retail volume. The global retail value for water heaters and is also expected to slowly grow at a CAGR of 0.4% from 2019 to 2024.

Global Water Heater Market, Retail Volume (million units)



Global Water Heater Market, Retail Value (billion US$)

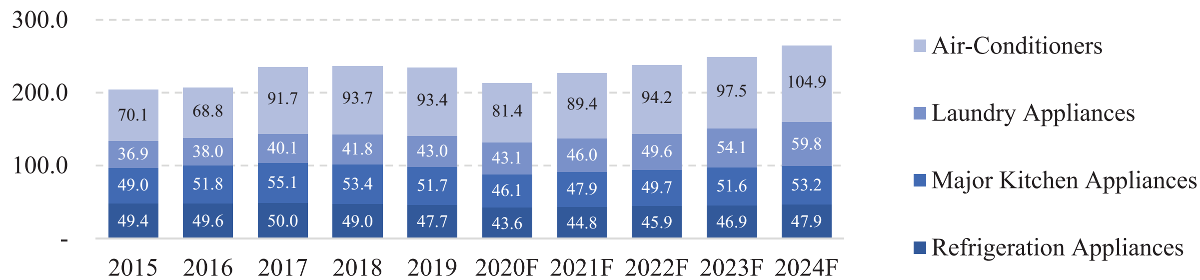


Source: Euromonitor Report

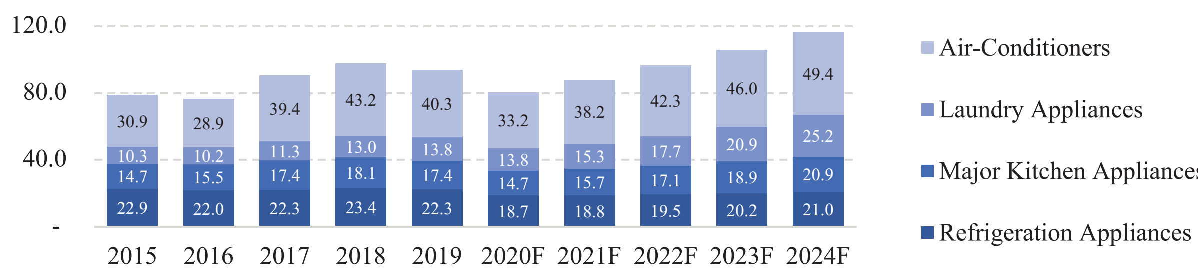
CHINA MARKET FOR HOME APPLIANCES, BY PRODUCT TYPES

The following charts demonstrate the historical and expected retail sales in China major home appliances market by product type for the years indicated:

China Major Home Appliances Market, Retail Volume, by product type (million units)



China Major Home Appliances Market, Retail Value, by product type (billion US$)



- **Refrigeration Appliances:** The retail value of China refrigeration appliances market slightly decreased from 2015 to 2019 and reached US$22.3 billion in 2019. With the implementation of certain government policies and initiatives for home appliances in rural China, new demands for refrigeration appliances had been gradually released and met and household ownership of refrigeration appliances had been saturated, which led to the overall sales decrease from 2015 to 2019. Such market is expected to further decrease to US$18.7 billion in 2020, then slightly increase to US$21.0 billion in 2024, as the trend of consumption upgrade is expected to lead to refrigeration appliances replacement and upgrades. In addition, technology innovation will lead to additional value-added features and is expected to generate further demand from consumers for refrigeration appliances.

- **Major Kitchen Appliances:** The retail value of China major kitchen appliances market increased from 2015 to 2019 at a CAGR of 4.3% and reached US$17.4 billion in 2019. Such market is expected to further increase at a CAGR of 3.7% in terms of retail value from 2019 to 2024, reaching US$20.9 billion in 2024. Such trend of growth is primarily driven by factors such as increasing demand from rural areas, and the demand for dishwashers, range cookers and smart kitchen appliances which help to improve convenience and quality of life.

- **Air-Conditioners**: The retail value of China air-conditioners market increased from 2015 to 2019 at a CAGR of 6.8% and reached US$40.3 billion in 2019. Such market is expected to further increase at a CAGR of 4.2% in terms of retail value from 2019 to 2024, reaching

US$49.4 billion in 2024. Such trend of growth is primarily driven by factors such as consumers' pursuit for healthy lifestyle, and by the increasing smart features on air-conditioners due to improvement in technology.

- **Laundry Appliances**: The retail value of China laundry appliance market increased from 2015 to 2019 at a CAGR of 7.7% and reached US$13.8 billion in 2019. Such market is expected to further increase at a CAGR of 12.8% in terms of retail value from 2019 to 2024, reaching US$25.2 billion in 2024. Such trend of growth is primarily driven by consumers' demand for replacement and upgrade. Consumers in urban areas are having increasing demand for washer dryers and dryers which provide more convenient laundry experiences, especially in regions with humid weather, as well as washing machines with multiple functions such as fabric care. In addition, consumers in rural areas tend to replace their existing semi-automatic washing machines with automatic ones. The growth is also driven by the increasing customisation in laundry appliances to address special needs for different demographic groups, such as females, babies and the elderlies. For example, twin-tub or three-tub washing machines can better meet the demands for washing underwear and outer clothing and even baby clothing separately. Such a diversified and tailored product portfolio is expected to stimulate new consumer demands by targeting at consumers with different lifestyles and habits.

In addition, the retail value of China market for water heaters, which do not fall within major home appliances as discussed above, decreased from 2015 to 2019 and reached US$12.9 billion in 2019. Such decrease was primarily due to the decrease of sales in solar water heaters, an important sub-category of water heaters, which are primarily sold in rural China and gained popularity due to the implementation of certain government policies and initiatives for home appliances in rural China in the earlier years. Its sales subsequently decreased from 2015 to 2019 which contributed to the decrease of water heaters generally. Such market is expected to slightly increase at a CAGR of 0.4% from 2019 to 2024 and to reach US$13.1 billion in 2024 in terms of the retail value, and such increase is expected to be driven primarily by the increased demand for other types of water heaters, such as the heat pump water heater, which has enhanced energy-saving and safety features, and are more suited to the consumption upgrade demands.

GROWTH DRIVERS AND TRENDS OF THE GLOBAL MAJOR HOME APPLIANCE MARKET

The global markets for major types of home appliances is characterised by the following growth drivers and trends:

- ***Trend for growth in both quantity and quality***: The global market for major home appliances across various categories is expected to grow steadily, driven by both the instalment of new appliances as well as the replacement of old appliances in the major markets. Such trend of growth is further strengthened by the trend of urbanisation and the growth in consumers' purchasing power: the increasing number of rural residents moving to urban areas has generated demand for new housing, and consequently, for new major home appliances; meanwhile, the increase in consumer's income per capita, especially in China, India and the Southeast Asia markets, has encouraged consumers to purchase more advanced major home appliances for better user experience and greater convenience.

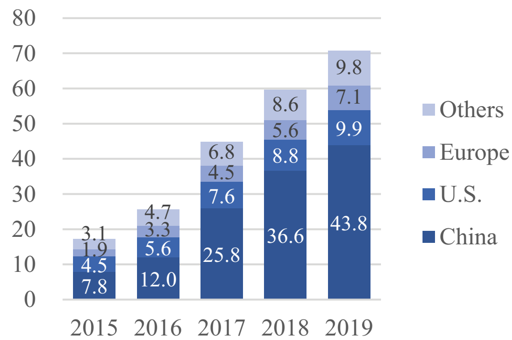
- ***Trend for transformation towards the high-end***: Consumers are increasingly in pursuit of healthier lifestyle and demanding revolutionary of product designs for major home appliances. Under such trend, consumers' demands for major home appliances are no longer restricted to basic functions. Instead, consumers are further demanding that major home appliances can save their time as well as ensuring health. To address consumer's preferences, home appliance companies continue to launch new products with improved functions, leading to product premiumisation. For examples, major home appliance companies are launching new products with health-related functions, such as germ-free refrigerators and washing machines, and self-cleaning air conditioners. Such products have attracted customers with higher sensitivity for health and quality of life. In addition, consumers' increasing awareness for the environmental protection and the increasingly stringent regulations drive home appliances companies to launch more environmental-friendly products.
- ***Trend for full-suite, customised solutions***: The development of major home appliance products is constantly evolving to accommodate different customers' needs. Major home appliance companies are developing and launching new products that are customised to address the special needs of different demographic groups. For example, washing machines introduced to elderly users usually have inclined tumbles and simple buttons to facilitate the usage by the elderly users. By targeting at consumers with different lifestyles and habits, such customised products have effectively promoted the product diversification, precisely addressed the pain points of different demographic groups, and solved or alleviated consumers' specific problems, therefore generating additional demands from consumers. Full-suite and integrated solutions address the comprehensive needs from consumers, which is another factor that can drive the market needs.
- ***Trend for AI-based, interconnected appliances***: In markets such as China, the United States, and Europe, interconnected home appliances have created extra value-add into traditional major home appliances to bring consumers with better experience and greater convenience. With consumption upgrades, consumers are willing to replace their current non-connected appliances with interconnected ones, in pursuit of greater convenience, higher energy efficiency, and better user experiences. Consequently, interconnected home appliances sales have grown rapidly in recent years, and are expected to drive further market demand in the home appliances industry. See "— Global Interconnected Appliances Markets".

GLOBAL INTERCONNECTED APPLIANCES MARKETS

Interconnected home appliances refer to home appliances capable of interconnecting with other devices via Internet and interacting with consumers. In recent years, with the rapid development of technologies such as IoT, cloud computing, big data and 5G, interconnected home appliances have gained increasing popularity among consumers around the world. The interconnected appliances market is expected to develop with both robust growth in market size and upgrade in product quality with transformation towards the high-end.

In 2019, the global retail volume for interconnected home appliances reached more than 70 million units, accounting for about 2.0% of the home appliance market and representing a CAGR of 42.1% from 2015 to 2019. China has been the largest market for interconnected home appliance products from 2015 to 2019, with a retail volume of 43.8 million units in 2019, representing 61.9% of global retail volume.

Global Interconnected Appliances Market, Retail Volume (million units)



Global Interconnected Appliances Market CAGR 2015-19 by Retail Volume

Market	CAGR 2015-19
World total	42.1%
China	53.8%
U.S.	22.2%
Europe	38.8%

Source: Euromonitor Report

In terms of product types, interconnected home appliances cover products such as air-conditioners, washing machines, wash dryers, refrigerators, microwaves, ovens, dishwashers, sweeping robots, and air purifiers. Among them, interconnected air-conditioners represents the largest interconnected product types among major home appliances, in terms of retail volume in 2019, as the interconnection rate for air-conditioners increased from approximately 4.2% in 2015 to 19.1% in 2019.

In China, the market for interconnected home appliances have been consistently expanding from approximately 8 million units in 2015, to 44 million units in 2019, representing a CAGR of 53.8% from 2015 to 2019. From 2015 to 2019, the penetration rate of interconnected home appliances in China increased from 1.1%, to 5.0%. In 2019, the retail volume of Haier interconnected major home appliances accounted for 48.5% of the total interconnected major home appliances market in China.

The global interconnected home appliances market is characterised by the following growth drivers and trends:

- ***Younger generation's consumer preferences and user habit for interconnected home appliances***: Interconnected home appliances are shifting young consumers' preferences and gaining greater popularity among young consumers. Particularly, younger generations who are accustomed to using smartphones and willing to explore new technologies are especially driving the popularity of interconnected home appliances because of their convenience, energy-saving feature and the better user experience they offer.
- ***The proliferation of Internet and smart phones laid the foundation for the rapid development of interconnected home appliances***: There are approximately 1.3 billion households worldwide with access to Internet and the penetration rate of mobile Internet has reached 78%. The proliferation of 5G technology has provided the solid foundation for the rapid development of interconnected home appliances.
- ***The trends of interconnected home appliances industry in major markets***: The market of interconnected appliances in China is driven by the advancement of new technology, wide

applicability of mobile web service, and various cell-phone based applications and services to develop scenario-based solutions and ecosystems to address the comprehensive needs of users. The U.S. market is driven by home appliance upgrade and led by laundry appliances and dishwashers. The upgrade of traditional home appliances and the substitution of them with interconnected appliances is expected to characterise the U.S. market in the coming years. The European market is characterised by the current low penetration rate, and the increase in penetration rate is expected to drive the future growth of the European interconnected home appliances market.

COMPETITIVE LANDSCAPE

The markets we operate in are competitive. Our main competitors include major home appliance companies in China and around the world.

Global Markets for Major Home Appliance, including Breakdown Data by Major Markets

The competitive landscape of global major home appliances market is relatively concentrated, as the top five market players accounted for 43.3% of market shares in terms of retail volume in 2019. In terms of competitive landscape by company, our Company consistently ranked the first among major home appliances companies globally from 2011 to 2019 in terms of retail volume, and our market share steadily increased from 13.1% in 2017 to 14.7% in 2019. In terms of competitive landscape by brands, where brands under the same company are ranked individually, among all global major home appliance brands, the Haier brand consistently ranked the first in 2017, 2018 and 2019, with an increasing trend of market share of 10.2%, 10.6% and 10.7%, in 2017, 2018 and 2019, respectively.

Global Major Home Appliance Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Our Company	91.4	13.1%	95.9	13.6%	104.4	14.7%
Company A: listed, a home appliance manufacturer in China	58.6	8.4%	60.1	8.5%	65.3	9.2%
Company B: listed, a home appliance manufacturer in North America	61.6	8.8%	61.3	8.7%	61.0	8.6%
Company C: listed, a home appliance manufacturer in Asia	37.8	5.4%	39.2	5.6%	40.2	5.6%
Company D: listed, a home appliance manufacturer in Europe	37.3	5.4%	37.4	5.3%	37.2	5.2%
Others	409.7	58.9%	411.7	58.3%	403.9	56.7%
Total	696.4	**100.0%**	705.6	**100.0%**	712.0	**100.0%**

Global Major Home Appliance Market Ranking, by Brand

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Haier	71.3	10.2%	74.9	10.6%	75.8	10.7%
Brand 1 (by Company A)	43.9	6.3%	45.1	6.4%	50.5	7.1%
Brand 2 (by Company C)	37.8	5.4%	39.2	5.6%	40.2	5.6%
Brand 3 (by Company H)	32.2	4.6%	32.9	4.7%	33.4	4.7%
Brand 4 (by Company E)	33.9	4.9%	34.2	4.8%	30.2	4.2%
Others	477.3	68.6%	479.3	67.9%	481.9	67.7%
Total	696.4	**100.0%**	705.6	**100.0%**	712.0	**100.0%**

INDUSTRY OVERVIEW

We also remain strong in terms of market positioning in the major markets where we operate and where we sell our products. In China, the United States and Europe, three of our major markets for our global operations, we have established market leadership and currently rank among the top companies in terms of retail volume for major home appliances, with steadily increasing market shares from 2017 to 2019. In Chinese market, where top five market players accounted for 66.8% of retail volume in 2019, our Company consistently ranked the first among major home appliance companies from 2017 to 2019 in terms of retail volume, with our market share steadily increased from 22.3% in 2017 to 23.2% in 2019. In the U.S. market, where top five market players accounted for 66.4% of retail volume in 2019, our Company ranked the second among major home appliance companies from 2017 to 2019, and our market share increased steadily from 18.5% in 2017 to 20.3% in 2019. In the Europe market, where top five market players accounted for 55.1% of retail volume in 2019, our Company ranked the fifth among major home appliance companies in 2019 with market share of 7.2%, representing a significant increase from our market share of 2.4% in Europe in 2017.

China Major Home Appliance Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Our Company	52.8	22.3%	54.5	22.9%	54.8	23.2%
Company A: listed, a home appliance manufacturer in China	46.6	19.7%	47.5	20.0%	52.3	22.2%
Company E: listed, a home appliance manufacturer in China	33.8	14.2%	33.9	14.3%	29.9	12.7%
Company F: listed, a home appliance manufacturer in China	12.3	5.2%	12.2	5.1%	11.4	4.9%
Company G: listed, a home appliance manufacturer in China	7.1	3.0%	8.2	3.5%	9.0	3.8%
Others	84.3	35.6%	81.6	34.2%	78.4	33.2%
Total	236.9	**100.0%**	237.9	**100.0%**	235.8	**100.0%**

U.S. Major Home Appliance Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Company B: listed, a home appliance manufacturer in North America	17.9	23.2%	17.9	22.8%	17.5	22.4%
Our Company	14.3	18.5%	15.0	19.2%	15.8	20.3%
Company D: listed, a home appliance manufacturer in Europe	7.7	10.0%	7.6	9.6%	7.4	9.4%
Company C: listed, a home appliance manufacturer in Asia	6.2	8.0%	6.2	7.9%	6.1	7.8%
Company H: listed, a home appliance manufacturer in Asia	5.4	6.9%	5.3	6.7%	5.1	6.5%
Others	26.0	33.4%	26.4	33.8%	26.2	33.6%
Total	77.5	**100.0%**	78.4	**100.0%**	78.1	**100.0%**

Europe Major Home Appliance Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Company I: not listed, a home appliance manufacturer in Europe	25.1	17.8%	25.0	17.7%	25.0	17.5%
Company B: listed, a home appliance manufacturer in North America	19.4	13.7%	18.5	13.1%	18.1	12.7%
Company J: listed, a home appliance manufacturer in Europe	14.0	9.9%	13.5	9.6%	13.6	9.5%
Company D: listed, a home appliance manufacturer in Europe	12.1	8.6%	11.8	8.3%	11.7	8.2%
Our Company	3.4	2.4%	3.8	2.7%	10.2	7.2%
Others	67.2	47.6%	68.5	48.6%	64.1	44.9%
Total	**141.2**	100.0%	**141.1**	100.0%	**142.7**	100.0%

Source: Euromonitor Report

INDUSTRY OVERVIEW

Global Markets for Home Appliance, by Product Types

We also remain strong in terms of our competitive positioning in terms of each of our major product types, with an increasing market share in terms of retail volume for each of our major product types from 2017 to 2019. Our industry leadership remains preeminent, in both the more competitive markets such as the global major kitchen appliances market, where top five companies accounted for 36.1% market shares in terms of retail volume in 2019, and the more concentrated markets such as the global refrigeration appliances market, the global laundry appliances market, the global air-conditioners market and the global water heater market, where the top five players altogether accounted for 51.8%, 60.4%, 57.1% and 57.2% of market shares, respectively, in terms of retail volume in 2019. Our market leadership is further strengthened by our increasing market share, as from 2017 to 2019, our market share in terms of retail volume consistently increased in each of the five abovementioned global appliance market segments, evidencing our strong competitive edge in the global appliances market landscape.

From 2017 to 2019, our Company consistently ranked the first among major home appliance companies in the global refrigeration appliances market, the global laundry appliances market and the global water heaters market, in terms of retail volume, with market share of 21.7%, 20.3% and 18.8% in 2019. Our Company ranked the second among major home appliance companies in the global major kitchen appliances market in 2019, in terms of retail volume, with a market share of 8.0% in 2019. Our Company ranked the third among major home appliance companies in the global air-conditioners market from 2017 to 2019, in terms of retail volume, with a market share of 11.3% in 2019.

Global Refrigeration Appliances Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Our Company	34.1	20.6%	35.6	21.3%	36.7	21.7%
Company B: listed, a home appliance manufacturer in North America	16.6	10.0%	16.7	10.0%	16.9	10.0%
Company C: listed, a home appliance manufacturer in Asia	11.2	6.7%	11.8	7.1%	12.4	7.4%
Company H: listed, a home appliance manufacturer in Asia	10.4	6.3%	10.8	6.4%	11.2	6.6%
Company D: listed, a home appliance manufacturer in Europe	10.7	6.4%	10.5	6.3%	10.2	6.1%
Others	82.8	50.0%	82.0	48.9%	81.7	48.2%
Total	165.8	**100.0%**	167.4	**100.0%**	169.1	**100.0%**

Global Laundry Appliances Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Our Company	26.3	17.7%	27.5	18.1%	31.3	20.3%
Company B: listed, a home appliance manufacturer in North America	23.1	15.5%	22.3	14.7%	21.6	14.0%
Company A: listed, a home appliance manufacturer in China	16.2	10.8%	16.6	11.0%	16.6	10.8%
Company C: listed, a home appliance manufacturer in Asia	12.0	8.0%	12.8	8.4%	13.0	8.4%
Company H: listed, a home appliance manufacturer in Asia	10.1	6.8%	10.5	6.9%	10.7	6.9%
Others	61.5	41.2%	62.1	40.9%	61.1	39.6%
Total	149.2	**100.0%**	151.8	**100.0%**	154.3	**100.0%**

INDUSTRY OVERVIEW

Global Air-Conditioners Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Company E: listed, a home appliance manufacturer in China	33.9	21.6%	34.2	21.3%	30.2	18.6%
Company A: listed, a home appliance manufacturer in China	22.3	14.2%	23.0	14.3%	28.0	17.2%
Our Company	16.8	10.7%	17.8	11.1%	18.4	11.3%
Company G: listed, a home appliance manufacturer in China	7.1	4.5%	8.3	5.2%	9.0	5.6%
Company C: listed, a home appliance manufacturer in Asia	6.9	4.4%	7.1	4.4%	7.4	4.5%
Others	69.9	44.6%	70.4	43.7%	69.6	42.8%
Total	156.9	**100.0%**	160.8	**100.0%**	162.6	**100.0%**

Global Major Kitchen Appliances Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Company B: listed, a home appliance manufacturer in North America	21.0	9.3%	21.3	9.4%	21.5	9.5%
Our Company	14.2	6.3%	15.0	6.6%	18.0	8.0%
Company I: not listed, a home appliance manufacturer in Europe	17.2	7.7%	17.4	7.7%	17.5	7.7%
Company D: listed, a home appliance manufacturer in Europe	13.3	5.9%	13.5	6.0%	13.6	6.0%
Company A: listed, a home appliance manufacturer in China	11.5	5.1%	11.4	5.0%	11.0	4.9%
Others	147.3	65.7%	147.0	65.3%	144.4	63.9%
Total	224.5	**100.0%**	225.6	**100.0%**	226.0	**100.0%**

Global Water Heater Market Ranking, by Company

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Our Company	11.7	17.4%	12.0	17.6%	12.6	18.8%
Company A: listed, a home appliance manufacturer in China	7.8	11.7%	8.4	12.4%	9.3	13.9%
Company L: not listed, a home appliance manufacturer in Europe	8.7	12.9%	8.3	12.3%	7.9	11.9%
Company M: listed, a home appliance manufacturer in North America	7.4	11.0%	5.8	8.5%	5.5	8.2%
Company I: not listed, a home appliance manufacturer in Europe	2.6	3.9%	2.7	4.0%	3.0	4.4%
Others	29.0	43.1%	30.6	45.2%	28.7	42.8%
Total	67.2	**100.0%**	67.8	**100.0%**	67.0	**100.0%**

Source: Euromonitor Report

In Chinese market, specifically, we are market leader in each of our major product types. The following table shows our Company's ranking among major home appliance companies in terms of retail volume of different products, and our corresponding market shares in China in 2019:

Category	Retail volume ranking	Retail volume market share	Total retail volume market share of the top three in the industry
Refrigeration appliances	First	42.0%	68.1%
Laundry appliances	First	43.9%	78.4%
Water heaters	First	22.0%	52.1%
Major kitchen appliances	Third	9.0%	35.2%
Air-conditioners	Third	12.0%	68.5%

Principal Competitive Factors and Entry Barriers

Brand Power

Brand power results from the continuous accumulation of reputation and trust from consumers through the long-term development of business, and signifies a company's product quality and market position. With the evolvement of the global home appliances market, major players in the market have established certain level of brand awareness and trust among consumers, while it is difficult for newcomers and small companies to establish a solid reputation and consumer trust in a short period of time.

Distribution Channels

Currently, industry leaders in the major home appliances market have established extensive distribution channels, covering retailors and other distributors, to support the display and sale of their home appliance products. In comparison, it is difficult for new entrants and small companies to establish offline or online sales network within a short period of time. For example, key home appliance companies in China have generally built up their distribution channel network and manage such network closely; home appliance companies in the United States generally heavily rely on offline retailors, and industry leaders with established access and business relationship with their retail distributors enjoy significant competitive edge over newcomers to the industry.

Technology, Research, Development and Innovation Capacity

Consumers demands and preferences are driving the constant improvement in the functionality, aesthetics and practicality of home appliance products. Therefore, capacity in research, development and innovation in response to such constant change has become a key competitive factor among market players. To stay competitive, top home appliance companies are compelled to develop new products with capabilities of providing full-suite and customised solutions for users in order to gain recognition from consumers and gain market shares. In contrast, due to lack of understanding of the consumer needs and technology accumulation, new entrants and small companies are significantly disadvantaged compared to market leaders.

The widespread application of high-tech technologies such as the IoT, cloud computing, big data, and 5G in the production process of interconnected home appliances has further inspired the improvement of research, development and product design capabilities of the interconnected home appliances companies. Home appliance companies during the era of interconnected home appliances are obligated to be equipped with strong research, development and product design ability that truly meet user demand and address user preferences. Such high requirement in research, development and product design capacity may create further entry barriers for new entrants. As an industry leader in the era of IoT, we are well positioned to capitalise on our strong capacity in research and development and lead the industry trend of innovation.

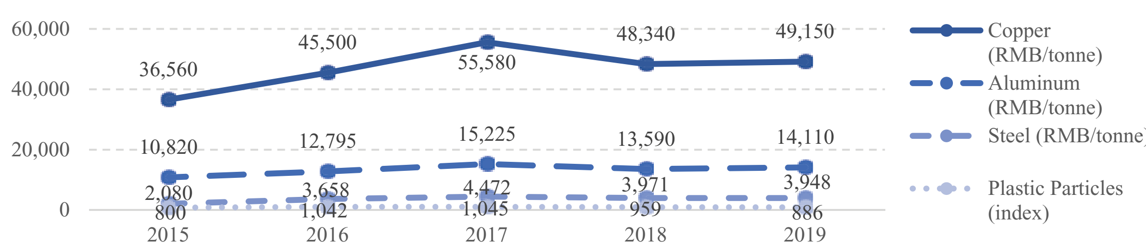
Economies of Scale

Established players in the home appliance industry are capable of staying profitable by reducing average cost through mass production and collective bargaining in procurement, while new entrants and small companies may find it hard to achieve the level of economy of scale necessary to maintain the cost of production and operation under control. The high cost for new entrants and small companies may further lead to their reduced profitability, making them more vulnerable to market volatility and more prone to various internal and external risks.

HISTORICAL PRICE TRENDS OF RAW MATERIALS AND FINAL PRODUCTS

The major raw materials used in the production of our home appliances products and their core components include copper, aluminium, steel and plastic. The price of such raw materials experienced a steady increase from 2015 to 2017 and slight fluctuation from 2017 to 2019. Under fluctuation of major raw material prices, small companies in the home appliances industry are subject to severe challenges, yet market leaders in the home appliances industry can take advantage of their stronger bargaining power, to minimise the influence of raw material price fluctuations, and realise better profitability in comparison to small companies. The following graphs set forth historical prices of major raw materials for major home appliances products for the periods indicated:

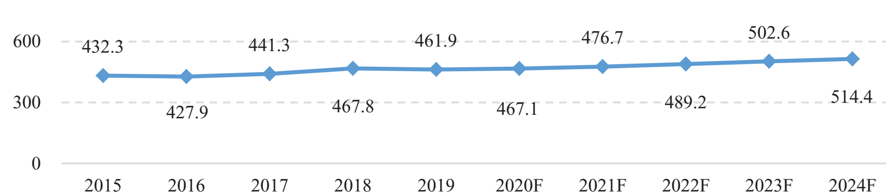
Price of Major Raw Materials for Major Home Appliances



Source: Euromonitor Report

The global average retail price of major home appliances increased with slight fluctuation from 2015 to 2019, with a CAGR of 1.7%, and is expected to steadily increase at a CAGR of 2.2% from 2019 to 2024. Such increase in retail price is driven by not only the increase in raw material price, but also the trend of transformation towards the high-end in the global home appliances market. The following graphs set forth the global average retail prices of major home appliance products for periods indicated:

Global Average Retail Price of Major Home Appliance Products (US$/unit)



Source: Euromonitor Report

REPORT COMMISSIONED FROM EUROMONITOR

We commissioned Euromonitor, an independent market research and consulting company which is engaged in the provision of market research consultancy services, to conduct a detailed analysis of, and to prepare a report on the global and regional major home appliance markets. Founded in 1972, Euromonitor provides research services on the consumer and industrial markets for approximately 5,000 active clients, with 15 offices around the world and local analysts in more than 80 countries. The report prepared by Euromonitor is referred to in this Listing Document as the Euromonitor Report. We have agreed to pay Euromonitor a fee of RMB1,450,000.

We have included certain information from the Euromonitor Report in this Listing Document because we believe this information facilitates an understanding of the major home appliance market for prospective investors. In compiling and preparing the Euromonitor Report, Euromonitor used the following methodologies to collect multiple sources, validate the data and information collected, and crosscheck each respondent's information and views against those of others: (i) secondary research, which involved reviewing published sources including national statistics and official sources, company reports including audited financial statements where available, independent research reports, and data based on Euromonitor's own research database; (ii) primary research which involved interviews with a sample of leading industry participants and industry experts for latest data and insights on future trends and to verify and cross check the consistency of data and research estimates; (iii) projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related drivers; and (iv) review and cross-checks of all sources and independent analysis to build all final estimates including the size, shape, drivers and future trends of the major home appliance market and prepare the final report.

Euromonitor has prepared the Euromonitor Report on the assumptions that (i) the overall global social, economic and political environment is likely to remain stable in the forecast period; (ii) the global economy and value of foreign trade maintain steady growth over the forecast period; (iii) the absence of external shocks, such as financial crises or significant material shortage or cost inflation that affects the demand and supply of the consumer appliances in the world during the forecast period; (iv) no significant changes in the global regulatory framework related to consumer appliances; and (v) key related markets, index and drivers such as housing markets, exchange rates and leading player's further commitment to expansion support the future development of consumer appliances globally. The reliability of the Euromonitor Report may be affected by the accuracy of the foregoing assumptions.

PRC REGULATORY OVERVIEW

The PRC regulations that have a significant impact on our business operations are set out below:

Laws and Regulations relating to Foreign Investment and Overseas Investment

PRC Company Law

The PRC Company Law was promulgated by the Standing Committee of the National People's Congress (the "**NPC Standing Committee**") on 29 December 1993 and implemented on 1 July 1994, and last revised on 26 October 2018 and came into effect on the same day. Under the PRC Company Law, companies are generally classified into two categories, namely, limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested enterprises. Pursuant to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

Foreign Investment

Foreign investment activities in China are governed by the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》), which was promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》, the "**Negative List**"), which was promulgated by the MOFCOM and the NDRC on 23 June 2020 and implemented on 23 July 2020. The Negative List sets out in a unified manner the special administrative measures, such as the requirements on shareholding percentages and management, for the access of foreign investments, and the industries that are prohibited for foreign investment. The Negative List covers 12 industries, and any field not falling in the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment.

According to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the NPC on 15 March 2019 and become effective on 1 January 2020, the law on wholly foreign-owned enterprises of the PRC (《中華人民共和國外資企業法》), the law on Sino-foreign equity joint ventures of the PRC (《中華人民共和國中外合資經營企業法》) and the law on Sino-foreign contractual joint ventures of the PRC (《中華人民共和國中外合作經營企業法》) shall be repealed when the Foreign Investment Law came into force. The investment activities of foreign investors directly or indirectly within the territory of China shall comply with and be governed by the Foreign Investment Law.

According to the Regulations on Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the "**Foreign Investment Implementation Regulations**") promulgated by the State Council on 26 December 2019 and implemented on 1 January 2020, the Regulations on the Implementation of the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》), the Interim Provisions on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Detailed Rules on the Implementation of the Wholly Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》) and the Detailed Rules on the Implementation of the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法實施細則》) shall be repealed when the Foreign Investment Implementation Regulations came into force.

According to the Measures of the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) (the "**Reporting Measures**") promulgated by the MOFCOM and the State Administration for Market Regulation (the "**SAMR**") on 30 December 2019 and implemented on 1 January 2020, the Interim Measures for the Recordation Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) shall be repealed when the Reporting Measures came into force, and when foreign investors carry out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities.

Overseas Investment

Pursuant to the Administrative Measures for Outbound Investment (《境外投資管理辦法》) promulgated by the MOFCOM on 6 September 2014 and implemented on 6 October 2014, the MOFCOM and provincial competent commerce authorities shall carry out administration either by record-filing or approval, depending on different circumstances of outbound investment by enterprises. Outbound investment by enterprises that involves sensitive countries and regions or sensitive industries shall be subject to administration by approval. Outbound investment by enterprises that falls in any other circumstances shall be subject to administration by record-filing.

Pursuant to the Administrative Measures for Outbound Investment of Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC on 26 December 2017 and implemented on 1 March 2018, a domestic enterprise (the "**Investor**") making an outbound investment shall obtain approval, conduct record-filing or other procedures applicable to outbound investment projects (the "**Projects**"), report relevant information, and cooperate with the supervision and inspection. Sensitive Projects carried out by Investors directly or through overseas enterprises controlled by them shall be subject to approval; non-sensitive Projects directly carried out by Investors, namely, non-sensitive projects involving investors' direct contribution of assets or rights and interests or provision of financing or guarantee shall be subject to record-filing. The aforementioned "sensitive project" means a project involving a sensitive country or region or a sensitive industry. The NDRC shall promulgate the catalogue of sensitive industries. The currently effective sensitive industry catalogue is the Catalogue of Sensitive Sectors for Outbound Investment (2018 Edition) (《境外投資敏感行業目錄(2018年版)》), effective on 1 March 2018.

Foreign ownership restriction on telecommunications business

According to the Special Administrative Measures for Foreign Investment Access (Negative List) (2020 Edition) (《外商投資准入特別管理措施（負面清單）（2020 年版）》) promulgated by the NDRC and MOFCOM on 23 June 2020 and implemented on 23 July 2020, the foreign equity proportion for value-added telecommunications services (except for e-commerce, domestic multi-party communications, storage-forwarding and call centres) shall not exceed 50%. According to the Circular of Ministry of Industry and Information Technology concerning Lifting Restrictions on the Proportion of Foreign Equity in On-line Data Processing and Transaction Processing Business (Operational E-commerce) (《工業和信息化部關於放開在線數據處理與交易處理業務（經營類電子商務）外資股比限

制的通告》) issued by the Ministry of Industry and Information Technology of the PRC (the "MIIT") on 19 June 2015 and implemented on the same date, the maximum proportion of foreign equity in on-line data processing and transaction processing business (operational e-commerce) is 100%. Therefore, the operational e-commerce business is not subject to foreign investment restriction, while the proportion of foreign investment in Internet information services business is restricted to no more than 50%. As advised by our PRC legal advisors, we are in compliance with the relevant provisions relating to foreign ownership restriction of telecommunications business in the PRC.

Legality of Haier Smart Home App and Haier Smart Home Experiential Cloud Platform

Pursuant to the Telecommunications Regulation of the PRC (2016 Revision) (《中華人民共和國電信條例(2016修訂)》) promulgated by the State Council on 25 September and last revised and implemented on 6 February 2016, the Measures for the Administration of Telecommunications Business Licensing (2017 Revision) (《電信業務經營許可管理辦法(2017修訂)》) promulgated by the MIIT on 1 March 2009 and last revised on 3 July 2017 and implemented on 1 September 2017, and other applicable PRC laws and regulations with respect to telecommunications business, in order to operate the e-commerce business of Haier Smart Home App, our subsidiary Haier Group Electronic Commerce Co., Ltd. (the "**Electronic Commerce**"), has obtained a value-added telecommunications business operation license with the business scope of online data processing and transaction processing business (only for operational e-commerce) (the "**EDI License**") issued by the MIIT on 26 June 2019 with a valid period to 26 June 2024.

The other business of Haier Smart Home App, which is non-operational Internet information services, was operated by our subsidiary Qingdao Haier Technology Co., Ltd. (the "**Haier Technology**"). Haier Technology has obtained the Approval Opinion on Foreign Investment in Telecommunications Business (MIIT Foreign investment Review [2020] No. 123, the "**Approval Opinion**") issued by the MIIT on 6 September 2020. According to the Approval Opinion, the MIIT has approved Haier Technology's application for foreign investment in telecommunications business with the business scope of online data processing and transaction processing (only for operational e-commerce), and information service business (only for Internet information service). Haier Technology is in the process of application for the value-added telecommunications business operation license (the "**VATS License**") with the business scope as mentioned in the Approval Opinion for the preparation of future business plan.

Pursuant to the Administrative Measures for Internet Information Services (2011 Revision) (《互聯網信息服務管理辦法（ 2011修訂 ）》) promulgated by the State Council on 25 September 2000 and last revised implemented on 8 January 2011, operational Internet information services refer to compensatory services which provide information, web pages production or other service activities for online users through the Internet, non-operational Internet information services refer to non-compensatory services which provide, through the Internet, to online users information which is open to and shared by the general public, and non-operational Internet information services is not required to obtain the VATS License with a business scope of Internet information service. As at the Latest Practicable Date, we believe not obtaining the VATS License of Haier Technology would not have any material adverse effect on our business operation.

As at the Latest Practicable Date, the value-added telecommunications services that Haier Smart Home Experiential Cloud Platform involves are e-commerce services and Internet information services provided through Haier Smart Home App. We have not received any administrative penalties imposed on the business of Haier Smart Home App and Haier Smart Home Experiential Cloud Platform by the competent authorities for violating the relevant laws and regulations with respect to telecommunications administration.

As advised by our PRC legal advisers, the operating entities of Haier Smart Home App have obtained the necessary business license with respect to telecommunications administration to conduct their existing business during the Track Record Period and not obtaining the VATS License of Haier Technology does not have a material adverse effect on the business operation of the Company. As reflected in the results of checking of the websites of MIIT, Shandong Communications Administration, Qingdao Communications Administration, CREDITCHINA.GOV.CN and National Enterprise Credit Information Publicity System by our PRC legal advisers, Electronic Commerce and Haier Technology have not been found to be subject to any administrative penalties by the competent authorities for violating the relevant laws and regulations with respect to telecommunications administration.

Laws and Regulations relating to Product Quality

Product Quality Responsibility

According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**") which was promulgated by the NPC Standing Committee on 22 February 1993 and implemented on 1 September 1993, and last revised on 29 December 2018, the engagement in product manufacturing and sales activities within the territory of China shall comply with the Product Quality Law. Producers shall be responsible for the quality of the products they produce and sell. Quality of products shall meet the following requirements: (i) the products shall be free from any unreasonable threats to personal safety or safety of property, and shall conform to national standards or trade standards for ensuring human health and personal or property safety if there are such standards; (ii) the products shall have the functions they are supposed to have, except where there are explanations about the functional defects; and (iii) the products shall meet the standards specified on the products or packages thereof and the quality condition specified by way of product instructions or samples. In case of violation of the Product Quality Law, the market regulatory authorities have the right to order producers and sellers to stop production and sales, confiscate the products which are illegally produced or sold and impose fines. In case of serious violations, the business licence of a producer or seller will be revoked, and if the violation is so serious as to have constituted a crime, the producer or seller will be prosecuted for criminal liability.

In accordance to the Tort Law of the PRC which was promulgated by the NPC Standing Committee on 26 December 2009 and implemented on 1 July 2010, where any harm is caused by a defective product, the victim may claim for compensation either from the producers or sellers. If the liability lies on the producers and the compensation has been paid by the sellers, the sellers have the right to recover their losses from the producers. If the liability lies on the sellers and the compensation has been paid by the producers, the producers have the right to recover their losses from the sellers.

CCC

According to the Regulations on Certification and Accreditation of the PRC (《中華人民共和國認證認可條例》) which was promulgated by the State Council on 3 September 2003, implemented on 1 November 2003 and subsequently revised on 6 February 2016 and the Regulations on the Administration of Compulsory Product Certification (2009) (《強制性產品認證管理規定(2009)》) which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (currently known as the SAMR) on 3 July 2009 and implemented on 1 September 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified (the "**Compulsory Certification**") and labelled with compulsory certification mark. For products that are subject to Compulsory Certification, the state implements unified product catalogues, unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Producers, sellers and importers of the products listed in the catalogues shall entrust a certification body designated by the Certification and Accreditation Administration of the PRC (the "**CNCA**") to certify the products they produce, sell or import. If the certification requirements are met, the certification body shall issue a certificate to the client. The certificate is valid for 5 years and can be re-applied after the expiration of the validity period.

According to the Announcement of the State Administration for Market Regulation on Optimising the Catalogue of Products Subject to Compulsory Certification (《市場監管總局關於優化強制性產品認證目錄的公告》) published by the SAMR and implemented on 21 April 2020, products such as washing machines, water heaters, kitchen appliances, air-conditioners and refrigeration appliances are products subject to Compulsory Certification.

Consumer Protection

Pursuant to the Law of the PRC on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) which was promulgated by the NPC Standing Committee on 31 October 1993 and implemented on 1 January 1994, and last revised on 25 October 2013, the operators to provide consumers with the goods they produce or sell or to provide services shall comply with the Law on the Protection of the Rights and Interests of Consumer. Operators shall bear civil liability under the following circumstances: a) a defect exists in a product or service; b) a product does not possess the functions it is supposed to possess, and no declaration thereof is made at the time of sale; c) the product standards indicated on a product or on the package of such product are not met; d) the quality condition indicated by way of product description or physical sample, etc. is not met; e) products that have been formally declared by the state to be obsolete are produced or expired or deteriorated products are sold; f) the products sold are short on quantity; g) the contents and costs of the services are in violation of the agreement; or h) consumers' requests for repair, redoing, replacement, return, making up the quantity of a product, refund of payment for the products or services, or claims for compensation have been deliberately delayed or unreasonably rejected. Operators who fail to fulfil the security obligations and causes harm to consumers shall bear tort liability. If an operator's provision of goods or services violates the provisions of the Law on the Protection of the Rights and Interests of Consumer and infringes upon the legitimate rights and interests of consumers, which constitutes a crime, the operator shall be subject to criminal liability according to the law.

Laws and Regulations Relating to Production Safety

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the "**Production Safety Law**") promulgated by the NPC Standing Committee on 29 June 2002 and implemented on 1 November 2002, and last revised on 31 August 2014, entities engaged in production and business activities in China shall comply with the Production Safety Law and other laws and regulations related to production safety. Entities shall strengthen the management, establish and improve responsibility systems and polices, improve conditions, promote the development of production safety standards, and improve the production level to ensure their production safety. The primary persons in charge of the production and operation entities are fully responsible for the production safety of their entities. Violation of the Production Safety Law may result in imposition of fines and penalties, suspension of operation, an order to cease operation, or even criminal liability in severe cases.

Laws and Regulations Relating to Import and Export of Products

Import and Export Management

Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the Standing Committee on 12 May 1994 and last amended on 7 November 2016, a foreign trade operator who is engaged in the import and export of goods or technologies shall process the filing and registration with the foreign trade authority under the State Council or its entrusted agencies, unless otherwise provided by the laws and regulations. Foreign trade operators which have not filed and registered in accordance with the Foreign Trade Law of the PRC will be declined by the PRC customs authorities to carry out the customs clearance and inspection procedures for import and export of goods.

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the NPC Standing Committee on 22 January 1987 and implemented on 1 July 1987, and last amended on 4 November 2017, and the Administrative Provisions of the General Administration of Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) which was promulgated by the General Administration of Customs on 13 March 2014 and implemented on the same date, and last revised on 29 May 2018, the customs is the state's entry and exit customs supervision and administration authority. The consignor or consignee of import and export goods and the declaration enterprise shall register with the customs office according to law when handling the declaration procedure. No declarations could be made without registering with the customs.

Imported and Exported Commodities Inspection

According to the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》) which was promulgated by the NPC Standing Committee on 21 February 1989 and implemented on 1 August 1989, and last revised on 29 December 2018, and the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》) which was promulgated by the State Council on 31 August 2005 and implemented on 1 December 2005, and last revised on 2 March 2019, the General Administration of Customs is responsible for inspection of import and export commodities. The entry-exit inspection and quarantine authorities shall conduct inspection on the import and export commodities listed in the catalogue and other import and export commodities that shall be subject to the inspection of the entry-exit inspection organs as prescribed by laws and administrative regulations. For the import and export commodities other than those that are subject to statutory inspection by the entry-exit inspection and quarantine authorities as mentioned above, the entry-exit inspection and quarantine authorities may conduct random inspection in accordance with state regulations. No import commodity subject to statutory inspection that has not been inspected could be sold or used. No export commodity subject to statutory inspection that has not been inspected or fails to pass the inspection could be exported.

Laws and Regulations Relating to Anti-unfair Competition

Anti-Monopoly Law

According to the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》) (the "**Anti-Monopoly Law**") which was promulgated by the NPC Standing Committee 30 August 2007 and implemented on 1 August 2008, the Anti-Monopoly Law applies to the monopolistic practises in domestic economic activities in China as well as the monopolistic practises outside China which have exclusion or restriction effects on domestic market competitions. The monopolistic practises under the Anti-Monopoly Law include any monopoly agreement reached by any operators, abuse of market-dominating position by any operators and any concentration of operators which has eliminated or limited or may eliminate or limit the market competition. The antimonopoly law enforcement agencies designated by the State Council are responsible for enforcement of the Anti-Monopoly Law in accordance with the provisions of the Anti-Monopoly Law. The antimonopoly law enforcement agencies of the State Council may, according to the needs of their work, authorise the corresponding agencies of the people's governments of provinces, autonomous regions, and municipalities to be responsible for enforcement of the Anti-Monopoly Law. Operators who violate the provisions of the Anti-Monopoly Law will be ordered by the anti-monopoly law enforcement agencies to stop the illegal act and be imposed a fine.

Anti-unfair Competition Law

According to the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) (the "**Anti-unfair Competition Law**") which was promulgated by the NPC Standing Committee on 2 September 1993 and implemented on 1 December 1993, and last revised on 23 April 2019, operators shall comply with the principle of voluntariness, equality, impartiality, integrity and abide by laws and business ethics in market transactions. Under the Anti-unfair Competition Law, unfair competition refers to an operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the Anti-unfair Competition Law in the production and operating activities. Operators who violate of the Anti-unfair Competition Law shall bear corresponding civil, administrative or criminal responsibilities depending on the specific circumstances.

Laws and Regulations Relating to Environment Protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated by the NPC Standing Committee on 26 December 1989 and implemented on the same date, and subsequently revised on 24 April 2014, enterprises, public institutions and other producers and operators shall prevent and reduce environmental pollution and ecological damage, and shall take the liabilities for the damages caused according to the laws. The state adopts the pollution discharge permit management system. Enterprises, public institutions and other producers and operators which are subject to the pollution discharge permit management shall discharge pollutants according to the requirements of the pollution discharge permit; and those that fail to obtain the pollution discharge permit shall not discharge pollutants.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated by the NPC Standing Committee on 28 October 2002 and implemented on 1 September 2003, and last revised on 29 December 2018, and the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998 and implemented on the same date, and subsequently revised on 16 July 2017, the state implements a system to assess the environment impact of construction projects. If the construction project may result in a material impact on the environment, a thorough environmental impact report on the potential environmental impact is required; if the construction project may result in only slight impact on the environment, an environmental impact statement of analysing or special evaluation will be required; if the construction project may only result in very little impact on the environment and no environmental impact appraisal is required, a registration form of environmental impact shall be filed. Construction projects without undergoing assessment for environmental impact according to the laws cannot commence construction. After the completion of the construction projects for which environment effect report and environment effect statement was prepared, a construction unit shall, according to the standards and procedures formulated by the competent administrative department for environment protection under the State Council, conduct inspection and acceptance of supplementary environment protection facilities, and prepare inspection and acceptance report. No supplementary facilities of such projects may be put into production or use until such facilities pass inspection and acceptance; no supplementary facilities that failed to undergo or pass the inspection and acceptance procedure may be put into production or use.

If an enterprise violates the provisions of the aforesaid laws and regulations, the environmental protection administrative departments at the county level or above may order it to stop production or construction, impose a fine and order it to conduct rehabilitation; if the violation constitutes a crime, the enterprise may be held criminally liable according to law.

Laws and Regulations Relating to Foreign Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on 29 January 1996, came into effective on 1 April 1996 and last amended on 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) which was promulgated by the People's Bank of China on 20 June 1996 and became effective on 1 July 1996. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterparts is obtained.

According to the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No.16) issued by the SAFE on 9 June 2016, discretionary settlement of foreign exchange capital income can be settled at the banks based on the actual operating needs of the domestic companies. The proportion of discretionary settlement of foreign exchange capital income for domestic companies is temporarily set at 100%. The SAFE may timely adjust the above proportion based on international balance of payments. The foreign exchange receipts under the capital account and capital in RMB obtained through foreign exchange settlement shall not be used for the following purposes: (1) directly or indirectly used for payments outside the business scope or for payments prohibited under relevant laws and regulations; (2) directly or indirectly used for investment in securities or for investment in financing products other than principle guaranteed products provided by banks, unless otherwise provided by laws and regulations; (3) used for granting loans to non-related enterprises, unless permitted by the scope of business; and (4) used for constructing or purchasing of real estate that is not for self-use, unless such company is a real estate company.

Laws and Regulations Relating to Taxation

Income Tax

Pursuant to the Enterprise Income Tax of the PRC (《中華人民共和國企業所得稅法》 Law promulgated by the NPC Standing Committee on 16 March 2007 and implemented on 1 January 2008 and last revised on 29 December 2018 and the Implementation Rules of the EIT Law (《企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 and revised on 23 April 2019, a domestic enterprise which is established within the PRC in accordance with the laws or established in accordance with any laws of foreign country (region) but with an actual management entity within the PRC shall be regarded as a resident enterprise. A resident enterprise shall be subject to an EIT of 25% of any income generated within or outside the PRC. A preferential EIT rate shall be applicable to any key industry or project which is supported or encouraged by the State. Key high and new technology enterprises which are supported by the State may enjoy a reduced EIT rate of 15%.

Value-Added Tax

According to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on 13 December 1993 and last revised on 19 November 2017 and the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the Ministry of Finance on 25 December 1993 and last amended on 28 October 2011, entities and individuals that sell goods or labour services of processing, repair or replacement, sell services, intangible assets, or immovables, or import goods within the territory of China are taxpayers of value-added tax (the "**VAT**"), and shall pay VAT in accordance with law. Unless otherwise stipulated, the VAT rate is 17% for taxpayers selling goods, labour services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovables, transferring land use rights, or selling or importing specific goods; unless otherwise stipulated, 6% for taxpayers selling services or intangible assets.

The MOF and the SAT published the Circular of the MOF and the SAT on Fully Launch of the Pilot Scheme for the Conversion of Business Tax to Value-added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) and its annexes on 23 March 2016, and came into effect on 1 May 2016, pursuant to which entities and individuals that sell services, intangible assets, or immovables shall pay VAT instead of business tax since 1 May 2016.

According to the Circular of the MOF and the SAT on Adjusting Value-added Tax Rate (《財政部、稅務總局關於調整增值稅稅率的通知》) which was promulgated by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, the tax rates for the taxable sales or goods import activity, which were subject to the tax rates of 17% and 11% respectively, were adjusted to 16% and 10% respectively.

According to the Circular on Policies in Relation to the Deepening of Value-added Tax Reforms (《關於深化增值稅改革有關政策的公告》) which was jointly promulgated by the MOF, the SAT and the General Administration of Customs on 20 March 2019, the tax rate of 16% and 10% originally applicable to general VAT taxpayers' VAT taxable sales or goods import shall be adjusted to 13% and 9%, respectively.

Laws and Regulations Relating to Labour and Social Security

Labour Law and Labour Contract Law

According to the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the NPC Standing Committee on 5 July 1994, came into effect on 1 January 1995 and last revised on 29 December 2018, and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated on 29 June 2007, revised on 28 December 2012 and came into effect on 1 July 2013, written labour contracts shall be executed between an entity and its employees if an employment relationship is established. Employers are required to inform their employees about their job responsibilities, working conditions, occupational hazards, remuneration and other matters with which the employees may be concerned. Employers shall pay remuneration to employees on time and in full in accordance with the commitments set forth in their employment contracts and the relevant PRC laws and regulations.

Social Insurance and Housing Provident Fund

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010, came into effect on 1 July 2011 and revised on 29 December 2018, the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was implemented on 22 January 1999 and revised on 24 March 2019, the Trial Measures for Enterprise Staff Maternity Insurance (《企業職工生育保險試行辦法》), which was implemented on 1 January 1995, the Regulations on Work-Related Injury Insurance (《工傷保險條例》), which was implemented on 1 January 2004, amended on 20 December 2010 and came into effect on 1 January 2011, and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), which was promulgated on 3 April 1999 and last revised on 24 March 2019, employers in China shall provide their employees with welfare schemes covering basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing provident fund. Employers who fail to contribute to the above social insurance and housing provident funds may be subject to a fine and ordered to make full payment within a prescribed time period. If an employing entity fails to make the payment towards the social insurance and housing provident funds within a prescribed time limit, an application may be made to a people's court for enforcement.

Laws and Regulations Relating to Intellectual Property Rights

Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated by the NPC Standing Committee on 12 March 1984 and implemented on 1 April 1985, and last revised on 27 December 2008 and came into effect on 1 October 2009 and the Implementation Regulations of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) which was promulgated by the State Council on 15 June 2001 and implemented on 1 July 2001, and amended on 9 January 2010 and came into effect on 1 February 2010, patents in China are divided into invention patent, utility patent and design patent. Invention patent shall be valid for 20 years from the date of application while utility patent and design patent shall be valid for ten years from the date of application. The patent right entitled to its owner shall be protected by the laws. Any person shall be licenced or authorised by the patent owner before using such patent. Otherwise, the use constitutes an infringement of the patent right.

Trademark

According to the Trademark Law of the PRC (the "**Trademark Law**") was promulgated by the NPC Standing Committee on 23 August 1982 and became effective on 1 March 1983 and last revised on 23 April 2019 and implemented on 1 November 2019 and the Implementation Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) which was promulgated by the State Council on 3 August 2002 and implemented on 15 September 2002, and amended on 29 April 2014, a trademark registered by the Trademark Office is a registered trademark, including the commodity trademark, service trademark, collective trademark and certification trademark. The valid period of a registered trademark shall be 10 years, commencing from the date of approval of the registration. The trademark registrant shall apply for renewal within 12 months before the expiry date for further use of the registered trademark. The valid period for each renewal of registration is 10 years, counted from the next day of the expiration day of the last term.

Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the "**Copyright Law**") promulgated by the NPC Standing Committee on 7 September 1990 and implemented on 1 June 1991, and last revised on 26 February 2010 and came into effect on 1 April 2010, Chinese citizens, legal persons or other organisations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software created in writing or oral or other forms. A copyright holder shall enjoy a number of rights, including the right of publication, the right of authorship and the right of reproduction.

Pursuant to the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) promulgated by the National Copyright Administration on 20 February 2002 and the Regulation on Computers Software Protection (《計算機軟件保護條例》) amended by the State Council on 30 January 2013 and came into effect on 1 March 2013, the National Copyright Administration is mainly responsible for the registration and management of software copyright in China and recognises the China Copyright Protection Centre as the software registration organisation. The China Copyright Protection Centre shall grant certificates of registration to computer software copyright applicants in compliance with the regulations of the Measures for the Registration of Computer Software Copyright and the Regulation on Computers Software Protection.

Domain Names

Domain names are protected under the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) which was promulgated by the Ministry of Industry and Information Technology of the PRC on 24 August 2017 and came into effect on 1 November 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

U.S. REGULATORY OVERVIEW

The U.S. regulations that have a significant impact on our business operations are set out below:

Laws and regulations related to Product Liability and Safety

The United States Consumer Product Safety Commission (CPSC) administers and enforces several federal laws. These laws authorise the CPSC to protect the public against unreasonable risks of injuries and deaths associated with consumer products. The CPSC also publishes regulations to implement the laws it administers and enforces. These laws include, but are not limited to, the Consumer Product Safety Act (CPSA), Consumer Product Safety Improvement Act (CPSIA) Public Law 112-28: Updates to CPSIA, Federal Hazardous Substances Act (FHSA), Child Safety Protection Act (CSPA), Labeling of Hazardous Art Materials Act (LHAMA), Flammable Fabrics Act (FFA), Poison Prevention Packaging Act (PPPA), and the Refrigerator Safety Act (RSA). These regulations specify the requirements that apply to individuals, businesses, and others. Product liability and safety issues and violations may also be subject to equivalent state laws and regulations, and to the common law of the various states and federal jurisdictions that permit maintenance of civil lawsuits for various actions related to product defects, warranties, liabilities, negligence, fraud, and other actions or wrongs giving rise to harms or damages, economic or personal.

REGULATORY ENVIRONMENT

Laws and Regulations relating to Environmental Protection

Clean Air

The Clean Air Act ("**CAA**") of 1970, as amended in 1977 and 1990, 42 United States Code ("**USC**") §4201 et seq., provides a comprehensive set of requirements that regulate existing stationary sources of air pollution, such as industrial and manufacturing facilities, and the construction of new air polluting sources. Under the CAA, the U.S. Environmental Protection Agency ("**USEPA**") was empowered with creating the National Ambient Air Quality Standards ("**NAAQS**"), which set acceptable levels of ambient (outdoor) air quality for certain criteria air pollutants.

Clean Water

The federal Water Pollution Control Act ("**WPCA**") was adopted in 1972, and significantly amended in 1977, at which time the name of the federal legislation was changed to the Clean Water Act ("**CWA**"). The CWA is enforced by the USEPA, with assistance from state and local government agencies. Under the CWA it is unlawful to discharge any pollutant into navigable waters from a point source without a permit to discharge such effluent. The CWA establishes water quality standards.

Hazardous Waste

The Comprehensive Environmental Response, Compensation, and Liability Act — otherwise known as CERCLA or Superfund — provides a funding mechanism to remediate or clean up abandoned hazardous waste sites. USEPA has the regulatory power to pursue those parties responsible for any hazardous release and require them to clean up the site. The Resource Conservation and Recovery Act ("**RCRA**") grants USEPA the authority to control the generation, treatment, storage, and disposal of hazardous waste. Whereas CERCLA controls the remediation of abandoned sites at which there has been a hazardous substance release, RCRA controls how active industrial facilities are to control hazardous wastes at their site.

Laws and regulations relating to Intellectual Property

United States Patents are regulated by the United States Patent and Trademark Office (USPTO) pursuant to the authority of the Patent Act of the United States (Title 35 of the USC, hereinafter the "**Patent Act**") enacted in 1952 and amended on 16 September 2011 by the Leahy-Smith America Invents Act (AIA). Under the Patent Act, the USPTO grants the following three types of patents: (1) utility patents for useful inventions that are novel and non-obvious, (2) design patents for new, original, and ornamental designs of manufactured products, and (3) plant patents for certain distinct and new varieties of plants.

Trademarks are protected in the United States at the federal level under the Lanham Act (Title 15 of the U.S. Code §§ 1051-1127), which took effect on 5 July 1947 and was most recently amended on 2 November 2002. Trademarks are also protected at the state level by common law unfair competition principles and state trademark statutes. In order to receive federal trademark protection, trademarks must be registered with the USPTO. To maintain a federal registration, a declaration of continued use along with the required fee is due between the 5th and 6th year following the date of registration. The trademark registration must also be renewed 10 years after the date of registration and can be renewed for successive 10-year terms thereafter as long as the mark remains in use.

In the United States, copyrights are regulated by the U.S. Copyright Office under the authority of the federal Copyright Act of 1976 (Title 17 of the U.S. Code and herein after the "Copyright Act"), which was enacted on 19 October 1976 and most recently amended on 27 March 2020. The Copyright Act explicitly covers the copyrights in original works of authorship including computer software and artistic works. In the United States, copyrights exist immediately upon fixation of the work and ownership of the copyright vests in the author. Alternatively, the copyright can vest in an employer if the work qualifies as a work made for hire.

Laws and regulations relating to Employment and Social Welfare

Occupational Safety

Our U.S. subsidiaries are subject to the Occupational Safety and Health Act (the "**OSHA**") and similar statutes and regulations adopted by the states that establish employer responsibilities for worker health and safety, including the obligation to maintain a workplace free of recognised hazards likely to cause death or serious injury, comply with adopted worker protection standards, maintain certain records, provide workers with required disclosures and implement certain health and safety training programmes. The OSHA created the Occupational Safety & Health Administration, a federal agency under the Department of Labour, and gave it the authority to promulgate implementing regulations and set and enforce workplace health and safety standards.

Collective Bargaining

The federal National Labour Relations Act of 1935 (NLRA) states and defines the rights of employees to organise and to bargain collectively with their employers through representatives of their own choosing or not to do so. To ensure that employees can freely choose their own representatives for the purpose of collective bargaining, or choose not to be represented, the NLRA establishes a procedure by which employees can exercise rights under the NLRA or establish workplace unions. Further, to protect the rights of employees and employers, and to prevent labour disputes that would adversely affect the rights of the public, the NLRA defines and prohibits certain practices of employers and unions as unfair labour practices.

Discrimination, Harassment and Retaliation

Title VII of the Civil Rights Act of 1964 (Title VII), along with several other similar federal laws enforced by the Equal Employment Opportunity Commission and the regulations adopted pursuant to those laws, protect employees from unlawful discrimination, harassment, and/or retaliation by covered employers based on legally protected classes such as race, colour, sex (including sexual orientation, gender identity, and transgender status), pregnancy or pregnancy-related conditions, religion, national origin, age, physical or mental disability, or genetic information. The federal Equal Pay Act of 1963 (EPA) makes it illegal to pay different wages to men and women if they perform equal work as deemed equal under the law in the same workplace.

REGULATORY ENVIRONMENT

ITALY REGULATORY OVERVIEW

The Italian regulations that have a significant impact on our business operations are set out below:

Laws and regulations relating to protection of personal data

The protection of personal data is governed by EU Regulation no. 679/2016 ("**GDPR**") in Europe and by Legislative Decree no. 196/2003 in Italy. The Regulation aforementioned revolutionised the perception of privacy, which is now ruled by a risk-based approach. In details, the Regulation set a new principle to be compliant with, i.e. the principle of *accountability*. The said principle requires that controllers and processors adopt — and give evidence of having adopted — technical (IT and cybersec) and organisational security measures (for instance, instructions to the internal and external recipients, policies, procedures, appointment of a data protection officer, privacy impact assessment, data breach, data records, etc.) adequate to the level of risk of the processing operations performed and aimed at protecting data against loss, illegitimate access, data breach and any event.

Laws and regulations relating to product liability

In case of damage caused by defective products, the Consumer Code (Legislative Decree 206/2005, "**Cons. Code**") provides that the responsibility lies with the manufacturer. If it is not possible to identify the producer, the supplier who has commercially distributed the product is responsible if he has failed to inform the injured party of the identity and domicile of the producer or supplier. A specific and detailed protection of the consumer damaged by defective products was originally introduced by Directive no. 374/1985/EEC, implemented in Italy with Presidential Decree no. 224/1988, then incorporated into Legislative Decree no. 206/2005 and subsequent amendments, otherwise known as the Consumer Code.

Laws and regulations relating to environmental law

Environmental legislation in Italy has its consolidated legislation act in the Legislative Decree no. 152/2006, which is the Environmental Consolidated Act (*Codice dell'Ambiente,* ECA). In addition to ECA, there are separate environmental laws regulating specific topics. Environmental regulations are mandatory and enforced through criminal and/or administrative sanctions. Investigations are conducted by the public officers of the single competent authorities. Criminal proceedings are initiated by the public prosecutor. It has to be noted that criminal sanctions, also in relation to environmental issues, were extended to companies by Legislative Decree no. 231 of 2001. The permitting regime is not entirely integrated. It consists of a variety of authorisations and permits, although they are being simplified into more general and inclusive permits.

Laws and regulations relating to waste electrical and electronic equipment

The Directive 2012/19/EU of the European Parliament and of the Council of 4 July 2012 ("**WEEE Directive**") regulates the management of waste deriving from electrical and electronic equipment in the European Union. According to the WEEE Directive, member states shall, in particular, adopt appropriate measures to minimise the disposal of waste electrical and electronic equipment in the form of unsorted municipal waste, to ensure the correct treatment of all collected waste electrical and electronic equipment and to achieve a high level of separate collection of waste electrical and electronic equipment. The WEEE Directive is based on the principle of the producer responsibility and requests the member States to ensure that the producers or third parties acting on their behalf, provide for the collection of the waste electrical and electronic equipment and set up, on an individual or collective basis, systems to provide for the recovery, the treatment and the disposal of the waste electrical and electronic equipment.

Laws and regulations relating to Safety and Occupational Health

The most important legislative groundwork regarding safety and health at work is the Legislative Decree of 9 April 2008, Nr. 81 (D.Lgs. 81/2008, Testo unico in materia di sicurezza sul lavoro, hereinafter referred to as the "consolidated text") with its following modifications and additions.

Obligations and division of responsibilities

In general, the employer must ensure the necessary measures to protect the physical integrity, personality and psychological well-being of the employee. Apart from the preparation of the risk assessment and the drafting of the corresponding document as well as the appointment of the head of the occupational safety service, which are the sole non-delegable obligations of the employer, the obligations of the employer also apply to the executives who perform the same activities by virtue of their assigned powers and responsibilities.

Risk assessment

The assessment of risks in the company regarding the safety and health of workers and the draft of the relevant document are non-delegable obligations of the employer. In the assessment, all risks regarding the work place should be considered for any single group of workers (e.g. workers with particular risk) or characteristics (e.g. pregnancy, age, origin). The employer shall conduct the assessment and its draft in cooperation with the head of the occupational safety service (if appointed) as well as with the occupational doctor (if health surveillance is necessary) and with the prior hearing of the security spokesman.

Occupational Health and Safety Service

In order to ensure compliance with the provisions, it is necessary to plan measures regarding safety and health at the work place (Occupational Health and Safety Service, OHS). This specifically includes the following duties:

- Preparation of protection and prevention measures and the corresponding control systems;
- Preparation of safety procedures regarding the various operation activities;
- Planning of programmes concerning information and training of workers; and
- Information of the employees about security issues.

FRENCH REGULATORY OVERVIEW

The French regulations that have a significant impact on our business operations are set out below:

Laws and regulations relating to product safety and conformity

Defective products

Under French and European law, when the product has a defect and causes a damage to the consumer, the producer's liability may be engaged even if the producer has not committed a fault or a negligence. Directive 85/374/EEC — Liability for Defective Products of 25 July 1985 establishes a principle of liability of the producer who puts a defective product on the market. This directive was transposed into French law by a law of 19 May 1998. These rules are codified in Articles 1245 to 1245-17 of the Civil Code. A producer is considered to be the person who imports the product into the European Community with a view to reselling it or who affixes his name or trademark to the product. Where the producer cannot be identified, the supplier is liable. A product is defective when it does not offer the safety that can legitimately be expected.

Warranty for hidden defects

The seller owes to any buyer, whether professional or not, the guarantee that the goods or equipment sold are free of hidden defects, i.e. any defect (i) which makes the product unfit for the use for which it is intended and (ii) which is a defect legitimately ignored by the buyer (Articles 1641 to 1649 of the Civil Code). The seller is responsible and must guarantee the buyer as soon as the defect was not apparent at the time of the sale. The buyer, professional or not, who is aware of a hidden defect has a period of two years from the discovery of the defect to request either the nullity of the sale or a reduction in the price.

The legal guarantee of conformity in case of sale of the goods to a consumer

A professional seller who sells goods to a consumer shall deliver goods in conformity with the contract. They shall be liable for any lack of conformity existing at the time of delivery. Article L 217 — 4 of the French Consumer Code stipulates that the professional seller is also liable for defects of conformity resulting from packaging, assembly instructions or installation when the latter has been charged to him by the contract or has been carried out under his responsibility. Once the non-conformity has been acknowledged, the consumer may request the replacement of the goods or their repair. The action resulting from the lack of conformity shall be time-barred after two years from the delivery of the goods.

Regulations relating to the conformity of products and services with the regulations applicable to them (Articles L 411-1 et seq. of the French Consumer Code)

As soon as they are placed on the market for the first time, products must comply with the regulations applicable to them. This principle entails an obligation of self-checking, failure to comply with which may be penalised under the offence of deception. On the basis of this obligation of conformity, numerous decrees lay down specific measures for certain products. From the first time they are placed on the market, products and services must comply with the requirements in force relating to the safety and health of persons, fair trading and consumer protection. The person responsible for first placing a product or service on the market must check that it complies with the requirements in force. This obligation of self-checking is imposed at all stages of marketing and therefore on importers, whether the products come from a European Union State or not.

Laws and regulations relating to distribution law (B to B relationship)

Article L 441-3 of the French Commercial Code provides for a single general agreement applicable to any relationship between a supplier and a distributor. The single agreement formalises the result of the negotiations between the supplier and the distributor. The agreement must be concluded before the 1st of March of the year where it takes effect or within two months following the starting point of the marketing period for the products. The manufacturer or importer of movable goods must inform the professional seller of the period during which or the date until which the spare parts essential to the use of the goods are available on the market (Article L 111-4 of the Consumer Code).

Laws and regulations relating to the sale of goods to consumers (B to C relationship)

These rules only cover the assumption that products are sold directly to consumers. Our subsidiaries in France sells a priori only to professionals. On the other hand, our subsidiaries in France is in charge of after-sales service and sells spare parts, including to consumers. In the latter case, the specific rules laid down by the consumer code applicable to sales between professionals and consumers must be applied. These rules are numerous and are set out in Articles L 211-1 et seq. of the Consumer Code. In particular, the professional seller must provide consumers with all substantial information on the product sold (delivery time, legal guarantee, price, payment terms, etc.).

Laws and regulations relating to Environmental Policy

Electrical and electronic equipment (EEE) often contains substances or components that are hazardous to the environment. To meet these health and environmental challenges, the European Union has defined the conditions for placing EEEs on the market and regulates the management of waste generated by these EEEs through directives 2002/95/EC of 27 January 2003 on hazardous substances contained in such equipment and 2002/96/EC of 27 January 2003 on waste electrical and electronic equipment.

Any manufacturer, importer or introducer on the national market of electrical and electronic equipment must provide or contribute to the collection, removal and treatment of waste electrical and electronic equipment, in particular household waste. The decree of 19 August 2014 on waste electrical and electronic equipment and used electrical and electronic equipment, enriched by the law of 10 February 2020 on the fight against waste, sets the rules applicable to producers and importers of this type of equipment.

In accordance with Article L 541-9 of the Environment Code, producers, importers or exporters must justify that the waste generated, at whatever stage, by the products they manufacture, import or export is of a nature to be managed in accordance with the applicable rules. The administrative authority is entitled to require them to provide all relevant information on the management methods and the consequences of their implementation.

REGULATORY ENVIRONMENT

Laws and regulations relating to Employment and Social Benefits

Employment relationships of our subsidiaries in France are governed by the French Labour Code (FLC) (« *Code du travail* »), the Collective Bargaining Agreements and other Agreements of the Metal Industry (CBAs) (« *Conventions Collectives et Accords Collectifs de la Métallurgie* ») and the French Social Security Code (FSSC) (« *Code de la Sécurité Sociale* »).

The FLC

The FLC has been instituted in its present version Government Order (« *Ordonnance* ») n°2007-329 of 12 March 2007 notified by Law n°2008-67 of 21 January 2008, and notified thereafter from time to time. The FLC is a comprehensive set of rules governing employment contracts, hiring and termination, employee unions, collective negotiation and employee representation, industrial health and safety, work duration, holidays and other paid or unpaid leaves, unemployment benefits, and professional training.

The CBAs

In France, CBAs are signed by unions of employers and employees that are representative in a sector of activity and are in most cases made mandatory within this sector of activity by a government "extension" decision. The provisions of CBAs are particularly important in the matters of employee classification and grading, and associated minimum wages. They also include rules which supersede and/or complement FLC rules in the matters of termination notice, severance and work duration.

The FSSC

The FSSC has been instituted in its present version by Government Decree n°85-1353 of 17 December 1985, and amended thereafter from time to time. The FSSC sets forth rules applicable to basic mandatory social benefits for sickness, maternity, disability, and pensions, as well as employer and employee contributions for the funding of these benefits. The FSSC also establishes a legal framework for agreements concluded between Unions of employers and employees, or individual employers and employee unions or representatives, for the purpose of complementing the basic social security benefits. It should be noted that the matter of pensions is governed in France by FSSC and by nation-wide agreements establishing nation-wide mandatory complementary pension schemes, all of which are funded by "repartition" (the pensions of employees gone into retirement are funded by contributions presently paid by employers and employees). Company pension funds are never mandatory, none exist for our French subsidiaries.

HISTORY AND CORPORATE STRUCTURE

OVERVIEW

The history of our Company can be traced back to 1984 when Qingdao Refrigerator General Factory was established. On 28 April 1989, upon approval by Qingdao Municipal Economic System Restructuring Committee, Qingdao Qindao Haier Co., Ltd. (青島琴島海爾股份有限公司), our predecessor entity, was incorporated as a joint stock limited company in the PRC with a registered capital of RMB95,119,000. In 1993, our Company was renamed as Qingdao Haier Refrigerator Co., Ltd. (青島海爾電冰箱股份有限公司) and our A Shares were listed on the Shanghai Stock Exchange (stock code: 600690). Our Company acquired a variety of white goods businesses, including air-conditioners businesses, from Haier Group between 1993 and 2001, and was renamed as Qingdao Haier Co., Ltd. after acquiring 74.45% of Qingdao Haier Air Conditioner Gen Corp. Ltd. (青島海爾空調器有限總公司) from Haier Group in 2001. In 2010, our Company obtained control of HEG to acquire its washing machine and water heater businesses. In 2018, our D Shares were listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (ticker symbol: 690D). We were further renamed as Haier Smart Home Co., Ltd. in 2019.

As the holding company of the Group, our Company is the leading provider of home appliances and smart home solutions in the world.

MILESTONES OF DEVELOPMENT

Our history is an evolution through six phases: brand building strategy (1984-1991), diversification strategy (1991-1998), internationalisation strategy (1998-2005), global brand strategy (2005-2012), network & connectivity strategy (2012-2019), and ecosystem brand strategy (2019 onwards).

HISTORY AND CORPORATE STRUCTURE

The following table sets forth certain important milestones in our history:

Haier

1984

- Qingdao Refrigerator General Factory was established

1989

- "Qingdao Qindao Haier Co., Ltd.", our predecessor, was established

1993

- Our Company was renamed as "Qingdao Haier Refrigerator Co., Ltd.", and our A Shares were listed on the Shanghai Stock Exchange (stock code: 600690)

2001

- After obtaining control of Qingdao Haier Air Conditioner Gen Corp. Ltd. (青島海爾空調有限總公司), our Company acquired the air-conditioners business and was renamed as "Qingdao Haier Co., Ltd."

2007

- Our Company launched a high-end brand, Casarte

2010

- After obtaining control of HEG, our Company acquired the washing machines and water heaters businesses

2011

- Our Company ranked first among home appliances enterprises in the world in terms of retail volume of major home appliances, according to Euromonitor
- Our Company started the transitions (i) from a traditional business model to the *Rendanheyi* Model; and (ii) from a traditional manufacturer to a user-centric service provider

2013

- The first interconnected factory of our Company commenced operations

2014

- Our Company placed 10% equity in our Company to KKR Home Investment S.à.r.l. **("KKR"),** establishing a long-term strategic cooperation relationship with KKR

2015

FISHER & PAYKEL AQUA

- Our Company was entrusted by Haier Group to manage Fisher & Paykel
- Our Company acquired Haier Group's overseas white goods business, including the white goods business of Sanyo Electric Co., Ltd. in Japan and Southeast Asia.

2016

- Our Company acquired General Electric Company's home appliances business, gaining a strong foothold in the North American market

2018

FISHER & PAYKEL

- Our Company was named a Fortune Global 500 company
- Our Company acquired Fisher & Paykel
- Our D Shares were listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (ticker symbol: 690D)
- Our Company's Qingdao Central Air-Conditioner Interconnected Factory was selected as the "lighthouse factory" of the fourth industrial revolution

2019

CANDY

- Our Company acquired Candy to further expand the European market
- Our Company was renamed as "Haier Smart Home Co., Ltd."
- Our Company's Shenyang Refrigerator Interconnected Factory was selected as the "lighthouse factory" of the fourth industrial revolution

HISTORY AND CORPORATE STRUCTURE

OUR PRINCIPAL ENTITIES

As at the Latest Practicable Date, our Company had over 300 directly and indirectly owned subsidiaries. Among those, the following entities serve as significant holding entities or account for a significant part of the results, assets, liabilities, business and strategic development plan of the Group:

Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital (in millions)	Shareholding/ voting rights held by our Company *(Note 1)*	Principal business activities
HEG	Bermuda	23 September 1997	HKD281.7	57.63% *(Note 2)*	Investment holding, manufacture and sale of washing machines and water heaters and distribution services
Qingdao Haier Refrigerator Co., Ltd.	PRC	19 July 1994	RMB207	97.2%	Manufacture and production of fluorine-free refrigerators
Qingdao Haidayuan Procurement Service Co., Ltd.	PRC	22 October 2012	RMB20	100%	Development, purchase and sales of electrical product and components
Qingdao Haier Technology Co., Ltd.	PRC	16 June 2000	RMB80	100%	Development and sales of software and information product
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	PRC	23 April 1999	RMB958	99.83%	Manufacture and sale of air-conditioners
Qingdao Economic & Technology Development Zone Haier Water Heater Co., Ltd.	PRC	28 September 1999	RMB120	100%	Manufacture and sales of water heaters
Chongqing New Goodaymart Electronics Sales Co., Ltd.	PRC	3 March 2010	RMB5	100%	Wholesale and sales of household electronic products

Note:

1. Unless otherwise specified, percentages shown in this table represent shareholdings of our Company in the subsidiaries.
2. Our Company directly holds approximately 13.94% shares of HEG as beneficial owner and indirectly holds approximately 31.74% shares of HEG through FRL, a wholly-owned subsidiary of the Company. Besides, HCH (HK) holds approximately 11.95% shares of HEG, and has entrusted our Company to exercise the voting rights of such shares. Therefore, our Company directly and indirectly controls an aggregate of 57.63% of the voting power of HEG.

HISTORY AND CORPORATE STRUCTURE

Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital (in millions)	Shareholding/ voting rights held by our Company *(Note 1)*	Principal business activities
Chongqing Haier Home Appliance Sales (Hefei) Co., Ltd.	PRC	3 February 2016	RMB5	100%	Wholesale of other machinery and electronic products
Hefei Haier Washing Machine Co., Ltd.	PRC	2 November 2000	RMB92	99.95%	Manufacture of household cleaning and sanitary electric appliances
Qingdao Haier Smart Kitchen Appliances Co., Ltd.	PRC	24 April 2017	RMB180	100%	Manufacture of household kitchen electric appliances
Haier Shareholdings (Hong Kong) Limited	Hong Kong	19 March 2010	HKD28,029	100%	Investment holding of offshore subsidiaries
Aqua Co., Ltd.	Japan	1 April 2008	JPY90	100%	Import of electrical appliances and materials
Haier Appliances (India) Private Limited	India	23 February 2003	INR40,000	100%	Manufacture, sale, supply and trade of electronic items
Haier Singapore Investment Holding Pte. Ltd.	Singapore	30 September 2011	USD896 and SG$0.0001	100%	Investment holding in offshore markets (Southeast Asia and Europe in particular) and general wholesale trade
Fisher&Paykel Appliances Limited	New Zealand	25 January 1934	NZD246	100%	Research, development, manufacture, sale and distribution of home appliances business
Haier U.S. Appliance Solutions, Inc.	United States	8 January 2016	1000 shares of common stock, par value $0.01 per share	100%	Manufacture and sales of household appliances

Name of Subsidiary	Place of Incorporation	Date of Incorporation	Share Capital (in millions)	Shareholding/ voting rights held by our Company *(Note 1)*	Principal business activities
Candy S.p.A	Italy	18 September 1961	EUR42	100%	Manufacture and sales of household appliances

MAJOR ACQUISITIONS AND DISPOSAL

As part of our business strategies and long-term development goals, we engaged in selective acquisitions to further expand our global presence, enhance technological capabilities and enlarge customer base. Brief details of our major acquisitions and disposals are set out below:

Expansion into Japan and Southeast Asia through the acquisition of Haier Singapore Investment Holding

On 25 May 2015, our Company entered into a share transfer agreement with Haier Group and its wholly-owned subsidiary, Haier (HK) Investment Co., Ltd., to acquire 100% of equity interest in Haier Singapore Investment Holding from Haier (HK) Investment Co., Ltd. at a cash consideration of RMB4,873.7 million. The consideration was determined at arm's length negotiation between the parties with reference to the total shareholders' equity value of Haier Singapore Investment Holding as at 31 March 2015 (being approximately US$881.6 million), as reported by an independent valuer. The acquisition has been completed on 31 December 2015.

The acquisition has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the acquisition and as at the Latest Practicable Date, our Company indirectly holds 100% of the shares of Haier Singapore Investment Holding, and Haier Singapore Investment Holding's financial performance has been included in our consolidated financial statements.

Haier Singapore Investment Holding is a company incorporated in Singapore on 30 September 2011. As at the date of the agreement, it has a registered share capital of SGD100 and US$389,999,919, mainly engaged in white goods business. Haier Singapore Investment Holding is the holding company of several overseas operating companies. The acquisition target included, among others, the Japanese and Southeast Asian white appliances business of Sanyo Electric Co., Ltd., which significantly expanded the Group's global footprint.

Strengthened foothold in North America through the acquisition of GE Appliances

On 14 January 2016, our Company entered into a share and asset purchase agreement with General Electric Company, an Independent Third Party, pursuant to which our Company acquired GE Appliances, the home appliance business of General Electric Company, for a cash consideration of US$5.6 billion. The consideration was determined at arm's length negotiation between the parties, which was in line with the valuation of value of the target assets as at 30 September 2015. The acquisition of GE Appliances was completed on 6 June 2016 and the consideration for the acquisition has been fully settled by 11 January 2017.

The acquisition has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the acquisition and as at the Latest Practicable Date, our Company indirectly holds 100% of the shares of GE Appliances, and GE Appliances' financial performance has been included in our consolidated financial statements throughout the Track Record Period.

The acquisition of the second largest major home appliance maker in the United States by retail volume in 2015 allowed the Group to gain a strong foothold in the North American market with an immediate margin-accretive impact and the potential for synergies in R&D, marketing and procurement, among others.

Enhanced brand metrics through the acquisition of Haier NZ Investment

On 24 April 2018, Haier Singapore Investment Holding Pte. Ltd., our offshore subsidiary, entered into a share purchase agreement, pursuant to which Haier Singapore Investment Holding Pte. Ltd. acquired 100% interest in Haier New Zealand Investment Holding Company Limited ("**Haier NZ Investment**") from Haier (Singapore) Management Holding Co. Pte. Limited, a subsidiary of Haier Group, at cash consideration of approximately US$303 million, and undertook 100% of the repayment obligation of the principal and interest of the loans owed by Haier NZ Investment to Haier (Singapore) Management Holding Co. Pte. Limited (which amounted to approximately US$553 million) with the proportion of 100%. The total consideration of the acquisition was determined based on (i) the total shareholders' equity value of Haier NZ Investment as at 31 December 2017 (being approximately RMB2.071 billion), as reported by an independent valuer and (ii) an 8% discount after arm's length negotiation between us and the Haier Group. The consideration for the acquisition has been fully settled in cash on 31 July 2018.

The acquisition has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the acquisition and as at the Latest Practicable Date, our Company indirectly holds 100% of the shares of Haier NZ Investment, and Haier NZ Investment's financial performance has been included in our consolidated financial statements.

Haier NZ Investment is a company incorporated in New Zealand on 29 August 2012. As at the date of agreement, the aggregate number of shares of Haier NZ Investment is 2,000 shares. It is the holding company of Fisher&Paykel, a New Zealand-based luxury home appliance brand managed and operated by us in trust for Haier Group for a nominal fee since 2015 till completion of the acquisition. The acquisition allows us to implement our global kitchen strategy, improve our brand layout, generate synergy to enhance our profitability and diminish potential competitions with Haier Group.

Strengthened our strategic positioning through assets swap of Qingdao Haishi and Bingji Company

On 30 August 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd. ("**Guanmei Management**"), our subsidiary, entered into an asset swap agreement with Haier International Appliances, a subsidiary of Haier Group, pursuant to which Guanmei Management swapped a 55% equity interest held by itself in Bingji (Shanghai) Enterprise Management Co., Ltd. ("**Bingji Company**") with a 51% equity interest in Qingdao Haishi Water Equipment Co., Ltd. ("**Qingdao**

Haishi") held by Haier International Appliances. The transaction price of the acquired assets and the disposed assets were both approximately RMB1,074 million. The consideration was determined based on the asset valuation value of the 51% equity interest in Qingdao Haishi and the 55% equity interest in Bingji Company as at 30 June 2018 as reported by the independent asset valuer. The asset swap has been completed and settled on 26 July 2019.

The asset swap has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the asset swap and as at the Latest Practicable Date, our Company indirectly holds 51% of the shares of Qingdao Haishi, with the remaining 49% held by Strauss Water LTD., an Independent third party; Haier International Appliances directly holds 55% of the equity interest of Bingji Company, with the remaining 45% indirectly held by the Company. Qingdao Haishi's financial performance has been included in our consolidated financial statements, and Bingji Company was no longer a subsidiary of the Company.

Qingdao Haishi is a sino-foreign company incorporated in the PRC on 6 February 2015. As at the date of agreement, it has a registered capital of RMB277,778. It is engaged in the research and development and sale of household water purifying solutions; Bingji Company is a limited liability company incorporated in the PRC on 5 January 2018. As at the date of agreement, it has a registered capital of RMB1,000,000. It is engaged in corporate management and commercial consulting. The strategic rationale of the asset swap is to fine-tune the Group's strategic positioning as a home appliance company while reducing its major interests in the non-core logistics business.

Further expansion in Europe through the acquisition of Candy

To further improve our brand deployment and intensify our efforts to expand and accelerate our business development in the European market, on 28 September 2018, our wholly-owned offshore subsidiary, Haier Europe Appliance Holding B.V., entered into a share purchase agreement with the then existing shareholders of Candy, pursuant to which Haier Europe Appliance Holding B.V. acquired 30%, 30% and 40% of the equity interests of Candy from Mr. Beppe Fumagalli, Mr. Aldo Fumagalli and Albe Finanziaria S.r.l (a limited liability company incorporated in Italy), respectively, each being an Independent third party, at a total consideration of EUR475 million. The consideration was determined based on arm's length negotiation between us and the sellers, with reference to Candy's audited net assets as at 31 December 2017, its profitability in Europe, the potential cost synergies and complementary value upon completion of business integration after the acquisition. The acquisition has been completed on 4 January 2019.

The acquisition has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the acquisition and as at the Latest Practicable Date, our Company indirectly holds 100% of the shares of Candy, and Candy's financial performance has been included in our consolidated financial statements.

Candy is a company incorporated in Italy in 1961. As at the date of agreement, it has a registered capital of EUR42,000,000. Candy operates a diversified brand metrics across a broad range of home appliance categories, including laundry appliances, kitchen appliances and small household appliances mainly in European market. The acquisition allows the Company to further expand its presence in the European market in line with its announced strategy by leveraging Candy's large installed base, sales and distribution network and manufacturing footprint in Europe, Middle East and Africa.

Reinforced the core business by the disposal of a Controlling Interest of COSMO

On 30 July 2020, our Company entered into a share transfer agreement, pursuant to which our Company agrees to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment, a wholly-owned subsidiary of Haier Group, at the consideration of RMB4.06 billion. The consideration was determined based on the valuation from independent valuer of the total equity interests of COSMO, as well as a capital increase of RMB200 million from series A+ funding which took place after the record date of the aforementioned valuation and an arm's length negotiation between us and Haier Ecological Investment on a certain extent of transaction premium. The consideration for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020.

COSMO is a company incorporated in the PRC in 2017 with a registered capital of RMB1,375,742,248 as at the Latest Practicable Date. COSMO operates industrial internet-related businesses including industrial internet, intelligent control, industrial intelligence and automation, precision moulds, intelligent energy and intellectual research institutes. The disposal allows the Company to focus on the its core business of smart home solutions and divest non-core business, optimise resource allocation, reduce capital expenditure in non-core business and improve cash flow.

The disposal has been properly and legally completed and settled with all relevant regulatory approvals duly obtained. Upon completion of the disposal, COSMO is held by Haier Group (through Haier Ecological Investment), our Company and other shareholders as to 54.50%, 18.75% and 26.75%, respectively, and COSMO is no longer a subsidiary of the Company.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed above, we did not conduct any other major acquisitions, disposals or mergers.

After the Listing, we may continue to strengthen our businesses and achieve long-term growth through domestic and overseas mergers and acquisitions. When evaluating the potential targets, we generally consider factors including but not limited to the following: 1) high-quality assets that could solidify our strategic positioning as a smart home solutions provider by enhancing our brand image and user experience. Such targets may include upstream and downstream market players, companies specialising in product categories different from ours, as well as our business partners; 2) home appliances companies with excellent brand image and market recognition that could help diversify our brand portfolio and expand our user base; 3) companies with leading technologies, which could improve our technology capabilities in AI, IoT, Big Data, as well as other home appliances related technologies; 4) high-quality assets which enable us to improve our global operational efficiency, enhance our ability to resist major risks, and complement our global users outreach, supply chain, etc. 5) focusing on smart home business, we stay aware of new strategic opportunities in the market, and may consider to pursue such opportunities in various ways; and 6) we also monitor the financial performance of potential targets and make sure our mergers and acquisitions, if any, help improve Company's overall profitability and EPS.

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

On 28 April 1989, upon approval by Qingdao Municipal Economic System Restructuring Committee, Qingdao Qindao Haier Co., Ltd. (青島琴島海爾股份有限公司), our predecessor entity, was incorporated as a joint stock limited company. In 1993, our Company completed an initial public offering and our A Shares were listed on the Shanghai Stock Exchange (stock code: 600690). After the listing, the registered share capital of our Company amounted to RMB170,000,000 and comprised 170,000,000 A Shares.

From 1994 to 1997, the total number of A Shares of our Company increased to 421,748,031 A Shares through four rounds of bonus issues and rights offering. In 1997, Haier Group transferred 20.01% of our Shares to Qingdao Haier Washing Machine Co., Ltd.. Upon completion of the share transfer, the shares respectively held by Haier Group, Haier Washing Machine Co., Ltd. and Qingdao Second Light Industry Union (青島市二輕集體企業聯社) accounted for 35.08%, 20.01% and 2.17% of the then issued share capital of our Company, respectively.

From 1999 to 2000, our Company further increased its total number of A Shares to 564,706,902 A Shares through two rounds of bonus issues and rights offering. In 2001, upon approval by the CSRC, our Company issued additional A Shares. Upon completion of the share issue, the Company's total number of A Shares increased to 664,706,902 A Shares.

In 2001, the total number of A Shares of our Company increased to 797,648,282 A Shares through bonus issue. In 2001, Haier Group transferred its 117,334,062 A Shares of our Company to Haier International Appliances at the price of RMB6.05 per A Share, representing 14.71% of our then issued A Shares. Upon completion of the share transfer, Haier Group and Haier International Appliances held 12% and 29.95% of the then issued share capital of our Company, respectively.

In 2004, our Company implemented bonus issue plus plan for capital reserve conversion into share capital, which increased the total number of A Shares of our Company to 1,196,472,423 A Shares.

In 2006, our Company conducted equity division reform. Upon completion of the equity division reform, Haier International Appliances, Haier Group and Qingdao Second Light Collective Enterprise Association held 314,671,206 A Shares, 126,106,344 A Shares and 13,364,701 A Shares, accounting for 26.30%, 10.54% and 1.12% of the then issued share capital of our Company, respectively.

In 2007, upon approval by the CSRC, we issued 142,046,347 new A Shares to Haier Group in exchange for certain assets of Haier Group, which increased the total number of A Shares of our Company to 1,338,518,770 A Shares.

In 2011, our Company implemented a plan for capital reserve conversion into share capital, which increased the total number of A Shares of our Company to 2,679,923,540 A Shares.

Upon approval by the CSRC, we implemented a private placement to issue 302,992,994 A Shares to KKR Home Investment S.à r.l. Upon completion of the private placement, our total number of A Shares increased to 3,029,929,934 A Shares.

In 2015, our Company implemented a cash dividends plus capital reserve conversion into share capital, which increased the total number of A Shares of our Company to 6,092,250,268 A Shares.

In 2015, as a result of the on-going stock option incentive plan, the exercise of stock option incentive grantees, our total number of A Shares increased to 6,123,154,268 A Shares. From 2015 to 2017, our Company reduced its share capital several times to 6,097,402,727 shares due to the repurchase and cancellation restricted shares.

Upon approval by the CSRC, our Company issued 271,013,973 new D Shares (including 265,000,000 D Shares from the initial offering and 6,013,973 D Shares over-allotted) each with a par value of RMB1.00, which were listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (ticker symbol: 690D). Upon completion of the D Share offering and listing, our share capital increased to RMB6,368,416,700, comprising of 6,097,402,727 A Shares and 271,013,973 D Shares.

As approved by the CSRC, our Company publicly issued convertible corporate bonds of an aggregate of RMB3.00749 billion. In December 2019, the convertible corporate bonds were converted into shares, involving a total of 211,149,927 shares, and our share capital increased to RMB6,579,566,627, comprising of 6,308,552,654 A Shares and 271,013,973 D Shares.

STRUCTURE OF THE INTRODUCTION AND THE PRIVATISATION

Our Company has made the Privatisation Proposal to privatise HEG by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda by issuing new HSH H Shares as consideration and a Cash Payment will be made by HEG to the Scheme Shareholders for the cancellation of the Scheme Shares. Accordingly, our Company has made an application to the Stock Exchange for the listing of the HSH H Shares by way of a listing by introduction. For every Scheme Share cancelled under the Scheme, an exchange ratio of 1.60 new HSH H Shares will be adopted (the "**Share Exchange Ratio**") and a corresponding number of HSH H Shares will be issued. In addition, as an integral part of the Privatisation Proposal, upon the Scheme becoming effective, HEG will make the Cash Payment of HK$1.95 for every Scheme Share cancelled to the Scheme Shareholders whose names appear on the register of members of HEG at the Scheme Record Time.

The Share Exchange Ratio and the Cash Payment were on arm's length terms determined on commercial basis after taking into account, among other things:

(i) the theoretical total value of the HSH H Shares and the Cash Payment for each Scheme Share under the Privatisation Proposal, which is attractive for the Scheme Shareholders;

(ii) the historical business and financial performance of HSH and HEG;

(iii) the prevailing and historical market price levels of HEG and HSH and the historical and current trading multiples of certain of their respective comparable companies;

(iv) the business potential of the Enlarged HSH Group after the Privatisation Proposal takes effect and the potential benefits of the Introduction and the Privatisation Proposal for the HSH Shareholders and HEG Shareholders;

(v) the fact that HSH H Shares are being offered as consideration under the Scheme, and that following completion of the Introduction and the Privatisation Proposal, the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes unconditional and effective, and all outstanding HSH Exchangeable Bonds become HSH Convertible Bond as a result). Thus, Scheme Shareholders will be able to continue to participate in the performance of HEG indirectly;

(vi) the fact that the Cash Payment could provide a certain level of liquidity to the Scheme Shareholders, while the Enlarged HSH Group could retain sufficient resources to support its future operations and expansion after the completion of the Privatisation Proposal; and

(vii) the effect of the Privatisation Proposal on the dilution and increment of earnings per share of HSH and HEG.

By way of illustration, according to the valuation report issued by Platinum Securities Company Limited, the valuation adviser appointed by our Company to value our H Shares, the valuation is conducted by analysing the historical trading price movements of the shares of HSH and HEG, the respective businesses, financial performances and prospects of HSH and HEG and applied market approach analysing: (i) HSH's global comparable companies including HEG; (ii) sum of the parts valuation by taking the market value of HSH's equity interest in HEG and the remaining part valued through global comparable valuation; and (iii) HEG as a direct comparable to HSH due to HEG's similarity to HSH in terms of business and financial profile.

We consider the price of HSH A Share for the 3 years prior to the publish of 3.5 Announcement. During this period, the highest price, lowest price and average price of HSH A Share are RMB22.87 per share, RMB12.16 per share and RMB16.77 per share, respectively; the highest price, lowest price and average price of HSH D Share (trading record of HSH D share is from 24 October 2018) are EUR1.08 per share, EUR0.60 per share and EUR0.92 per share, respectively. Estimated value of HSH H Share should be based on the valuation report issued by Platinum Securities Company Limited, and the historical HSH A Share price, historical D Share price are for reference only. As explained in the valuation report, the total HSH D Shares represent only 3.25% of HSH's total shareholding, which is considered insignificant and with low trading liquidity. As such, analysis of HSH D Share is considered to be less relevant in the valuation of HSH H Shares.

Upon the fulfilment of the conditions to the implementation and following completion of the Privatisation Proposal:

(a) the listing of HEG Shares on the Stock Exchange will be withdrawn;

(b) HSH H Shares will be listed on the Stock Exchange;

(c) the Scheme Shareholders will become shareholders of HSH; and

(d) the privatised HEG will become a wholly-owned subsidiary of HSH (assuming that the EB-to-CB Proposal becomes unconditional and effective, and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result), while HSH will remain a subsidiary of Haier Group.

Conditions to the Privatisation Proposal and the Scheme

As at the date of this Listing Document, all of the pre-conditions to the making of the Privatisation Proposal (as set out in the Scheme Document) have been satisfied.

The implementation of the Privatisation Proposal (including the effectiveness of the Scheme) is subject to the satisfaction or waiver (as applicable) of the following conditions:

Shareholders' approval

(a) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

(b) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders;

(c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to the Company such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, by applying the reserve arising in the books of accounts of HEG as a result of the cancellation of the Scheme Shares, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium account of HEG and/or other accounts of reserves of HEG (such cancellation of share premium constitutes a reduction in the issued share capital of HEG under the Companies Act of Bermuda);

Other Bermuda law requirements

(d) the sanction of the Scheme (with or without modifications) by the Supreme Court of Bermuda, and the delivery to the Registrar of Companies in Bermuda of a copy of the Court Order for registration;

(e) the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act of Bermuda in relation to the reduction of the issued share capital and cancellation of share premium of HEG referred to in paragraph (c) above;

Third party consents and other governmental or regulatory approvals

(f) all applicable filings, notices, certificates and approvals in relation to the Privatisation Proposal (and its implementation) with or from any governmental or regulatory bodies required under any laws or regulations in the PRC, such as the NDRC and the competent commerce authority, having been made or obtained and remaining in full force and effect;

(g) all necessary third party consents in relation to the Privatisation Proposal which may be required under any existing contractual obligations to which any member of HEG Group or the Company is a party (where any failure to obtain a consent would have a material adverse effect on the implementation of the Privatisation Proposal or the business of HEG Group or our Group, in each case taken as a whole) having been obtained or waived by the relevant party(ies);

(h) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Privatisation Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Privatisation Proposal (other than such order(s) or decision(s) that would not have a material adverse effect on the legal ability of the Company to proceed with the Privatisation Proposal);

Other conditions

(i) no event having occurred which would make the Privatisation Proposal or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Privatisation Proposal or impose any additional material conditions or obligations with respect to the Privatisation Proposal or any part thereof or on the cancellation of the Scheme Shares (other than such event(s) that would not have a material adverse effect on the legal ability of the Company to proceed with the Privatisation Proposal);

(j) since the date of the 3.5 Announcement, there having been no material adverse change to the business, financial or trading position of our Group or the HEG Group, each taken as a whole. For the purpose of this condition (j), material adverse change does not include any material adverse change (i) which do not have a material and significantly disproportionate impact on the business, financial or trading position of our Group or HEG Group, each taken as a whole; and (ii) arising or resulting directly from COVID-19 or any change in the industry practices or policies in the material markets in which our Group or HEG Group operates and which practices or policies are of general application to the industry in which our Group or HEG Group is engaged in; and

(k) save in connection with the implementation of the Privatisation Proposal, the listing of the HEG Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of the HEG Shares on the Stock Exchange is or is likely to be withdrawn.

HISTORY AND CORPORATE STRUCTURE

As at the date of this Listing Document, all of the above conditions to the Privatisation Proposal remain to be outstanding.

The Company reserves the right (but is not obliged) to waive any of above conditions (g) and (j) either in whole or in part, and either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e), (f), (h), (i) and (k) cannot be waived in any event. All of the above conditions will have to be satisfied or waived, as applicable, on or before the Scheme Long Stop Date, failing which the Privatisation Proposal and the Scheme will lapse. HEG has no right to waive any of the above conditions.

In respect of condition (g) as set out above, as at the date of this Listing Document, the Company and HEG do not reasonably foresee any necessary third party consents in relation to the Privatisation Proposal which are material and which may be required under any existing contractual obligations to which any member of the HEG Group or the Company is a party, save for the third party consents already set out above as a Condition. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Company may only invoke any or all of the above conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such condition are of material significance to the Company in the context of the Privatisation Proposal.

WARNING: The implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the conditions set out above, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors of the Company and HEG should therefore exercise caution when dealing in the securities of the Company and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

Expected events in relation to the Privatisation Proposal subsequent to the date of this Listing Document

Subsequent to the date of this Listing Document, it is expected that:

(i) the Court Meeting will be held at which the Scheme (with or without modification) will be voted upon by the Scheme Shareholders, and the SGM will be held for the HEG Shareholders to consider and if thought fit, approve, among other things, the necessary resolutions for the implementation of the Privatisation Proposal;

(ii) the Court Hearing will be held for sanctioning the Scheme;

(iii) if all the conditions to the Privatisation Proposal (as set out above) have been satisfied or validly waived (as applicable) on or before the Scheme Long Stop Date, the Scheme will become effective on the Scheme Effective Date, being the date on which a Court Order is delivered to the Registrar of Companies in Bermuda for registration pursuant to Section 99(3) of the Companies Act 1981 of Bermuda (as amended);

(iv) assuming the Privatisation and the Introduction becomes effective, the listing of HEG Shares on the Stock Exchange will be withdrawn and our H Shares will be listed on the Stock Exchange; and

(v) EB-to-CB Proposal will be effective on the same day as H Shares Listing. The conversion period during which the holders of the HSH Convertible Bonds can exercise their conversion right to convert such bonds into H Shares starts from the effective date of the EB-to-CB Proposal. Unless previously redeemed, converted or purchased and cancelled, the new HSH Convertible Bonds will be redeemed on 21 November 2022.

For details of the expected timetable, please refer to the section headed "Expected Timetable" in this Listing Document. The timetable as set out above and in the section headed "Expected Timetable" are subject to changes, and further announcement(s) will be made in the event there is any change.

EXCHANGEABLE BONDS

On 21 November 2017, Harvest International Company (the "**Issuer**"), an indirect wholly-owned subsidiary of our Company, issued the HK$8,000,000,000 Zero Coupon Guaranteed Exchangeable Bonds due on 21 November 2022 (the "**HSH Exchangeable Bonds**") which are listed on the Stock Exchange (stock code: 5024). The holders of the HSH Exchangeable Bonds (the "**Bondholders**") are entitled to exchange their HSH Exchangeable Bonds into HEG Shares during the period specified under the terms and conditions of the HSH Exchangeable Bonds (the "**HSH Exchangeable Bonds Terms and Conditions**"). In connection with the Privatisation, to provide Bondholders with an alternative investment management option in their HSH Exchangeable Bonds outside the various options available under the HSH Exchangeable Bonds Terms and Conditions, our Company proposed to amend the HSH Exchangeable Bonds Terms and Conditions, such that, subject to the satisfaction of certain conditions precedent, after Listing, the HSH Exchangeable Bonds will not be exchangeable into the HEG Shares but will instead be convertible into our H Shares (the "**EB-to-CB Proposal**"). The HSH Exchangeable Bonds with such amended terms and conditions (the "**HSH Convertible Bonds Terms and Conditions**") are hereafter referred to as the "**HSH Convertible Bonds**".

The EB-to-CB Proposal and the HSH Convertible Bonds Terms and Conditions (including the adjustment mechanism as described below) have obtained the requisite approval of the Bondholders and our Shareholders. The implementation of the EB-to-CB Proposal is subject to certain conditions ("**EB-to-CB Conditions**"), which include, among others, the satisfaction of various conditions in relation to Privatisation, the Scheme becoming effective, the applicable filings and/or approvals with or from the CSRC and (if any) other relevant PRC governmental or regulatory authorities which are required to be completed or obtained prior to the EB-to-CB Proposal becoming effective, the Listing Committee of the Stock Exchange having approved the listing of, and permission to deal in, our H Shares (including our H Shares to be issued pursuant to the conversion of HSH Convertible Bonds) on the Stock Exchange, and satisfying the conditions imposed by the Stock Exchange on the EB-to-CB Proposal. If the EB-to-CB Conditions are not satisfied, the HSH Exchangeable Bonds Terms and Conditions will remain in effect.

Pursuant to Condition 8(e) (*Redemption at the option of the Bondholders*) of the HSH Exchangeable Bond Terms and Conditions, Bondholders may give notice to the Issuer, commencing on 22 September 2020 and ending on 22 October 2020, that they wish to exercise their option (the

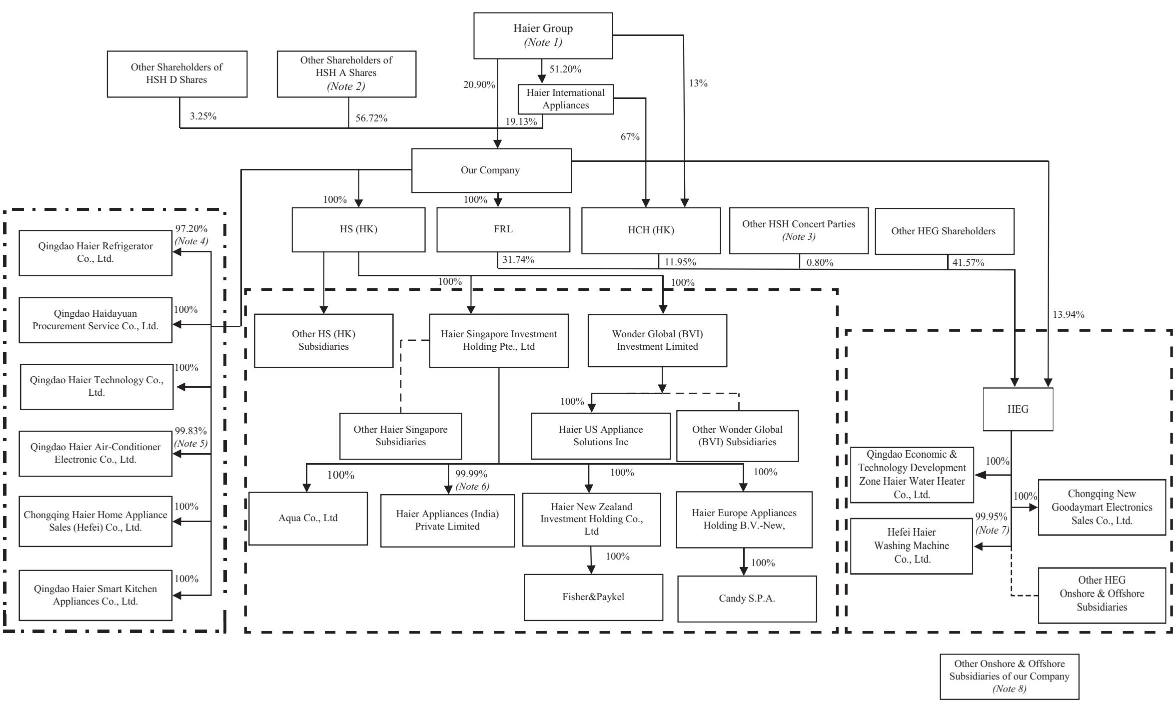
“**Put Option**”) to require the Issuer to redeem all or some only of their Bonds on 21 November 2020 (the “**Put Option Date**”) at their Early Redemption Amount. As of 22 October 2020, our Company received a notice from certain Bondholder requiring the Issuer to redeem the HSH Exchangeable Bonds held by such holder in the aggregate principal amount of HK$7,000,000. Our Company intends to procure the Issuer to redeem such HSH Exchangeable Bonds on the Put Option Date. Upon redemption, the outstanding principal amount of the HSH Exchangeable Bonds will be reduced to HK$7,993,000,000 and the *pro rata* share of the Exchange Property (as defined below) or the relevant part thereof attributable to each relevant HSH Exchangeable Bond will cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly. Assuming EB-to-CB Proposal is implemented, and the number of HEG Shares comprised in the exchange property of the HSH Exchangeable Bonds (the “**Exchange Property**”) immediately before the EB-to-CB Proposal becomes effective does not change since the Latest Practicable Date (after taking into account the redemption pursuant to the Put Option), it is expected that, the aggregate number of new H Shares convertible from the HSH Convertible Bonds will not exceed 407,888,307 at the Listing Date. In addition, subject to the Scheme becoming effective and as part of the Scheme, HEG will make a Cash Payment of HK$1.95 for every Scheme Share cancelled to the Scheme Shareholders (the “**Cash Payment**”). The conversion price of the HSH Convertible Bonds will also be adjusted to reflect the economic effect for an amount equivalent to the Cash Payment on the 11th trading date after the date on which the Cash Payment is paid (the “**Initial Adjustment Date**”). Accordingly, the total number of the new H Shares convertible from the HSH Convertible Bonds will also be adjusted. Assuming (x) EB-to-CB Proposal is implemented; and (y) the number of HEG Shares comprised in the Exchange Property immediately before the EB-to-CB Proposal takes effect does not change as compared to the Latest Practicable Date (after taking into account the redemption pursuant to the Put Option), the aggregate number of the new H Shares convertible from the HSH Convertible Bonds with a principal amount of HK$7,993,000,000 will not exceed 407,888,307 + 254,930,192 *1.95/R (the “**Formula**”). R means the average of the closing prices of our H Shares on each of the 10 trading days following but excluding the date on which the Cash Payment is made by HEG. For illustration purpose only, if R is assumed to be the mid-point of valuation range of our H Shares estimated as at 30 July 2020 by Platinum Securities Company Limited, at HK$18.47, the aggregate number of the new H shares convertible from the HSH Convertible Bonds with a principal amount of HK$7,993,000,000 after taking into account the Cash Payment, will not exceed 434,802,972 shares, which account for approximately 4.59% of the enlarged total number of shares of our Company. Furthermore, the conversion price of the HSH Convertible Bonds will also be subject to adjustment when certain customary adjustment events occur, including but not limited to (i) sub-division, consolidation or reclassification of our H Shares; (ii) capitalisation of profits or reserves in respect of our A Shares, D Shares, H Shares or other class of shares in the same capital of our Company (the “**Company Shares**”); (iii) distributions to holders of the Company Shares; (iv) rights issues of or options over Company Shares; (v) rights issues of other securities to all or substantially all holders of the Company Shares of a class; (vi) issues at less than current market price; (vii) other issues at less than current market price; (viii) modification of rights of conversion etc.; (ix) other offers to our Shareholders entitling them to participate in arrangements to acquire securities issued, sold or distributed by our Company or any of its subsidiaries or any other company, person or entity (except where the conversion price falls to be adjusted under (iv), (v), (vi) and (vii) above); and (x) other events determined by our Company that an adjustment should be made to the conversion price, as described in the HSH Convertible Bonds Terms and Conditions. We have applied to the Stock Exchange for approval on the listing of and permission to deal in the H Shares of our Company to be issued under the HSH Convertible Bonds, including those shares to be issued pursuant to the customary adjustments under the HSH Convertible Bonds Terms and Conditions as described above.

EMPLOYEE SHARE AWARD SCHEME

In order to incentivise our Directors, Supervisors, senior management and core employees for their contributions to our Group and to attract and retain suitable personnel to our Group, since April 2016, we adopted a series of employee share award schemes. See "Appendix VII — Statutory and General Information — 4. Share Award Schemes" in this Listing Document for further details.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

The following chart illustrates our corporate and shareholding structure immediately before the completion of the Introduction.



Notes:

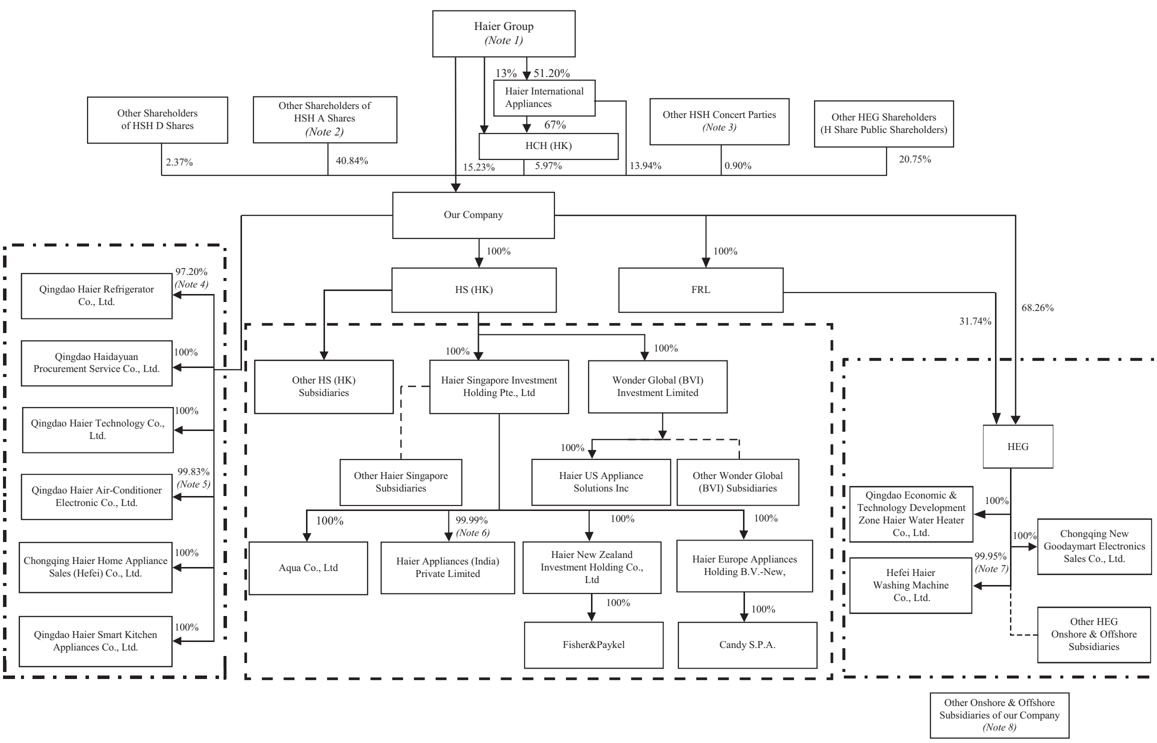
(1) According to the Articles of Association of Haier Group, the nature of Haier Group is an urban collectively-owned enterprise; according to a statement issued by Qingdao State-owned Assets Management Office and Qingdao Administration for Industry and Commerce in June 2002, the nature of Haier Group is a collectively-owned enterprise. In accordance with the Articles of Association of Haier Group and the Regulation of the People's Republic of China on Urban Collectively-Owned Enterprises (2016 Revision), Haier Group is a socialist economic organisation, of which the property is collectively owned by the working masses, subject to joint work, with distribution according to work as the principal distribution method. In light of its enterprise nature, Haier Group has no shareholders.

(2) Other Shareholders of HSH A Shares include our Directors Mr. LIANG Haishan, Ms. TAN Lixia, Mr. LI Huagang, and HEG director Mr. ZHOU Yunjie, and our Supervisors and GF Securities Assets Management (Guangdong) Co., Ltd. Trustee, who in aggregate hold 0.68% of the total share capital of the Company, relevant Shares of which will not be counted towards our public float.

(3) Other HSH Concert Parties include the HKI/HIC Trustee and the directors of our Company and/or Haier Group, namely Mr. ZHANG Ruimin, Mr. LIANG Haishan, Ms. TAN Lixia, Mr. LI Huagang, Mr. ZHOU Yunjie, Mr. LIU Chi, Mr. LIU Gang and Mr. ZHAN Bo, who in aggregate hold approximately 0.80% equity interest of our Company immediately before the completion of the Introduction. For the avoidance of doubt, HCH (HK) is a HSH Concert Party which holds 11.95% of the total share capital of HEG.

(4) The remaining 2.80% equity interest of Qingdao Haier Refrigerator Co., Ltd., was held by CDB Development Fund Co., Ltd. (國開發展基金有限公司), which is an Independent Third Party.
(5) The remaining 0.17% equity interest of Qingdao Haier Air-Conditioner Electronic Co., Ltd. was held by Haier Group.
(6) The remaining 0.01% equity interest of Haier Appliances (India) Private Limited was held by HS (HK), which is a subsidiary of our Company.
(7) The remaining 0.05% equity interest of Hefei Haier Washing Machine Co., Ltd. was held by Haier Group.
(8) Immediately before the completion of the Introduction, our Group has over 300 subsidiaries (inclusive of the subsidiaries listed in this shareholding structure chart), across more than 30 different jurisdictions globally.

The following chart illustrates our corporate and shareholding structure immediately after the completion of the Introduction and the Privatisation (assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Time):



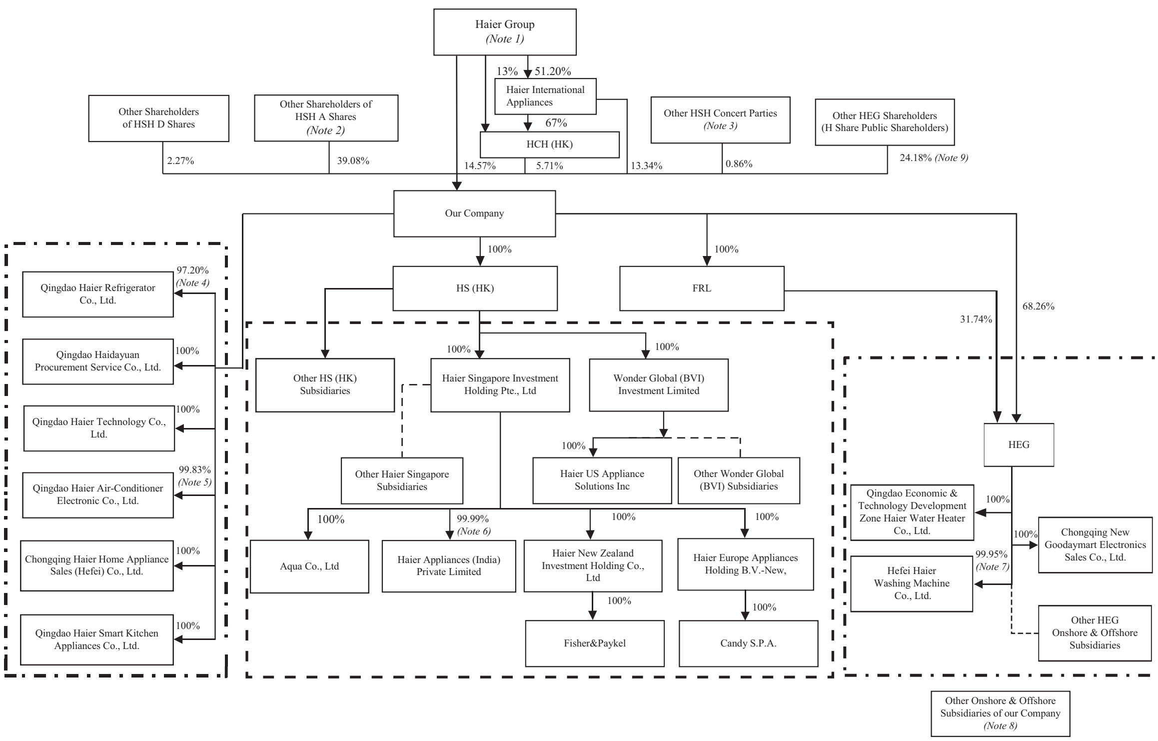
Notes:

(1) According to the Articles of Association of Haier Group, the nature of Haier Group is an urban collectively-owned enterprise; according to a statement issued by Qingdao State-owned Assets Management Office and Qingdao Administration for Industry and Commerce in June 2002, the nature of Haier Group is a collectively-owned enterprise. In accordance with the Articles of Association of Haier Group and the Regulation of the People's Republic of China on Urban Collectively-Owned Enterprises (2016 Revision), Haier Group is a socialist economic organisation, of which the property is collectively owned by the working masses, subject to joint work, with distribution according to work as the principal distribution method. In light of its enterprise nature, Haier Group has no shareholders. Haier Group holds 2,576,559,148 A Shares, 538,560,000 H Shares and 57,142,857 D Shares, representing 28.54%, 5.97% and 0.63% of the total share capital of the Company, respectively.
(2) Other Shareholders of HSH A Shares include our Supervisors, who hold 0.003% of the total share capital of the Company, relevant Shares of which will not be counted towards our public float.
(3) Other HSH Concert Parties include the GF Securities Assets Management (Guangdong) Co., Ltd. Trustee, the HKI/HIC Trustee and the directors of our Company and/or Haier Group, namely Mr. ZHANG Ruimin, Mr. LIANG Haishan, Ms. TAN Lixia, Mr. LI Huagang, Mr. ZHOU Yunjie, Mr. LIU Chi, Mr. LIU Gang and Mr. ZHAN Bo, who in aggregate hold approximately 0.90% equity interest of our Company immediately after the completion of the Introduction and the Privatisation. For the avoidance of doubt, HCH (HK) is a HSH Concert Party which holds 5.97% of the total share capital of the Company.
(4) The remaining 2.80% equity interest of Qingdao Haier Refrigerator Co., Ltd., was held by CDB Development Fund Co., Ltd. (國開發展基金有限公司), which is an Independent Third Party.
(5) The remaining 0.17% equity interest of Qingdao Haier Air-Conditioner Electronic Co., Ltd. was held by Haier Group.
(6) The remaining 0.01% equity interest of Haier Appliances (India) Private Limited was held by HS (HK), which is a subsidiary of our Company.

(7) The remaining 0.05% equity interest of Hefei Haier Washing Machine Co., Ltd. was held by Haier Group.

(8) Immediately after the completion of the Introduction and the Privatisation, our Group has over 300 subsidiaries (inclusive of the subsidiaries listed in this shareholding structure chart), across more than 30 different jurisdictions globally.

The following chart illustrates our corporate and shareholding structure immediately after the completion of the Introduction and the Privatisation, and assume all HSH Convertible Bonds were converted into the Company's H Shares:



The above shareholding structure is for Illustration purpose only and the number of new H Shares that the HSH Convertible Bonds could be converted into after Cash Payment could only be determined later. For more details, please refer to "History and Corporate Structure — Exchangeable Bond" section.

Notes:

(1) According to the Articles of Association of Haier Group, the nature of Haier Group is an urban collectively-owned enterprise; according to a statement issued by Qingdao State-owned Assets Management Office and Qingdao Administration for Industry and Commerce in June 2002, the nature of Haier Group is a collectively-owned enterprise. In accordance with the Articles of Association of Haier Group and the Regulation of the People's Republic of China on Urban Collectively-Owned Enterprises (2016 Revision), Haier Group is a socialist economic organisation, of which the property is collectively owned by the working masses, subject to joint work, with distribution according to work as the principal distribution method. In light of its enterprise nature, Haier Group has no shareholders. Haier Group holds 2,576,559,148 A Shares, 538,560,000 H Shares and 57,142,857 D Shares, representing 28.54%, 5.97% and 0.63% of the total share capital of the Company, respectively.

(2) Other Shareholders of HSH A Shares include our Supervisors, who hold 0.003% of the total share capital of the Company, relevant Shares of which will not be counted towards our public float.

(3) Other HSH Concert Parties include the GF Securities Assets Management (Guangdong) Co., Ltd. Trustee, the HKI/HIC Trustee and the directors of our Company and/or Haier Group, namely Mr. ZHANG Ruimin, Mr. LIANG Haishan, Ms. TAN Lixia, Mr. LI Huagang, Mr. ZHOU Yunjie, Mr. LIU Chi, Mr. LIU Gang and Mr. ZHAN Bo, who in aggregate hold approximately 0.89% equity interest of our Company immediately after the completion of the Introduction and the Privatisation. For the avoidance of doubt, HCH (HK) is a HSH Concert Party which holds 5.69% of the total share capital of the Company.

(4) The remaining 2.80% equity interest of Qingdao Haier Refrigerator Co., Ltd., was held by CDB Development Fund Co., Ltd. (國開發展基金有限公司), which is an Independent Third Party.

(5) The remaining 0.17% equity interest of Qingdao Haier Air-Conditioner Electronic Co., Ltd. was held by Haier Group.

(6) The remaining 0.01% equity interest of Haier Appliances (India) Private Limited was held by HS (HK), which is a subsidiary of our Company.

(7) The remaining 0.05% equity interest of Hefei Haier Washing Machine Co., Ltd. was held by Haier Group.
(8) Immediately after the completion of the Introduction and the Privatisation, our Group has over 300 subsidiaries (inclusive of the subsidiaries listed in this shareholding structure chart), across more than 30 different jurisdictions globally.
(9) H Share Public Shareholders includes approximately 4.59% of the H Shares to be held by the HSH Convertible Bondholders after conversion.

PUBLIC FLOAT

Pursuant to Rule 8.08(1)(b) of the Listing Rules, as our Company has one class of securities or more apart from the class of securities for which listing is sought, the total securities of our Company held by the public at the time of listing must be at least 25% of its total number of issued shares and the H Shares for which listing is sought must not be less than 15% of our Company's total number of issued shares. All H Shares to be issued to Scheme Shareholders (other than those to be issued to the Haier Group and Directors) will be counted towards the public float. It is expected the upon Listing, 63.96% of the total number of issued Shares of our Company will be held by the public, and the total number of listed H Shares of our Company held by the public represents 20.75% of the total number of issued Shares of our Company. Therefore, our Company will be able to meet the minimum public float requirement under Rule 8.08(1)(b).

LISTINGS ON THE SHANGHAI STOCK EXCHANGE AND THE FRANKFURT STOCK EXCHANGE AND REASONS FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Our A Shares are listed on the Shanghai Stock Exchange (stock code: 600690) and our D Shares are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D) since 19 November 1993 and 24 October 2018, respectively. Since the date of our listings on the Shanghai Stock Exchange and the Frankfurt Stock Exchange and up to the Latest Practicable Date, our Directors confirm that we had no instances of non-compliance with the rules of the Shanghai Stock Exchange and the Frankfurt Stock Exchange in any material respects and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to investors' attention in relation to our compliance record on the Shanghai Stock Exchange and the Frankfurt Stock Exchange. Based on the independent due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention that would cause them to disagree with the Directors' confirmations above with regard to the compliance records of the Company on the Shanghai Stock Exchange and the Frankfurt Stock Exchange.

We are seeking to list our H Shares on the Hong Kong Stock Exchange in order to offer valuable and liquid consideration in the form of H Shares for the Privatisation. The Listing also allows our Company to, among others, expand business scale, improve cash management and operational efficiency by integrating resources of HEG, so as to pursue its dedication to create an IoT smart home ecosystem brand and being a leader in the era of IoT. For further details, see "Business — Our Strategies", "Benefits of the Introduction and the Privatisation" and "Future Plans and Prospects" in this Listing Document.

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION

The Directors believe that the completion of the Privatisation and the Introduction benefits both Scheme Shareholders and the Company and marks a significant milestone in the development of the Company. The Privatisation and the Introduction represent an opportunity for Scheme Shareholders to become shareholders of the Enlarged HSH Group, and will benefit Scheme Shareholders and the Company in the following aspects:

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION TO SCHEME SHAREHOLDERS

HSH's Board believes that the Enlarged HSH Group after completion of the Privatisation and the Introduction represents an attractive investment opportunity for Scheme Shareholders. After completion of the Privatisation and the Introduction, Scheme Shareholders may continue to invest in HEG (as a part of the Enlarged HSH Group) who possesses a series of competitive strengths and enjoys the growth potential of the global home appliance market; they will also share the potential synergy which may be achieved after further integration of HSH and HEG.

In addition to the potential long-term capital gain, Cash Payment made by HEG may also bring immediate cash value, which enables Scheme Shareholders to gain certain capital returns from their investment.

Long-term potential benefits for Scheme Shareholders include:

Achieve stronger growth supported by full-suite home appliance products and smart home solutions on a global platform

Firstly, HEG's operation primarily focuses on washing machines, water heaters, water purifiers and channel services for various products including those of HSH's. After completion of Privatisation and the Introduction, HEG will be able to expand its product portfolio into refrigerators, freezers, air-conditioners, kitchen appliances and small appliances, thus providing full-suite smart home solutions.

Secondly, HSH has built a portfolio of seven major brands through independent development and acquisition, established a globalised business presence, and acquired important market shares in major overseas markets. After completion of the Privatisation and the Introduction, HEG will be able to leverage HSH's overseas business platform to accelerate its international expansion in the washing machine, water heater and water purifier businesses, thereby achieving platform sharing and revenue increase.

Thirdly, led by its visionary management, HSH will continue to build the Haier Smart Home Experiential Cloud Platform, iterate and expand smart home solutions and integrate resources to bring a delightful lifestyle experience in the IoT era to users in different countries. After completion of the Privatisation and the Introduction, HEG will be able to fully integrate with the Haier Smart Home Experiential Cloud Platform to further improve the comprehensiveness and richness of smart home solutions, including improving connectivity across interconnected home appliances, expanding types of solutions and enriching value-added services. The Enlarged HSH Group will take this opportunity to further deepen the online and offline integration in the whole process to enhance user experience and loyalty, build and share the Haier Smart Home Experiential Cloud platform for all categories.

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION

After completion of the Privatisation and the Introduction, Scheme Shareholders, who will become shareholders of the enlarged HSH Group, will have the opportunity to continue making investments in the leading major home appliance enterprise in China and benefit from HSH Group's leading market shares and competitive strengths in home appliance market. Meanwhile, Scheme Shareholders are expected to benefit from cross-selling of more comprehensive products and more robust growth brought by a unified smart home operation and data platform and a more complete and systematic smart home solution business.

Improve operational efficiency, expand scale effect and improve prospects

At present, HEG and HSH have certain overlap in operations. After the completion of the Privatisation and the Introduction, the Enlarged HSH Group will realise resource sharing and capacity building in the entire industrial chain across R&D, procurement, manufacturing, and distribution of HEG and HSH products to promote technical cooperation and result sharing, and optimise operations.

After the completion of Privatisation and the Introduction, the Scheme Shareholders will become shareholders of the Enlarged HSH Group with comprehensive product offering, integrated operation, and greater economies of scale. On one hand, HEG's washing machine, water heater, and water purifier segments can further realise significant synergies and benefits from integrating with HSH's R&D, procurement, manufacturing and distribution channels. On the other hand, measures for improving business process such as less internal settlement and simplified approval procedures are expected to reduce sales and management expenses. In addition, the Scheme Shareholders will also benefit from reduced operational risks and more robust financial performance supported by a stronger balance sheet.

Raise capital market profile to further improve liquidity

Firstly, the delineation in the business segments of HSH and HEG has led to HSH and HEG entering into numerous related party transactions. During the Track Record Period, HEG procured more than 70% of its raw materials, components and finished goods from HSH. Once the Privatisation and the Introduction are completed, the existing related party transactions in the original R&D, procurement and distribution could be eliminated. This will help reduce management efforts and compliance costs, as well as boost market confidence in the Enlarged HSH Group.

Secondly, in 2018 and 2019, and for the six months ended 30 June 2020, HSH's revenue growth rate exceeded that of HEG by 8.2, 12.1 and 3.5 percentage points respectively. From 2017 to 2019, the average historical profit margin from continuing operations and return on equity of HSH exceeded that of HEG by 0.2 and 3.4 percentage point(s) respectively. In addition, HSH's dividend pay-out ratio remained at an average of 30% from 2017 to 2019.

Thirdly, after the completion of the Privatisation and the Introduction, the Enlarged HSH Group will attract more investors including but not limited to the existing shareholders of HEG and HSH.

With larger market capitalisation, improved financial performance, alleviated concerns over related party transactions and a more diversified investor base after completion of the Privatisation and the Introduction, Scheme Shareholder who will be shareholders of the Enlarged HSH Group are expected to benefit from enhanced liquidity.

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION

BENEFITS OF THE INTRODUCTION AND THE PRIVATISATION TO THE COMPANY

After the Introduction, the Enlarged HSH Group is better equipped to build a global leading IoT-based smart home business layout. The Enlarged HSH Group plans to carry out structural optimisation and operational integration to further explore synergies from aggregation of global resources and to reinforce its competitiveness, thus maximising shareholders returns.

Accelerate growth through the continued expansion of smart home solutions

After the completion of the Privatisation and the Introduction, in terms of continuously expanding smart home solutions, HSH Group will be able to operate the entire product portfolio by integrating R&D, production, distribution and service systems, and develop smart home solutions business through the Haier Smart Home Experiential Cloud Platform to increase the sales proportion of complete sets of smart home products and further deepen the integration and synergy creation of different categories of products to enhance user loyalty.

In terms of achieving global synergies, HSH Group will deepen the coordination of R&D, product development, procurement, supply chain, marketing and branding of washing machine and water appliances in all regions of the world through optimising resource integration; and further enhance its local competitiveness in operation with three in one operations in terms of R&D, manufacturing and marketing on a more integrated global platform and strengthen high-end leadership in overseas market to improve overseas performance.

In terms of whole-process digital reform, HSH Group will improve operational efficiency and competitiveness through whole process digital transformation. In terms of channel system, HSH Group will continue to build a more transparent and efficient distribution network, promote digital transformation and online and offline integration, in order to promote collaborative and synergistic marketing across all categories; in terms of production, HSH Group will build interconnected factories around the world, enhance digitalized smart manufacturing capability, and realise flexible deployment of global production capacity and digital integration of global supply chain.

Reduce restrictions from competition and related party transactions and enhance operational efficiency

After the completion of the Privatisation and the Introduction, HEG will be delisted and become a wholly-owned subsidiary of HSH Group; its business development will no longer be subject to restrictions on listed companies. HSH Group will implement integration of all categories, thus global development of washing machine and water appliances business will benefit from efficiency improvement brought by the simplification of decision-making process.

Improve capital efficiency

After completion of the Privatisation and the Introduction, all home appliances assets of HEG will be included into the Enlarged HSH Group. This is expected to improve comprehensive capital management efficiency for the Enlarged HSH Group. The cash obtained from HEG after this transaction will be used primarily for repayment of borrowings for the Privatisation's Cash Payment and maintaining working capital; the remaining portion will be used to repay or replace existing loans. This will optimise HSH Group's capital structure and reduce financial costs.

Meanwhile, HSH Group will be able to improve financial performance leveraging on greater economies of scale as a result of greater revenue and stronger balance sheet.

Increase shareholder returns

After the completion of Privatisation and the Introduction, with the improvement in capital management and operational efficiency, HSH Group plans to increase its dividend payout ratio to 40% within three years on the basis of net profit attributable to ordinary shareholders, in order to fulfil its commitment to improve returns for all shareholders. Key considerations in determining the shareholder return plan include internal factors such as profitability, cash flow and capital expenditure plan, as well as external factors such as bank credit availability and the general financing environment. HSH's general meeting had approved the Enlarged HSH's shareholder return plan (2021-2023).

Key provisions of HSH's shareholder return plan (2021-2023) include:

(a) HSH should maintain a continuous and stable dividend pay-out policy; and

(b) HSH's cash dividend plan for the next three years (2021-2023) is as follows: in compliance with the general prerequisites dividend pay-out stipulated in the Articles of Association of HSH, the profits to be distributed each year by way of cash shall be not less than 33%, 36% and 40% of the net profit attributable to ordinary shareholders of HSH for 2021, 2022 and 2023, respectively.

The actual amount of dividend payable each year, if any, will be recommended by the directors of HSH Group, and shall depend on HSH Group's financial performance and cash-flow requirements.

Establish a global capital market platform in sync with its globalised operation

After the completion of Privatisation and the Introduction, the Enlarged HSH Group will become a trio listed company of "A+H+D" shares with access to global capital market. This will also facilitate the implementation of the Enlarged HSH Group's incentive schemes for its directors and employees located globally.

The Enlarged HSH Group is expected to launch Incentive Schemes for Directors and employees, with the following characteristics:

1. The Incentive Schemes may be single or combined forms of Employee Stock Ownership Plan, Restricted Stock Unit, Share Award Scheme, and Stock Options Scheme. At present, HSH adopts A Shares as a tool to carry out equity incentive. The Introduction will provide a new tool of equity incentive for HSH Group. HSH Group will increase the incentive granted to core management and excellent talents in different markets worldwide with Incentive Schemes based on various classes of shares.

2. The Enlarged HSH Group intends to maintain a wide coverage under the Incentive Schemes to strengthen incentives and reach more key personnel, especially overseas employees.

3. The Incentive Schemes will be linked to performance and profit targets with reference to the terms of employee incentive schemes stipulated by comparable companies in the

industry. Relevant performance and profit targets may include, but are not limited to, operating profit and earnings per share.

After the Introduction, the Enlarged HSH Group will comply with all applicable regulatory requirements to formulate and implement Incentive Schemes. The Incentive Schemes will be reviewed by the Remuneration and Assessment Committee and approved by the Board of Directors and shareholders. The details of the Incentive Schemes are subject to internal review and approval procedures and may change. The Enlarged HSH Group will make announcements on Incentive Schemes from time to time as appropriate.

Secondly, after the completion of the Privatisation and the Introduction, the Enlarged HSH Group will establish a unified capital market image and allow investors to focus on one listed company.

In addition, after the completion of the Privatisation and the Introduction, the Enlarged HSH Group will focus on the ESG concept of "green, life, and care" and improve its ESG standards in terms of ESG governance, ESG disclosure and ESG management.

OUR MISSION AND VISION

Our mission is to provide users with delightful lifestyle experiences through dedicated innovation. We are committed to creating an IoT smart home ecosystem brand and being a pioneer in the era of IoT.

We always adhere to Haier's philosophy which is to "prioritise users over ourselves". Capitalising on our *RenDanHeYi* management model, we endeavour to continuously anticipate and meet users' needs for a better life experience, and provide users globally with whole-process, customised smart home solutions.

COMPANY OVERVIEW

We are a leading provider of major home appliances and a pioneer of smart home solutions in the world.

- **Leader of the global major home appliance industry:** According to Euromonitor, we ranked first in the major home appliance industry in the world in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019, with a market share of 14.7% in 2019. We have a global portfolio of home appliance brands consisting of Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Our Haier brand refrigeration appliances and laundry appliances also ranked first among major home appliance brands in the world in terms of retail volume for 11 consecutive years from 2009 to 2019. As at the Latest Practicable Date, we operate in more than 160 countries and regions around the world including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.
- **Pioneer of global smart home solutions:** Capitalising on our full-range home appliances products, according to Euromonitor, we are one of the first home appliance enterprises in the industry to launch smart home solutions. Centring on our interconnected home appliance products and resources from our partners, and supported by Haier Smart Home App and Haier Smart Home Experiential Cloud Platform as well as our experience stores and franchised stores, we provide smart home solutions suited for various lifestyle scenarios for users to satisfy their pursuit for a better life.

Since our establishment in 1984, we are committed to being an enterprise of the times, continuing to innovate and iterate by continuously launching new products that lead the market development, and grasping the opportunities arising from industry developments:

- In the industrial era, when standalone and unconnected home appliances prevailed, we provided users with full-range home appliances, and became a leading major home appliance company in China with high-quality products and superior user services. Meanwhile, we gradually implemented our globalisation strategy to develop into a global leader in the major home appliances industry;
- In the Internet era, when home appliances have become connected via the Internet, not satisfied with only providing competitive home appliances, we started to iterate and provide users with interconnected home appliances. Our home appliances were enabled to be

connected to the Internet and allow users to control their home appliances remotely and easily on devices such as mobile phones. We continued to lead the market. In 2019, according to Euromonitor, our retail volume accounted for approximately 49% of China's interconnected home appliance market;

- In the era of IoT, when home appliances are not only connected but also intelligently controlled and managed through a system of interconnected computing devices as supported by AI and data sharing over an enhanced Internet network, the home appliance industry sees a trend towards smart, full-suite and scenario-based. Again, we focus on users' pursuit for a better life. Relying on our established advantages in the home appliances industry and empowered by AI+IoT technology, we developed our Haier Smart Home App and Haier Smart Home Experiential Cloud Platform, which continuously develop new ways of applying connectivity and smart intelligence among the home appliances and between home appliances and users. Together, we create a connected and integrated house where smart home appliances can work towards users' requirements and become smarter and intelligent through the constant information collection and sharing.

Users can use our Haier Smart Home App as the gateway to interact with their home appliances. Users can adopt the pre-set smart home lifestyle scenarios on the App, such as leaving home, coming home, getting up, and going to bed, so that the connected smart home appliances can work automatically to the pre-set orders. Users can also design their own lifestyle scenarios tailored to their personalised preferences. Moreover, to be more user-friendly, our Haier Smart Home App allows voice control, thereby enabling users to control their home appliances with more flexibility. Our smart home appliances can also collect user's personalised needs and habits to provide customised smart home solutions. In addition, our Haier Smart Home App can provide other comprehensive services, such as online store for our smart home appliances, maintenance and repairment services, as well as after-sale services.

In a connected and integrated house, our smart home appliances are connected on the Haier Smart Home App and can be configured in advance.

Living room: our smart air-conditioners can start working right before the users come home. Moreover, featuring dual-zone air delivery system, our smart air-conditioner is able to simultaneously deliver air at different temperature and wind speed, based on the different human body temperature sensed by the air-conditioner. With Haier Smart Home App, users can also easily customise and set different temperature in each room, whether the living room, bedroom or children's room, and can activate such setting only when necessary to save energy.

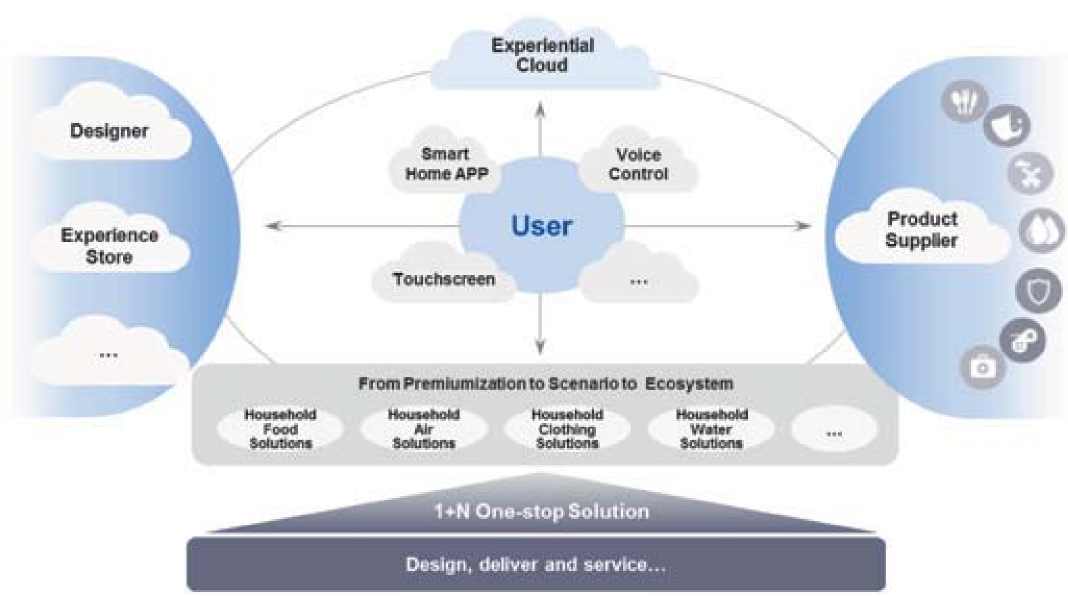
Kitchen: users can easily keep track of the food storage and freshness in the refrigerator on the Haier Smart Home App. Users can also find out how best to store their food or whether they have left the door of the refrigerators open. Our smart refrigerators can collect health information of users and recommend weekly healthy diet solutions and customised menu solutions based on user's taste and preferences. With the App, users can easily monitor the real-time dynamics in the ovens with built-in cameras.

Laundry room: our washing machines are designed to help users to find the optimal washing programme (including the exact usage of detergent), based on the information of clothing and fabric type, with the support of RFID technology. Our washing machines with separate compartments also enable simultaneous wash under different washing programme to be smarter and time-saving.

Bathroom: we are able to provide our users with various smart home solutions addressing their needs related to clean water, soft water, hot water and heating, with our interconnected water heaters and water purifiers. For example, our heaters can interconnect with water purifiers to provide soft and hot water in the whole house. Our Haier Smart Home App can remind users when replacement of filter is necessary.

In 2019, we launched our self-developed Haier Smart Home Experiential Cloud Platform, which enables connection and integration among digitalised systems available to users, franchisees and their stores. Capitalising on our digital infrastructure of the Haier Smart Home Experiential Cloud Platform and extensive access to our users, through deeply integrated online and offline channels, we consolidate resources from various product suppliers, designers, experience stores and other business partners, and provide our users with more comprehensive products and services for different scenarios, centring on our own interconnected home appliances. We aim to design, build and service a home for our users.

The Haier Smart Home Experiential Cloud Platform also helps us effectively access users and facilitates our in-depth personalised interaction with users in the era of IoT, allowing us to retain and improve customer loyalty and to promote the transformation from simple product sales towards a more service-oriented retail model. Such a transformation centring on user services could build a higher barrier against competition and is expected to help us achieve long-term stable development.



After years of development, we operate primarily through the following three business segments: smart home business in China, smart home business overseas and other businesses.

Smart Home Business in China

We provide comprehensive home appliances products to our customers in China. Through online Haier Smart Home App, as supplemented by offline experience stores, we also provide value-added services centring on home appliance products, which jointly form our smart home solutions to meet users' needs in different scenarios in life. Specifically, our smart home solutions can be further categorised as Household Food Solutions, Household Air Solutions, Household Clothing Solutions and Household Water Solutions, according to different scenarios. In 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, revenue from smart home business in China accounted for 49.4%, 47.8%, 42.7%, 43.3% and 40.3%, respectively, of our revenue for the same periods.

- **Household Food Solutions:** we provide users with refrigerators, freezers, kitchen appliances and other products under Household Food Solutions. Through our interconnected products, we can achieve interactions, for example, between stoves and range hoods, and between refrigerators and ovens. Through providing users with value-added food services featuring a combination of products and services, such as smart cooking and nutrition scheme formulation, we are able to meet their needs for convenient, healthy and delicious food.
- **Household Air Solutions:** we provide users with household air-conditioners, commercial air-conditioners, purifiers, fresh air systems and other products under Household Air Solutions. In particular, our interconnected products enable offerings of smart solutions such as interaction among air-conditioners in different rooms, interactions between air-conditioners and purifiers, smart perception, adaptive air supply, air quality testing and smart sterilisation, so as to fully meet users' needs for healthy and comfortable experience in air temperature, humidity, cleanliness and freshness.
- **Household Clothing Solutions:** we provide users with washing machines, dryers and other products under Household Clothing Solutions. Through our interconnected products, we can achieve interactions, for example, between washing machines and dryers, and enable, for example, automatic use of laundry detergent. We provide users with value-added cleaning and caring services featuring a combination of products and services, so as to meet their needs related to cleaning and caring of apparels.
- **Household Water Solutions**: we provide users with electric water heaters, gas water heaters, solar water heaters, heat pump water heaters, POE water purifiers, POU water purifiers, water softening equipment and other products under Household Water Solutions. In particular, our interconnected products can provide whole-house water solutions including for example, interactions between water heaters and purifiers, and between heating appliances and water heaters, so as to meet the users' needs for water purification, softening and heating.

Smart Home Business Overseas

In addition to Chinese market, we also provide a comprehensive portfolio of home appliance products and value-added services to users in more than 160 countries and regions including North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa.

In the overseas market, we manufacture and sell home appliance products of our own brands based on local consumer demands. We have more than 20 years of experience in overseas operations. In February 1997, we participated in the Domotechnica held in Cologne, Germany, and started overseas sales through local sales channel, which marked our debut in overseas markets. In April 1999, we established the American Haier factory in South Carolina, USA, which was a crucial step towards expanding overseas markets. We further expanded our overseas business through cross-border acquisitions. We acquired Haier Group's overseas white goods business, including Sanyo Electric Co., Ltd.'s white goods businesses in Japan and Southeast Asia in 2015, General Electric Company's home appliances business in 2016, Fisher&Paykel in 2018, and Candy in 2019. The development of our smart home business overseas has been fuelled by the synergies from both our own organic growth as well as acquisitions of overseas business.

At present, our overseas smart home business has entered into a stage of stable development, having achieved a global presence that is multi-brand, cross-product and cross-region. According to Euromonitor, in 2019, we ranked first in terms of retail volume in the Asia major home appliance market, with a market share of 18.6%; ranked second in North America, with a market share of 22.0%; ranked second in Australia and New Zealand, with a market share of 13.4%; ranked third in the Middle East and Africa, with a market share of 8.4%; ranked fifth in Europe, with a market share of 7.2%. In 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, our revenue from overseas operation accounted for 45.4%, 42.2%, 46.7%, 47.0% and 47.9% of our operating revenue, respectively.

Other Businesses

Based on our established smart home business, we also expanded our business to cover, among other things, parts and components, small home appliances and distribution services. Our parts and components business primarily involves procurement, manufacturing and sales of ancillary parts and components for home appliances, and manufacturing and sales of moulds. Small home appliances business primarily involves design, outsourced manufacturing and sales of various small home appliances of our brands, to supplement our smart home solutions business. Distribution services business primarily involves distribution of televisions, consumer electronic products and others for Haier Group and other third parties, leveraging our extensive sales network. In 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, our revenue from other business accounted for 5.2%, 10.0%, 10.6%, 9.7% and 11.8% of our operating revenue, respectively.

In addition, we have strategically invested in Gooday Supply Chain and COSMO which are controlled by Haier Group.

We are a leader in major home appliance industry in both China and the global markets with long-term development. According to Euromonitor, in 2019, our retail volume ranked first in both the global and mainland China's major home appliances market, with market shares of 14.7% and 23.2% respectively. In 2019, our retail sales of refrigeration appliances, laundry appliances and water heaters ranked first in the world, with market shares of 21.7%, 20.3% and 18.8% respectively; major kitchen appliances and air-conditioners ranked second and third in the world, with market shares of 8.0% and 11.3% respectively.

BUSINESS

Capitalising on our comprehensive competitive advantages, our financial performance and operating performance have maintained steady growth. From 2017 to 2019, our revenue increased from RMB154.2 billion to RMB198.0 billion, with a CAGR of 13.3%. For the same period, our profit increased from RMB9.1 billion to RMB12.3 billion, with a CAGR of 16.3%. Due to the effects of COVID-19, for the six months ended 30 June 2020, our revenue was RMB95.7 billion and our profit was RMB3.6 billion with a decrease of 1.6% and 41.6% respectively compared to that for the six months ended 30 June 2019.

OUR COMPETITIVE STRENGTHS

We have established a strong strategic layout and competitive advantages in China and overseas markets. On this basis, we further solidify our leading position through integration and coordination on a global unified platform, digitalisation-driven efficiency reform, technical strength and innovation ability. Designed to be a basis for our sustainable growth, our *RenDanHeYi* management model enables us to guide our management and to replicate our successful experiences. We believe that the following advantages will help us strengthen our leading position in the future.

Competitive advantages in Chinese market

Maintaining our long-term leadership positions in China's major home appliance market

We have maintained a leading market position in China's major home appliance market for a long time. According to Euromonitor, we ranked first in major home appliance industry in China in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019. At the same time, we have established a leading market position in different home appliance categories.

The following table shows the retail volume ranking and market share of our products in China in 2019 according to Euromonitor:

Category	Retail volume ranking	Retail volume market share	Total retail volume market share of the top three in the industry
Refrigeration appliances	First	42.0%	68.1%
Laundry appliances	First	43.9%	78.4%
Water heaters	First	22.0%	52.1%
Air-conditioners	Third	12.0%	68.5%
Major kitchen appliances	Third	9.0%	35.2%

Our leading position in full-range home appliance products is the basis for the development of our smart home solutions. Our core technology, advanced manufacturing experience and user base in various categories of products enable us to have sufficient single product scale and industry experience, and to successfully transform the product form we deliver to users from a single product to a full-suite solution.

Dominance in high-end market

In line with consumption upgrade in China, we started building our Casarte brand targeting the PRC high-end market more than 10 years ago. In addition to focus, experience and patience, the creation of high-end brands also requires the technical ability for continuous innovation and differentiated service, so as to meet users' demand for high-quality experience. By combining our technical strengths, product development ability, manufacturing techniques and other advantages in the world as well as specialised marketing and differentiated services, our Casarte brand has gradually gained the trust of users in China's high-end market. According to publicly available information, for the six months ended 30 June 2020, Casarte has established absolute leadership in China's high-end major home appliance market, and ranked first in terms of the retail volume of refrigeration appliances, laundry appliances and air-conditioners in China's high-end market. Among which, in terms of offline retail volumes, in the first half of 2020, the share of the Casarte washing machines and refrigerators in China's market above RMB10,000 reached 68%, 38%, and the share of the air-conditioners in Chinese market above RMB15,000 reached 28%. The offline market average price of refrigerators, air-conditioners and washing machines has reached approximately two to three times the industry average price.

Sustained leadership of our high-end brands such as Casarte is the basis for our constant acquisition and retention of users and one of our key competitive strengths. Through social interactive activities and proactive communication, Casarte has accumulated many loyal users, and has developed a good reputation, thereby promoting the sales of complete sets of products, increasing the value of single user and reducing the cost of acquiring customers. At present, Casarte has achieved development from single product to full-suite solutions and has the capability of providing users with a diversified product portfolio. During the Track Record Period, based on consolidating and improving revenue contributions from refrigeration appliances and laundry appliances, the percentage of revenue contributed by Casarte air-conditioners, water heaters and kitchen appliances also continued to increase. In particular, the revenue of the Casarte air-conditioners increased by 62% and 129%, respectively, in 2018 and 2019.

In 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, our revenue from Casarte was approximately RMB4.1 billion, RMB5.9 billion, RMB7.6 billion, RMB3.3 billion and RMB3.5 billion, with a CAGR of 36% from 2017 to 2019.

Continuous expansion and upgrades of smart home solutions

With the continuous improvement of users' demand for a better life and the development of technologies such as IoT, big data, cloud computing, and AI, home appliance industry shows the development trend towards smart, full-suite and scenario-based, which requires home appliance companies to provide a full-suite solutions, and competition to evolve from competition on products to all-round competition of products and services integration, interconnection capabilities and industry ecosystem integration. With our leading consumer insight and rich category coverage, we have pioneered in the industry in transforming into offering smart home solutions based on personalised life scenarios in living spaces such as living rooms, kitchens, bedrooms, bathrooms and balconies.

Our smart home solutions effectively meet the one-stop experience needs of users and therefore further enhance user loyalty. Taking smart home solutions in the balcony scenario as an example, our Household Clothing Solutions enable interactions between washing and drying by connecting washing machines and dryers. Washing machines can also interact with drying racks after completion of washing processes. Based on smart washing solutions and with the introduction and integration of more and more cooperative resources, other smart home solutions in balcony scenario can be further created and made available to our users, such as fitness balcony scenario whereby our smart home appliances can be connected with a treadmill, and green plant balcony scenario whereby our smart home appliances can be connected with automatic watering devices. Users can use our Haier Smart Home App as the gateway to interact with existing equipments, place orders, and obtain services to meet the comprehensive needs in specific lifestyle scenarios. In the future, we will continue to meet the needs of user experience, further upgrade and enrich the smart home solutions we provide.

In 2019, our revenue from sales of smart home products in sets, measured as single sales with more than one piece of our products, accounted for 27.5% of our revenue from smart home business in China, representing an increase of 5.4 percentage points as compared with 2018. The continuous growth and upgrade of our smart home solutions are also reflected in the extensive use of our interconnected home appliances and Haier Smart Home App. In 2019, the number of our activated interconnected home appliances increased by 68% compared with that in 2018. In June 2020, the number of our MAUs of Haier Smart Home App reached 4.29 million.

Competitive advantages in overseas market

Comprehensive and deep-rooted global layout with localised operation capabilities

In addition to our success in China, we also demonstrate strong performance in overseas markets. We focus on developing overseas markets with our self-managed brands. Our business strategy has helped us establish a multi-brand, cross-segment and cross-regional, three-in-one model with self-built, interconnected and collaborative operations in R&D, manufacturing and distributions.

Our extensive global layout also relies on our localised business teams and flexible and independent management mechanisms established in overseas regional markets, through which we can quickly detect and respond to local consumers' demands. We also actively integrate into local market and culture, and have established a corporate image recognised by the local society in overseas regions where we operate.

As at 30 June 2020, we had 10 research and development centres, 109 production centres (15 of which are specifically-designed interconnected factories), 108 operation centres around the world, and covered nearly 130,000 point of sales overseas.

Constantly increasing market share

With the deep-rooted local set-up across the world, we have the product competitiveness to adapt to the local market, the sales channel to penetrate into the local market, the successful experience of other regional markets, as well as the collaborative and operating capabilities in respect of global R&D, procurement and production scheduling, so that we can continuously improve our market share in each of the major global markets.

From 2017 to 2019, our market share in major global markets continues to increase. According to Euromonitor, in terms of retail volume, our market share in the global major home appliances industry continued to remain first at 13.1%, 13.6% and 14.7%, respectively.

According to Euromonitor, the following table shows the retail volume ranking and market share of each of our major overseas markets in respect of major home appliances in 2019:

Region	Retail volume ranking in 2019	Retail volume market share in 2019	Retail volume market share increases in 2019 compared with that in 2017
Asia	First	18.6%	0.5 percentage point
North America	Second	22.0%	2.1 percentage points
Australia and New Zealand	Second	13.4%	0.6 percentage point
Middle East and Africa	Third	8.4%	0.7 percentage point
Europe	Fifth	7.2%	4.8 percentage points

Comprehensive self-managed brand portfolio, generating strong brand image

Through independent development and M&A, we have formed a portfolio covering seven brands, namely Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. To meet the needs from different groups of users in the global markets, we adopt a differentiated multi-brand strategy centring on users to achieve extensive and intensive user coverage.

The following table shows our brand layout in major markets around the world:

User market	Luxury market	High-end market	Mass and targeted markets
China	Fisher&Paykel	Casarte, GE Appliances	Haier, Leader
North America	DCS, Fisher&Paykel, Monogram	Café, GE Profile	GE Appliances, Haier, Hotpoint
Europe	Fisher&Paykel	GE Appliances, Haier	Candy, Hoover
Australia and New Zealand	Fisher&Paykel	Fisher&Paykel	Haier
South Asia	Fisher&Paykel	Haier	Haier, Candy
East and Southeast Asia	Fisher&Paykel	Fisher&Paykel	Haier, AQUA
Middle East and Africa	Monogram	Haier, GE Appliances	Haier

Note:

According to Euromonitor, "luxury market" generally refers to the market subsegment which covers products with retail prices that are at least approximately 300% higher than the average retail price of products in the same category in the same region; "high-end market" generally refers to the market subsegment which covers products with retail prices that are at least approximately 150% higher than the average retail price of products in the same category in the same region; "mass market" generally refers to the market subsegment which covers products with retail prices that are around the average retail price of products in the same category in the same region; "targeted market" generally refers to the market subsegment which covers products specifically designed for targeted groups of consumers, for example, the young generation.

According to Euromonitor, in 2019, products under the Haier brand ranked first among products from global major appliance brands in terms of retail volume; products under the GE Appliances brand ranked first in the North America major appliance market in terms of retail volume; products under the Fisher&Paykel brand ranked first in Australia and New Zealand major appliance market in terms of retail volume.

Cross-border acquisition and integration capabilities

We have a successful track record in acquisition and integration. In 2015, we acquired Haier Group's overseas white goods business, including Sanyo Electric Co., Ltd.'s white goods business in Japan and Southeast Asia. In 2016, we acquired GE Appliances. In 2018, we acquired from Haier

Group Fisher&Paykel, a New Zealand-based brand which we had been managing since 2015 under a trust arrangement. In 2019, we acquired the Italian Company, Candy. Our merger and acquisition integration capabilities are reflected in the following aspects: First, we promote the *RenDanHeYi* management model in the enterprises we acquired, i.e. a mechanism for the teams to share added value under the same goal in the whole process, which can vitalise the enterprises acquired and the employees, to create more value; second, we empower the enterprises we acquired in aspects including strategy, research and development and procurement based on our global platforms to enhance their competitiveness; third, it is easy for us to be recognised by the enterprises acquired with our open and inclusive corporate culture and the support for the enterprises acquired to establish flexible and autonomous management mechanisms, which facilitates improvement of integration.

Taking our integration of GE Appliances as an example, we promoted the transformation of the organisation and incentive mechanism of GE Appliances by using the *RenDanHeYi* management model, which transformed it from a multi-level hierarchical organisation into an organisation with its whole process divided by business line, and we granted local teams full management authority while establishing a performance assessment mechanism for various business lines. In terms of R&D collaboration, we implemented technology sharing mechanism and joint R&D initiatives; in terms of supply chain collaboration, we have included GE Appliances into our global procurement system, and capitalised on our global supply chain resources to produce products of GE Appliances, such as its star products of four-door refrigerators, Super Drum large front-loading washing machines, among others; in terms of industry layout, we empower each other with advantageous industries. As a result, GE Appliances has realised significant post-acquisition growth. Its market share in the North America major home appliances market increased from 15.7% in 2017 to 16.5% in 2018 and 17.4% in 2019, and the GE Appliances brand ranked first among major home appliance brands in North America in terms of retail volume in 2019.

Comprehensive and effective global collaboration ability

We are well positioned to take advantage of our global collaboration platform and integrations such as R&D, product development, procurement, supply chain, marketing and branding. Furthermore, we are able to expand success experience of existing markets to all markets around the world. By continuously deepening the synergy between our global businesses, we inject a strong driving force into our future development.

- **Global collaboration in R&D:** With a global collaboration R&D system, we have established a global technology research and development mechanism to share our universal modules and multiplexing technologies, as well as to share patents within the scope of compliance. For example, we have successfully applied the direct-drive motor researched and developed by Fisher&Paykel to our Casarte laundry appliances and achieved desirable outcome.
- **Global collaboration in product development:** We have established a global product development mechanism to coordinate cooperative product development around the globe and achieved regional collaboration and complementation among product categories. For example, we have successfully supported GE Appliances resumption of water heater business.

- **Global collaboration in procurement:** Our global procurement activities are instructed and implemented by our global commodity committee. Our operation departments in different areas can share procurement resources in the globe with our Global Sourcing Operation Platform ("GSOP"), so as to achieve scale effects.
- **Global collaboration in supply chain:** With the visualised and digitalised global supply chain management system, we can flexibly deploy our production capacity across the globe and share and develop intelligent manufacturing technologies in a coordinated way.
- **Global collaboration in marketing and branding:** We can realise global collaboration in branding, such as sharing of global channels, with the operation of our multi-level brand portfolios around the globe. We also carry out promotion activities among various regional markets around the globe and introduce successful marketing strategies. For example, we have successfully introduced the sales and marketing models in the third- and fourth-tier markets of China into India, Pakistan, Thailand and other markets, which strengthened our brand image and market competitiveness.

Industry-leading R&D and technical strengths

Based on the core concept of "the world as my R&D department", we have established a leading global R&D innovation system to ensure that we are making continuous innovation centring on user demands. We have established 10 R&D centres around the world and formed a R&D resource sharing network globally. On this basis, we took the initiative to build the Haier Open Partnership Ecosystem (HOPE platform) which gathered more than 13,000 certified experts, 150,000 users, 10,000 joint ventures and other external innovation resources, so that they can participate in our user-centred iterative R&D process. Since its establishment, HOPE has helped the product development teams of our Group to develop many innovative best selling products, and allowed certified experts and other external innovation resources involved to share value therefrom under the value sharing mechanism. It provides innovative services to us, as well as third-party enterprises and scientific research institutes since 2015.

We are committed to continuously improving our technical strength. With a strong R&D system, we have the world's leading home appliance technology innovation capabilities. As at 30 June 2020, the projects we led had been awarded 13 National Science and Technology Awards, making us the leading home appliance provider that has been granted the greatest number of such awards in the industry since 2000, accounting for more than half of the all the awards granted to enterprises in the home appliance industry. We have applied for more than 57,000 patents worldwide in more than 28 countries and regions, including more than 32,000 invention patents and more than 11,000 overseas invention patents. As at 30 June 2020, as the main operating body of Haier Group for white goods business, we participated in the development or amendment of 61 international standards and 500 national-industry standards. We are seated in and connected to a total of 101 international standards associations in the world, undertaking the work for the secretariat unit of four national subcommittees including smart home appliances and one international standardisation subcommittee. In addition, we took part in the work for the national technological standard innovation base (home appliances).

Our world-class R&D capability and technology strength has led to our high performance and innovative products. Continuous innovation of products is a foundation for us to continuously expand market share in the high-end market and continue to expand and upgrade our smart home solutions.

- **Refrigerator products**: Our BCD-520WICTUI series combined refrigerator and freezer features MSA compartment, the fresh-keeping ability of which was certified by VDE, a Germany testing institute. It can reduce the oxygen concentration through the air-controlled membrane separation and prevent anaerobic respiration of fruits and vegetables while reducing the aerobic respiration and slowing down the oxidation of nutrients in food ingredients. With such technology, the preservation effect of food ingredients is greatly improved.

- **Range hood products**: We apply constant air volume technology to intelligently sense the air pressure of the fan and match the corresponding speed to achieve a constant air volume output under different back pressure environments; we apply the world's leading Fisher&Paykel direct-drive variable frequency motor technology to achieve constant 12m^3/min air volume output under 0-650pa back pressure, so that the fume suction effect is no longer affected by the resistance of the flue, resolving the problem of fume leakage.

- **Air-conditioner products**: We apply the self-cleaning technology which was awarded Science and Technology Award 2018 of Shandong Province (2018年山東省科學技術獎). This technology can remove bacteria and dusts via rapid cooling to frost on the surface of the evaporator to achieve self-cleaning, and provide healthy air. According to Euromonitor, the global market share of Haier healthy self-cleaning air-conditioners in 2019 was 43.4% in terms of retail volume, ranking first worldwide. We apply the smart comfort control technology, which was awarded State Science and Technology Progress Award 2015 (國家科學技術進步獎). This technology includes Predicted Mean Vote (PMV) human thermal comfort technology, warm-body bionic human technology, proportional-integrated-derivative (PID) control technology, ensuring the best wind speed and temperature and delivering a comfort environment for users.

- **Laundry appliances products**: Our key technology for garment washing and caring in different partitions of front-load washing machines and industrialisation project have won the State Science and Technology Progress Award 2018. We apply double-mode washing technology in dual-drum washing machines to realise separated and simultaneous washing in the upper and lower rollers. We apply Gemini intelligent balance technology to reduce vibration and noise of the upper and lower double drums and achieve the balance and silence. We apply intelligent water diversion technology to realise 6-way water filling and the upper roller water can be allocated to the lower drum to save water. We apply world-leading Fisher&Paykel direct-drive variable frequency motor technology to effectively reduce noise and vibration. Under the cradle soft washing function, the inner drum can be precisely controlled to swing less than 90 degrees to better garment care.

- **Water heater products:** We apply waterfall washing technology, which was awarded Annual Technological Innovation Achievement Award (年度技術創新成果獎) by China Household Electric Appliance Research Institute (中國家用電器研究院), with water output increasing by over 70%.

Focus on improvement of whole-process efficiency through digitalisation

We are striving to drive the digital transformation of enterprises through technology. We empower full value chain through digital transformation, and realise business intelligence through enhanced data insight and diversified information channels. We have established our Haier Smart Home Experiential Cloud platform at our user end and digitalisation systems in R&D, procurement, manufacturing, sales and other stages in the whole process, which achieved digitalized whole-process, multi-dimensional and full user life-cycle connection in general.

For users, we developed our Haier Smart Home Experiential Cloud Platform, which connects and consolidates various systems and platforms available to our users, franchisees, sub-franchisees and their stores. On the digital infrastructure enabled by Haier Smart Home Experiential Cloud Platform, together with our cooperative resource providers, such as product providers, designers, experience stores, we design, build and service a home for our users. Our users can actively participate in product customisation, track product delivery schedule in real time and fully enjoy after-sales and value-added services, which aim to provide excellent customer experiences throughout the process.

For procurement, we have established Haidayuan ("海達源") procurement platform in China. Haidayuan procurement platform mainly focuses on procurement of standard parts and components and modules, as well as facilitates consolidation of module suppliers resources and needs, high-frequency interaction, and volume and price agreement. Suppliers may also participate in module design jointly. As at 30 June 2020, we had over 30,000 registered users on the Haidayuan platform, over 40,000 procurement requirements have been released, and over 130,000 modularisation plans have been exchanged online since the platform was launched.

On the manufacturing side, we created a user-centred mass customisation mode. As at 30 June 2020, we had 22 interconnected factories (including 15 specifically-designated interconnected factories and seven interconnected factories upgraded from traditional factories) in the world. The interconnected factories can capture on extendible digital platform to achieve the end-to-end resources connection of enterprises, users and suppliers and optimise productivity, manufacturing cost and direct delivery rate. For the six months ended 30 June 2020, we recorded a direct delivery rate of 77%. According to World Economic Forum, our Qingdao Central Air-Conditioner Interconnected Factory and Shenyang Refrigerator Interconnected Factory were elected as the "lighthouse factory" of the world's fourth industrial revolution in September 2018 and January 2020, respectively, making us the only company in the world that has two "lighthouse factories" in one country. We also established a smart+5G interconnected factory in Qingdao for refrigerator manufacturing in 2019 and explored the application of AI technologies in several production scenes and relevant solutions, which further upgraded the connectivity, digital insight and ability in smart optimisation of interconnected factories.

On the sales side, we have an efficient and in-depth sales channel network with which comprise multi-level online and offline networks that connect with each others. In Chinese market, our transparent and highly-efficient retail system can effectively reach users at township level. As at 30 June 2020, we had 10,000 county-level franchised stores operated by our franchisees, who also had an extensive sales network of over 14,000 township-level franchised stores and nearly 9,000 local retail stores at township-level. In regional chain stores and county-level franchised stores, we have developed Jushanghui ("巨商匯") platform (an order management system through which such stores can place order to, make payment to and make settlement with us online) and E-store platform (an inventory management system); and in township-level franchised stores, we have developed Yilihuo ("易理貨") platform (an order management system through which such stores can place order to, make payment to and make settlement with county-level franchised stores online) and Cloud Bookkeeping ("雲記帳") platform (an inventory management system). To further optimise warehousing, transportation and delivery efficiency in the whole process and reduce defect rate, we have implemented reforms on the sales network through our unified warehousing and distribution system, which enables us to implement centralised management of product delivery and inventories control for our franchised stores and their extended sales network. Such transformation, which improves operational efficiency and reduces operational costs, aims to encourage and enable our franchised stores and their extended sales network to transform from product providers to service providers. In overseas markets, we have established a leading extensive overseas sales network in more than 160 countries and regions. For example, we developed e-commerce channels and expanded our new digital marketing models, among others.

RenDanHeYi management model and visionary management team

Our *RenDanHeYi* management model focuses on generating value for users. "Ren" refers to employees with entrepreneurship and innovative spirit and "Dan" refers to creation of user value. Essentially, the management model of *RenDanHeYi* encourages employees to generate value for users with an entrepreneur mindset, and realise their self-value aligned with the value of our Company and the value for the shareholders. Through an iterative process of experimentation and learning, the *RenDanHeYi* management model lays a solid foundation for our relentless pursuit for people empowering, and maximises the value for our people, shareholders, and ultimately, for our users.

We have effectively introduced and replicate the success of our *RenDanHeYi* management model originated from China to our other operations in the world. The *RenDanHeYi* management model has demonstrated excellent integration ability and management ability following our acquisition of various businesses overseas. By linking incentives with performance, our incentive schemes help us tap the maximum potential of our employees. Take the equity incentive scheme as an example. From 2009 to 2019, we launched a total of four phases of equity incentive schemes and four phases of core employee's equity ownership plans, covering a broad range of key employee positions including many mid-level management personnel whom our business success depend on. The Introduction will provide us with new tools for equity incentives. We will strengthen the incentives for core management and outstanding talents in different markets around the world by various classes of stocks.

In addition to our *RenDanHeYi* management model, our success in management also depends on our experienced and visionary senior management team. With rich experience in the industry and business management, our senior management team members will lead the Company to adapt to changes and to maintain continuous growth.

OUR STRATEGIES

Currently, we have entered the strategic era of IoT. We are committed to becoming a leading smart home solutions provider in the world.

Continuously strengthen the construction of Haier Smart Home Experiential Cloud Platform connecting users, products and full-process services

We hope to change users' traditional lifestyle and shape the new trends for them in the IoT era. We will continue to iteratively expand our smart home solutions, integrate cooperation resources, and strengthen the construction of Haier Smart Home Experiential Cloud Platform connecting users, products and full-process services, so that users in different countries can enjoy better life experience in the IoT era through our smart home solutions.

Persist in promoting global operational synergies and leading overseas market brand creation

We hope to accelerate the implementation of *RenDanHeYi* management model overseas through our integration of global resources, and to enhance our 3-in-1 localised operation competitive edge in the integration of R&D, manufacturing and marketing, in order to optimise the efficiency of our global business operation. Meanwhile, we will continue to improve the overseas market share, promote the sales of laundry appliances and water appliances in the overseas market, facilitate the promotion and implementation of smart home solutions, achieve scale effect and further improve the profitability and brand influence of our overseas business.

Persist in Strengthening Leadership in High-end Segment

We will continuously push forward our high-end leadership. In Chinese market, we will continue to increase the market share of Casarte brand and enhance the competitiveness of Casarte brand through global R&D collaboration. In overseas market, we will continue to adhere to the strategy of brand cultivation and continue to promote our high-end market share.

Promote digital transformation to improve efficiency

We will continue to promote the enterprise's digital transformation and continue to construct and enhance the capability of "Digital Haier" to optimise process. We will apply the Haier Smart Home Experiential Cloud Platform to achieve the reconstruction of processes and mechanisms to improve operational efficiency.

Drive continuous innovation and long-term development through *RenDanHeYi* management model

We will adhere to the *RenDanHeYi* management model to continue making innovation, further coordinate the consistency among our Shareholders, the Company, management and employees, strengthen the incentive of core management in various classes of stocks and expand the coverage of incentive programmes for core employees to promote the long-term development of the Group.

BUSINESS MODEL

Originally we are a leading global major home appliance company providing full-range home appliances to our users, relying on high-quality products and superior services. We have successfully transformed our product portfolio from single home appliances to interconnected home appliances and maintained our leadership in the interconnected home appliance market. Capitalising on our established advantages on precise user profiling, comprehensive product portfolio and strong R&D capability, in the era of IoT, we have been upgrading ourselves from a product provider to a solutions provider. We are committed to provide users with our smart home solutions for various lifestyle scenarios, centring around our home appliances products facilitated by value-added services that we consolidate to meet users' needs for a better life.

BRAND POSITIONING

We pursue a global multi-brand strategy featuring our seven home appliance brands: Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Our brand portfolio is strategically deployed across our markets to ensure broad and in-depth user coverage through our user-centred, global differentiated multi-brand operations. We combine our self-grown brands from our China operations, such as Haier, Casarte and Leader, with our acquired brands, such as GE Appliances, Candy, Fisher&Paykel and AQUA, in key markets in order to grow our global market share across different consumer groups.

In China, building on our flagship brand, Haier, we execute our differentiated multi-brand strategy through our self-grown and integrated brands to cover different market segments and to accommodate the broad spectrum of preferences of our users. In 1998, we developed our value brand, Leader, to target young consumers who desire simple, fashionable, and smart lifestyle. In 2006, we further developed our high-end brand, Casarte, to serve consumers demanding home appliances with high-end design, innovative technology and functionality, and to provide users with the enjoyment of artistic lifestyle.

Globally, our differentiated multi-brand strategy is implemented through a series of overseas acquisitions. In 2015, we acquired Haier Group's overseas white goods business, including Sanyo Electric Co., Ltd.'s white goods businesses in Japan and Southeast Asia with the brand AQUA. In 2016, we acquired GE Appliances, the second largest major home appliances company in the United States by retail volume in 2015, further enhancing our international presence by establishing strong foothold in the U.S. market. In 2018, we acquired from Haier Group Fisher&Paykel, a New Zealand-based luxury home appliance brand, which we have been managing since 2015 under a trust arrangement. In 2019, we acquired Candy, a leading IoT home appliance brand in Europe, further broadening our brand portfolio and market coverage, and accelerating our expansion in Europe and worldwide.

The following map illustrates the global presence of our seven brands:

The following graph illustrates the global presence of our key home appliance brands:

Haier

- **Key products:** refrigerators and freezers, air-conditioners, washing machines, kitchen appliances, water appliances and small home appliances
- **Market positioning:** mass to high-end markets
- **Primary markets:** China, North America, Europe, Australia, New Zealand, South Asia, Japan, Southeast Asia, Middle East and Africa
- **Recognitions:** BrandZ's Top 100 Most Valuable Global Brand (as the only IoT brand receiving such award) (2019-2020); BrandZ's Top 100 Most Valuable Chinese Brands (2017-2019); BrandZ's Top 50 Chinese Global Brand Builders (2017 -2020)

Casarte
REFINED LIVING

- **Key products:** refrigerators and freezers, air-conditioners, washing machines, kitchen appliances, water appliances and small home appliances
- **Market positioning:** high-end market
- **Primary markets:** China
- **Recognitions:** iF Design Awards by iF International Forum Design GmbH; Smart Care Technology Innovation Gold Award by the IFA (2015)

Leader

- **Key products:** refrigerators, freezers, air-conditioners, washing machines, kitchen appliances and water heaters

- **Market positioning:** targeted market (target young consumers who desire simple, fashionable, and smart lifestyle)
- **Primary markets:** China
- **Recognitions:** Home Appliances Brand Loved by Young Consumer Award from the World Influence Organisation (2016)

GE APPLIANCES

- **Key products:** refrigerators, freezers, kitchen appliances, washing machines, dryers, air-conditioners, water purifiers and water heaters
- **Major sub-brands:** Monogram, Café, GE Profile, Hotpoint
- **Market positioning:** mass to luxury market segments; targeted market
- **Primary markets:** the United States, Europe, China, Middle East and Africa
- **Recognitions:** International Design Excellence Award (IDEA) by the Industrial Designers Society of America; Top Tech of CES (2017)

CANDY

- **Key products:** washing machines, driers, refrigerators, freezers, kitchen appliances
- **Major sub-brands:** Hoover, Rosieres, Baumatic, Iberna, Jinling, Otsein, Susler and Zerowatt
- **Market positioning:** mass market
- **Primary markets:** Europe, South Asia

FISHER & PAYKEL

- **Key products:** Kitchen appliances, freezers, washing machines and dryers
- **Major sub-brand:** DCS
- **Market positioning:** high-end to luxury market
- **Primary markets:** New Zealand, Australia, North America, Europe, China, South Asia, Japan and Southeast Asia
- **Recognitions:** iF Design Awards by iF International Forum Design GmbH (2015)

AQUA

- **Key product range:** washing machines, refrigerators and small home appliances
- **Market positioning:** mass markets
- **Primary markets:** Japan and Southeast Asia

OUR PRODUCTS AND SERVICES

Overview

We are a leading provider of major home appliances and a pioneer of smart home solutions in the world. Our business consists of three major segments: smart home business in China, smart home business overseas, and other businesses.

We provide comprehensive home appliances to our users in Chinese market. Through Haier Smart Home App, we also provide value-added services centring around home appliance products, which jointly form our smart home solutions to meet users' needs in different scenarios in life. Specifically, our smart home business in China can be further categorised as Household Food Solutions, Household Air Solutions, Household Clothing Solutions and Household Water Solutions, based on different scenarios.

We have successfully expanded our footprint to the global market over the years. In addition to our self-grown brands and business, through cross-border acquisitions, we have also integrated other famous home appliances brands and businesses, and formed our comprehensive product portfolio and global resources. In addition to Chinese market, as at the Latest Practicable Date, we provide our products and services to users in more than 160 countries and regions, including North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa.

In addition to major home appliances, we also engage in other related businesses, such as parts and components, small home appliances and distribution services.

The following table sets forth a breakdown of our revenue by business segments for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount (unaudited)	%	Amount	%
	(RMB in millions, except percentage)									
Smart Home Business in China										
Household Food Solutions										
Refrigerators/freezers	26,416	17.1	29,638	16.7	30,424	15.4	14,902	15.3	13,240	13.8
Kitchen appliances	1,940	1.3	2,271	1.3	2,149	1.1	1,169	1.2	1,137	1.2
Household Air Solutions										
Air-conditioners	21,555	14.0	23,420	13.2	20,366	10.3	11,646	12.0	10,819	11.3
Household Clothing Solutions										
Laundry appliances	18,421	11.9	20,853	11.7	22,113	11.1	9,748	10.0	8,958	9.4
Household Water Solutions										
Water appliances	7,932	5.1	8,812	4.9	9,521	4.8	4,656	4.8	4,405	4.6
Smart Home Business Overseas	**69,914**	**45.4**	**74,896**	**42.2**	**92,392**	**46.7**	**45,689**	**47.0**	**45,890**	**47.9**
Other businesses	**7,987**	**5.2**	**17,704**	**10.0**	**21,041**	**10.6**	**9,464**	**9.7**	**11,274**	**11.8**
Total	**154,165**	**100.0**	**177,594**	**100.0**	**198,006**	**100.0**	**97,274**	**100.0**	**95,723**	**100.0**

Our leadership in both China and the rest of the world is well recognised within the industry. According to Euromonitor, we ranked first among major appliance companies worldwide, in terms of retail volume, for nine consecutive years from 2011 to 2019, and our Haier brand ranked first among major home appliances brands worldwide, in terms of retail volume, for 11 consecutive years from 2009 to 2019. According to Euromonitor, in 2019, our global market share in terms of retail volume was 14.7%.

Smart Home Business in China

In China, we provide comprehensive home appliances and value-added services, which jointly form our smart home solutions. In 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue generated from our smart home business in China was RMB76.3 billion, RMB85.0 billion, RMB84.6 billion, RMB42.1 billion and RMB38.6 billion, respectively, representing 49.4%, 47.8%, 42.7%, 43.3% and 40.3%, respectively, of our total revenue in the corresponding periods.

Household Food Solutions

We primarily provide refrigerators, freezers and kitchen appliances under our Household Food Solutions business segment. Capitalising on our established refrigeration appliances and kitchen appliances business, we are also able to provide our users with various smart home solutions addressing their needs for easy cooking, healthy food and nutrition plan analysis. For example, our smart kitchen system is able to analyse the health and work-out data of our users, collected by our Haier Smart Home App, to produce recommendations for customised menus and diet plans. Menu and recipes can be imported into our smart oven and cooking system for automated processing and preparation of meals.

In December 2019, we participated in the establishment of IEEE international standard for the Household Food Solutions business, together with leading enterprises in related industries.

Refrigerators and Freezers

We offer a broad range of refrigerators and freezers for residential use and freezers for commercial use. In 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue generated from the sale of refrigerators and freezers was RMB26.4 billion, RMB29.6 billion, RMB30.4 billion, RMB14.9 billion and RMB13.2 billion, respectively, representing 17.1%, 16.7%, 15.4%, 15.3% and 13.8%, respectively, of our total revenue in the corresponding periods. According to Euromonitor, in 2019, in terms of retail volume, our market share in the refrigeration appliance market in China is 42.0% and ranked first in China. According to publicly available information, our Casarte brand has been leading the high-end segment of the market, for the six months ended 30 June 2020, in terms of offline retail volume, the sales of our high-end Casarte brand achieved a 38.0% market share in refrigerators over RMB10,000 and in terms of retail volume, our Casarte brand ranked first in terms of market share in the high-end segment of the refrigeration appliance market in China.

Due to COVID-19 and demand for upgrades, consumers' preferences for refrigerators have evolved in terms of food storage, quality keeping and automation. As leaders in the provision of smart home solutions, our refrigerator and freezer products aim to provide our users with healthy, automated and artistic smart home solutions related to the preparation, preservation, consumption and enjoyment of food, through our continuous efforts in technology innovation and product design iteration. Our recent product innovations include the following:

- Casarte F+ series free built-in refrigerator, a refrigerator adopted "MSA oxygen control" technology which broke through the traditional preservation method to achieve cell-level preservation with double fresh-locking shields of temperature control and oxygen control. Capitalising on the design for our F+ series built-in refrigerators, we have led the development of industry standards for free built-in refrigerators, together with China Association for Standardisation.
- A smart refrigerator with the ability to collect health information of users and recommend weekly healthy diet solutions and customised menu solutions based on user's taste and preferences.

We continuously seek to achieve product breakthrough. For example, in 2015, we launched the air-suspending oil-free refrigerating system, which enhances the freshness-keeping, environmentally-friendly and energy- and space-saving solutions to refrigeration. In 2016, we developed infrared thermostat and iterative cell-level preservation technologies and smart air supply systems to enhance precision in temperature control. In 2018, we launched a technology solution equipped with a light-sensing breeze channel, which can sense the amount of food and temperature changes in the refrigerator in time, supply air on demand, and accurately refrigerate to achieve efficient preservation and energy saving. In 2019, based on user demand for the 90-degree door opening of the free built-in refrigerator, we launched a dual-axis hinge, which, according to Euromonitor, was revolutionary in the industry. Our technology in refrigerators has allowed us to be involved in the setting of many industry standards, including the establishment of freshness standards as the chair of the relevant working group in the International Electrotechnical Commission and numerous other standards domestically in China, including those of smart refrigerators, freshness keeping and built-in products.

Our refrigerators have received numerous industry and design awards for their design, usability and technological features, including multiple iF Design Awards conferred by iF International Forum Design GmbH in 2016 and 2017 and the Red Dot Design Award in 2017.

Kitchen Appliances

We provide a broad range of kitchen appliances. In 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue from sales of kitchen appliances was RMB1.9 billion, RMB2.3 billion, RMB2.1 billion, RMB1.2 billion and RMB1.1 billion, respectively, representing 1.3%, 1.3%, 1.1%, 1.2% and 1.2%, respectively, of our total revenue. According to Euromonitor, in 2019, in terms of retail volume, our market share in the major kitchen appliance market in China was 9.0% and ranked third in China. The increasing sales of our high-end Casarte brand has enabled us to become more competitive in the high-end and luxury market. Leveraging the research and development resources of Fisher&Paykel and GE Appliances, we have developed tailor-made products for Chinese consumers to meet the requirements of cooking Chinese cuisine. We have strived to provide our users with kitchen appliances with integrated, AI-driven smart solutions to offer better cooking experience for users.

Our core kitchen appliance products include range hoods, stoves, disinfection cabinets, and ovens. We also manufacture and sell steamers and coffee makers.

- **Range hoods:** We sell a variety of range hoods offering a clean and quiet kitchen experience with smart functionality. Our "smart wind 12 square" series of new products pioneered the trend of constant air volume technology. In collaboration with the constant air volume technology developed by Fisher&Paykel, such new products are able to specifically resolve user's pain points of inability to remove smoke generated from cooking, and to achieve more effective air flow of stable volume under different installation environments, and to achieve efficient smoke exhaustion.
- **Stoves:** We offer stoves with enhanced cooking safety and smart features, as well as stoves tailor-made to meet the requirements of cooking Chinese cuisine. Casarte's new generation of smart stove is able to realise precision control of fire and smart cooking. With its professional three-burner stove, it adopts infinite electronic ratio valve control and fourth-generation real-time temperature monitoring technology.
- **Disinfection cabinets:** In response to the needs of specialised users, we launched Haier tableware disinfection cabinets. They use light wave disinfection plus moderate temperature cleaning technology and kills enteric pathogenic bacteria and viruses through UV-C light and pasteurisation temperature (60°C~100°C). Such cabinets have lower temperature, better disinfection effect and are safer as compared to traditional high-temperature disinfection cabinets. We took lead in establishing the standard of disinfection cabinets for household and similar uses at the same disinfection level as medical instruments, which was approved by the China Association for Standardisation.
- **Ovens:** The interconnected ovens are equipped with built-in cameras through which the users can monitor the real-time dynamics in the ovens on their mobile equipment. The high-temperature self-cleaning ovens based on hot air technology can decompose oil into carbide at 420°C, so as to realise self-cleaning. Our RF ovens have a totally new heating mode aiming at accurate heating of different food quickly and conveniently. We took initiative to adopt auto-door technology and wireless probe technology for Casarte Commander series in the industry and designed recipes catered to Chinese consumers. Allowing a wide temperature range of 30°C~220°C, our built-in steam and roast integrator can meet demands for multiple materials and simplifies cooking via a three-level adjustable steam-assisted function.

Household Air Solutions

We primarily provide air-conditioners for both household and commercial use under our Household Air Solutions business segment. In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue generated from the sale of air-conditioners was RMB21.6 billion, RMB23.4 billion, RMB20.4 billion, RMB11.6 billion and RMB10.8 billion, respectively, representing 14.0%, 13.2%, 10.3%, 12.0% and 11.3%, respectively, of our total revenue for the corresponding periods. According to Euromonitor, in 2019, in terms of retail volume, our market share in the air-conditioners market in China was 12.0% and ranked third in China.

Capitalising on our established air-conditioners business, we are able to provide our users with various smart home solutions addressing their needs for fresh and clean air as well as customised air supply solutions, such as interconnection among air-conditioners in different rooms and between air-conditioners and purifiers. Our products can fit in space of different size and circumstances, such as bedrooms, kitchens and hotels, and can provide personalised air solution for different user preferences, in temperature, humidity, cleanliness and freshness. They can also work together to provide comprehensive air solution from air quality monitoring to air sterilisation and temperature adjustment.

We have been endeavouring to enhance our air-conditioners business in China. We believe that revitalising our air-conditioners business is fundamental to our long-term sustainability. In order to increase market share, firstly, we focus on accelerating penetration in lower tier markets in villages, consolidating presence online with differentiated products and full collaboration with property developers. In addition, we improve our operational efficiency with measures including streamlining, creating and promoting best sellers, leveraging economies of scale, and encouraging suppliers' participation in product development as well as manufacturing our orders with designated production lines. We also improve our operational efficiency by reducing the numbers of SKUs applied in our air-conditioners manufacturing. As a result, in 2019 and for the six months ended 30 June 2020, we reduced the numbers of SKUs applied in our domestic market air-conditioners manufacturing by approximately 15% and 9%, respectively. We also expand our product portfolio and adjust product mix, and continue to launch new products with enhanced increased R&D capabilities, aiming at expansion in high-end markets.

Household air-conditioners

We offer a broad range of household air-conditioners. In the area of household air-conditioners, we focus on providing solutions for intelligent and healthy air supply to our users and innovates in the areas of air quality, comfort, and energy savings. We have further developed our technology in smart air cleaning to cater to user's demand for clean and fresh air. According to publicly available information, for the six months ended 30 June 2020, Casarte has ranked first in terms of the retail volume of air-conditioners in China's high-end market. In terms of offline retail volume, in the first-half of 2020, the share of the Casarte air-conditioners in Chinese market above RMB15,000 reached 28%. Recent product innovations include the following:

- Air-conditioners that combine self-cleaning technology and air purification technology. Through innovative technologies, the air-conditioners can self-clean, while purifying indoor air to allow users to breathe healthy air.
- Air-conditioners that feature smart comfort control technology to deliver a comfort environment for the users. Smart features ensuring the best wind speed and temperature for comfort, including Predicted Mean Vote (PMV) human thermal comfort technology, warm-body bionic human technology, proportional-integrated-derivative (PID) control technology and infrared body sensing technology. Our latest Casarte air-conditioners have a dual-zone air delivery system so that two people in the same room may enjoy air of different temperatures and speeds, enabling the air-conditioners to deliver individualised experience to the users.

- The fresh air-conditioners which adopt the dual-power air purification technology, and combines adjustment of air temperature and air cleaning to monitor and control the level of carbon dioxide at healthy level.

Commercial air-conditioners

Our commercial air-conditioners cater to the industry trends of energy conservation and smart technologies. Recent product innovations include the following:

- Our magnetic suspension centrifuges are widely used in rail transportation, industrial production, hotels and other industries. We launched the VTT Series of water-cooled units, expanding the maximum cooling capacity of the magnetic suspension centrifuge to 4,200 refrigeration tons.
- Utilising IoT and AI technologies, our third-generation AI + IoT controlled platform provides services that allow users to continuously monitor and remotely control the central air-conditioners' operation. The platform can also remotely diagnose faults in the system and help save energy costs; it is also capable of connecting millions of pieces of equipment and it has big-data storage and analysing capability.

Household Clothing Solutions

We primarily provide washing machines and driers under our Household Clothing Solutions business segment. Capitalising on our established laundry appliances business, we are also able to provide our users with various smart home solutions addressing customers needs for garment care and laundry process, such as interconnection between washing machines and driers and automatic application of suitable laundry detergent. For example, our smart washing machines and driers can link up and interact so that our smart dryer can prepare itself for the drying process when the washing process ends. In addition, our washing machines can design washing programmes (including accurate detergent use), suitable to garment material, colour, and style of the laundry.

Laundry Appliances

We provide laundry appliances, primarily washing machines. In 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue generated from the sale of laundry appliances was RMB18.4 billion, RMB20.9 billion, RMB22.1 billion, RMB9.7 billion and RMB9.0 billion, respectively, representing 11.9%, 11.7%, 11.1%, 10.0%, 9.4%, respectively, of our total revenue in the corresponding periods. According to Euromonitor, in 2019, in terms of retail volume, our market share in the laundry appliance market in China was 43.9% and ranked first. According to publicly available information, our Casarte brand has been leading the high-end segment of the market, for the six months ended 30 June 2020, in terms of offline retail volume, the sales of our high-end Casarte brand achieved market share of 68% in washing machines over RMB10,000 and in terms of retail volume, our Casarte brand ranked first in terms of market share in the high-end segment of the washing machine market.

Our washing machines cater to the industry trends of energy efficiency, environmental protection, smart technologies and fabric care. We strive to provide our users with the best experience of garment cleaning and caring that are healthy, smart, convenient and environmentally friendly. Our washing machines have also developed smart and customised washing solutions that are able to provide AI-driven washing and caring solutions available to our users and customised to the specific demand of users. Recent product innovations include the following:

- Newly-launched Haier *XianHe* washing machines, which adopts ultrasonic air wash technology to stimulate the activity of the fabric fibres and to quickly remove wrinkles by transforming water into micron-sized foggy particles which permeate the fabric fibres layer by layer, thereby reducing the need for ironing.
- The Casarte Gemini Ella, which we believe is the industry's first double-cylinder partition washing machine allowing simultaneous wash of two loads of laundry of different fabric types.
- Washing machines with an air-wash function, allowing the removal of unpleasant smells, allergens, harmful bacteria and microbes with blowing hot air and without any chemicals, thereby reducing the need for professional dry cleaning.
- The application of our "no water between the cylinders" technology uses a closed inner cylinder, which offers complete separation for the inner part of the inner cylinder from the interlayer between the inner and outer cylinders, thereby improving the cleanliness of laundry and reducing water usage by up to 30% compared to conventional washing machines.

Our washing machines have received numerous industry awards for their innovative features and user-friendly design. The Gemini Ella washing machine received two iF Design Awards respectively, in 2015 and 2016, and the Smart Care Technology Innovation Gold Award conferred by the IFA in 2015. In 2016, Casarte China was awarded the Excellent Quality Award conferred by the European Society for Opinion and Marketing Research (ESOMAR).

Household Water Solutions

We provide water appliances, primarily water heaters and water purifiers, under our Household Water Solutions business segment. In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue generated from the sale of water appliances was RMB7.9 billion, RMB8.8 billion, RMB9.5 billion, RMB4.7 billion and RMB4.4 billion, respectively, representing 5.1%, 4.9%, 4.8%, 4.8% and 4.6%, respectively, of our total revenue for the corresponding periods. According to Euromonitor, in 2019, in terms of retail volume, our market share in the China water heater market was 22.0% and ranked first in China. During the Track Record Period, revenue contribution from sales of Casarte water heaters has been increasing.

Capitalising on our established water appliances business, we are able to provide our users with various smart home solutions addressing their needs related to clean water, soft water, hot water and heating, with our interconnected water heaters and water purifiers. For example, our heaters can interconnect with water purifiers to provide soft and hot water in the whole house, such as in the bathroom and in the kitchen.

Water Heaters

We offer a broad range of electric, gas, solar and air pump powered water heaters, principally for residential use. For our water heaters, we focus on, among other things, safety and health features, energy efficiency and environmental protection and smart functionality. According to Euromonitor, in 2019, in terms of retail volume, our market share in the global water heater market was 18.8% and ranked first in the industry worldwide.

To address the increasing consumer demand for water heater safety and water purity, we have among other products developed:

- Casarte electric water heater adopts the concept and technology of mineral bath, which uses limescale inhibition technology to remove limescale while increasing the minerals in the water, so as to create healthy bathing experiences.
- CRT11 water heaters of Casarte Waterfall Washing, which adopts the innovative waterfall washing technology, and increases the output of water volume by more than 70%.
- Space energy water heater, based on the technology of solar energy and heat pump, which realises sectional heating through all-weather with high-efficiency.
- Based on the technology of remote carrier wave control used in space exploration, we have also developed a power carrier wave smart control system for gas water heaters that allows users to adjust water temperature through a remote control.
- According to Euromonitor, we launched a series of smart electric water heaters in 2016, which pre-heats water at night when energy cost is low to help users to reduce electricity bills.

Water Purifiers

In 2019, under an asset swap arrangement, the water purifier business, managed by Qingdao Haishi, was consolidated into our Group. We provide our users with water purifiers suitable for both household and commercial use. We have developed and provided our users with AI-driven, visualizable water purifier product and noise-free water purifier. For details of this asset swap arrangement, see "History and Corporate Structure — Major Acquisitions and Disposal — Strengthened our strategic positioning through assets swap of Qingdao Haishi and Bingji Company".

Recent product innovation includes:

- Casarte's high-end whole-house water purifier system features automatic pre-set functions, big screen and visible full purifying process. Supported by IoT, cloud-based platform and big data analysis, it can also provide one-stop services covering proactive water quality monitoring, filter status alert and filter replacement reminder and regular maintenance.

In June 2019, through our affiliate, our Company established a strategic cooperation relationship with BWT Aktiengesellschaft, one of the largest water treatment brands in the European market, to jointly construct a production facility for water purifiers in China. During the Track Record Period, we primarily engage OEM suppliers to manufacture our water purifier products. We have been enhancing our intelligent production capacity for our water purifier products and we plan to gradually move to in-house production.

Smart Home Business Overseas

In addition to China, we also offer our users in other countries and regions of the world with a full spectrum of home appliance products and value-added services.

As at the Latest Practicable Date, we provide home appliance products and value-added services to over 160 countries and regions including North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa, and jointly form smart home solutions.

We started from China with a global vision. Back in 1997, the official engagement of our local sales channel in Germany marked our debut in international markets. At this early stage, we exported and distributed our Haier brand quality products overseas and started our market penetration and grew brand awareness.

In 1999, we established a Haier factory in South Carolina, USA, which marked the beginning of our localised globalisation strategy. Not being satisfied with simple product export and sales, we established local factories overseas to be closely connected and tailored to the local markets. We developed a "3-in-1" strategy for our overseas business, whereby R&D, manufacturing and distribution are all consolidated and localised. We believe that our localised efforts and investments are essential to our sustainable and long-term development in the overseas market. As at 30 June 2020, we had eight research centres, 46 factories and nearly 130,000 points of sales in our overseas markets.

Deeply rooted in the local markets overseas, we further strengthened our smart home business overseas by cross-border acquisitions and benefit from a comprehensive brand portfolio targeting at differentiated market segments across the world. In 2015, we acquired Haier Group's overseas white goods business, including Sanyo Electric Co., Ltd.'s white goods businesses in Japan and Southeast Asia with the brand AQUA. In 2016, we acquired GE Appliances, the second largest major home appliances company in the United States by retail volume in 2015, further enhancing our strong foothold in the U.S. market and global presence. In 2018, we acquired from Haier Group Fisher&Paykel, a New Zealand-based luxury home appliance brand, which we have been managing since 2015 under a trust arrangement. In 2019, we acquired Candy, a leading IoT home appliance provider in Europe, further broadening our brand portfolio and market coverage, and accelerating our expansion in Europe and worldwide. The completion of these acquisitions transformed us from a leading major home appliance manufacturer to an operator of globally renowned household brands.

We are committed to maintaining our leadership in the major home appliance industry in the era of IoT. Capitalising on our empowering and well-recognised *RenDanHeYi* management model, and extensive global resources in terms of user reach, R&D capabilities, digital infrastructure, supply chain, sales network, marketing resources and experiences in international expansion, we are able to effectively motivate our people across various regions and various business units on a coordinated basis.

Our market leadership is demonstrated by our high market shares in different markets. According to Euromonitor, in 2019,

- we ranked first in terms of retail volume in major home appliance market in Asia, with a market share of 18.6%;
- we ranked second in terms of retail volume in major home appliance market in North America, with a market share of 22.0%;
- we ranked second in terms of retail volume in major home appliance market in Australia and New Zealand, with a market share of 13.4%;
- we ranked third in terms of retail volume in major home appliance market in the Middle East and Africa, with a market share of 8.4%; and
- we ranked fifth in terms of retail volume in major home appliance market in Europe, with a market share of 7.2%.

As part of our globalisation strategy, subsequent to the listing of our A shares on the Shanghai Stock Exchange in 1993, we listed our D shares on the China Europe International Exchange (CEINEX D-Share Market) through admission to trading on the regulated market (regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) in 2018.

In 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, revenue generated from our smart home business overseas segment was RMB69.9 billion, RMB74.9 billion, RMB92.4 billion, RMB45.7 billion and RMB45.9 billion, respectively, representing 45.4%, 42.2%, 46.7%, 47.0% and 47.9%, respectively, of our total revenue in the corresponding periods. During the Track Record Period, capital expenditures on our overseas markets (excluding the expenses related to overseas acquisitions) amounted to an aggregate of approximately RMB10.1 billion.

North America

In North America, we primarily operate our business under the GE Appliances brand (including its sub-brands, including Monogram, Café, GE Profile and Hotpoint) as well as products under our Haier and Fisher&Paykel brands. In North America, GE Appliances brand covers market segment from mass to luxury market and targeted market. Such a full coverage is further supported by our Fisher&Paykel brand in the luxury market and our Haier brand in the mass market. According to Euromonitor, in 2019, in terms of retail volume, we ranked second among major appliance companies in North America, with a market share of 22.0%. The featured products we sell in North America include refrigerators, freezers, kitchen appliances, air-conditioners, washing machines, dryers, water purifiers and water heaters.

Europe

In Europe, we primarily operate our business under our Candy brand (including its sub-brands, such as Hoover, Rosieres, Baumatic, Iberna, Otsein, Susler and Zerowatt) as well as products under our Haier, Fisher&Paykel and GE Appliances brands. Before 2019, we mainly operated in Europe through our Haier brand. Since our acquisition of Candy in 2019, we have turned Candy profitable, and effectively integrated the Candy brand and the existing Haier brand to become one of the leading major home appliances companies in Europe. In Europe, we position Candy brand towards mass market. We are also supported by Fisher&Paykel brand in the luxury market and GE Appliances and Haier brands in high-end market. According to Euromonitor, in 2019, in terms of retail volume, we ranked fifth among major appliance companies in the Europe market, with a market share of 7.2%. The featured products we sell in Europe include washing machines, driers, refrigerators, freezers, cleaners, and kitchen appliance.

South Asia

In South Asia, we primarily operate our business under our Haier brand. Our operations in South Asia cover primarily India and Pakistan. In South Asia, we position Haier brand towards the mass to high-end markets. According to Euromonitor, in 2019, in terms of retail volume, we ranked fifth among major home appliances providers in India, with a market share of 6.1%.

Australia and New Zealand

In Australia and New Zealand, we primarily operate our business under the Fisher&Paykel brand (including its sub-brands, such as DCS) as well as under our Haier brand. In Australia and New Zealand, we position Fisher&Paykel brand towards high-end to luxury market, which is supported by our Haier brand in the mass markets. According to Euromonitor, in 2019, in terms of retail volume, we ranked second among major appliances companies in Australia and New Zealand, with a market share of 13.4%. The featured products we sell in Australia and New Zealand include kitchen appliances, refrigerators, freezers, washing machines and dryers.

Southeast Asia

In Southeast Asia, we primarily operate our business under our Haier and AQUA brands. Our operations in Southeast Asia cover major markets such as Thailand, Indonesia and Vietnam. In Southeast Asia, we position our Haier brand towards the mass markets, which is supported by our Fisher&Paykel brand in high-end to luxury market.

Japan

In Japan, we primarily operate our business under our AQUA brand as well as under our Haier, Fisher&Paykel and Candy brands. In Japan, we position AQUA and Haier brand towards the mass markets, which is supported by Fisher&Paykel brand in high-end to luxury market. The featured products we sell in Japan primarily include washing machines, refrigerators, freezers, and small home appliances.

Middle East and Africa

In Middle East and Africa, we primarily operate our business under our Haier brand as well as under our GE Appliances brand. In Middle East and Africa, we position Haier brand towards the mass to high-end markets, as supported by our GE Appliances brand in the high-end to luxury markets.

Other Business

Besides our smart home solutions business in China and our smart home solutions business overseas, we also engage in other businesses such as parts and components, small home appliances and distribution services business. In 2017, 2018 and 2019, and six months ended 30 June 2019 and 2020, revenue from other business was RMB8.0 billion, RMB17.7 billion, RMB21.0 billion , RMB9.5 billion and RMB11.3 billion in revenue, respectively, representing 5.2%, 10.0% , 10.6% , 9.7% and 11.8% of our total revenue in the corresponding periods.

In addition to the provision of smart home solutions, we also expanded our business to cover, among other things, parts and components, small home appliances and distribution services business. Our parts and components business primarily involves procurement, manufacturing and sales of ancillary parts and components, and manufacturing and sales of moulds. Small home appliances business primarily involves design, outsourced manufacturing to third parties and sales of various small home appliances of our brands, to enrich our products for smart home solutions business. Distribution services business primarily involves distribution of televisions, consumer electronic products and others for Haier Group and other third parties, leveraging our extensive sales network.

MANAGEMENT MODEL

RenDanHeYi: Our Management Model

Our *RenDanHeYi* management model is pioneered by our management team, which is the driving force for our self-motivating and empowering corporate culture. As "Ren" refers to employees who have the spirit of entrepreneurship and innovation, and "Dan" refers to the value created for users, the management model of *RenDanHeYi* encourages employees to generate value for users with an entrepreneur mindset, and realise their self-value aligned with the value of our Company and the value for the shareholders. Through an iterative process of experimentation and learning, the *RenDanHeYi* management model lays a solid foundation for our relentless pursuit for people empowering, and maximises the value for our people, shareholders, and ultimately, for our users.

By nature, our *RenDanHeYi* management model is self-evolving and can be easily introduced and adapted to different environment and endure changes. It encourages employees to proactively discover areas where value of users can be created and generate their own "Dan" (meaning literally orders or missions in Chinese), instead of being assigned with specific tasks in traditional management models. In the process of completing such tasks, generating value for users and being directly accountable to users, employees are empowered with decision-making rights, manpower allocation rights, and resource allocation rights. Roles of senior management are reversed in our *RenDanHeYi* management model compared to traditional management model – under our *RenDanHeyi* management model, senior management serves more as a supportive and collaborative role rather than a centralised directing and commanding role. In this way, our *RenDanHeYi* management model effectively destructs corporate bureaucracy, promotes innovation and efficiency, and has been studied by various companies and research institutions.

Expansion of our *RenDanHeYi* Management Model

Our *RenDanHeYi* management model lays a solid foundation for our continuous business development and has been replicated, with adjustment tailored to different markets and culture, to cover our operations overseas. Subsequent to our acquisition of GE Appliances in 2016, we introduced and applied the *RenDanHeYi* management model in GE Appliances, which enabled GE Appliances' robust development. Our *RenDanHeYi* management model has also been adopted in our Fisher&Paykel business, which has enabled coordinated R&D efforts and synergised business development, such as the development of Fisher&Paykel's front-load washing machine. Our adoption of the *RenDanHeYi* management model subsequent to our acquisition of Candy has helped to stabilised potential disruption arising out of the acquisition and achieved stable increased sales, despite the slow growth in European market. The traditional life-time employment and seniority-based salary system of Sanyo was transformed into our incentive-based, micro-unit-comprised *RenDanHeYi* management model so that the incentive of the employees are better aligned with the company.

Our *RenDanHeYi* management model has successfully aligned the interests of our employees with interests of our Company and our shareholders, and as a result, has significantly enhanced our efficiency in production.

SALES AND CUSTOMERS

Our Sales Networks

We have established an omni-channel sales network to better serve our users. We manage to leverage and achieve capitalising on the integrated online and offline channels, synergies between our broad network of franchised stores and the national and regional footprint of our third party retail partners, and achieve full-spectrum coverage of the domestic markets of all tiers. Through our user-centric omni-channel sales network, we strive to achieve close interaction with our users and provide our users with a convenient shopping experience. We tailor our sales and marketing strategy to the specific features of the domestic market in China and the international markets we operate in.

Our widespread global sales network echoes our global brand strategy. As at 30 June 2020, our sales and marketing team spread across 108 of our sales centres across the world, including 42 in China and 66 overseas. Our sales and marketing team are responsible for overseeing and managing our relationships with our global sales network. We also maintain approximately 18,000 customer services centres across the world, including approximately 10,000 in China and approximately 8,000 overseas.

The table below sets forth revenue contribution from our major sales channels during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	% of total revenue	% of total revenue	% of total revenue	% of total revenue
China	53.7%	56.5%	52.5%	50.9%
Offline	42.4%	40.7%	35.0%	30.3%
Franchised stores	22.7%	24.7%	20.3%	18.1%
National chain stores	8.7%	8.5%	8.2%	6.2%
Regional chain stores	10.2%	6.0%	5.2%	4.3%
Other channels(1)	0.8%	1.5%	1.3%	1.7%
Online	8.5%	7.9%	8.9%	11.5%
B2B2C	3.8%	3.9%	4.5%	6.9%
B2C / Haier Smart Home App	4.7%	4.0%	4.4%	4.6%
Others(2)	2.8%	7.9%	8.6%	9.1%
Overseas	46.3%	43.5%	47.5%	49.1%

Notes:

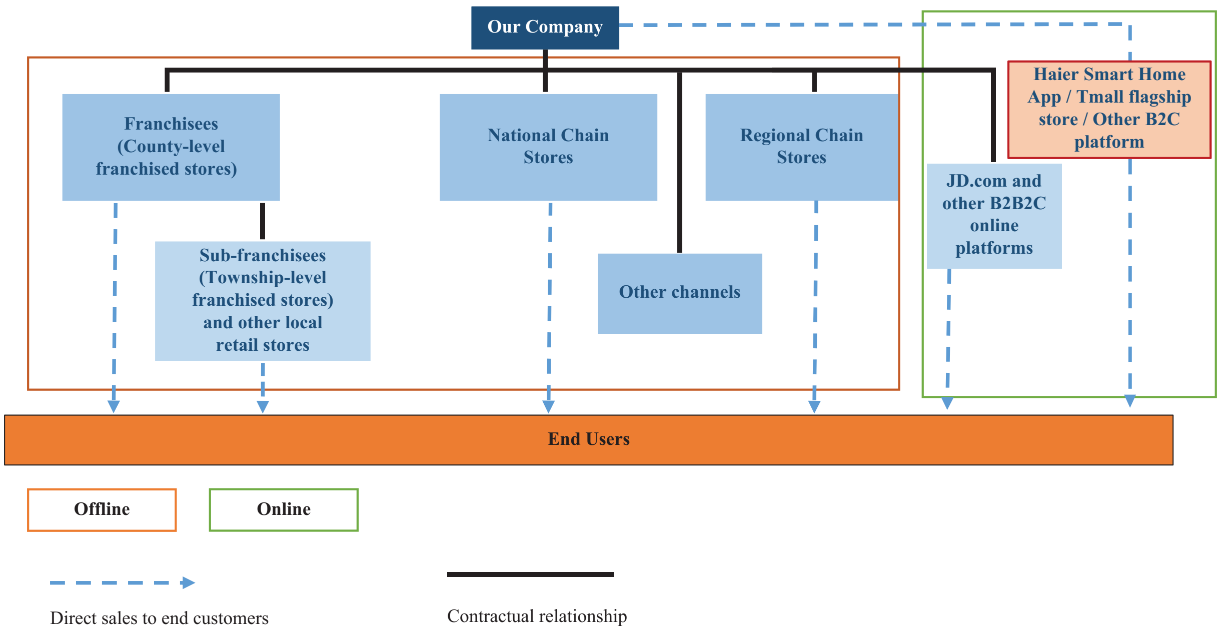
(1) "Other channels" primarily refers sales to our business partners, such as real estate developers, to fit out their real estate projects.

(2) "Others" refers to revenue that cannot be categorised under any sales channels in China, primarily covering revenue from our other businesses segment.

China

In China, we serve our customers through a comprehensive omni-channel sales network consisting of offline and online channels. As at 30 June 2020, our offline sales and distribution network in China primarily consists of the following: (i) our franchised stores and their extended sales network, (ii) national chain store retailors (being Suning, GOME and Wuxing), (iii) regional chain store retailors, and (iv) other sales channels selling to our business partners. We also offer our products through online channels including: (i) directly selling to end-customers through our own Haier Smart Home App or B2C platforms such as our flagship store on Tmall.com, and (ii) selling our products to B2B2C channels such as JD.com. As at 30 June 2020, our products have been sold in over 7,000 county-level franchised stores that are able to provide full-suite smart home products and solutions, over 3,000 county-level franchised stores that are focusing on selected product lines, over 14,000 township-level franchised stores and nearly 9,000 local retail stores at township-level.

The chart below sets forth our major offline and online sales channels in China.



National Offline Sales Network

In China, our product are available at national chain stores, including Suning, GOME and Wuxing, which have an extensive network of points of sale across China. In this way, we effectively established our national presence and extensive customer reach.

We generally enter into framework sales agreements with these national chain stores on an annual basis which sets forth the target retail volume, pricing policy and payment and credit terms. These national chain stores will normally place orders with us for all of their nationwide and online stores on a weekly basis based on a forecast of their nationwide orders to enable our production facilities to arrange the production schedule accordingly. The credit period we grant these national chain stores normally do not exceed 30 days. We may exceptionally agree a mechanism with some of our national chain stores to repurchase goods that have not been sold within a few months, considering factors such as product type, seasonality and market competition, on a case by case basis. If such national chain stores choose to retain such products, we may provide additional sales promotion support, including retail price discount not exceeding a pre-agreed percentage, to such national chain stores. We are cautious on such a repurchase and discount arrangement, and generally do not allow such an arrangement and will renegotiate such arrangement as necessary. During the Track Record Period, there had been no instances that the repurchase arrangement were activated. Other than for quality issues, we generally do not permit any return or exchange of the products we sell to them. We have established long-term relationships with these national chain stores and our relationship with them have remained stable.

Regional Offline Sales Network

In addition to the national offline sales network through these national chain stores, we also established our regional offline sales network through franchised stores and regional chain stores, to better manage and implement localised and targeted sales strategies.

(i) Franchised Stores

Through our franchisees and sub-franchisees, an extensive network of Haier franchised stores has been established on a nationwide basis in China. We typically engage our franchisees at county-level. Our franchisees are allowed to sub-franchise and extend our sales network to township-level. All Haier franchised stores are required to exclusively sell our products. To effectively reach rural areas in China and raise consumer awareness of our products, our franchisees may also sell our products to local retailors, who are not required to sell our products exclusively. As at 30 June 2020, we have a network in China of over 7,000 county-level franchised stores that are able to provide full-suite smart home products and solutions and over 3,000 county-level franchised stores that are focusing on selected product lines. Through our franchisees, they also developed over 14,000 township-level franchised stores and nearly 9,000 local retail stores at township-level.

We began building our franchise (including sub-franchise) model since the 1990s and it has been an asset-light and cost effective approach to reach a diverse customer base, and to capture opportunities in both urban and rural China. Through our extensive network of Haier franchised stores managed by both our franchisees and their sub-franchisees, we have been able to gain and maintain brand recognition for our evolving portfolio of brands. By engaging local franchisees directly, we have been able to better monitor the manner in which our products are marketed, thereby allowing us to timely react to changes in consumer preferences and market demand. By allowing our franchisees to sub-franchise, we believe that our sales network can be extended more efficiently and effectively, with in-depth knowledge and expertise in the local markets. Our franchised stores are required to exclusively sell our branded products. As such, through our franchised stores, we are able to provide consumers with the demonstration, design, sales and service provision of integrated full-suite smart home solutions, providing consumers with first-hand experience of how our smart home solutions may bring them a better life. We believe, and as advised by Euromonitor, such franchise model involving franchisees and sub-franchisees is in line with the industry norm in China.

Selection and assessment criteria for our franchisees

We select our franchisees based on a number of criteria, including, among others, their retail experience, marketing capabilities and financial condition. We permit our franchisees to sub-franchise based on generally the same set of criteria.

We evaluate the sales performance of our franchisees pursuant to the pre-agreed performance targets. Those franchisees who cannot meet the pre-agreed performance indicators and are no longer able to help us with competing effectively in the evolving market may be gradually phased out.

Arrangements with our franchisees

We enter into franchise agreements with our franchisees. They directly purchase products from us and are our customers. Our franchisees typically further enter into agreements with their sub-franchisees, and we normally do not enter into franchise agreements or directly establish relationships with the sub-franchisees. Accordingly, we have limited control over the sub-franchisees and we rely on our franchisees to manage and control the sub-franchisees. We control and manage our franchisees primarily through our contractual relationships with them. In limited circumstances, for example, for certain sales events or promotion activities, we may take this opportunity to directly communicate with sub-franchisees and provide some training to help them better understand our product features and marketing strategies. We may also enter into tripartite agreements with our franchisees and their sub-franchisees, usually on an *ad hoc* basis. We usually do not have an active role in, or generate any revenue from, these tripartite agreements. We consider them more as an opportunity to establish direct connection and interaction with the sub-franchisees, as part of our efforts in managing and monitoring our franchisees and sub-franchisees, as well as facilitating and promoting their sales and service improvements. With the support of our online B2B order platform made available to our sub-franchisees, our sub-franchisees can also enter into sales promotion arrangement with us directly if they want to participate in our sales promotion programmes. We believe that the direct connection and interaction with the sub-franchisees generally enhance our monitoring of their performance and facilitates their sales and services improvements.

We control channel stuffing risks among our franchisees through the franchise agreements we entered into with our franchisees, and relevant management policies. To mitigate potential stuffing in the channel, we adhere to our product return policies and generally do not allow product return for reasons other than product quality issues. We generally do not set a minimum purchase requirement for the amount of products our franchisees purchase from us, and we keep track of the sales performance of our franchisees through our Jushanghui and Yilihuo system to detect potential channel stuffing issues.

We provide recommendation on pricing policies as well as support on sales and marketing to all our franchised stores. We expect our franchisees to manage all franchised stores (including those of their sub-franchisees) based on generally the same set of requirements that we impose. Through our B2B order and inventory management online platforms, we are able to monitor, among other things, the sales performance and inventory level of our franchised stores at different level.

For other local retailors who directly purchased our products from our franchisees, we normally do not establish any direct relationship with them and have no control over them. They are not required to sell our products exclusively, and we rely on our franchisees to manage them. We use these local retailors as a useful tool to establish close and convenient connection with our end customers.

The following sets forth the salient terms of our franchise agreement:

- The franchisees should have the capacity to provide the retail-end customers with one-stop service, including sale, design, delivery, instalment and maintenance.
- We usually arrange delivery of products upon receipt of full payment from the franchisees. Typically, the product ownership shall be transferred to the franchisees upon delivery, except that we shall retain the product ownership if we have not received full payment.

- The franchisees are not allowed to procure products from channels other than those designated by us.
- The franchisees are allowed to sub-franchise, and are required to manage its sub-franchisees. If sub-franchisees fail to pay liquidated damages for their misconducts, the franchisees undertake joint liabilities. If sub-franchisees are disqualified, franchisees are required to recover all inventories from such disqualified sub-franchisees or undertake joint liabilities.
- The franchisees are not allowed to use our trademarks or logos unless otherwise authorised by us.
- Other than return of goods due to quality issues, we generally do not permit any return or exchange of the products we sell to the franchisees.
- The franchisees are allowed to sell in designated region only and cross region sale is forbidden.
- The franchise agreement has an initial term of one year, and automatically renews annually unless terminated by either party.
- Either party can terminate the franchise agreement at will upon 30 days' notice in writing, and we can terminate the franchise agreement immediately if we find the franchisees are in breach of their obligations and fail to make adequate rectification measures.
- If the franchisees fail to sell our products in the manner required by us, the franchisees are accountable for such breach of contracts.
- We require our franchisees to comply with relevant economic sanctions laws and regulations.
- If a franchisee breaches the franchise agreement, we are entitled to demand liquidation damages and other compensations for our losses.

Store selection criteria

Leveraging their local knowledge, the franchisees and sub-franchisees select store location and manage the Haier franchised stores under our guidance. We provide guidance on store design and setup and marketing and promotion.

The table below set forth the total number of county-level franchised stores, managed by our franchisees, for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
As at the beginning of the period	4,655	5,249	9,137	9,775
Addition of new franchised stores	1,035	4,864	2,525	1,416
Number of franchised stores terminated during the period.	441	976	1,887	436
Net increase in franchised stores	594	3,888	638	980
As at the end of the period	5,249	9,137	9,775	10,755

Our franchisees may evaluate the sales performance of the franchised stores that they manage, and may close those franchised stores that cannot meet performance targets or relocate those franchised stores for anticipated improved sales performance. In 2017, 2018 and 2019 and the six months ended 30 June 2020, 441, 976, 1,887 and 436, respectively, of our franchised stores managed by our franchisees ceased to be our franchised stores. Reasons for such cessation primarily include: (i) poor business performance of the franchised stores, (ii) change of key business of the franchisees or personal reasons, and (iii) adjustment of our strategies in the sales network expansion. We have been promoting our development of the franchised stores and their extended network. We encourage our franchisees to open and manage more franchised stores to expand our sales network and become closer to our end users. In particular, we transformed some regional chain stores, which we believed have the potential to sell our branded products exclusively, to our franchised stores in 2018 for closer monitoring and management over them, which contributed partially to the net increase of our franchised stores in 2018. Subsequently, we made further adjustment in 2019 to terminate relationship with some franchised stores the performance of which was below our expectation.

Monitoring of sales and inventory

We monitor order, delivery, sales performance and inventory level of our franchised stores, primarily through our B2B order and inventory management online platforms. Our county-level franchised stores place orders directly with us through Jushanghui ("巨商匯"). Our township-level franchised stores place orders with our county-level franchised stores through Yilihuo ("易理貨"). We have full access to Jushanghui and Yilihuo and monitor ordering status of our franchised stores.

We also monitor sales performance and inventory level of our franchised stores through E-store platform and Cloud Bookkeeping ("雲記帳"). While E-store platform is for our county-level franchised stores, Cloud Bookkeeping is for our township-level franchised stores, so that information of sales performance and inventory level can be collected, consolidated and monitored at different level.

Our B2B online platforms aim to ensure information transparency between us and our franchised stores, and considerably reduce management cost for both us and our franchisees.

We deliver our products directly to our county-level franchised stores or destinations that they specify. Our unified warehousing and distribution system allows us to distribute products directly to township-level franchised stores and retail stores at township-level, as a result of real-time information sharing on cloud-based online platforms, even though township-level franchised stores and retail stores at township-level do not place orders with us directly.

Capitalising on comprehensive management of franchised stores from order taking, inventory control and efficient delivery, we can effectively manage our extensive network of franchised stores and their extended sales network.

(ii) Regional Chain Stores

To a lesser extent, we sell our products through a network of approximately 400 regional chain store retailors. These regional chain store retailors purchase our products directly and primarily sell to retail consumers. We are able to leverage the local coverage of these regional chain stores to reach consumers at the city-level in China. We manage our relationships with these regional chain stores through our sales and marketing team.

We generally enter into framework sales agreements with these regional chain store retailors on an annual basis which sets forth the target retail volume, pricing policy and payment terms. These regional chain stores will normally place orders with us on a weekly basis. We typically do not grant these regional chain stores credit period and other than return of goods due to quality issues (subject to a capped amount), we generally do not permit any return or exchange of the products we sell to them.

We have established our V58 and V140 clubs with some of the larger regional chain stores that we consider to be our strategic alliance partners. Considering various criteria, such as revenue, product coverage and promotion, each evaluated in relation to our products, as well as overall sales venue, reputation, information sharing system accessible by us and sales prospects of these regional chain stores, we carefully choose these regional chain stores as our club members. Our V58 and V140 club members are served and managed by our sales and marketing teams at our headquarters. We provide favourable treatments to our club members including, among other things, provision of special edition of products and demonstration products, higher caps for return of goods for quality issues, promotion events, and sales personnel training, in order to cultivate and promote user habits of purchasing full-suite smart home appliances and repeat purchases. We evaluate the performance of our club members regularly to decide if they can stay as our club members and enjoy our favourable treatments.

Other Offline Channels

We also sell our products to our business partners primarily within related industries in the real estate, home refurbishment, and construction materials businesses. For example, capitalising on our full-suite capabilities of product manufacturing, delivery, installation and after-sales services, we also sell our products to property developers to fit out their real estate projects. Through such capabilities, we are able to expand our sales channels, interacting with a wider group of potential consumers and enhancing the breadth and depth of our sales network.

Online Sales Channels

Our online sales channels in China primarily consists of (i) our self-operated B2C online platforms such as Haier Smart Home App and our Tmall.com flagship store, and (ii) third party B2B2C platforms such as JD.com. We have maintained good collaborative relationship with these e-commerce companies. With respect to the B2C online platforms, we directly sell our products to end-customers through such platforms which may charge a commission from us. With respect to the B2B2C platforms, we generally sell our products to such online platform who then on-sell our products to end customers.

We have actively run and promoted our online e-commerce platform, Haier Smart Home App, where we sell our products as one of its functions. As a one-stop online platform for the purchase of various appliances under our product portfolio, our Haier Smart Home App enables consumers to experience the customised, full-suite, integrated smart home solutions based on our products that addresses their needs. Users can use our Haier Smart Home App as the gateway to interact with their home appliances. Users can adopt the pre-set smart home lifestyle scenarios on the App, such as leaving home, coming home, getting up, and going to bed, so that the connected smart home appliances can work automatically to the pre-set orders. Users can also design their own lifestyle scenarios tailored to their personalised preferences. Our smart home appliances can also collect user's personalised needs and habits to provide customised smart home solutions. In addition, our Haier Smart Home App can provide other comprehensive services, such as voice control, maintenance and repairment services, as well as after-sale services. From the end of 2017 to the end of 2019, the aggregate number of registered users at the predecessor version of our Haier Smart Home App rapidly increased from 2.24 million to 18.88 million, with a CAGR of 190.3%. We formally launched the current version of our Haier Smart Home App in December 2019 with enhanced function, with MAU of 4.29 million in June 2020. In comparison to its predecessor version, which served more like a remote control of various home appliances, the current version of our Haier Smart Home App improved its user interaction functions as mentioned above, and redesigned its user interface, to realise more customised interaction between users and home appliances.

In recent years, we expanded the range of products available to customers via online channels to address the increasing demands and diversified preferences through online shopping. Our online sales have evolved from focusing on budget products with lower prices, to a strategy that enables consumers to access our products across all price and value range online. For products with the same specifications, the price of such products is generally the same whether online or offline. Currently, our e-commerce sales channels encompass a full-scale layout covering a broad portfolio of product categories from mid- to high-end. We have also meticulously created high-quality content to expedite the promotion of our brand image, and we have utilised data tools to achieve closer interaction with and more convenient accommodation for our users. Such measures enhanced the operating efficiencies of our online sales channels and strengthened the competitive edge of our omni-channel sales network.

Online shopping in China has been rapidly growing in recent years. Particularly, the COVID-19 pandemic may have created another opportunity for the booming online shopping scene, given people are encouraged to stay home and remain socially distanced. We have increased our resources on online shopping, leveraging various digital platforms we have, such as our Haier Smart Home App, as well as social medias and livestreaming. In the six months ended 30 June 2020, revenue contribution from our online sales in China increased to approximately 11.5% of our total revenue for the same period, compared to approximately 8.9% in 2019.

Pricing

Our ability to price our products at desired levels has been, and will continue to be, important to our results of operations. Generally, when we sell to our customers, we set a benchmark price for a given product, which is subject to adjustments reflecting the local competitive environment or nature of the particular sales channels. We determine our benchmark prices, considering a variety of factors, such as product positioning, production costs, dynamics of market demand and supply, spending patterns of target consumers and competitive landscape. We may also make benchmark price adjustments depending on different sales channels and target geographical markets. We endeavour to make timely adjustments to our benchmark prices in the event of fluctuations in raw material prices and other factors to maintain our profitability.

BUSINESS

We provide our retailors, franchisees and sub-franchisees with suggested retail pricing policies of our major products. Our retailors, franchisees and sub-franchisees are required not to take actions that may materially disrupt the retail prices of our products. Our sales management team may conduct market research and review on the retail price of our products and adjust our pricing policies as necessary.

The following table sets forth the indicative retail price ranges for certain major products under our major brands sold in China:

Refrigerators and Freezers

BCD-611WDIEU1
RMB15,999
(Haier brand, mass market)

BCD-509WDIFU1
RMB12,999
(Haier brand, mass market)

BCD-520WDCAU1
RMB20,000
(Casarte brand, high-end market)

BCD-520WICHU1
RMB15,000 to RMB20,000
(Casarte brand, high-end market)

LC-192WU1
RMB6,699
(Casarte brand, high-end market)

BC/BD-519HEM
RMB3,299
(Haier brand, mass market)

Laundry Appliances

C9 HB13/17U1
RMB100,000
(Casarte brand, high-end market)

C8
HD13P2U1
RMB22,000
(Casarte brand, high-end market)

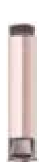
Smart C1
HD12P6CLU1
RMB16,000
(Casarte brand, high-end market)

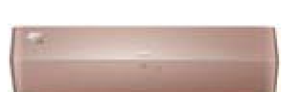
Yiren MW100-BD996U1
RMB7,999
(Haier brand, mass market)

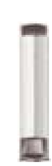
Ronghe CP01 120U1
RMB20,000
(Casarte brand, high-end market)

Qianglibo C807 100U1
RMB7,399
(Casarte brand, high-end market)

Household air-conditioners



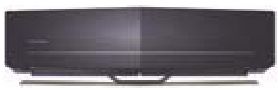




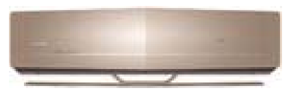
KFR-72LW/01AAA81AU1
RMB17,999
(Haier brand, mass market)

KFR-35GW/01AAA81AU1
RMB6,000~7,000
(Haier brand, mass market)

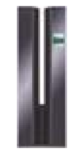
KFR-72LW/01ABA81AU1
RMB11,000~13,000
(Haier brand, mass market)



CAS365WAA(A1)U1
RMB9,000~11,000
(Casarte brand, high-end market)



CAS365WBA(A1)U1
RMB6,600~8,000
(Casarte brand, high-end market)



CAP725WBA(A1)U1
RMB22,000~25,000
(Casarte brand, high-end market)

Water Heaters

Cooper5
RMB3,400-4,000
(Haier brand, mass market)

CEH-70SPA5(U1)
RMB7,000-9,000
(Casarte brand, high-end market)

CRT11
RMB10,000-15,000
(Casarte brand, high-end market)

Tianjing B1 Split
Above RMB16,000
(Casarte brand, high-end market)

Sales rebate

We may provide retrospective sales rebates to our customers once their value of products purchased from us during the period exceeds a pre-set target specified in the sales agreement. Rebates are offset against amounts payable by such customers. As at 31 December 2017, 2018, 2019 and 30 June 2020, our refund liabilities corresponding to the sales rebate were RMB1,332 million, RMB1,357 million, RMB1,695 million and RMB1,695 million, respectively.

Relationship with our franchisees, national chain stores, regional chain stores and online B2B2C platforms

To the best of our knowledge, all of our franchisees, national chain stores, regional chain stores and online B2B2C platforms are Independent Third Parties. Our relationship with our franchisees, national chain stores, regional chain stores and online B2B2C platforms is in essence a buyer and seller relationship. They are our customers and they do not act on our behalf when dealing with their respective end customers, and we have no management control over their daily operations or their inventories level. Our franchisees, national chain stores, regional chain stores and online B2B2C platforms place orders with us when and to the extent they deem appropriate. In general, our relationships with our major franchisees, national chain stores, major regional chain stores and major online B2B2C platforms have remained stable.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge there was no material non-compliance with the terms and conditions of our agreements with them. See "Risk Factors — Risks Relating to Our Business and Industry — We rely on large third-party online and offline retailors to sell certain of our products." and "Risk Factors — Risks Relating to Our Business and Industry — We have an extensive sales network at county-level and township-level through franchisees and sub-franchisees in China. Our failure to maintain and expand our network of franchised stores or maintain control over our franchisees could negatively impact our business, financial condition, results of operations, and prospects."

Overseas

Our overseas sales are made mainly through our overseas subsidiaries and associates, which then establish direct sales relationship with local sales channels. Since the early stage of our overseas expansion, we have been focusing on establishing our local sales channels and connections. As our geographical coverages expands over the years, we carefully tailor our sales strategies and channels to different markets, considering factors such as consumer behaviours and preferences, local competition and penetration, political and economic environment.

The following table sets forth the percentage revenue contribution from each of our major overseas markets during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue
Major Overseas Markets					
North America	30.6	29.7	29.3	28.5	30.8
Europe	2.1	2.3	7.7	7.4	7.0
South Asia	3.1	3.4	3.2	4.4	2.8
Australia and New Zealand	3.3	2.8	2.7	2.6	2.6
Southeast Asia	2.5	1.8	1.9	2.0	2.2
Japan	1.8	1.7	1.6	1.6	1.9
Middle East and Africa	0.7	0.5	0.6	0.7	0.8

The following table sets forth the percentage revenue contribution by product type for the periods indicated:

	Year ended 31 December			Six month ended 30 June	
	2017	2018	2019	2019	2020
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue
refrigerators/freezers	34.9	33.7	31.3	31.0	30.7
kitchen appliances	30.1	29.4	29.6	27.6	27.6
air-conditioners	11.1	12.1	10.4	14.6	13.4
washing machines/dryers	20.4	21.3	25.0	23.4	24.9
others	3.6	3.6	3.7	3.4	3.4

The North American and European markets have traditionally been our focus in the overseas markets. We started engaging local sales channel back in 1997 in Germany and set up our overseas factory in the United States in 1999. During the Track Record Period, North America and Europe were our two largest overseas markets. With our integrated global operation, we are able to coordinate our resources among different markets and replicate successful experiences.

Retail channel has traditionally been and continue to be the mainstream channel for home appliances industry in the global market. Particularly, home appliances retail stores, e-commerce platforms and hyper or super markets are the three largest sales channels for the global home appliances market. Consistent with this trend, during the Track Record Period, a substantial part of our overseas sales were made through local retailors.

To effectively grow our brand awareness, and provide our users with convenient shopping experiences, as at 30 June 2020, our overseas sales network covered nearly 130,000 points of sales, primarily through our retailers who possess extensive network of points of sales.

North America

In North America, we primarily sell our products through large retailors, such as Home Depot, Lowe's, Walmart and Best Buy. To a lesser extent we sell our products through local retailors, such as regional chain stores, and local home appliance retail stores. In addition to sales through retailors, capitalising on our full-suite capabilities of product manufacturing, delivery, installation and after-sales services, we also sell our products to property developers to fit out their real estate projects. We do not engage local distributors or wholesalers to distribute our products in North America.

To capture the opportunities from online sales development in the U.S. market, we also sell our products through online channels, such as our GE Appliances website, and e-commerce platforms like amazon.com.

In the North America market, we select our retailors based on various factors such as market share, market positioning, abilities to reach various consumer population, and reputation of the customers. To maximise the reach of our products to consumers, we strategically cover various major offline and online channels that have leading market shares and established reputation among consumers, to ensure that our products are able to realise broad coverage of the entire consumer population. We may grant a credit period, which generally ranges from 30 to 105 days, to some of our major retailor customers depending on various factors including credit history and business relationship. We believe that such practice is in line with general market practice and is consistent with our general sales strategies.

We have established stable business relationship with our retailors and other customers. We have maintained good collaboration with them through various kinds of branding, sales, marketing and promotion activities, which not only enhanced the sale of our products, but also promoted our brand recognition among the consumers covering various demographical groups in the North America. We also believe that such activities strengthened our relationship with our customers in the North America.

We enter into framework sales agreements with our retailors, which usually provide, among other things, price protection mechanism, product quality warranty, product return mechanism and credit term.

i	Duration	Initial term of one year and automatically renew for successive periods of one year unless either party gives the other written notice to the contrary at least 30 days prior to the scheduled date of renewal. In certain circumstances, we might agree to transact with certain retailers on purchase order basis. The agreements may generally be terminated upon mutual consent.

ii	Geographic allocation	Usually a non-exclusive licence to distribute all products to end-users and commercial buyers.
iii	Sales and pricing policies	Sell at the prices in effect on current price list or as otherwise agreed between the parties.
iv	Risk transfer	Typically FOB destination unless expressly agreed in written.
v	Quality, buy-back and return	Return for full credit or refund if (1) an allegation is made that the use of products infringes proprietaries or IP rights; (2) did not meet industry standards and/or applicable laws/policies/regulations; (3) shipped in error or non-conformance; (4) product recall; and (5) damaged in shipment from us to the retailers.
vi	Minimum purchase requirements	We do not set minimum purchase requirements for retailors.
vii	Payment and credit terms	Retailors will pay amounts due pursuant to the credit terms agreed by both parties.

Europe

In Europe, our principal sales channels are similar to those in the United States, covering retail stores and e-commerce platforms. We sell our products to large retailors, such as M.video in Russia, Currys in the UK, Darty in France, MediaMarktSaturn in Germany, and Unieuro in Italy. We also sell our products to individual or consortium local retailors, such as home appliance retail stores and hyper or super markets. In addition, we sell our products to e-commerce platforms, such as amazon.com and ao.com. Similar to our approach in the North America, we also strategically select our retailors in Europe based on various criteria including market share, market positioning, and reputation of the customers, in order to maximise the reach of our products to consumers. We maintain stable business relationship with our online and offline customers. We do not engage local distributors or wholesalers to distribute our products in Europe.

Compared to offline channels, we place more focus on our sales to online channels in Europe, considering its relatively advanced information infrastructure and established online shopping habits. We have collaborated with our major online platforms in Europe to launch various sales and marketing activities, including positioning our products at more prominent sections on their websites, to enhance our brand recognition and to facilitate the sales of our products.

Rest of the World

As at 30 June 2020, our products are sold in over 160 countries and regions, covering the North America, Europe, South Asia, Australia, New Zealand, Southeast Asia, Japan, Middle East and Africa, and other areas. In 2019, our overseas markets (other than the North American and European markets) in the aggregate contributed to approximately 10.5% of our total revenue for the same year, and none of these markets individually contributed to more than 4.0% of our total revenue for the same year.

In Japan, New Zealand and Australia, our sales channels primarily comprise large retailors, local stores, department stores and online channels.

In other markets to which we distribute our products, through our local subsidiaries and associates, we generally partner with local retailors and distributors to sell our products within those respective markets to generate sales and promote brand awareness for our products, without having to make a large investment in setting up our own stores. In limited circumstances, we sell our products through local distributors, whereby we will generally provide guidance to these local distributors in terms of branding, market positioning and sales promotion. Our practices may vary in different markets subject to the local conditions, such as business and political environment. With abundant local resources and valuable marketing experience, these local partners facilitate our penetration into and expansion in their local markets.

Management of Overseas Sales

We strategically select the overseas retailors we sell to. We factor in such retailors' market reputation, scale of operation, financial resources, credit worthiness, compatibility with our brand positioning, location of retail stores and points of sale, target customers, pricing and competitiveness in local markets. With the development of our business overseas over the years, benefitted from a comprehensive portfolio of world-renowned brands of home appliances, our retailors have strong confidence in us and are also generally very supportive during the introduction and promotion of our new products.

We have been actively developing online sales strategies and invest in digital advertising on the retailers' websites that we sell on, as well as on our websites.

We closely monitor the sales performance and level of inventories of our overseas distributors, and provide support to our overseas distributors covering areas such as product R&D, orders and marketing. We manage sales targets of our overseas distributors, and review our relationship with our major overseas distributors on a regular basis. We maintain a safety inventory level to ensure continuous production, with the level of which adjusted based on local market condition.

We do not have a substantial concentration risk with respect to any single retailor. This is because of our strong marketing investment and broad product portfolio. We aim to balance our retailor mix and avoid outsized concentration of any particular retailor.

Pricing

Similar to our practice in China, when we sell to our customers, we generally set a benchmark price for a given product, which is subject to adjustments reflecting the local market and sales consideration. We determine our benchmark prices, considering a variety of factors, such as market maturity, penetration rate, product positioning, production costs, dynamics of market demand and supply, spending patterns of target consumers and competitive landscape. Capitalising on our established local sales force, we may also make benchmark price adjustments to adapt to the local markets, considering factors such as our continued ability to differentiate our products from those of our competitors and realisation of price premium from brand value. We usually provide retail pricing policy suggestion to our retailors for their reference.

Relationship with our Retailors and Distributors

To the best of our knowledge, all of our retailors and distributors are Independent Third Parties. Our relationship with our retailors and distributors is not that of a principal and an agent. They are our customers and they do not act on our behalf when dealing with their respective end customers, and we have no management control over their daily operations or their inventories level. Our retailors and distributors place orders with us when and to the extent they deem appropriate. We monitor their sales performance and provide marketing guidance to them. Based on their sales performance, we may consider enhancing, weakening or even terminating our cooperation relationships with our retailors and distributors. In general, our relationships with our major retailors and distributors have remained stable.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge there was no material non-compliance with the terms and conditions of our retail agreements and distributor agreements. See "Risk Factors — Risks Relating to Our Business and Industry — We rely on large third-party online and offline retailors to sell certain of our products."

Previous Activities in Certain Comprehensive Sanctioned Jurisdictions

While we do not currently have any new business in Comprehensive Sanctioned Jurisdictions, we had previously exported some of our appliances to such countries, which we ceased to continue, and a trademark licensing arrangement with entities in those countries, under which we do not presently generate any revenue, is still outstanding. Revenue generated from our past sales of appliances to these countries accounted for less than 1.6% of our total annual revenue in any of the past five years, and less than 0.05% of our total revenue for 2019. Based on the information provided by us, our legal advisers believe that the Previous Activities (i) under the U.S. sanction regime, did not constitute primary sanctioned activities given that no U.S. jurisdictional elements were involved, and could not constitute secondary sanctionable activities as none of such activities was targeted under the then effective U.S. secondary sanctions measures; (ii) under the respective sanction regimes of the United Nations, European Union and United Kingdom, did not fall within the scope of activity specifically prohibited by such sanction regimes. In addition, because (i) our Company will not raise any proceeds from the Listing, and (ii) we do not currently have any new business in the Comprehensive Sanctioned Jurisdictions, neither OFAC nor the member states of the United Nations, European Union or the United Kingdom would have any basis or reason to assert that the Listing would fund or facilitate any of our Group's limited Previous Activities. As such, our legal advisers believe that (i) we did not incur any apparent or material sanctions risk from the Previous Activities, and (ii) participants would not violate any OFAC sanctions or engage in a sanctionable activity under U.S. secondary sanctions by participating in the Listing. See also "Risk Factors — Risks relating to Our Business and Industry — We conduct operations worldwide and are exposed to legal, regulatory, political, economic, commercial and other risks in each country in which we operate."

We also believe that our policies, procedures and controls have enabled us to comply with any applicable OFAC sanctions requirements. We have put in place sanctions compliance policies that require all of our employees to adhere to applicable sanctions laws and regulations. We have also put in place online sanctions training programme for our employees that was launched in 2019. Among other measures that we have taken to ensure compliance with international sanctions programmes, in our business dealings with external parties such as suppliers, franchisees, customers and agents, we employ a screening software to determine if the party is a sanctioned target. For existing business relationships, we re-examine the counterparties on a quarterly basis to confirm that they have not become sanctioned targets.

Branding and Marketing

Our branding and marketing objective is to strengthen our leadership position in China and to increase the profitability of our overseas sales, in all of our major product categories. A key strategy to realise this objective has been to further establish us as a leading provider of mid-range and high-end products both in China and in key developed markets such as the North America and Europe, and to strengthen our global brand image. To this end, we use targeted product and brand image marketing activities in our core markets, using high-precision marketing based on feedback received from our sales channels as well as those collected through our information management platforms.

Major Customers

During the Track Record Period, our five largest customers mainly included national chain stores and e-commerce providers. Revenue from our five largest customers for each of 2017, 2018 and 2019 and for the six months ended 30 June 2020 amounted to RMB31.8 billion, RMB36.8 billion, RMB40.3 billion and RMB20.4 billion, respectively, which accounted for approximately 20.6%, 20.7%, 20.3% and 21.3% of our total revenue during those periods, respectively. We believe that we have good relationship with our major customers.

During the Track Record Period, none of the Directors or Supervisors or the respective close associates or any Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest customers.

The tables below set out the details of our top five customers during the Track Record Period:

For the year ended 31 December 2017:

Customers	Revenue amount	% of total revenue
	(RMB in million)	(%)
Customer A, a major national chain store in China	7,548	4.9%
Customer B, a major retailor in North America	7,131	4.6%
Customer C, a major online platform in China	6,754	4.4%
Customer D, a major national chain store in China	5,291	3.4%
Customer E, a major retailor in North America	5,108	3.3%
Total	31,831	20.6%

For the year ended 31 December 2018:

Customers	Revenue amount	% of total revenue
	(RMB in million)	(%)
Customer A, a major national chain store in China	8,708	4.9%
Customer B, a major retailor in North America	7,773	4.4%
Customer C, a major online platform in China	7,570	4.3%
Customer E, a major retailor in North America	7,106	4.0%
Customer D, a major national chain store in China	5,639	3.2%
Total	36,797	20.7%

For the year ended 31 December 2019:

Customers	Revenue amount	% of total revenue
	(RMB in million)	(%)
Customer A, a major national chain store in China	9,605	4.9%
Customer B, a major retailor in North America	8,740	4.4%
Customer C, a major online platform in China	8,728	4.4%
Customer E, a major retailor in North America	7,349	3.7%
Customer D, a major national chain store in China	5,843	3.0%
Total	40,264	20.3%

For the six months ended 30 June 2020:

Customers	Revenue amount	% of total revenue
	(RMB in million)	(%)
Customer C, a major online platform in China	6,133	6.4%
Customer B, a major retailor in North America	4,413	4.6%
Customer E, a major retailor in North America	4,051	4.2%
Customer A, a major national chain store in China	3,768	3.9%
Customer D, a major national chain store in China	1,996	2.1%
Total	20,361	21.3%

AFTER-SALES SERVICE

We believe that the quality and timely availability of after-sales service are important competitive factors, as they are significant elements in overall customer satisfaction, and they shape a customer's purchase decision. Accordingly, we maintain a global customer service network for our products in China and around the world. As at 30 June 2020, our after-sales services in China were delivered by a network of approximately 10,000 after-sales service providers and over 98,300 after-sales services staff. Overseas, we currently have a service network of approximately 8,000 service outlets and over 18,000 after-sales service staff in more than 60 countries, such as the United States, Australia, New Zealand, France, Italy, Spain, India, Pakistan, Vietnam, and the Philippines. We also provide hotline services in nearly all of our markets.

Our after-sales services cover delivery and installation, repair, return and exchange of defective products. These services are delivered at the point of sale, in person through home visits, in service centres, over the phone and, increasingly, over online chat features. In addition, our smart home appliances are designed to provide data about product performance and malfunction directly to the customer services representative via our cloud platform, thereby allowing the service team to proactively reach out to the customer for after-sale care. Service staff are required to complete a variety of training programmes, including in general customer service skills, product-specific, and marketing training. Finally, to further assure the quality of our after-sales function, we closely monitor the provision of customer services. For example, we conduct appraisals on our after-sales team (including our third-party after-sales service providers) on a regular basis on customer satisfaction rates, timeliness of service and complaint ratios. We also strive to provide better service through our service centres by customising them for each region. Our after-sales services have received multiple awards and recognitions, evidencing the quality of the services we provide to our users and our efforts in improving customer satisfaction.

Our product policy is uniformly made by us and implemented throughout our sales network of different levels. We allow product return for quality issues to maintain the reputation of our brand and the quality of experience we provide to our users. We believe that, and Euromonitor, our Industry Consultant, is also of the view that, our product return policy is in line with the general market practice in our industry. In 2017, 2018, 2019 and the six months ended 30 June 2020, the value of products returned in terms of revenue amounted to RMB2,242.3 million, RMB2,566.6 million, RMB2,963.8 million and RMB1,413.1 million, representing approximately 1.5%, 1.4%, 1.5% and 1.5%, respectively, of our total revenue for the same periods.

Under our general terms and conditions of sale and in accordance with industry practise, we typically provide a limited warranty on our products providing for the return, repair or replacement of defective items or a credit with respect to amount paid for such items. While the terms of the warranties provided by us differ depending on the type of products, customer and geographic market, they generally range from one to 10 years.

MANUFACTURING AND PRODUCTION

Production Facilities

As at the Latest Practicable Date, we had 109 factories around the world, including 63 factories in China and 46 factories overseas in jurisdictions including, among others, the United States, India, Pakistan, Thailand and Russia. Production locations are strategically selected based on factors such as tax, land and other government policies, availability of land and infrastructures, suppliers and human resources, and cost of raw materials, manufacturing, and logistics.

The following table sets forth the designed capacity, production volume and capacity utilisation for each major product segment during our Track Record Period:

	For the year ended 31 December									For the six months ended 30 June 2020		
	2017			2018			2019					
	Designed Capacity	Production Volume	Utilisation Rate[(1)]	Designed Capacity	Production Volume	Utilisation Rate[(1)]	Designed Capacity	Production Volume	Utilisation Rate[(1)]	Designed Capacity[(2)]	Production Volume	Utilisation Rate[(1)]
	(millions of units)	(millions of units)	(%)	(millions of units)	(millions of units)	(%)	(millions of units)	(millions of units)	(%)	(millions of units)	(millions of units)	(%)
Smart Home Business in China												
Household Food Solutions	21.0	17.0	81.1%	21.9	17.3	79.0%	21.7	18.6	85.9%	10.9	7.9	72.8%
Household Air Solutions	18.4	13.9	75.7%	20.0	13.0	65.3%	22.2	14.8	66.6%	9.7[(3)]	9.2	95.3%
Household Clothing Solutions	18.3	16.7	91.3%	22.7	17.4	76.5%	24.1	19.0	78.8%	12.5	7.7	61.6%
Household Water Solutions	9.7	8.5	86.8%	11.2	8.9	79.5%	11.4	10.5	91.7%	6.1	4.6	76.2%
Smart Home Business Overseas	13.3	9.5	71.6%	14.1	11.3	80.1%	21.3	18.3	86.1%	12.6	8.7	69.0%

Notes:

(1) The utilisation rate equals to the production volume divided by the designed capacity during the same period.

(2) The designed capacity for the six months ended 30 June 2020 was calculated as dividing the annualised designed capacity by two.

(3) Our annualised designed capacity for our Household Air Solutions business in China would have decreased in the first half of 2020 compared to that in 2019, as we shifted certain production capacity for air-conditioners outside of China.

In line with our expanding global business, we have been steadily increasing our production capacity across major product lines from 2017 to 2019, through production facilities upgrade and expansion as well as new facilities acquisitions. As it takes time to ramp up, our production utilisation rates experienced some fluctuations in 2017, 2018 and 2019. For the six months ended 30 June 2020, primarily affected by the COVID-19 pandemic, we experienced temporary production disruption, which resulted in our decreased production utilisation rates. We adjust and expand our production capacity worldwide in accordance with the level of demand for our products from our customers. During the Track Record Period, investments on production facilities upgrade, expansion and acquisitions in China amounted to an aggregate of approximately RMB8.9 billion.

Efficient Production

We have adopted production model that encompasses the reorganisation of manufacturing resources, the optimisation of product mix and the standardisation of design models. Under such production model, the manufacturing process are reorganised to be user-centric, digitalised, polished, and uniformly-managed. The production among different product mix are integrated and optimised from a macro perspective, and strives to realise lower cost and stable product quality through concentration in procurement and sales order. Our efficient production is characterised by the following features:

- **Procurement**: We keep closely monitoring and evaluating the market demand of various type of our products, and synchronise our procurement plans accordingly with such demand. Through the reduction of SKU, the standardisation and modularisation of our components, and the concentration of our suppliers, we can effectively reduce our procurement cost.
- **Manufacturing**: Our manufacturing process is driven by (i) our centralised production system, which helps us to realise economies of scale, (ii) our centralised product order system, which helps us to coordinate production with market demand, effectively control the overall cost throughout the entire production value chain, and optimise the utilisation of our production facility; and (iii) our digitalised quality control system, which enables us to receive real-time monitoring and feedback of our entire production process, so we can make timely adjustment and overall planning to improve efficiency.
- **Efficiency in sales, in-plant logistics and R&D**: Our efficient production also enhances the efficiency of other process along the value chain, including sales, in-plant logistics and R&D, which are closely coordinated with the manufacturing process and are engaged in value adjustment mechanisms with the production facilities.

Smart Production: Interconnected Factories for Mass Customisation

Our interconnected factories define our smart production model, in which our highly-automated manufacturing process is synchronised with users feedback and market demand, so that mass customisation is made possible. Our first interconnected factory was located in Shenyang, China and started production in 2013. As at 30 June 2020, we have established 15 specifically-designed interconnected factories, located in cities such as Shenyang, Foshan, Qingdao, Zhengzhou and Tianjin in China, and overseas in countries such as Russia, covering a broad portfolio of products. Our interconnected factories has realised digitalisation and integrated management in various processes of production, including procurement, manufacturing, in-plant logistics and testing, with free flow of information and timely feedback driving the improvement of product qualities.

Our first customer-centric mass customisation model has become a model of transformation and upgrading for global manufacturing industry since our Qingdao Central Air-conditioner Interconnection Factory was selected as the first batch of lighthouse factories in 2018. In January 2020, the World Economic Forum announced that our Shenyang Refrigerator Interconnection Factory was successfully elected as another lighthouse factory. We have the ability to lead the industry in digital intelligent manufacturing, and the manufacturing model has been partly transformed from "mass manufacturing" to "mass customisation". We have realised digital and integrated management in all manufacturing links such as procurement, production, logistics and testing. All links are transparent, visible and interconnected, boosting the operation efficiency in the whole process. For the six months ended 30 June 2020, our direct delivery rate reached 77%.

In 2019, we established a smart+5G interconnected factory for refrigerators production in Qingdao. It is able to provide various AI technology application and solutions under different manufacturing scenarios, and further upgrades our interconnection capability among interconnected factories, digitalisation insight and smart production capability.

Our interconnected factories are characterised by the following features: mass customisation, automation, and interconnection of information.

Customisation

We are the leader for mass customisation in China's major home appliance and smart home products market. Mass customisation revolutionised the traditional manufacturing techniques by combining the flexibility and personalisation of custom-made products with the low unit costs associated with mass production. Our ability of mass customisation enables us to realise economies of scale and to achieve high efficiency through mass production; simultaneously, it enable us to cater to each consumer's particular needs through customisation. For example, for the production of our air-conditioners, each individual consumer log in his or her mobile app and customise his or her choice by submitting online orders with preferred colour, style, structure, functions, features and other specified information. The personal preference recorded in the submitted customised order will be transmitted in real time to the manufacturing facility.

To address different levels and kinds of consumer demand for customisation, we have developed three different models of mass customisation: module-based customisation, collective-innovation customisation, and personal-tailored customisation.

- **Module-based customisation**: we invest in ascertaining the commonalities across the customisation needs by analysing our large consumers base, and meticulously design various modules that caters to these commonalities to cater to consumer preference. Consumers can pick their preferred modules to be incorporated in their customised product, so the product with the selected module will include features of their choice and realise functions of their choice.
- **Collective-innovation customisation**: we rely on the proposal and feedback by consumers, as well as the communication and interaction on innovated features between consumers. The collective-innovation customisation starts from one consumer's proposal of a particular customised feature. Other consumers contribute to this proposal by interacting with the

proposal-maker and providing feedbacks. Based on the iteration of collective innovation through interactions among consumers, we capture the trends in consumers' needs and develop the iteration into new features and new designs that are ready for mass production.

- **Fully-tailored customisation**: we can also accommodate individualised request by consumers to produce tailor-made designs that are unique and accurately customised to meet their choices, so they can be provided with highly-customised products with enhanced user experience. For example, consumers with a strong preference for a particular design on the exterior appearance of washing machines can submit their preferred photo or graphical design in their customised order for washing machines, and we can incorporate the photo into the exterior of the customised washing machine product.

Interconnection of Information

Our mass customisation is enabled by our revolutionised real-time parallel information flow system throughout the manufacturing process.

- **Information flow from customers to manufacturing facilities**: The real-time parallel information feedback system directly conveys consumer feedback to each phases of the manufacturing sequence, so the response to consumer feedback can be accelerated. Under the real-time parallel information feedback system, all resources within the manufacturing process can be concurrently mobilised and properly coordinated, so consumer's demand can be more timely and more accurately addressed, and the product design can be better improved based on the iteration of feedback.
- **Information flow from manufacturing facilities to customers**: The information flow back to the consumers enables consumers to monitor the manufacturing process of the home appliance products, enhancing the transparency of the production process.

Our interconnected factories not only better addresses consumer's individualised demand, but also improves efficiency and saves cost. Our efficiency also improves as our interconnected factories reduce the level of inventory and reducing our warehousing cost.

We plan to expand our interconnected factories globally, based on the successful implementation of mass customisation in our current interconnected factories. As at 30 June 2020, we have established interconnected factories primarily for refrigerators, air-conditioners, kitchen appliances, washing machines and water heaters. We strive to replicate these interconnected factories throughout our supply chain system worldwide. We endeavour to establish a global system of interconnected factories, so that our production system can enable any consumer to obtain our customised products by submitting customised orders anytime from anywhere in the world.

Smart Automation

Our interconnected factories rely on three-dimensional (3D) simulation, sensor technology and radio-frequency identification (RFID) to collect plant operations and supply chain data, analyse that data and drive real-time improvements in production while providing a transparent and visualised user experience through COSMOPlat, which we strategically invested in. See "— Strategic Investment — COSMOPlat".

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

We have developed our Haidayuan ("海達源") procurement platform for our PRC operation. Haidayuan procurement platform focuses on procurement of standard parts and components and modules. It connects our suppliers, and enables active and frequent information sharing on the supply and demands, volume and prices. Suppliers are allowed and encouraged to participate in the design of modules. As at 30 June 2020, we have over 30,000 registered users on the Haidayuan procurement platform. Since its launch, there has been over 40,000 procurement requests posted, and over 130,000 modularised designs discussed, on our Haidayuan procurement platform.

We use other procurement platforms for our overseas operations. Capitalised on the synergy among our global operations, we are able to share procurement information, such as suppliers, price and terms, on a global basis.

Materials, Parts and Components

We rely on a wide variety of raw materials, parts and components to manufacture our products. The raw materials that we mainly utilise in our products are copper, aluminium, steel plate, plastic particles, compressors, motors and other components customised and foam materials for the manufacturing of electronic home appliances. Raw materials account for the largest part of our total cost of sales.

Under our supplier management framework, we typically seek to enter into long-term agreements with our strategic suppliers to obtain better solutions and prices. At the same time, if possible, we seek to have relationships with two or more suppliers for the same products to satisfy our needs and to maintain competitiveness in the prices. Commodities are affected by price fluctuations across global markets. Market prices for our key raw materials have been in fluctuation in the period under review. In addition, the cost of raw materials impacts the cost of certain components used in home appliance production. Our operations are thus subject to variability in the cost of raw materials.

Globally-coordinated Procurement

Besides relentlessly optimising our highly efficient manufacturing process, our production is also effectively supported by and synchronised with our global procurement system, as we manage our supply chain system and enhance our well-established cooperation with our suppliers worldwide. We have adopted a globally-coordinated procurement platform to coordinate the procurement activities among our portfolio brands. As at 30 June 2020, we have completed over 900 globally-coordinated sourcing and procurement projects through our Global Sourcing Operation Platform. In addition, we bring our acquired businesses into our procurement system after acquisition, so our acquired businesses can benefit from our global procurement platform and realise better integration into our Company.

Our global procurement activities are coordinated and implemented on a consolidated and centralised basis. Each year, each geographic division submits its estimated procurement needs which will be consolidated. We will then coordinate with different geographic divisions for the joint procurement negotiations to maximise our bargaining power and achieve economies of scale. After the procurement prices and other key terms have been commercially agreed, each geographic division signs its own contract with the suppliers.

Supplier Management

As at 30 June 2020, we have approximately 4,300 suppliers worldwide. Through our information feedback system, customer feedback is sent to the suppliers in real time and is a key part of the suppliers' key performance indicator in their on-going evaluations. For overseas suppliers, their performance is also closely monitored by the local teams in accordance with the requirements set forth in the agreement, as well as the local customs.

Selection and Engagement of Our Suppliers

Prospective suppliers can register on our online platform. Once registered, a supplier will be vetted for its business, product quality and technical capabilities, among other criteria. Once a supplier has been approved, it is added to the pool of pre-qualified suppliers and becomes eligible to bid for the relevant orders from us. The orders are posted on our online platform and open to suppliers for bidding. We strive to make the bidding process transparent and fair for all of the participating suppliers. Once the bid is selected, the supplier will sign a contract with us and officially becomes our supplier. The suppliers' performance can be rated by the customers through the same online platform. Based on the customers' feedback, the system can automatically adjust and optimise the supply strategies.

Due to the intense competition in the home appliance market, we generally cannot pass on price increases for raw materials, energy, parts and components to our customers in full. To reduce the price and purchasing risks on the procurement side, we rely in particular on long-term supply contracts, a competitive bidding process among suppliers and the continuous optimisation of our supplier portfolio, as well as on establishment of raw material reserves and strategic acquisitions of raw materials when increases in the raw material prices are expected. The pricing terms are generally adjusted monthly with suppliers of commodities and with other suppliers on an ad hoc basis. See "Risk Factors — Risks Relating to Our Business and Industry — We depend on a large number of third-party suppliers for key raw materials, components and manufacturing equipment as well as OEM suppliers, and any disruption in their supply or significant increase in their prices will negatively affect our business."

Payment and Credit Terms

We typically seek to enter into long-term agreements with our strategic suppliers. For other suppliers, the agreements are generally renewed annually. The payment terms for our suppliers vary, but the typical payment period for suppliers is "3+6" in China, meaning that we serve our suppliers with banker's acceptances with a term of six months after an initial credit period of three months. We typically do not have a fixed and standard payment period for suppliers in our overseas markets.

Major Suppliers

During the Track Record Period, our five largest suppliers mainly include suppliers of raw materials, parts and components, logistics service provider and product suppliers. Purchases from our

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five largest suppliers for each of 2017, 2018 and 2019 and for the six months ended 30 June 2020 amounted to RMB26.9 billion, RMB23.6 billion, RMB25.7 billion, and RMB10.7 billion, respectively, which accounted for approximately 26.1%, 20.7%, 19.9% and 18.0% of our total purchase costs during those periods, respectively. We believe that we have good relationship with our major suppliers.

The tables below set out the details of our top five suppliers during the Track Record Period:

For the year ended 31 December 2017:

Name of suppliers	Products/ services purchased	Purchase amount (RMB in millions)	% of total purchase cost	Length of relationship	Credit period granted to our Group
Qingdao Haier Spare Parts Procurement Co., Ltd.	Raw materials	8,789	8.5%	Since 1999	within 90 days
Controladora Mabe, S. A. de C. V.	Products	7,402	7.2%	Since 2016	within 30 days
Chongqing Haier Electric Appliance Sales Co., Ltd.(1)	Products	5,803	5.6%	Since 2007	within 30 days
Hefei Haier Logistics Co., Ltd.	Raw materials	2,635	2.6%	Since 2006	within 30 days
Chongqing Haier Logistics Co., Ltd.	Raw materials	2,243	2.2%	Since 2007	within 30 days
Total		**26,872**	**26.1%**		

For the year ended 31 December 2018:

Name of suppliers	Products/ services purchased	Purchase amount (RMB in millions)	% of total purchase cost	Length of relationship	Credit period granted to our Group
Controladora Mabe, S. A. de C. V.	Products	9,113	8.0%	Since 2016	within 30 days
Qingdao Haier Spare Parts Procurement Co., Ltd.	Raw materials	5,922	5.2%	Since 1999	within 90 days
Chongqing Haier Electric Appliance Sales Co., Ltd.(1)	Products	4,680	4.1%	Since 2007	within 30 days
Chongqing Haier Logistics Co., Ltd.	Raw materials	2,073	1.8%	Since 2007	within 30 days
HNR Company (Pvt) Limited	Products	1,840	1.6%	Since 2006	within 60 days
Total		**23,629**	**20.7%**		

For the year ended 31 December 2019:

Name of suppliers	Products/ services purchased	Purchase amount (RMB in millions)	% of total purchase cost	Length of relationship	Credit period granted to our Group
Controladora Mabe, S. A. de C. V.	Products	11,620	9.0%	Since 2016	within 30 days
Qingdao Haier Spare Parts Procurement Co., Ltd.	Raw materials	5,954	4.6%	Since 1999	within 90 days
Chongqing Haier Electric Appliance Sales Co., Ltd.(1)	Products	3,899	3.0%	Since 2007	within 30 days
Gooday Supply Chain Technologies Co., Ltd.(2)	Logistics services	2,285	1.8%	Since 2000	within 60 days
HNR Company (Pvt) Limited	Products	1,956	1.5%	Since 2006	within 60 days
Total		**25,713**	**19.9%**		

For the six months ended 30 June 2020:

Name of suppliers	Products/ services purchased	Purchase amount (RMB in millions)	% of total purchase cost	Length of relationship	Credit period granted to our Group
Controladora Mabe, S. A. de C. V.	Products	4,864	8.2%	Since 2016	within 30 days
Qingdao Haier Spare Parts Procurement Co., Ltd.	Raw materials	2,382	4.0%	Since 1999	within 90 days
Chongqing Haier Electric Appliance Sales Co., Ltd.(1)	Products	1,362	2.3%	Since 2007	within 30 days
HNR Company (Pvt) Limited	Products	1,143	1.9%	Since 2006	60 days
Gooday Supply Chain Technologies Co., Ltd.(2)	Logistics services	949	1.6%	Since 2000	within 60 days
Total		**10,701**	**18.0%**		

Notes:

(1) Products purchased from Haier Group and/or its associates primarily include television, consumer electronic products and other products that we distribute for Haier Group under our distribution services business.

(2) Gooday Supply Chain Technologies Co., Ltd. (日日順供應鏈科技股份有限公司) is formerly known as Qingdao Gooday Logistics Co., Ltd. (青島日日順物流有限公司). It changed its company name on 28 August 2020.

Qingdao Haier Spare Parts Procurement Co., Ltd., Chongqing Haier Electric Appliance Sales Co., Ltd, Hefei Haier Logistics Co., Ltd., Chongqing Haier Logistics Co., Ltd., and Gooday Supply Chain Technologies Co., Ltd. are our connected persons under Chapter 14A of the Listing Rules. See "Connected Transactions" for more details. Our Company holds approximately 48% equity interest in Controladora Mabe, S. A. de C. V., and Haier Singapore Investment Holding holds approximately 31.7% equity interest in HNR Company (Pvt) Limited.

We may from time to time strategically invest in suppliers that we partner with. Such investment primarily stemmed from our strategic need to secure high-quality and stable supply chain resources and long-term business relationship. We deal with all our suppliers at arm's length basis, regardless of their affiliation with us. The transaction terms with suppliers in which we hold an equity interest shall be no less favourable than terms offered by Independent Third Party suppliers to our Group.

QUALITY CONTROL AND PRODUCT WARRANTY

We believe that our brands are valued by customers for their high quality and that product quality is essential to maintaining our competitive position. Highly reliable, quality products foster consumer satisfaction and confidence in our brand name, which in turn encourages brand loyalty and enhances our reputation as a leading global manufacturer of white goods.

Accordingly, we maintain rigorous quality assurance policies and processes to ensure that our products conform to product specifications and industry standards. All of our products undergo strict internal quality assurance sample tests, from design, manufacture, performance to random sample cheques once they are on the market, to ensure compliance with internal requirements and industry standards. We also seek to minimise any elements that could compromise product safety and cause injury, such as electric shock and fire, by extensively testing product usage in stimulated real-life settings at various testing laboratories that are certified by international accreditation institutions. Most of our operating plants have ISO 9001 certificates, some of which also have and ISO 14001 certificates.

Under our general terms and conditions of sale and in accordance with industry practise, we typically provide a limited warranty on our products providing for the return, repair or replacement of defective items or a credit with respect to amounts paid for such items. While the terms of the warranties provided by us differ depending on the type of product, customer and geographic market, they generally range from one to 10 years.

LOGISTICS, TRANSPORTATION AND INVENTORY MANAGEMENT

Logistics and Transportation

We manage warehousing, logistic services, transportation and delivery of finished products to customers, and engage Gooday Supply Chain in China and engage third party logistics services providers in overseas market, for such services. For more details, see "— Our Products and Services — Other Business". We will continue to engage Gooday Supply Chain as our logistics service provider, to provide continuous and timely delivery of products to our customers. For more details, see "Connected Transaction — Non-Exempt Continuing Connected Transactions — 5. Services Procurement Framework Agreement".

Inventory Management

Our inventory includes finished products and a small number of components and raw materials. During the Track Record Period, our inventory turnover days was 79.2 days, 65.2 days, 73.9 days and 66.2 days in 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively.

In order to minimise obsolete inventory, to avoid product damage during the warehousing and distribution process, and to facilitate information feedback from our franchisees and customers, we have adopted a unified warehousing and distribution system supported by our network of warehouses. Under our unified warehousing and distribution system, the order of our township-level franchised stores, even though not directly placed with us, will be shared with our manufacturing facilities and warehouses, which will process the order, optimise the production and inventory management process, and deliver the ordered products to our township-level franchised stores. In addition, we have also adopted strict inventory control policies to closely monitor sales records of our franchised stores and retailors, and to support the operation of our unified warehousing and distribution system.

We believe that our unified warehousing and distribution system enhances our efficiency in various aspects and generate additional benefits that can more than compensate for the additional cost incurred for the construction and operation of the cloud warehouses. The efficiency of our sales process can be enhanced, as we are able to access information from franchised stores and retailors, including relevant product description, retail volume, unit selling price, total monetary amount of our products sold by the franchised stores and retailors to consumers, volume of inventory on hand and inventory turnover. With such information, we are able to: (i) monitor the sales performance of the franchised stores and retailors; (ii) understand the new market demand on our products; and (iii) prepare sales forecasts and production schedules. The efficiency of our warehousing and inventory management process can be enhanced, as we are better positioned to maintain an optimal inventory level which can satisfy the market demand in a timely manner but without increasing the risk of inventory obsolescence. The efficiency of our procurement and manufacturing process can also be enhanced as the timely data feedback can help us eliminating product types with insufficient demand and reducing our SKU so we can realise economies of scale in our procurement. With enhanced efficiency under the unified warehousing and distribution system, we are better positioned to counterbalance the increased competition from our competitors. For our monitoring of inventory level of our franchised stores, see "— Sales and Customers — Our Sales Networks".

RESEARCH AND DEVELOPMENT

The home appliances industry is characterised by rapid technological advances, innovation and evolving customer demands. Our ability to compete successfully therefore depends to a significant extent upon our ability to develop innovative, advanced technologies that respond to evolving customer demands and preferences. To this end, we dedicate substantial resources to research and development. As at 30 June 2020, more than 14,900, or approximately 15.4%, of our workforce was employed in an R&D function. Our R&D teams consist of seasoned industry professionals and experts who possess deep understanding of local market dynamics, valuable insights in consumer's needs, and global visions that keep them abreast with the advanced technological trends worldwide. Our R&D teams comprise industrial design engineers, mechanical engineers, electrical engineers, software engineer, programme developers and user experience designer, and a majority of our R&D team members have obtained bachelor's degree or higher. In 2017, 2018 and 2019 and the six months ended 30 June 2020, we incurred R&D expenses of RMB4.5 billion, RMB5.1 billion, RMB6.2 billion and RMB2.9 billion, respectively.

Our R&D model relies on our local R&D team to identify customer needs of each specific market, and to propose R&D requests and frameworks. When the needs are identified, we rely on advanced technologies of the global R&D platform to promote rapid and leading product development process to launch products that meet the needs of the local market. We continuously invest in our R&D activities. With our dedication to R&D activities and considerable R&D expenditures, we have been able to continuously develop different types of products, which enables us to continuously lead the industrial trends and meet the market demand. For example, we have engaged our R&D resources worldwide and have developed the ultraviolet sterilisation Tianjing air-conditioner, which was put in use in hospitals in Wuhan during the outbreak of COVID-19.

We carry out our research and development activities through an extensive global R&D resource network of research centres. With our iterative R&D system, we have gained strong R&D ability that has competitive edges over our peers. Our strong R&D ability is evidenced by our worldwide network of research centres, our HOPE innovation platform, our numerous patents and awards, and our participation in the formulation of international industry standards for households.

Research Centres

As at 30 June 2020, we had 10 research and development centres worldwide, two of which are located in China and the rest in the United States, New Zealand, Japan, Italy, Mexico, India and South Korea. Each research centre has its own unique competitive strength, and the network of research centres facilitates global collaboration in resource sharing. We also partner with leading research institutions in developing cutting edge technologies and products. For example, our frequency conversion technology used in certain home appliances and the development of a refrigerator cooling system were both developed in partnership with world-famous universities in China.

Online Collaborative Innovation Platform

We are going through an ongoing evolution from a traditional manufacturer to a platform-driven, user-centric enterprise. To the extent that we can control the innovation process, we have integrated collaborative innovation into our R&D function, and launched HOPE, an online platform for technology exchange and innovation that supports collaborative interaction among innovators, enterprises and other stakeholders to solve technical challenges. Our HOPE platform has joined forces with our 10 major global R&D centres and multiple innovation centres that are interconnected in real time based on consumer demands, in order to capitalise on our resources worldwide and connect our global resources with our users and business partners to consistently innovate.

Users use the platform to post research problems, and seek solutions from tens of thousands of registered problem solvers including more than 13,000 certified experts. Activities range from problem solving for traditional home appliance-related issues to the creation of product concepts.

The HOPE platform provides a win-win collaborative solution for all stakeholders. Through the HOPE platform, the participating enterprises can find opportunities to cooperate with other enterprises. Some of these enterprises established further business cooperation with us. The research institutions can benefit from the commercialisation of their research results. The HOPE platform also allows us to tap into a rapidly expanding community of innovation stakeholders to identify technologies more quickly and efficiently, to match ideas with resources, launch disruptive technologies, and reduce time to market. We have developed various products through the platform, including our ultra-low temperature freezer and the intelligent bathroom mirror Magic Mirror. The HOPE platform is supported by a team of several dozen professionals including experts in innovation processes and specific technical functions, IT support, operations staff and marketing specialists. We also provide access to HOPE to third parties for a fee.

Patents and Awards

As at 30 June 2020, the projects we led have been awarded 13 National Science and Technology Awards, making us the leading home appliance provider that has been granted the greatest number of such award since 2000, accounting for more than half of the awards granted to enterprises in our industry. Our products have also been awarded three times the National Outstanding Industry Design Award granted by the Chinese Ministry of Industry and Information Technology. Our products have been awarded 246 major industry design awards. As at 30 June 2020, our products have applied for more than 57,000 patents worldwide, including more than 32,000 invention patents. As at 30 June 2020, our products had been awarded nine Gold Award of the China Patent Award. For more information, see "— Intellectual Property — Our Patents and Trade Secrets".

Standard-Setting

As part of a strategy to leverage our technological edge, we are active in the development of home appliance industry standards in China and worldwide. We hold numerous expert seats in international standardisation organisations, including the International Electrotechnical Commission ("IEC") and the International Organisation for Standardisation and Underwriter Laboratories Inc. We actively participate in the development of standards relevant to our business and then follow them to manufacture our products. This allows us to build trust in our products among consumers and is an effective way to build our business and open new markets. For example, we played a leading role in the formulation of an international standards for the fresh-keeping capabilities of refrigerators issued by the IEC. As at 30 June 2020, as operating entity for Haier Group's white goods business we had participated in the development or amendment of 61 international standards and 500 national industry standards, covering a broad range of industries including smart home, mass customisation and industrial internet. We have participated in the formulation and amendment of international standards for smart homes in international standards organisations such as IEC, ISO, IEEE, and OCF, and realise the global leadership of the smart home cloud ecological standard system. We also undertakes the International Standards Sub-Technical Committee. We also led the establishment The IEC TC59/SC59M WG4 Refrigerator Preservation International Standards Working Group, and led the release of a new international standard for refrigerator preservation in June 2020. In IEEE projects, we also led the establishment and formulation of six new international standards for smart home, internet of clothing, internet of food, and smart residential water systems.

STRATEGIC INVESTMENT

We have strategically invested in certain logistics services providers including Gooday Supply Chain, which provides logistic services for us in China, and COSMO, which operates an industry-leading user-centric platform, COSMOPlat, for mass customisation.

Gooday Supply Chain

Through our indirect subsidiary, we have invested in Gooday Supply Chain, a joint venture controlled by Haier Group, with other partners, including Alibaba. Gooday Supply Chain provides a full range of supply chain services to us, including logistics services for parts and components to production lines, warehousing of finished products and logistics services to distribution channels. Our logistics services in China are primarily provided by Gooday Supply Chain.

COSMOPlat

The COSMOPlat is an industrial internet platform embracing an era of smart production and modern industry. It provides primarily business solutions to various sectors, such as smart control, industrial intelligence and automation, precise moulding and smart energy. It can provide product and solutions in relation to the construction of interconnected factories, mass customisation, industrial customised application and trading. We have transferred 54.50% equity interest in COSMO, which operates COSMOPlat, to Haier Group, and we retain 18.75% equity interest in it as our strategic investment.

INTELLECTUAL PROPERTY

As an innovation-driven company, we depend to a significant extent on proprietary technologies to maintain our competitive position. We seek to protect our intellectual property and proprietary rights primarily through a combination of patents, trade secrets, trademarks and copyrights and similar protections, as well as through contractual restrictions in our licencing arrangements. We proactively make filings and registrations for our intellectual property rights such as patents. We also engage professional advisors to maintain our intellectual property registration and to mitigate the risk of potential infringement on our intellectual property. During the Track Record Period, there has been no incidents of infringements on our intellectual property that materially and adversely affected our results of operations. See "Appendix VII — Statutory and General Information — 2. Further Information about Our Business — B. Our Intellectual Property Rights".

Our Patents and Trade Secrets

Our prominent R&D capacity and relentless R&D efforts result in our broad portfolio of patents. As at 30 June 2020, we had applied for over 57,000 patents worldwide. Among these, over 32,000 are invention patents, which signify the high quality of our patent portfolio, and over 11,000 are applied for outside China, covering more than 28 countries and regions. Our portfolio of patents covers proprietary technologies used in our products and many aspects of our product design and manufacturing process.

With respect to proprietary know-how that is not patentable and production processes for which patents are difficult to enforce, we rely on trade secret protections and confidentiality agreements to safeguard our interests.

Licencing and Technical Assistance Agreements

We manufacture certain products under licencing and technical assistance agreements. In general, these agreements provide us with a non-exclusive licence to manufacture and sell certain products both in China and overseas in return for the payment by us of royalties on our sales of these products and for the provision of technical assistance to support our development and production activities.

Our Trademarks

We use a number of trademarks and service marks in connection with our business and are permitted to use the "Haier" mark and the "Haier" logo as well as other trademarks and service marks under which our products are marketed. Our trademarks and service marks are registered in China and in over 100 overseas jurisdictions, including the United States, Germany, France, the United Kingdom, Japan and South Korea, among other key markets in which we operate. On 6 June 2016, in connection with the acquisition of GE Appliances, Haier US Appliance Solutions, Inc, our subsidiary, entered into a trademark licence agreement with Monogram Licensing, LLC and Monogram Licensing International, LLC, under which we are allowed to use certain trademarks under the terms of, and as specified by, such an agreement.

Our Copyrights and Domain Names

We are also holder to various copyrights, including software copyrights, and domain names, that we consider to be material to our operation of business.

INFORMATION TECHNOLOGY, TECHNOLOGY INFRASTRUCTURE AND DATA PROTECTION

We believe that our information technology systems and platforms are critical to carrying out business operations such as procurement, R&D, production management, inventory management, sales and marketing, logistics, after-sales services, IoT, user-experience, finance and human resource. Moreover, the proper functioning of our Experiential Cloud Platform depends on the proper functioning of our information technology systems. We have set up our own internal systems and platforms to enable the efficient management of all of our software and network resources. We utilise various customised computer systems and platforms to assist us in areas such as procurement, R&D, production, inventory management, sales and marketing, logistics, after-sales services, IoT, user-experience, finance and human resource, to support the operations of our platforms. From time to time, we may procure new or upgrade existing information systems based on our business needs. During the Track Record Period, we did not encounter from any material failure in our information technology system. However, we still face risks arising from the improper performance or malfunction of our information technology systems. See "Risk Factors — Our operations rely on complex information technology systems and networks, and any disruptions in such systems or networks, including as a result of cybercrime, could have a material adverse effect on our business".

Our business and platforms generate and process a large quantity of transaction, user demographic and behavioural data. We face risks inherent in handling large volumes of data and in protecting the security of such data. See "Risk Factors — Our business and platforms generate and process a large amount of consumer and other data, and the improper use or disclosure of such data could subject us to fines and legal liability and harm our reputation". We understand the importance of the personal data and privacy to our users and treats data protection with the utmost seriousness, and implement measures to ensure our compliance with relevant legal requirements in China and other jurisdictions where we operate to protect their legal rights. To protect data privacy, appropriate physical, administrative and technical measures are in place to prevent unauthorised access to and use of such data. For example, we restrict access to these data to a minimal percentage to prevent data leakage; we also use encryption technology to protect these data and has network security protection mechanisms in place to protect the data from malicious attacks and thefts. We hold regular trainings for our employees to strengthen their awareness of the importance of data protection.

COMPETITION

The markets for our products and services are highly competitive and we are faced with aggressive competition in all aspects of our business. We generally compete with other domestic and global home appliance industry leaders and leaders in providing smart home solutions. Principal competitive factors important to us include product features, relative price and performance, product quality and reliability, design innovation, brands, consumer experience, marketing and distribution capability, customer service and support and corporate reputation.

On the supply side, with the development of home appliance industry in China and the steady growth of other home appliance providers, the market concentration for the home appliance industry keeps increasing. Consequently, the increase of market share and the optimisation of organisational and production structure have been the major forces driving the consolidation among industry leaders. We also experience significant competition for highly skilled personnel, including management, engineers, designers and product managers, as our growth depends in part on our ability to retain our existing personnel and recruit highly skilled employees. On the demand side, the markets are characterised by frequent product introductions and rapid technological advances. The continuous emergence of new product designs, the evolvement of scenario-based smart-home solutions, and the expansion of e-commerce channels to suburban and rural population with the improvement of consumers' disposable income and standard of living have all been driving the changes in market demand, and consequently further driving revolutions in sales models and the improvement of efficiency for home appliance businesses in the industry. See "Industry Overview — Competitive Landscape".

To distinguish ourselves from our competitors, we have been dedicated to the expansion of our global presence and the optimisation of our operation systems with our strategies in global brand portfolios, the improvement in operating efficiency, and the localisation of our products in overseas markets, we managed to take advantage of overseas markets as an important engine driving our growth and we are dedicated to further improving our efficiencies to realise our robust growth worldwide. See "— Our Competitive Strengths — Persist in promoting global operation synergy and leading overseas market brand creation".

SEASONALITY

Certain of our product lines may experience seasonal fluctuations due to the nature of the products, such as air-conditioners. Capitalising on our extensive product portfolio of all categories, we generally do not experience material seasonal fluctuations with respect to our results of operations and financial conditions for our company as a whole. There are certain seasonal patterns for purchases of our products in China and overseas markets, partly due to the impact of major holidays and shopping events. In Chinese market, we typically experience sales peaks during the period of or prior to major Chinese festivals, including the Lunar New Year, Mid-Autumn Festival, National Day and 11.11 global shopping festival. In some of the overseas markets, we typically experience sales peaks in the fourth quarter with a higher concentration of holidays such as Christmas and New Year and shopping events such as Black Friday. We believe that this pattern is likely to continue in the foreseeable future.

SUBCONTRACTING

We may, from time to time, engage subcontractors, including OEM suppliers, to provide additional labour or specialty services.

We carefully select subcontractors, including OEM suppliers, among the pool of qualified suppliers. Our business units raise requests and evaluate the potential suppliers in terms of, among other things, qualification, technical design, quality, delivery commitment, and commercial responses. We will choose those suppliers who can best respond to our requests. We carefully manage and monitor the performance of our subcontractors. We also require our subcontractors to comply with our internal guidelines and policies. In the event of any failure by our subcontractors to meet our internal guidelines and policies, we may cease to work with them or claim damages. We maintained long-term relationship with our key subcontractors.

The salient terms of the agreements with our representative OEM suppliers are set forth as below:

	Duration	generally one to ten years.
i. .	Principal rights and obligations of parties involved	Unless otherwise specified in separate agreements, product design belongs to us and the OEM suppliers generally cannot use the design for other use. We can request for information and details regarding the raw materials used and product manufacturing process, and conduct onsite inspections. We are responsible for timely payments.
ii.	After-sales services	Typically we share responsibilities with our OEM suppliers for the after-sales services for the products, while our suppliers are responsible for product manual and staff training. Our OEM suppliers generally are responsible for quality issues and agree to indemnify us for all direct and indirect damages. Our OEM suppliers are required to maintain supply key components for a prescribed period of time.
iii.	Further subcontracting	further subcontract is not allowed without our consent.
iv.	Warranty period	Typically 12 months.
v.	Payment and credit terms	Typically we are granted a credit term by our suppliers of approximately 30 to 60 days.

EMPLOYEES

As at 30 June 2020, we had 96,939 full-time employees worldwide.

The following table sets forth the breakdown of our employees by business function as at 30 June 2020:

	Number of Employees	Percent
Production	56,652	58.5%
Sales	19,048	19.6%
Technical	17,499	18.1%
Administrative	2,261	2.3%
Finance	1,479	1.5%
Total	96,939	100.0%

The following table sets forth the breakdown of our employees by location as at 30 June 2020:

	Number of Employees	Percent
China	63,041	65.0%
America	13,760	14.2%
Europe	6,159	6.4%
Australia and New Zealand	4,091	4.2%
Japan	597	0.6%
Southeast Asia	3,916	4.0%
South Asia	5,312	5.5%
Others	63	0.1%
Total	96,939	100.0%

We have training programmes for all our employees, from entry-level employees to management on subjects such as corporate culture, research and development, strategies, policy and internal control, internal systems and business skills.

Some of our employees are members of labour unions. The labour unions protect employees' rights and encourage employee participation in management decisions. As at the Latest Practicable Date, we had not experienced any strikes or other labour disturbances that materially affects our operations and we consider our current relationships with our workforce to be positive.

The remuneration package for our employees generally includes salary and bonuses. Employees typically receive welfare benefits, including medical care, pension, occupational injury insurance and other miscellaneous benefits.

INSURANCE

We maintain various insurance policies to safeguard against risks and unexpected events in our daily operations. We have purchased property insurance covering all risks of physical loss, destruction or damage to the inventory of our products and our fixed assets. We maintain third-party insurance policies covering certain potential risks and liabilities including product liability and property liability. In some jurisdictions, we maintain insurance for our trade and bill receivables to reduce the credit risks of third parties. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees in China, as well as statutorily required insurance coverage for overseas employees.

In line with general market practise, we do not maintain certain policies that are not available in the locations we operate or that are not generally required by laws. For example, we do not maintain any business interruption insurance, which is not mandatory under the relevant laws of the PRC. Also, we do not maintain insurance policies covering damages to our IT infrastructure or information technology system.

We consider our current insurance coverage to be adequate. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustment to our insurance plans to align with our needs and with industry practise. See "Risk Factors — Risks Relating to Our Business and Industry — Our limited insurance coverage may not cover all losses, which may increase our operational costs."

RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as quality control, financial reporting, information system, internal control, human resources and information system risk management.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financing reporting management policies, budget management policies, financial statement preparation policies and finance department and staff management policies. We have various procedures in place to implement accounting policies and our finance department review our management accounts based on such procedures. We also provide regular trainings to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

As at 30 June 2020, our finance department consisted of 1,479 employees. It is headed by our Chief Financial Officer.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. As at 30 June 2020, our internal control team has 126 employees, and our internal audit team has 33 employees. The team works closely with our business unites to (i) perform risk assessment and give advice on risk management strategies, (ii) improve business process efficiency and monitor internal control effectiveness, and (iii) promote risk awareness throughout the Company.

In accordance with our procedures, our in-house legal department, which consists of 98 employees, examines the contract terms before we enter into any contract or business arrangements. We also have detailed internal procedures in place to ensure that our in-house legal department review our products and services.

Human Resources Risk Management

We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. We set out a variety of internal rules and guidelines in our employee handbook, including best commercial practise, work ethics and prevention mechanism to avoid fraud, negligence and corruption. We provide employees with regular training and resources to keep them abreast of the guidelines contained in the employee handbook. We also have a rigorous background check process for our incoming employees.

Information System Risk Management

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedure and controls to ensure that use of data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

We established a system and universal user account authorisation and management mechanism. We also have in place a series of back-up management procedures. We provide information security training to our employees and conduct ongoing training and discuss any issues or necessary updates from time to time.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to review and supervise our reporting internal control system and monitor the implementation of risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of five members, namely Mr. DAI Deming (戴德明) (chairman of the committee), Ms. TAN Lixia (譚麗霞), Mr. CHIEN, Da-chun (錢大群), Mr. LIN Sui (林綏) and Mr. WONG, Hak Kun (王克勤). For the professional qualification and experience of the members of our audit committee, see "Directors, Supervisors and Senior Management".

We also maintain an internal audit department which is responsible for implementing risk management policies, reviewing the effectiveness of such policies and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department report to the audit committee to ensure that any major issues identified are channelled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

ENVIRONMENTAL, SUSTAINABILITY, HEALTH AND SAFETY MATTERS

We strive to minimise any material adverse impact on the environment resulting from our business activities and create a healthy and safe environment for our employees and communities.

Environmental, Social and Climate-Related Governance System

We have comprehensive environmental, health and safety management policies and systems, formulated with the involvement of our directors, in respect of environmental protection and conservation and the safety and health of our employees and the communities in which we operate, to ensure that we meet compliance requirements on environment, social and governance.

We have established a corporate governance framework that ensures proper environmental management. We adhere to the core governance concept of "good faith management, standardised governance, and transparent information". We constantly improve the modern enterprise governance structure, continue to standardise the internal governance structure and actively create a good external governance environment, and effectively safeguarded the interests of all shareholders. Our efforts in establishing and improving a reasonable, highly-effective corporate governance structure and mechanism have promoted our business and enhanced our result of operations. Systematic measures are introduced and implemented throughout our Group, and our directors and senior management review and evaluate the our strategies, plans and implementation on environmental, social, and climate-related governance matters on an annual basis.

Environmental, Social and Climate-Related Risk Management

Due to the nature of our business and the general trend within the industry, we are subject to various risks related to environment, social and climate-related factors (the "**ESG-related risks**"). We are subject to various environmental regulations in the countries where we operate. Generally, there are national or local standards applicable to, among others, air, water and soil quality, noise pollution, toxic chemicals and waste treatment. While we believe that we are in compliance in all material respects with all applicable environmental laws which are relevant to our business in each jurisdiction in which we operate, and we have not experienced any materially adverse effects on our operations from environmental regulations, as at the Latest Practicable Date, there can be no assurance that changes in such regulations will not impose the need for additional capital expenditures or other compliance requirements. See "Risk Factors — We are subject to a broad range of regulations and may be subject to fines or restrictions that could cause our operations to be interrupted."

To identify ESG-related risks, we have also engaged professional advisors to evaluate the level of our environmental and occupational safety performance. To manage our environmental, social and climate-related risks, we have adopted a collection of policies, details of which are as follows:

- **Product design:** we have launched a series of environmental-friendly and climate-friendly new designs for our home appliances products. For example, our energy saving air-cooled refrigerator, which can saves more energy than the highest level of A+++ in the European Union's Energy Efficiency Standard; our intelligent water heaters can save energy for families that have consistent demand for hot water throughout the day by keeping the temperature of the water at 40°C so as to avoid repeated heating of the water.

- **Product manufacturing**: we formulate internal monitoring standards for pollutant control and hazardous waste management in our production process. For example, we establish standard discharge sewage outlets and install online sewage monitoring system to monitoring the 24-hour discharge of sewage released.
- **Trainings and activities**: To properly control our ESG-related risks, especially risks related to our social responsibility and our employees, we strive to minimise the incidence of occupational safety accidents, by making detailed contingency plans regarding occupational safety accidents, organising regular trainings for employees.
- **Corporate culture cultivation**: In addition, we have also engaged in the cultivation of a corporate culture of environment protection and workplace safety among our employees.

Environmental, Social and Climate-Related Assessment System

To evaluate the effectiveness of our risk-management measures in containing our environmental, social and climate risks, we have adopted a comprehensive assessment system, which incorporated a variety of metrics to provide a holistic assessment of our ESG performance. Such assessment is primarily conducted from the following two perspectives:

- **Resource Consumption**: we utilise Haier Smart Energy Centre, a big data analysis system, to implement centralised dynamic monitoring and digital management of water, electricity, gas and other major energy consumption in our factories. Such system is capable of automatically collecting energy consumption data and making corresponding analysis to optimise energy dispatching. The level of our resource consumption efficiency is managed with a combination of both qualitative targets and quantitative metrics: from the qualitative perspective, we set out various targets including the substitution of low-efficiency energy source with high-efficiency ones, the replacement of energy-wasting production processes with energy-saving ones, and the reuse of reclaimed water; from the quantitative perspective, we deploy qualitative metrics to measure the level of our energy consumption. For example, based on our annual assessment, in 2017, 2018, and 2019, our energy consumption per unit of output value was 8.33kg, 6.77kg, and 6.94kg standard coal/ RMB10,000, respectively, and such trend substantiated the effectiveness of our efforts in enhancing resource consumption efficiency.
- **Pollutant Emissions**: we strictly monitor all kinds of emissions and formulate internal monitoring standards, such pollutant control procedures, hazardous waste management procedures. We implement a comprehensive system to assess the level of pollution emission for sewage, exhaust gas, hazardous waste and harmless waste, to ensure that our risk-management measures for our ESG-related risks are proper and sufficient.

SOCIAL RESPONSIBILITY

We have been a frontrunner in corporate social responsibility, and have been highly committed to sustainable corporate social responsibility project since our founding.

Support for Children and Education

We have been actively participating in charitable donation to children and education. We have been actively participating in Project Hope (希望工程). As at 30 June 2020, we have helped establish hundreds of schools under Project Hope in China.

Support for Environmental Protection and Sustainability

In order to raise the global environmental protection consciousness, we have held a series of public activities, for example, our participation in the "Earth Hour" to protect the Earth with the global consumer.

Support for Disabled Groups and Disaster Relief

We launched activities to delivery needed materials to disaster stricken areas in China. Besides this, we also provided disaster relief efforts with the people in Malaysia and other countries and regions of the world.

Join Our Employees, Customers and Users All Around the World to Combat the COVID-19 Pandemic

The outbreak of COVID-19 pandemic has severely disrupted people's everyday life. In response to the COVID-19 pandemic, we have taken immediate actions to keep our people safe, being a responsible enterprise to our employees:

- Thorough examination of health conditions of employees across industry parks and factories;
- A large stock of disinfection and hygiene supplies, such as face masks, protective goggles and disinfection alcohol sprays;
- Real-time information sharing among operations in different cities and different countries to ensure best practices being widely adopted; and
- Timely communication with government to ensure compliance with the government policies and requirements related to the outbreak of COVID-19.

On the precondition of keeping our people safe, we endeavour to resume our operations and deliver products to our customers, being a responsible enterprise for our customers:

- Resume normal operation as fast as we can. All of our factories in China have resumed operations as at 31 March 2020, and our factories overseas were able to maintain operation to meet product orders;
- Leverage digital capabilities to meet customer needs, including switching swiftly to online sales promotion; and
- Recognise the immediate and increase customer needs for sterilisation. We focused on promoting our home appliance products with sterilisation functions and self-cleaning functions.

In addition, we joined our government, employees, customers and users all around the world to combat the COVID-19 pandemic, being a responsible enterprise to our society:

- Made rounds of donations to help fight the COVID-19 pandemic;
- Donated home appliances and hygiene products to local organisations to help those in needs; and
- Organised tactic teams urgently to prepare and deliver supplies for Wuhan Huoshenshan Hospital, Leishanshan Hospital, Tongji Hospital and Wuhan Union Hospital, to support their work at the frontline.

Awards and Recognition

During the COVID-19 pandemic, we continue to provide products and services and carry out our commitment to our customers. Our efforts and supports were recognised and highly appreciated by various agencies and we have received letters of gratitude from the embassy of Pakistan in China and hospital in Pakistan. In addition, we received an award at the international conference on Alternatives to HCFC-22(R22) used in Room Air-conditioners, jointly held by, among others parties, Foreign Environmental Cooperation Centre of Ministry of Ecology and Environment (生態環境部對外合作與交流中心), United Nations Industrial Development Organisation (聯合國工業發展組織), United Nations Environment Programme (聯合國環境署), Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH (德國國際合作機構) and China Household Electrical Appliances Association (中國家用電器協會), in recognition of our efforts and contributions on low-carbon emission and environmental protection, due to our research and application of R290 refrigerants used in our air-conditioners.

PROPERTIES

Our head office is located at Haier Industrial Park, Laoshan District, Qingdao, Shandong Province, PRC. As at 30 June 2020, we did not have any single property with a book value accounting for 15% or more of our total assets. Our Directors are of the view that we are not required to set out all of our interest in land and buildings in the valuation report described in paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance according to Chapter 5 of the Listing Rules and section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Our Properties in the PRC

To carry out our principal operations in the PRC, we have 20 parcels of owned land, 22 owned properties and 16 leased properties primarily for industrial use, dormitories, factories and offices.

Owned Land

As at 30 June 2020, out of the 20 parcels of land with an aggregate site area of approximately 1,220,780.29 square metres of which we own land use rights, we have obtained the land use right certificates for 18 parcels of land with an aggregate site area of approximately 1,124,744.37 sq.m. For the land with land use certificates, we have the right to legally occupy, use, transfer, lease, mortgage, or otherwise dispose of such land and there is no restriction on the seizure, mortgage and other forms of rights in the ownership of such lands or existence of any third-party rights during the Track Record Period. There were two parcels of land primarily for industrial use with an aggregate site area of approximately 96,035.92 square metres ("**Land with Title Defect**"), for which we have not obtained the land use right certificates. Such defects involves land title transfer between our subsidiaries and Haier Group. As at the Latest Practicable Date, we have completed one land title transfer process and obtained the land use right certificate.

As at the Latest Practicable Date, our business operations and financial condition had not been subject to any material adverse effect arising from the Land with Title Defect.

As advised by our PRC legal advisors, the uncompleted process of the land use right transfer in relation to the Land with Title Defect would not have any material adverse effect on the production and business operation of our relevant subsidiaries. In addition, they will not, individually or in the aggregate, result in any material legal obstacle to the Listing.

Owned Properties

As at 30 June 2020, out of the 22 properties with an aggregate gross floor area of approximately 1,197,085.07 square metres we owned, we have obtained the properties ownership certificates for 16 properties with a gross floor area of approximately 915,892.99 sq.m. Our PRC legal advisors are of the view that we have the legal ownership of these 16 properties and thus have the right to occupy and use such properties in accordance with applicable PRC laws and regulations and there is no restriction on the seizure, mortgage and other forms of rights in the ownership of such properties or existence of any third-party rights. There were six of properties with an aggregate gross floor area of approximately 281,192.08 square metres ("**Owned Properties with Title Defect**"), for which we have not obtained the properties ownership certificates. As such, the site area disclosed above in relation to the owned properties may be subject to change, depending on the actual site area confirmed and recorded on the relevant properties ownership certificates to be obtained.

For two of the Owned Properties with Title Defect with an aggregate gross floor area of approximately 81,720 square metres, it involves properties transfer between our subsidiaries and Haier Group and are under the title transfer process. Such Owned Properties with Title Defect are used as production facilities. We do not expect there exists any material obstacle for us to complete the title transfer process and obtain the relevant properties ownership certificates.

For two of the Owned Properties with Title Defect with an aggregate gross floor area of approximately 199,344 square metres, we obtained the construction permits recently and we have applied for, and are in the process of obtaining, the properties ownership certificates. However, we have commenced construction work, for an industrial park and a production facility, respectively, before obtaining the construction permits. As at the Latest Practicable Date, no administrative penalties have been imposed on us in relation to such Owned Properties with Title Defect or the relevant construction work. According to the relevant documents issued by the competent authority, the construction work for the industrial park, which commenced before obtaining relevant construction permit, is exempted from penalties. In addition, we have received a certificate document from the Construction Bureau of Zhengzhou Economic and Technological Development Zone, confirming that relevant production facility has obtained the construction permit in the compliance with relevant laws, regulations, rules and regulatory documents. One of such Owned Properties with Title Defect with aggregate gross floor area of approximately 147,688 square metres is used as production facility, and the other with aggregate gross floor area of approximately 51,656 square metres is used as dormitory for employees. We do not believe that our business and operation will be adversely affected by such Owned Properties with Title Defect or the construction work.

For two of the Owned Properties with Title Defect with an aggregate gross floor area of approximately 128.08 square metres, we are in the process of obtaining relevant properties ownership certificates. Such Owned Properties with Title Defect are not used as our principal place of business. Such Owned Properties with Title Defect are used as dormitory for employees. We do not expect there exists any material obstacle for us to obtain the relevant properties ownership certificates and we do not believe that our business and operation will be adversely affected by such Owned Properties with Title Defect. If necessary, we believe that we will be able to find comparable properties as alternatives at commercially acceptable terms to us, and such relocation will not have any material adverse effect on our financial condition or our results of operations.

As advised by our PRC Legal Advisor, the Owned Properties with Title Defect will not, individually or in the aggregate, materially and adversely affect our business and operation. In addition, they will not, individually or in the aggregate, result in any material legal obstacle to the Listing.

Leased Properties

As at 30 June 2020, out of the 16 leased properties with an aggregate site area of approximately 282,803.13 square metres we leased, there existed certain defects as detailed below:

- For seven leased properties with an aggregate site area of approximately 76,514.13 square metres, the lessors have not provided the relevant properties ownership certificates ("**Leased Properties with Title Defect**");
- For 16 leased properties with an aggregate site area of approximately 282,803.13 square metres, the lease contracts have not been registered ("**Leased Properties with Lease Registration Defect**");
- For three leased properties with an aggregate site area of approximately 35,918.82 square metres, there are no effective lease contracts, because the lease contracts have not been renewed upon expiration of the old lease contracts ("**Leased Properties without Lease Contracts**");
- For two leased properties with an aggregate site area of approximately 5,918.82 square metres, the term of the lease contracts is indefinite ("**Leased Properties with Indefinite Term**").

As advised by our PRC Legal Advisors, for the Leased Properties with Title Defect, if challenged by third party, we may not able to continue to occupy and use such properties due to the title defect.

As advised by our PRC Legal Advisors, for the Leased Properties with Lease Registration Defect, we may be subject to administrative fine of up to RMB10,000 per property. As further advised by our PRC Legal Advisors, the legality of the relevant lease contracts is not affected by the lack of registration.

The Leased Properties with Title Defect and Leased Properties with Lease Registration Defect are primarily for production facilities and office use. Such leased properties are not, individually or in the aggregate, material to our business and operation. If necessary, we believe that we will be able to find comparable properties as alternatives at commercially acceptable terms to us, and such relocation will not have any material adverse effect on our financial condition or our results of operations.

The Leased Properties without Lease Contracts and Leased Properties with Indefinite Term are primarily for production facilities and office use. We are in the process of signing or renewing the lease contracts and we do not expect there exists any material obstacle in signing or renewing such lease contracts or the subsequent lease contract registration. Such leased properties are not, individually or in the aggregate, material to our business and operation. If necessary, we believe that we will be able to find comparable properties as alternatives at commercially acceptable terms to us, and such relocation will not have any material adverse effect on our financial condition or our results of operations.

As advised by our PRC Legal Advisor, the leased properties with certain defects as mentioned above will not, individually or in the aggregate, materially and adversely affect our business and operation. In addition, they will not, individually or in the aggregate, result in any material legal obstacle to the Listing.

Our Properties in Jurisdictions outside the PRC

As at 30 June 2020, we owned and leased properties in jurisdictions outside the PRC including but not limited to United States, Italy, France, Thailand, Japan and New Zealand. Such properties are mainly used for purposes such as offices, production facilities, research and development centres, and customer service centres.

LICENCES, PERMITS, APPROVALS AND CERTIFICATES

As advised by our PRC legal advisor, as at the Latest Practicable Date, we have obtained all licences, permits, approvals and certificates that are material and necessary for our business operations in the PRC and such licences, permits, approvals and certificates are valid and subsisting.

As at the Latest Practicable Date, we have obtained all licences, permits, approvals and certificates that are material and necessary for our business operations in jurisdictions where we operate outside the PRC, and such licences, permits, approvals and certificates are valid and subsisting.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

From time to time, we have been, and may in the future be, involved in arbitration, litigation or regulatory proceedings relating to various aspects of our operations in the ordinary course of our business. See “Risk Factors — Our business may suffer as a result of adverse outcomes of current or future litigation and regulatory actions, including with respect to anti-competitive practises.”

From time to time, we settle certain of the litigations we have been involved in. We believe none of these settlements have a material adverse effect on our financial results and reputations.

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal proceedings pending or threatened against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Compliance

We are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the jurisdictions we operate in during the Track Record Period and up to the Latest Practicable Date. As confirmed by our PRC Legal Advisor, during the Track Record Period, our business operated in the PRC territory complied with relevant PRC laws and regulations in all material respects, and no material administrative penalties imposed on us have been found that may have a material adverse effect on our Group's business operations. We have formed a culture of compliance by implementing various measures and processes to ensure that the behaviour of our employees meets compliance requirements and our compliance culture is embedded into our everyday workflow.

AWARDS AND RECOGNITIONS

We have received various awards and recognitions since our establishment in recognition of our brands and products. The following tables set forth selective of the awards and recognitions we have received during the Track Record Period:

Awards to Our Brands

Year	Award/Recognition	Awarding Organisation/Authority
2018-2020	*Fortune* Global 500	*Fortune* magazine
2019-2020	BrandZ Top 100 Most Valuable Global Brand (as the only IoT brand receiving such award)	BrandZ™
2020	BrandZ Top 50 Globalised Chinese Brands (中國全球化品牌50強) (No. 6)	BrandZ™
2017-2019	BrandZ Top 100 Most Valuable Chinese Brand, No. 15 (2019), No. 33 (2018) and 37 (2017)	BrandZ™
2017-2019	BrandZ Top Chinese Global Brand Builders, No. 7 (2019 and 2017) and No. 8 (2018)	BrandZ™
2019	Best China Brands in 2019, No. 23	Interbrand
2017-2019	World's 500 Most Influential Brands (世界品牌五百強), No. 41 (2019 and 2018) and No. 50 (2017)	World Brand Laboratory (世界品牌實驗室)
2017-2019	Asia's 500 Most Influential Brands (亞洲品牌五百強), No. 4 (2019 and 2018) and No. 6 (2017)	World Brand Laboratory (世界品牌實驗室)

Year	Award/Recognition	Awarding Organisation/Authority
2017-2019	China's 500 Most Influential Brands (中國品牌五百強), No. 3 (2019, 2018 and 2017)	World Brand Laboratory (世界品牌實驗室)

Awards to Our Research & Development

Year	Award/Recognition	Awarding Organisation/Authority
2019	China Household Appliances Innovation Award (中國家用電器創新成果證書) for Casarte Waterfall Washing heater	China Household Electronic Appliances Research Institute (中國家用電器研究院)
2018	National Science and Technology Progress Award (國家科學技術進步獎), Second Class Award (2018)	the State Council
2018	China's Top 10 Most Innovative Companies	*Fast Company* magazine
2018	China Patent Award, Gold Award in Patent, for refrigerators	China National Intellectual Property Administration
2018	Award in Science and Technology (科學技術獎)	Shandong Province People's Government
2015	National Award in Science and Technology Advancement (國家科學技術進步獎) for air-conditioners	the State Council

Awards to Our Product Design

Year	Award/Recognition	Recipient Product(s)
2020	Red Dot Award: Product Design	10 Haier brand products, 6 Casarte products
2020	iF Design Award	17 Haier brand products, 5 Casarte products, 2 Leader products
2019	Red Dot Award: Brands & Communication	1 Haier brand product, 2 Casarte products
2019	IDEA Product Design Award	8 Haier brand products, 10 Casarte products, 1 Leader product, 1 AQUA product
2019	Red Dot Award: Product Design	5 Haier brand products, 8 Casarte products, 1 Leader product
2019	iF Design Award	10 Haier brand products, 9 Casarte products
2019	China Patent Award (Design), Gold Award	Haier "Xiao Hai Bei" desktop dishwasher
2018	China Outstanding Industrial Design, Gold Award	Casarte "Tian Cheng" built-in refrigerator
2018	G-mark Product Design Award	Aqua four-door refrigerator
2018	IDEA Product Design Award	1 Haier brand product, 1 Casarte product, 1 GE Appliances product
2018	Red Dot Award: Product Design	5 Haier brand products, 2 Casarte products
2018	iF Design Award	5 Haier brand products, 3 Casarte products, 3 Leader products
2018	China Patent Award (Design), Gold Award	Haier "Smart Window" refrigerator

BUSINESS

Year	Award/Recognition	Recipient Product(s)
2017	Red Dot Award: Product Design "Best of the Best"	Haier S-BOX Air-purifier
2017	Red Dot Award: Product Design	6 Haier brand products, 7 Casarte products
2017	iF Design Award	8 Haier brand products, 2 Casarte products
2017	China Patent Award (Design), Gold Award	Haier "Twins" washing machine and Casarte "Yun Ding" air-conditioner

CONNECTED TRANSACTIONS

Following the Introduction and the Privatisation, the transactions between members of our Group and our connected persons will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

As our A Shares and D Shares are listed on the Shanghai Stock Exchange and the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange, respectively, we will continue to be subject to and regulated by the Shanghai Stock Exchange Listing Rules, the Listing Rules of Frankfurt Stock Exchange Securities and other applicable laws and regulations in the PRC and Germany so far as our A Shares and D Shares remain listed. The requirements of the Hong Kong Listing Rules in relation to connected transactions are different from those of the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities. In particular, the definition of connected person under the Hong Kong Listing Rules is different from the definition of related party under the Shanghai Stock Exchange Listing Rules or the Listing Rules of Frankfurt Stock Exchange Securities. Therefore, a connected transaction under the Hong Kong Listing Rules may or may not constitute a related party transaction under the Shanghai Stock Exchange Listing Rules or the Listing Rules of Frankfurt Stock Exchange Securities, and vice versa.

CONNECTED PERSONS

As at the Latest Practicable Date, our Company was directly and indirectly owned by Haier Group as to approximately 40.03% of its voting rights. Immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), Haier Group will directly and indirectly own 35.14% of the voting rights of the Company. Haier Group, together with its associates as defined under Rule 14A.13 of the Listing Rules, are therefore our connected persons by virtue of Rules 14A.07(1) and 14A.07(4) of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Summary Table of Our Continuing Connected Transactions

No.	Nature of Transaction	Applicable Listing Rules	Waiver Sought	Proposed Annual Cap for the Year Ending 31 December (RMB million) 2020	2021	2022
Fully Exempt continuing connected transactions						
1.	IP Licence Framework Agreement	14A.34, 14A.52, 14A.53 and 14A.76	Exempted	N/A	N/A	N/A
2.	Property Rental Framework Agreement	14A.34, 14A.52, 14A.53 and 14A.76	Exempted	N/A	N/A	N/A
Non-exempt continuing connected transactions						
3.	Property Leasing Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53 to 59, 14A.71 and 14A.76(2)(a)	Announcement requirement	157	180	207
4.	Services Supply Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53 to 59, 14A.71 and 14A.76(2)(a)	Announcement requirement	308	349	401

No.	Nature of Transaction	Applicable Listing Rules	Waiver Sought	Proposed Annual Cap for the Year Ending 31 December (RMB million)		
				2020	2021	2022
5.	Services Procurement Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53 to 59, 14A.71 and 14A.76(2)(a)	Announcement requirement	4,876	5,608	6,449
6.	Products and Materials Sales Framework Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 and 14A.71	Announcement and independent shareholders' approval requirements	4,638	4,963	5,310
7.	Products and Materials Procurement Framework Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 and 14A.71	Announcement and independent shareholders' approval requirements	20,500	22,550	24,805

No.	Nature of Transaction	Applicable Listing Rules	Waiver Sought	Proposed Annual Cap for the Period from the Listing Date to the date of the 2020 Annual General Meeting of the Company to be Convened in Early 2021 (RMB million)
8.	Financial Services Framework Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 and 14A.71	Announcement and independent shareholders' approval requirements	
	● Deposit Services			
	(a) Maximum daily outstanding balance			25,100
	(b) Interest income			86
	● Loan Services			
	(a) Maximum daily outstanding balance			3,977
	(b) Interest expense			103
	● Other Financial Services			
	(a) Maximum daily trading balance of foreign exchange derivative products			5,500
	(b) Service fee			22

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are conducted in the ordinary course of business of our Group and on normal commercial terms or better, where each of the relevant percentage ratios (except for the profits ratio) for the three years ending 31 December 2022 calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors of our Company currently expect, be less than 0.1% on an annual basis. By virtue of Rule 14A.76(1)(a) of the Listing Rules, the transactions will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. IP Licence Framework Agreement

We entered into an IP licence framework agreement (the "**IP Licence Framework Agreement**") with Haier Group and Qingdao Haishang Zhicai Management Consulting Co., Ltd. (青島海商智財管理諮詢有限公司) ("**Haishang Consulting**") on 9 November 2020, pursuant to which Haier Group has agreed to grant, or procure its subsidiaries and associates (including Haishang Consulting) to grant our Group licence to use all of their intellectual property rights, including but not limited to trademarks, patents, copyrights and logos (the "**IP rights**") for our products, packaging, services and profile documents at nil consideration. The term of the IP Licence Framework Agreement will commence on the Listing Date and be effective on a perpetual basis. Our right to use certain IP rights under the IP Licence Framework Agreement ceases when the statutory period of such specific IP right expires and is not renewed by Haier Group.

We are a principal subsidiary of Haier Group and have been using these IP rights for several years and have received market recognition. We believe that to continue to use such IP rights after completion of the Introduction and Privatisation is in the best interest of our Group and the shareholders as a whole.

Our Directors currently expect that all the relevant percentage ratios for transactions under the IP Licence Framework Agreement calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are de minimis transactions and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

2. Property Rental Framework Agreement

We entered into a property renting framework agreement (the "**Property Rental Framework Agreement**") with Haier Group on 9 November 2020, pursuant to which we may lease certain properties to Haier Group and its associates. The pricing policy (including but not limited to the rental and services fees to be paid by Haier Group and its associates, payment progress and method) shall be negotiated between Haier Group and its associates and our Group at arm's length basis, with reference to market prices (including but not limited to factors such as the geographical location, the standard of construction and the surrounding area) or normal commercial terms of this type of transactions with Independent Third Parties. The initial term of the Property Rental Framework Agreement will commence on the Listing Date and end on 31 December 2022, and will be automatically renewed for a further term of three years unless otherwise agreed between parties thereto. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Property Rental Framework Agreement. The Property Rental Framework Agreement will not apply to properties that are no longer held by our Group from time to time.

Historically, associates of Haier Group have rented certain properties from our Group from time to time for their offices and business uses. It is expected that members of Haier Group will continue to rent such properties from our Group upon completion of the Introduction and the Privatisation, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

Taking into account the gross floor area leased and the consideration received by us for such property renting during the Track Record Period, our Directors currently expect that all the relevant percentage ratios for the three years ending 31 December 2022 calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are de minimis transactions and will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

If the relevant percentage ratio(s) calculated based on the consideration of such property renting exceeds the de minimis threshold stipulated under the Hong Kong Listing Rules, we will comply with the applicable requirements thereunder.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Continuing connected transactions subject to the reporting, annual review and announcement requirements but exempt from strict compliance with the independent shareholders' approval requirement

The following transactions are conducted in the ordinary and usual course of business of our Group and on normal commercial terms or better, where each of the relevant percentage ratios (except for the profits ratio) for the three years ending 31 December 2022 calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, be more than 0.1% but less than 5% on an annual basis. By virtue of Rules 14A.49, 14A.71, 14A.35 and 14A.76(2)(a) of the Listing Rules, the transactions will be subject to the reporting, annual review and announcement requirements, but is exempted from the independent shareholders' approval requirement.

3. Property Leasing Framework Agreement

Parties: Haier Group (as lessor); and

Our Group (as lessee).

Principal terms:

We entered into a property leasing framework agreement with Haier Group on 9 November 2020 (the "**Property Leasing Framework Agreement**"), under which our Group will rent certain properties from Haier Group and its associates from time to time for our offices and business uses, for which Haier Group will charge us rental and other charges.

The initial term of the Property Leasing Framework Agreement will commence on the Listing Date and end on 31 December 2022. Our Group has an option, in its entire discretion, to renew the Property Leasing Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the Property Leasing Framework Agreement. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Property Leasing Framework Agreement.

Reasons for the transaction:

Our Group has historically occupied certain properties owned by Haier Group and its associates for our offices and business uses, including the buildings in Haier Industrial Park where our headquarters is located. Since the relocation of such entities of our Group to other premises would result in unnecessary interruptions to our business and would incur unnecessary additional expenses, our Group entered into the Property Leasing Framework Agreement with Haier Group to ensure continuing smooth operation of our Group and to save costs, which is in the interests of our Group and the shareholders as a whole.

Pricing policy:

In accordance with the Property Leasing Framework Agreement, the pricing policy (including but not limited to the rental and services fees to be paid by our Group to Haier Group and its associates, payment progress and method) shall be negotiated between Haier Group and its associates and our Group at arm's length basis, with reference to market prices or normal commercial terms of this type of transactions with Independent Third Parties. We will obtain fee quotes from at least two owners of properties of similar type and nature, taking into account factors such as the geographical location, the standard of construction and the surrounding area before entering into leasing agreements with Haier Group to ensure the terms under the Property Leasing Framework Agreement are fair, reasonable and comparable to those offered by Independent Third Parties.

Historical amount:

The total transaction amount paid by our Group to Haier Group and its associates pursuant to the Property Leasing Framework Agreement for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB122 million, RMB120 million, RMB136 million and RMB71 million, respectively.

Annual caps:

The annual caps for the transactions under the Property Leasing Framework Agreement for the three years ending 31 December 2022 shall not exceed:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2020	**2021**	**2022**
Annual caps for the transactions	157	180	207

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

(i) the annual cap under the Property Leasing Framework Agreement for the year ending 31 December 2020 is estimated by doubling the transaction amount paid as of 30 June 2020, taking into account the incurred transaction amount of RMB111 million for the nine months ended 30 September 2020;

(ii) the increase in gross floor areas we expect to lease from Haier Group and its associates after completion of the construction and expansion of Haier Industrial Park in Qingdao, Shandong province, the PRC in 2021. The increase in demand of rental space is due to the expansion of our business needs, which in turn increases our demand in manpower and required office space. Our business expansion has also led to an increase in demand of equipment and facilities such as experimental laboratories for research and development purposes which the expanded Haier Industrial Park is able to offer. In addition, to improve work and communication efficiency, more of our employees who initially work in spaces outside the Haier Industrial Park leased from Independent Third Parties are expected to move into the expanded Haier Industrial Park to promote a centralised working environment, which further increases our demand for area to be leased from Haier Group;

(iii) the increase in rents in accordance with general property market trends and the improvement in quality of rental spaces upon completion of the construction and expansion of Haier Industrial Park in Qingdao, Shandong province, the PRC; and

(iv) subject to regular adjustments based on actual needs and market prices, the unit prices and terms of existing properties leased by our Group from Haier Group and its associates is expected to remain relatively stable for the three years ending 31 December 2022.

4. Services Supply Framework Agreement

Parties: Haier Group (as services receiver); and

Our Group (as service provider).

Principal terms:

We entered into a services supply framework agreement with Haier Group on 9 November 2020 (the "**Services Supply Framework Agreement**"), under which our Group has agreed to provide certain sales-related services and other services to Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the Services Supply Framework Agreement, the sales-related services to be provided by our Group to Haier Group and its associates mainly include after-sale services and value-added consumer services, such as installation, calibration, consultation, repair and maintenance and technical support.

The Services Supply Framework Agreement is valid for a term commencing from the Listing Date to 31 December 2022. Our Group has an option, in its entire discretion, to renew the Services Supply Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the Services Supply Framework Agreement. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Services Supply Framework Agreement.

Reasons for the transaction:

As further illustrated below, our Group has entered into the Products Sales Framework Agreement (as defined below) with Haier Group, pursuant to which our Group will provide certain Products and Materials for Sale to Haier Group and its associates from time to time. The provision of sales-related services under the Services Supply Framework Agreement leverages on our Group's capabilities of customer services and technical support, such as installation, calibration, consultation, repair and maintenance and technical support, and provides Haier Group with a one-stop solution in relation to its demands for Products and Materials for Sale from us. In addition, the provision of sales-related services is beneficial for strengthening our capabilities of customer services in general.

Our Directors believe that the enhancement of purchase experience of Haier Group through provision of sales-related services helps our Group maintain a stable and quality business relationship with Haier Group and is in the interests of our Group and the shareholders as a whole.

Pricing policy:

Pricing for the after-sale and value-added services provided by our Group to Haier Group and its associates pursuant to the Services Supply Framework Agreement varies taking into account the type and nature of each type of services, and pricing increases when a higher degree of technicality or costs are involved for the required service. Each type of services shall be provided on terms no less favourable to our Group than those prevailing in the PRC market for the services of the same or comparable type, nature and quality and at similar time, with reference to market prices or normal commercial terms of this type of transactions with Independent Third Parties.

In determining the prevailing market price, our Group will collect the relevant market information, review and compare the transactions conducted or quotes of the same or similar type and quality entered into between the Independent Third Parties and our Group on a regular basis, and consider the historical prices charged by our Group on Independent Third Parties in supplying services of similar type and nature. The exact service fees charged by us and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the Services Supply Framework Agreement.

Historical amount:

The total transaction amount of the above services provided by our Group to Haier Group and its associates for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB302 million, RMB402 million, RMB269 million and RMB134 million, respectively.

Annual caps:

The annual transaction amounts to be paid to us by Haier Group and its associates under the Services Supply Framework Agreement for the three years ending 31 December 2022 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2020	**2021**	**2022**
Transaction amount to be paid to us by Haier Group and its associates	308	349	401

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

(i) the historical amounts of the transactions between our Group and Haier Group and its associates during the Track Record Period in respect of our provision of the sales-related services, in particular the amounts relating to after-sale services are generally proportional to the historical amounts and development trends of our provision of Products and Materials for Sale to Haier Group pursuant to the Products and Materials Sales Framework Agreement. The annual cap under the Services Supply Framework Agreement for the year ending 31 December 2020 is estimated with reference to the average transaction amount of RMB324 million for the three years ended 31 December 2019, taking into account the incurred transaction amount of RMB199 million for the nine months ended 30 September 2020. Furthermore, the Company expects the needs for sales related service will further increase, thus the growth rate of transaction amount in the fourth quarter of 2020 will be higher than that in the third quarter of 2020 taking into account the various upcoming shopping festival. The annual caps under the Services Supply Framework Agreement for each of the three years ending 31 December 2022 is estimated based on a 14% year-on-year increase in the transaction amount, which is a conservative estimation taking into account the expected trend of transaction amounts under the Products and Materials Sales Framework Agreement as illustrated below and considering the potential fluctuation of transaction amounts under the Services Supply Framework Agreement based on our experience, with reference to the 33% increase in transaction amounts from 2017 to 2018;

(ii) the anticipated increase in demand for the sales-related and other services by Haier Group and its associates to meet up with its future growth prospects, in light of the expected recovery and bounce back from decrease in customer demands during the first half of 2020 caused by the COVID-19 pandemic, considering consumer's long-term demand for our services is not expected to be significantly affected by the COVID-19 pandemic (according to the Euromonitor Report); and

(iii) other factors including but not limited to the expected increase in costs and expense relating to raw materials, labour and others as well as market trends, according to Euromonitor.

5. Services Procurement Framework Agreement

Parties: Haier Group (as service provider); and
Our Group (as service receiver).

Principal terms:

We entered into a services procurement framework agreement with Haier Group on 9 November 2020 (the "**Services Procurement Framework Agreement**"), under which our Group will purchase certain services from Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the Services Procurement Framework Agreement, the services to be provided by Haier Group and its associates to our Group mainly include:

- logistics services;
- advertising, promotional and marketing services; and
- other comprehensive services, mainly including:
  (1) utilities services, such as the supplies of water and electricity, energy supply supporting services;
  (2) business supporting services, such as product certification and testing, business consulting;
  (3) technical supporting services, such as software development, R&D assistance, property furnishing, landscaping and sanitation; and
  (4) miscellaneous services, such as catering, conferencing and travel agency services.

  (collectively "**Other Comprehensive Services**")

The Services Procurement Framework Agreement is valid for a term commencing from the Listing Date to 31 December 2022. Our Group has an option, in its entire discretion, to renew the Services Procurement Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the Services Procurement Framework Agreement. Both parties and their respective subsidiaries or associates could enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Services Procurement Framework Agreement.

Reasons for the transaction:

The Group and Haier Group have a long-term and stable business relationship. Haier Group is familiar with our business process and needs, quality standards and operational requirements, and is able to supply relevant services we needed on a constant basis. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate our current and future business operations.

In terms of the research support and R&D services, Haier Group is capable of providing with us specialised product research and development solutions through its exposure and access to new and existing technology both domestically and overseas, thereby enhancing the efficiency of the product research and development for our Group. For instance, Haier Information Technology (Shenzhen) Co., Ltd. (海爾信息科技（深圳）有限公司), a subsidiary of Haier Group, is an experienced electrical appliances developer in the PRC with respected expertise in the field of IoT-related research and development, which can provide consulting services in support of our expansion of IoT product portfolios.

The advertising, promotional and marketing services provided by Haier Group and its subsidiaries to our Group pursuant to the Services Procurement Framework Agreement enables our Group to leverage on the extended promotion platform hosted by Haier Group and to benefit from participating in the concerted marketing and promotion efforts of Haier Group in promoting our products. For instance, Qingdao Rendanheyi Venture Service Co., Ltd. (青島人單合一創業服務有限公司) and Qingdao Lanwei Coastal Network Technology Co., Ltd. (青島藍微海岸網絡科技有限公司), subsidiaries of Haier Group, are capable of providing our Group with comprehensive packages of promotion services, ranging from data analytics and brand positioning to marketing events, thereby lowering our overall costs in this aspect.

In terms of the logistics services provided by Haier Group and its associates to our Group, Gooday Supply Chain, a subsidiary of Haier Group, has been serving as a key logistics services provider to our Group prior to and throughout the Track Record Period. With its experience in the logistics sector, Gooday Supply Chain is capable of continuously providing to our Group quality services including all-category, omni-channel, full-process and integrated logistics and warehousing services for customers and users in the industry with sufficient resources and advanced systems. Given its long history of providing services to our Group, Gooday Supply Chain has an in-depth understanding of our development strategy, development goals and business model, and has formed a mature supply chain system and established reliable capabilities to cater to our needs. The continuing services by Gooday Supply Chain allow us to avoid significant costs incurred from switching service supplier.

In terms of provision of Other Comprehensive Services by Haier Group and its associates, the Services Procurement Framework Agreement allows our Group to enjoy resources of Haier Group on a more cost-efficient basis with lower costs and better terms offered by centralised general services procurement platform of Haier Group.

Based on our previous experience in business dealings with Haier Group and its associates, we believe that our Group and Haier Group and its associates are capable of effectively satisfying our demands for the relevant services in a stable and quality manner, which is in the interests of our Group and the shareholders as a whole.

Pricing policy:

The fees to be paid by our Group to Haier Group and its associates pursuant to the Services Procurement Framework Agreement shall be determined with reference to market prices or normal commercial terms of this type of transactions with Independent Third Parties, or negotiated by the parties on an arm's-length basis by taking into consideration factors including but not limited to actual costs and expenses and market conditions. The prices and terms shall be no less favourable than those offered to our Group by Independent Third Parties. In determining the prevailing market price, our Group will consider the historical prices paid by our Group to Independent Third Parties in procuring services of similar type and nature. In addition, we will collect and review quotes offered by at least two other Independent Third Parties for services of the same or similar type, nature and quality on a regular basis for comparison. In the event that there are no appropriate Independent Third Parties providing similar services for comparison and referencing purpose, Haier Group and its associates agree to provide referencing information about the fees, terms, service costs and market prices of the same or similar services provided by Haier Group and its associates to Independent Third Parties acceptable to both parties for comparison and referencing purpose.

The exact service fees paid by us and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the Services Procurement Framework Agreement.

Historical amount:

The total transaction amount of the above services provided by Haier Group and its associates to our Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB2,991 million, RMB3,376 million, RMB4,240 million and RMB1,839 million, respectively.

Annual caps:

The annual transaction amounts to be paid by us to Haier Group and its associates under the Services Procurement Framework Agreement for the three years ending 31 December 2022 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2020	2021	2022
Transaction amount to be paid by us to Haier Group and its associates	4,876	5,608	6,449

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

(i) the historical amounts and growth trends of the transactions between our Group and Haier Group and its associates during the Track Record Period in respect of the provision of relevant services by Haier Group and its associates, taking into account the incurred transaction amount of RMB3,345 million for the nine months ended 30 September 2020, reflecting an 82% increase from the amounts incurred during the first half of 2020. The annual caps under the Services Procurement Framework Agreement for each of the three years ending 31 December 2022 is estimated based on a 15% year-on-year increase in the transaction amount, which is a conservative estimation as the year-on-year increase in historical transaction amounts under the Agreement from 2017 to 2018 and from 2018 to 2019 was approximately 12.9% and 25.6%, respectively;

(ii) the existing contract value and the increasing demand for relevant services by our Group to meet up with our future growth prospects, especially our increasing demands for logistic services from Haier Group and its associates (such as Gooday Supply Chain), which accounts for approximately 80% of the proposed annual caps for each of the three years ending 31 December 2022, considering that (a) to ensure quality delivery and promote our brand image, the demand for logistic services from Haier Group and its associates is expected to increase to support our unified warehousing and distribution system, which offers warehousing and distribution services to our township-level franchised stores throughout China; (b) the seasonal patterns for purchases of our products in different China and overseas markets, partly due to the impact of major holidays and shopping events. In Chinese market, we typically experience sales peaks taking place in the second half of the year, such as during the period of or prior to major Chinese festivals, including the Mid-Autumn Festival, National Day and 11.11 global shopping festival. In some of our overseas markets, we typically experience sales peaks in the fourth quarter with a higher concentration of holidays such as Christmas and shopping events such as Black Friday, which rapidly raise our demands for logistics services according to past experiences; (c) the expected recovery and bounce back of service demand relating to our product sales from the decrease in such services caused by the COVID-19 pandemic during the first half of 2020, considering consumer's long-term demand for our products is not expected to be significantly affected by the COVID-19 pandemic (according to the Euromonitor Report);

(iii) the disposal of COSMO by our Company to Haier Group, which becomes our connected person in 29 September 2020. It is expected that our Company will continue to procure the utilities services, such as the supplies of water and electricity, energy supply supporting services from COSMO, which accounts for approximately 3% of the proposed annual caps for the coming years after Listing; and

(iv) other factors including but not limited to the expected increase in costs and expense relating to raw materials, labour and others as well as market trends, according to Euromonitor.

B. Continuing connected transactions subject to the reporting, annual review and announcement and independent shareholders' approval requirements

The following transactions are conducted in the ordinary and usual course of business of our Group and on normal commercial terms or better, where each of the relevant percentage ratios (except for the profits ratio) for the three years ending 31 December 2022 calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, be more than 5% on an annual basis. By virtue of Rules 14A.49, 14A.71, 14A.35 and 14A.36 of the Listing Rules, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements.

6. Products and Materials Sales Framework Agreement

Parties: Haier Group (as purchaser); and
our Group (as supplier).

Principal terms:

We entered into a products and materials sales framework agreement with Haier Group on 9 November 2020 (the "**Products and Materials Sales Framework Agreement**"), under which our Group has agreed to provide certain products and materials (the "**Products and Materials for Sale**") to Haier Group and its associates on a non-exclusive basis from time to time.

Pursuant to the Products Sales Framework Agreement, the Products and Materials for Sale to be provided by our Group to Haier Group and its associates mainly include:

- products for internal consumption;
- components and raw materials for production use; and
- full-suite smart home solutions, including ancillary products and services.

The Products and Materials Sales Framework Agreement is valid for a term commencing from the Listing Date to 31 December 2022. Our Group has an option, in its entire discretion, to renew the Products and Materials Sales Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the Products and Materials Sales Framework Agreement. Both parties and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Products and Materials Sales Framework Agreement.

Reasons for the transaction:

The Group and Haier Group have a long-term and stable business relationship. The Group is familiar with Haier Group's business process and needs, quality standards and operational requirements, and is able to supply the Products and Materials for Sale needed by Haier Group on a constant basis and provides our Group with a stable income. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate our current and future business operations.

In addition, our Group is able to leverage on the centralised procurement platforms to source the components and materials requested by Haier Group from time to time at a relatively lower cost and profit from the spread offered, thereby enjoying benefits from economies of scale. For instance, our subsidiaries, Qingdao Haidarui Procurement Service Co., Ltd. (青島海達瑞採購服務有限公司) and Qingdao Haidayuan Procurement Service Co., Ltd. (青島海達源採購服務有限公司), serves as centralised platforms for procurement of electrical products and components, allowing our Group to procure components and materials at preferential prices and terms over the market.

Based on our previous experience in business dealings with Haier Group and its associates, we believe that our Group is capable of effectively satisfying the demands of Haier Group and its associates for the sales of Products and Materials for Sale at prices and terms no less favourable to those we offered to Independent Third Parties, which is in the interests of our Group and the Shareholders as a whole.

Pricing policy:

The fees to be charged for the Products and Materials for Sale to be sold by our Group to Haier Group and its associates pursuant to the Products Sales Framework Agreement shall be at such prices to be agreed between the parties, in particular:

- The prices of sales of products and the smart home solutions will be determined taking into account the type of products and solutions, retail volume, market conditions and others, and will be not lower than the price of products and solutions of the similar nature, type and quality provided by our Group to comparable Independent Third Parties in the market.

- The prices of sales of components and materials will be determined based on actual sales prices of the components and materials plus a commission fee rate (which is for the purpose of covering the relevant operational and administrative expenses of the members of our Group in providing the components and materials) of no more than 1.25%.

The sales (including the applied discount rates and commission fee rates) shall be on terms no less favourable to our Group than those prevailing in the PRC market for products, components and materials of the same or comparable type, nature and quality and at similar time as well as those offered by our Group to Independent Third Parties. In determining the prevailing market price, our Group will collect the relevant market information, review quotes offered by at least two other Independent Third Parties (for sales of products) and compare the transactions conducted or quotes offered in the last three years (for sales of components and materials) of the same or comparable type, nature and quality entered into between the Independent Third Parties and our Group. In the event that there are no appropriate Independent Third Parties providing products and materials of same or similar quality, our Group will refer to the fees and terms of products of same or similar quality provided by Haier Group and its associates to Independent Third Parties (and Haier Group and its associates agree to provide such information), cost of products and materials, estimated value and market prices for comparison and referencing purpose.

The exact sales prices charged by us and the time for payment will be determined at arm's length basis between the parties when entering into separate underlying contracts according to the principles provided in the Products and Materials Sales Framework Agreement.

Historical amount:

The total transaction amount of the above Products and Materials for Sale provided by our Group to Haier Group and its associates for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB6,624 million, RMB6,478 million, RMB5,257 million and RMB1,052 million, respectively.

Annual caps:

The annual transaction amounts to be paid to us by Haier Group and its associates under the Products and Materials Sales Framework Agreement for the three years ending 31 December 2022 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2020	**2021**	**2022**
Transaction amount to be paid to us by Haier Group and its associates	4,638	4,963	5,310

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

(i) the historical amounts of the transactions between our Group and Haier Group and its associates during the Track Record Period in respect of our provision of Products and Materials for Sale. The annual cap under the Products and Materials Sales Framework Agreement for the year ending 31 December 2020 is estimated with reference to the average transaction amount of RMB6,120 million for the three years ended 31 December 2019, taking into account the incurred transaction amount of RMB3,459 million for the nine months ended 30 September 2020, reflecting an 229% increase from the amounts incurred during the first half of 2020. The annual caps under the Products and Materials Sales Framework Agreement for each of the two years ending 31 December 2022 is estimated based on a 7% year-on-year increase in the transaction amount, which is a conservative estimation considering an expected CAGR of 9.6% in the major appliances market in the PRC in terms of retail value during the period of 2020 to 2022, according to Euromonitor;

(ii) the existing contract value and the increasing demand for the Products and Materials for Sale by Haier Group and its associates to meet up with its future growth prospects, in light of the expected recovery and bounce back from decrease in customer demands during the first half of 2020 caused by the COVID-19 pandemic, considering consumer's long-term demand for our products is not expected to be significantly affected by the COVID-19 pandemic (according to the Euromonitor Report), as well as the expected development trend of domestic demand for electrical, water and home appliance products in the PRC. For instance, certain housing decoration subsidiaries of Haier Group have been purchasing our home appliances for their increasing volume of provision of full-suite housing solutions to customers. In addition, certain bio-medical subsidiaries of Haier Group have been undertaking bio-medical research projects in light of the epidemic situation, thus their demands for our relevant products, such as electrical thermometers, will continue to increase. and

(iii) other factors including but not limited to the expected increase in unit price of our Products and Materials for Sale as a result of the increase in costs and expense relating to raw materials, labour and others as well as market trends, according to Euromonitor.

7. Products and Materials Procurement Framework Agreement

Parties: Haier Group (as supplier); and

Our Group (as purchaser).

Principal terms:

We entered into a products and materials procurement framework agreement with Haier Group on 9 November 2020 (the "**Products and Materials Procurement Framework Agreement**"), under which our Group has agreed to procure certain products and materials (the "**Products and Materials to Procure**") from Haier Group and its associates on a non-exclusive basis, from time to time.

Pursuant to the Products and Materials Procurement Framework Agreement, the Products and Materials to Procure to be purchased by our Group from Haier Group and its associates mainly include:

- products (the "**Products to Procure**") for internal consumption and resale uses, including but not limited to televisions and computers manufactured or sourced by Haier Group and its associates, together with relevant supporting services such as products warranty services;
- production and experimental equipment used, idled, procured and/or tailor-made by Haier Group and its associates (the "**Equipment to Procure**") for our internal consumption use; and
- raw materials and parts required (the "**Materials to Procure**") for production use.

The Products and Materials Procurement Framework Agreement is valid from the Listing Date to 31 December 2022. Our Group has an option, in its entire discretion, to renew the Products and Materials Procurement Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group does not have reciprocal rights under the Products and Materials Procurement Framework Agreement. Both parties and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Products and Materials Procurement Framework Agreement.

Reasons for the transaction:

The Group and Haier Group have a long-term and stable business relationship. Haier Group is familiar with our business process and needs, quality standards and operational requirements, and is able to supply the Products and Materials to Procure needed by us on a constant basis. Our Directors believe that maintaining a stable and quality business relationship with Haier Group will facilitate our current and future business operations.

In terms of the purchase of Products to Procure from Haier Group and its associates, the Products and Materials Procurement Framework Agreement allows our Group to secure the supply of products manufactured and sourced by Haier Group for our internal consumption and resale purpose, and solidifies the basis on which our Group may continue to develop its sales operations. Upon acquiring the Products to Procure from Haier Group, our Group may distribute the products utilising its global channelling capabilities via both international and domestic distribution channels.

In terms of the purchase of Equipment to Procure, our Group are allowed to utilise the resources, design and production advantages of Haier Group and its associates to obtain the Equipment to Procure for production and development of our own products and related components at preferential prices and terms, and to utilise the import and export platform of Haier Group and its associates for procurement of imported equipment.

In terms of the purchase of Materials to Procure, our Group are allowed to leverage on the scale and efficiency of the centralised procurement platform of Haier Group and its associates for its production operations of different segments, such as the laundry appliances and water heater manufacturing segments, thereby lowering our Group's procurement costs.

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Based on our previous experience in business dealings with Haier Group and its associates, we believe that Haier Group and its associates are capable of effectively satisfying our demands for relevant stable and quality products, equipment and materials, which is in the interests of our Group and the shareholders as a whole.

Pricing policy:

The procurement amount to be charged by Haier Group and its associates for the Products to Procure shall be negotiated by the parties at arm's length basis on terms no less favourable than those offered to our Group by Independent Third Parties. In determining the prevailing market price, our Group will collect and review quotes offered by at least two other Independent Third Parties for products of the same or similar quality for comparison. In the event that there are no appropriate Independent Third Parties providing products and materials of same or similar quality, our Group will refer to the fees and terms of products of same or similar quality provided by Haier Group and its associates to Independent Third Parties (and Haier Group and its associates agree to provide such information), cost of products and materials, estimated value and market price for comparison and referencing purpose.

The procurement amount to be charged by Haier Group and its associates for the Equipment to Procure will be determined based on arm's length negotiation after taking into account various factors such as the sources, depreciation, and net asset values of such equipment, relevant cost and expense (such as purchase price of such equipment, relevant operational and administrative expenses, etc.), with reference to the estimated values and market prices, which is determined based on the historical prices paid by our Group to Independent Third Parties in procuring the equipment of similar type and quality, and the quotes from at least two other Independent Third Parties collected and reviewed by our Group for equipment of similar type and quality on a regular basis for comparison.

The procurement amount to be charged by Haier Group and its associates for the Materials to Procure will be determined based on the actual cost (for example, prices obtained by Haier Group and/or its associates through bidding process (if applicable) or other actual purchase prices) plus a commission fee rate (which is for the purpose of covering the relevant operational and administrative expenses of Haier Group and its associates in providing the materials) of no more than 1.25%, or based on market prices.

Our Group will obtain quotes from Independent Third Parties for similar transactions for comparison and reference and in any event, the consideration terms for such procurement shall be no less favourable than terms offered by Independent Third Parties to our Group with regard to the same quantity and quality of comparable products, equipment and materials at similar time.

Historical amount:

The total transaction amount of the above procurement by our Group from Haier Group and its associates for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB31,208 million, RMB23,323 million, RMB19,976 million and RMB8,715 million, respectively.

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Annual caps:

The annual transaction amounts to be paid by us to Haier Group and its associates under the Products and Materials Procurement Framework Agreement for the three years ending 31 December 2022 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December (RMB million)		
	2020	2021	2022
Transaction amount to be paid by us to Haier Group and its associates	20,500	22,550	24,805

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

(i) the historical amounts of the transactions between our Group and Haier Group and its associates during the Track Record Period in respect of our purchase of the Products and Materials to Procure. The annual cap under the Products and Materials Procurement Framework Agreement for the year ending 31 December 2020 is estimated with reference to the average transaction amount of RMB24,836 million for the three years ended 31 December 2019, taking into account the incurred transaction amount of RMB13,429 million for the nine months ended 30 September 2020, reflecting an 54% increase from the amounts incurred during the first half of 2020. Furthermore, the Company expects the needs for sales related service will further increase, thus the growth rate of transaction amount in the fourth quarter of 2020 will be higher than that in the third quarter of 2020 taking into account the seasonal patterns for the amounts under the Products and Materials Procurement Framework Agreement due to various major holidays and shopping events which take place in the fourth quarter of 2020. In Chinese market, we typically experience sales peaks taking place in the second half of the year, such as during the period of or prior to major Chinese festivals, including the Mid-Autumn Festival, National Day and 11.11 global shopping festival. In some of our overseas markets, we typically experience sales peaks in the fourth quarter with a higher concentration of holidays such as Christmas and shopping events such as Black Friday, which rapidly raise our demands for Materials to Procure for production uses, as well as the Products to Procure as the Company typically increases purchases of Haier Group's products during the season according to past experiences. The annual caps under the Products and Materials Procurement Framework Agreement for each of the two years ending 31 December 2022 is estimated based on a 10% year-on-year increase in the transaction amount, which is a conservative estimation considering an expected CAGR of 9.6% in the major appliances market in the PRC in terms of retail value during the period of 2020 to 2022, according to Euromonitor;

(ii) the existing contract value and the increasing demand for the Products and Materials to Procure by us to meet up with our future growth prospects as well as the expected development trend of retail volume, in light of the expected recovery and bounce back of demand in products, equipment and materials relating to our business growth from the negative impact caused by the COVID-19 pandemic during the first half of 2020 (according to the Euromonitor Report). For instance, our demand for relevant production and experimental equipment from Haier Group and its associates is expected to increase due to the intelligent upgrading plan of our existing production lines; and

(iii) the disposal of COSMO by our Company to Haier Group, which becomes our connected person in 29 September 2020. It is expected that our Company will continue to purchase the Products and Materials to Procure from COSMO, which accounts for approximately 26% of the proposed annual caps for the coming years after Listing, which is consistent with the level of contribution from transaction amounts incurred between COSMO and our Group (excluding COSMO) during the Track Record Period, and the estimated transaction amounts for 2020 to 2022 are in line with the relevant historical amounts incurred during the Track Record Period; and

(iv) other factors including but not limited to the expected increase in unit price of the products, equipment and materials and parts as a result of the increase in labour and other costs and expenses as well as market trends.

8. Financial Services Framework Agreement

Parties: Haier Group (as service provider); and

Our Group (as service recipient).

Principal terms:

We entered into a financial services framework agreement with Haier Group on 9 November 2020 (the "**Financial Services Framework Agreement**"), under which Haier Group and its associates, mainly Haier Group (Qingdao) Financial Holdings Limited and Haier Group Finance Co., Ltd. (collectively "**Haier Group Finance**") etc., agreed to provide financial services to our Group on a non-exclusive basis from time to time.

Pursuant to the Financial Services Framework Agreement, the services to be provided by Haier Group and its associates to our Group include:

- Deposit services;
- Loan services and entrusted loan services; and
- Other financial services including:
  (1) spot sale and purchase of foreign exchange services;
  (2) financial derivatives trading service;
  (3) finance and financing related advisory services, credit certification and related consulting and agent services;
  (4) fund settlement services for transactions;
  (5) approved insurance agency services;
  (6) provision of guarantee;
  (7) commercial drafts acceptance and discount services;

(8) intra-group transfer and settlement services and planning of settlement scheme;

(9) financial leasing services;

(10) corporate bond underwriting services;

(11) consumer credit, buyer's credit and financial leasing services for products of our Group; and

(12) other services as approved by China Banking Regulatory Commission.

(collectively "**Other Financial Services**")

The Financial Services Framework Agreement is valid from the Listing Date and expire on the date of the 2020 annual general meeting of the Company to be convened in early 2021. Our Group has an option, in its entire discretion, to renew the Financial Services Framework Agreement upon expiry (subject to adjustment of fees where necessary) for another term of three years. Haier Group and its associates do not have reciprocal rights under the Financial Services Framework Agreement. Both parties and their respective subsidiaries or associates will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Financial Services Framework Agreement. In respect of the deposits placed by our Group with Haier Group and its associates and in the event that Haier Group and its associates misuses or defaults in using such deposits or in any other circumstances, is unable to repay our Group's deposits (including accrued interests), our Group is entitled to set off such deposits (including accrued interests) against the outstanding loans (including accrued interests) extended by Haier Group and its associates to our Group. However, in the event that our Group fails to repay its loans extended by Haier Group and its associates on time, Haier Group and its associates will not be entitled to set off the outstanding loans (including accrued interests) due from our Group against the deposits (including accrued interests) placed by our Group with Haier Group and its associates, except as otherwise provided by the laws and regulations of the PRC.

Reasons for the transaction:

Haier Group Finance, as enterprise group finance companies specialising in home appliance industry, can, subject to the supervision of the China Banking and Insurance Regulatory Commission provide a chain of various financial solutions to our Group in a more efficient and flexible manner than independent commercial banks. In addition, Haier Group Finance Co., Ltd. obtained the approval for carrying out foreign exchange business in 2007. The interest rate of deposits provided by Haier Group Finance is not less favourable than that of commercial banks obtained by the Group, for deposits of similar nature and term. The reasons for and the benefits to our Group to use the financial services of Haier Finance include but are not limited to: (i) Haier Group Finance's better understanding of the operations and development needs of our Group which should allow more expedient and efficient provision of various tailor-made packaged financial services to our Group than other external banks in the PRC; (ii) the enhanced cost savings by reducing the amount of finance fees and charges payable to external banks when Haier Group Finance can offer more favourable terms than those offered by external banks; (iii) Haier Finance Group have fulfilled all terms of the financial services agreement signed with our Group historically.

Based on our previous experience in business dealings with Haier Group Finance, we believe that Haier Group Finance are capable of effectively satisfying our demands for financial services, which is in the interests of our Group and the shareholders as a whole.

Pricing policy:

In terms of deposit services, pursuant to the Financial Services Framework Agreement, in respect of domestic RMB deposits, Haier Group and its associates provides deposit services to our Group, referring to the benchmark deposit interest rate announced by the PBOC on its official website for the same period from time to time, at an interest rate no less favourable than the highest interest rate for the same type of deposits as quoted by Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China and all the listed national joint stock banks in the PRC.

In terms of loan services, Haier Group and its associates will provide loans to our Group at a price no less favourable than the market prices determined at arm's length basis with reference to the borrowing rate for the same type of loans charged by other major financial institutions/commercial banks. The entrusted loan services provided by Haier Group and its associates as a financial service institution for our Group are provided on a free-of-charge basis. Our Group may use the internet banking system of Haier Group and its associates for settlement on a free-of-charge basis.

In terms of provision of Other Financial Services, the fees charged by Haier Group and its associates will be determined based on relevant market prices with reference to the benchmark rates published by the PBOC on its official website from time to time; if there is no such benchmark rates published by the PBOC for that kind of financial service, the fee will be determined with reference to, amongst other factors, the rates charged by other major financial institutions/commercial banks for the same types of services and on terms no less favourable than those offered by independent commercial banks/financial institutions in the PRC to our Group. Haier Group and its associates pools its resource advantages to obtain the lowest service fees and the best services from external financial institutions, and agrees that Haier Group and its associates will not charge any intermediate fees except those charged by external banks. In addition, Haier Group and its associates agrees to waive all the service fees to be paid by our Group to Haier Group and its associates, including without limitation, POS fees, account management fees, online banking activation fees, inquiry fees, deposit certificate fees, credit certificate fees, and internal settlement fees.

Historical amount:

The maximum daily outstanding balance of deposits placed by our Group with Haier Group Finance for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB17,132 million, RMB16,602 million, RMB17,752 million and RMB20,000 million, respectively. The corresponding interest income received by our Group from Haier Group Finance for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were RMB51 million, RMB77 million, RMB81 million and RMB56 million, respectively.

The maximum daily outstanding balance of loans granted by Haier Group Finance to our Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were

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approximately RMB9,831 million, RMB4,516 million and RMB2,737 million and RMB3,680 million, respectively. The corresponding interest expenses paid by our Group to Haier Group Finance for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were RMB271 million, RMB125 million, RMB73 million and RMB53 million, respectively.

The maximum daily trading balance of foreign exchange derivative products by Haier Group Finance for our Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB1,706 million, RMB2,019 million, RMB1,850 million and RMB3,375 million, respectively.

The service fee for Other Financial Services to be paid by our Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 were approximately RMB20 million, RMB23 million, RMB22 million, and RMB12 million.

Annual caps:

The maximum transactions amounts under the Financial Services Framework Agreement for the date of the 2020 annual general meeting of the Company to be convened in early 2021 shall not exceed the caps set out below:

	Proposed annual caps for the date of the 2020 annual general meeting of the Company to be convened in early 2021 (RMB million)
Deposit Services	
(a) Maximum daily outstanding balance of deposits placed by us	25,100
(b) Interest income	86
Loan Services	
(a) Maximum daily outstanding balance of loans granted to us	3,977
(b) Interest expense	103
Other Financial Services	
(a) Maximum daily trading balance of foreign exchange derivative products	5,500
(b) Service fee	22

Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

In terms of Deposit Services:

(i) the historical transaction amounts of deposits and the underlying interest income we received from Haier Group Finance mentioned above, taking into account the incurred maximum daily outstanding balance of deposits of RMB22,950 million for the nine months ended 30 September 2020, reflecting a 15% increase from the balance incurred during the first half of 2020, and the incurred interest income of RMB71 million for the nine months ended 30 September 2020. The cap for maximum daily trading balance of deposits has an 9% increase compared to the incurred amount in the nine months ended 30 September 2020, which is a conservative estimation in line with our business growth and considering the 15% increase in just the third quarter of 2020 and the cap has to be applied for the remaining period until the date of the next annual general meeting of our Company, half a year away from the date of this Listing Document; and

(ii) the estimated cash amounts as well as daily cash inflows of our Group available for deposit at Haier Group Finance. As part of our finance management measures, our Company sets maximum daily outstanding balance amount for the Group's deposits placed at Haier Group Finance every year, which remains generally stable for recent years so as to allow sufficient financial allocation flexibility for the Group. In addition, the business development plans and the growth profile of our Group has also been taken into account. Our development plan of production lines and capacities has led to an increase in short-term deposits and demand of fund settlements. In particular, the increase in distribution business volume has led to an increase of the frequency and volume in the Group's settlements through Haier Group Finance. We have also taken into account the potential increase in settlements from transactions in light of the expected recovery and bounce back of our business growth from the impact caused by the COVID-19 pandemic during the first half of 2020. In particular, the demand for our products and services is not expected to be significantly affected by the COVID-19 pandemic (according to the Euromonitor Report), and settlements from transactions are expected to increase together with the general market trend and the improvement of our capabilities. Considering the scale of the Group with over 300 subsidiaries and that the impact caused by the COVID-19 pandemic during the first half of 2020 affected the business plans of the Group generally, an increase in deposit demands of the Group in light of the expected recovery and bounce back from the COVID-19 pandemic leads to a higher estimated annual cap for the year ending 31 December 2020. More cash would be retained at the accounts with Haier Group Finance.

In terms of Loan Services:

(i) the historical transaction amounts of loans and the underlying interest expense we paid to Haier Group Finance, taking into account the incurred maximum daily outstanding balance of loans of RMB3,711 million and the incurred interest expense of RMB83 million for the nine months ended 30 September 2020; and

(ii) the estimated increase of loan demands of our Group. As part of our finance management measures, our Company sets maximum daily outstanding balance amount for the Group's loans obtained from Haier Group Finance every year, which remains generally stable for recent years so as to satisfy financing needs of members of the Group from time to time. In addition, the business development plans and the growth profile of our Group has also been taken into account, especially the needs of members of our Group for short term funds to support business activities such as enlarging production lines and mergers and acquisitions. We have also taken into account the potential increase in loan demands for project needs in light of the expected recovery and bounce back of our business growth from the impact caused by the COVID-19 pandemic during the first half of 2020, as the pace for our project developments has picked up in the second half of 2020 and we have begun to explore diversified expansion plans which require capital resources.

In terms of Other Financial Services:

(i) the historical transaction amounts of Other Financial Services and the underlying services fees we paid to Haier Group Finance, taking into account the incurred maximum daily trading balance of foreign exchange derivative products of RMB4,181 million for the nine months ended 30 September 2020, reflecting a 24% increase from the balance incurred during the first half of 2020, and already a 126% increase from the balance incurred during 2019, and the incurred service fee of RMB19 million for the nine months ended 30 September 2020. The surge in incurred trading balance of foreign exchange derivative products in 2020 is mainly due to the increase of hedging needs of our Group against foreign exchange risks considering (1) the addition of multiple overseas subsidiaries to our Group through establishments in 2020; and (2) the escalated instability in the global markets caused by events including but not limited to breakout of the COVID-19 pandemic and the upcoming presidential election of the United States, leading to increasing fluctuation of foreign exchange risks. The cap for maximum daily trading balance of foreign exchange derivative products is estimated based on an approximate of 30% increase from the balance incurred during the third quarter of 2020, which is a conservative estimate considering the 24% increase in just the third quarter of 2020 and the cap has to be applied for the remaining period until the date of the next annual general meeting of our Company, half a year away from the date of this Listing Document; and

(ii) the anticipated increase in our Group's demand for global financial services. As part of our finance management measures, in accordance with *Management Policy on Foreign Exchange Risks* and *Management System on Foreign Exchange Derivatives Transactions of Haier Smart Home Co., Ltd.*, to minimise the exposure of our Group towards foreign exchange risks and based on actual business needs, our Company sets maximum daily trading balance of foreign exchange derivative products purchased from Haier Group Finance every year, which remains generally stable for recent years to satisfy hedging needs of members of the Group from time to time for its overseas business segments. Considering our Group has been expanding its global business portfolio and growth profile through acquisitions of appropriate overseas targets, our demand for global financial services, especially the foreign exchange derivative products, to satisfy its hedging needs increases accordingly. For instance, we have increased our exposure in the Japanese and Southeast Asian market through acquisition of Haier Singapore Investment in 2015, the North American market through its acquisition of GE Appliances in 2017, the European market through its acquisition of Candy in 2019, among others. As we expect to continue strengthening our global business performance and presence, it may result in further exposure to foreign exchange risks which requires hedging. See "History and Corporate Structure – Major Acquisitions and Disposal" for further details. In addition, continued instability in the global markets, including geopolitical events and instability in the global political environment, such as the deterioration in the relationship between China and the United States and UK's withdrawal from the European Union, has contributed to periods of increased economic uncertainty in recent years and may lead to fluctuations in the foreign exchange market, which in turn increases our hedging needs. By way of further illustration, in 2019, overseas revenue of our Company accounted for 47% of our total revenue, the amounts of foreign currency receipts and payments, foreign currency deposits and loans were large, and the impact of exchange rate fluctuations on our Company's operating results was increasing.

INTERNAL CONTROL MEASURES

In order to ensure the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable or no less favourable than terms available to or from Independent Third Parties and are carried out under normal commercial terms or better, which are in line with the interests of our Company and our shareholders as a whole, our Company has adopted the following guidelines and principles in monitoring the transactions between our Group and our connected parties, namely:

- our Company will report the transactions under the relevant agreements with our connected parties to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the Audit Committee meeting agenda each year;
- our Company will review the transactions with our connected parties to identify any continuing connected transactions that may be at risk of exceeding the proposed annual caps, and any measures to be taken in respect of such continuing connected transactions. Our Group has established a series of measures to ensure that such continuing connected transactions will be conducted in accordance with the terms of the relevant agreements. These measures include:

  (1) our Company will have specifically designated personnel from the relevant departments to monitor the transactions under the relevant agreements and will report to the management of the Company regularly in relation to the transactions; and

  (2) our Group will conduct random internal checks to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective.
- Our independent non-executive Directors will review the continuing connected transactions under the relevant agreements annually to check and confirm in the annual reports of our Company whether such continuing connected transactions have been conducted in the ordinary and usual course of business of our Company, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by our Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policy set out in the relevant agreements.

WAIVERS FROM THE STOCK EXCHANGE

As we expect such non-exempt continuing connected transactions under each of Property Leasing Framework Agreement, the Services Supply Framework Agreement, the Services Procurement Framework Agreement, the Products and Materials Sales Framework Agreement, the Products and Materials Procurement Framework Agreement and the Financial Services Framework Agreement (collectively, the "**Non-exempt Framework Agreements**") will continue on a recurring and continuing basis, the Directors of our Company (including the independent non-executive Directors) consider that strict compliance with the above announcement and independent shareholders' approval requirements (as the case may be) would add unnecessary administrative costs and would be unduly burdensome. Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted the Company, a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement and independent shareholders' approval (if applicable) requirements in respect of the non-exempt continuing connected transactions under each of the Non-exempt Framework Agreements. Our Company will comply with the applicable requirements under the Listing Rules if any of the proposed caps set out above are exceeded, or when there is a material change in the terms of these transactions. Apart from the announcement and independent shareholders' approval requirements (as the case may be) for which waiver have been sought, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the transactions contemplated under the abovementioned agreements are altered or if our Company enters into any new agreements with any connected persons in the future, we will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) of our Company are of the view that (i) each of the Non-exempt Framework Agreements has been and will be entered into during our ordinary and usual course of business of the Group on normal commercial terms or better, and is fair and reasonable and in the interests of our Company and the Shareholders as a whole, and (ii) the proposed caps under each of the Non-exempt Framework Agreements are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that (i) each of the Non-exempt Framework Agreements has been and will be entered into in the ordinary and usual course of business of the Group on normal commercial terms or better, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole and (ii) the proposed caps under each of the Non-exempt Framework Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

OVERVIEW

The Board currently consists of eight Directors, amongst whom two are executive Directors, three are Non-executive Directors and three are Independent Non-executive Directors. The Board is responsible, and has the general authority for, the management and operation of the Company. Our Directors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office. The Independent Non-executive Directors shall not hold office for more than six consecutive years.

Our Board of Supervisors currently consists of three Supervisors, amongst whom two are Supervisors appointed by shareholders' general meetings and one is Employee Supervisor, elected at employee representative meetings. Our Supervisors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office.

Our senior management is responsible for the management of day-to-day operations of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table shows the key information of our Directors as at the Latest Practicable Date. All of our Directors meet the qualification requirements under the Hong Kong Listing Rules and relevant PRC laws and regulations for their positions.

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LIANG Haishan (梁海山)	53	August 1993	12 June 2007	Chairman of the Board and Executive Director	Responsible for convening and chairing general meetings and Board meetings; and presides over the overall management and decision-making of major strategies and the development and investment plan of the Group	None
Ms. TAN Lixia (譚麗霞)	50	May 2008	20 May 2008	Vice Chairwoman of the Board and Non-executive Director	Assists the Chairman of the Board to preside over operations of the Board; and participates in formulation of business plans, strategic and major decisions of the Group through the Board	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LI Huagang (李華剛)	51	November 2009	18 June 2019	Executive Director and General Manager	Participates in formulation of business plans, strategic and major decisions of the Group through the Board; and responsible for the overall day-to-day operation and management of the Group	None
Mr. WU Changqi (武常岐)	65	April 2013	19 April 2013	Non-executive Director	Participates in evaluation and approval of business plans, strategic and major decisions of Group through the Board	None
Mr. LIN Sui (林綏)	63	June 2019	18 June 2019	Non-executive Director	Participates in evaluation and approval of business plans, strategic and major decisions of Group through the Board	None
Mr. DAI Deming (戴德明)	58	June 2015	10 June 2015	Independent Non-executive Director	Supervises and offers independent judgement to the Board and/or serves as chairman and/or member of certain committees of the Board	None
Mr. CHIEN, Da-chun (錢大群)	67	June 2016	18 June 2019	Independent Non-executive Director	Same as above	None
Mr. WONG, Hak Kun (王克勤)	64	June 2020	3 June 2020	Independent Non-executive Director	Same as above	None

The following table shows the key information of our Supervisors. All of our Supervisors meet the qualification requirements under relevant PRC laws and regulations for their positions.

Name	Age	Date of joining the Group	Date of appointment as Supervisor	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. WANG Peihua (王培華)	63	June 2010	25 June 2010	Chairman of the Board of Supervisors	Responsible for organising the normal operation of the Board of Supervisors, supervises the Board and management, examines significant matters of the Company, and expresses	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining the Group	Date of appointment as Supervisor	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
					independent supervision opinions	
Mr. MING Guoqing (明國慶)	59	December 1994	12 June 2007	Supervisor	Supervises the Board and management, examines significant matters of the Company, and expresses independent supervision opinions	None
Mr. YU Miao (于淼)	37	April 2012	8 January 2019	Employee Representative Supervisor	Same as above	None

The following table shows the key information of our senior management:

Name	Age	Date of joining the Group	Date of appointment as senior management	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LI Huagang (李華剛)	51	November 2009	29 April 2019	Executive Director and General Manager	Responsible for the overall day-to-day operation and management of the Group	None
Mr. GONG Wei (宮偉)	46	July 1994	8 January 2010	Vice General Manager and Chief Financial Officer	Assists the General Manager with the day-to-day operation and management of the Group; and responsible for, in particular, the overall corporate finance, audit and capital management of the Group	None
Ms. MING Guozhen (明國珍)	56	May 2008	20 May 2008	Vice General Manager and Board Secretary	Assists the General Manager with the day-to-day operation and management of the Group; and responsible for, in particular, overseeing information disclosure and investor relations, organising shareholders' meetings and Board meetings, and secretarial affairs of the Board	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Chairman of the Board

Mr. LIANG Haishan, aged 53, has been the Chairman of the Board since April 2013 and an Executive Director of the Company since June 2007. He is currently also a non-executive director of HEG since November 2009. He also currently serves as the deputy chairman of the board of directors of Haier Group Corporation, and directors of certain subsidiaries of Haier Group, including Haier International Appliances, Haier Finance, and Haier Group (Qingdao) Financial Holdings Limited. Mr. LIANG has over 20 years of experience in the manufacture of household electrical appliances, particularly in raw material procurement function and white goods business. His primary working experience includes: serving as the head of the quality department of Qingdao Haier Refrigerator Co., Ltd., our predecessor entity, from August 1993 to August 1994; serving as the general manager of Qingdao Haier Air Conditioner Gen Corp., Ltd. from October 1995 to August 1999; successively serving as an executive director of HEG from December 2001 to November 2009; serving as the Vice Chairman of the Board from June 2007 to April 2013; serving as the general manager of the Company from June 2007 to April 2019.

Mr. LIANG obtained a Bachelor's degree of Industry, a Master's degree in Business Administration from Xi'an Jiaotong University in Xi'an, the PRC in July 1988 and December 2009, respectively. Mr. LIANG was named one of the Top 10 Leaders in China Strategic Emerging Industries (十大中國戰略性新興產業領軍人物獎) by China Strategic Emerging Industry Development Forum (中國戰略性新興產業發展論壇) in May 2012 and obtained the Outstanding Leadership Award of the National Light Industry Enterprise Information (全國輕工業企業信息化優秀領導獎) from the China Light Industry Federation (中國輕工業聯合會) in September 2012. He also received the Prize of Technology Advancement for China Household Appliances in October 2013, the 2017 Forbes China Best CEO of Listed Company in July 2017 and the 2017 Taishan Industry Leading Talent of Shandong Province in December 2017.

Vice Chairwoman of the Board

Ms. TAN Lixia, aged 50, currently serves as the director of Haier Group Corporation, and has been a Non-executive Director of the Company since May 2008 and the Vice Chairwoman of the Board since June 2010. She also currently serves as the chairwoman of board of directors of Qingdao Haier Biomedical Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 688139)) since July 2018. Ms. TAN also serves as a non-executive director of Bank of Qingdao Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 03866) and the Shenzhen Stock Exchange (stock code: 002948)) since April 2012, the chairwoman of board of directors of INKON Life Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 300143)) since May 2019 and a non-executive director of China International Capital Corporation Limited (a company listed on the Hong Kong Stock Exchange (stock code: 03908)) since February 2020. Ms. TAN served as a non-executive director of HEG from November 2013 to March 2019 and a member of the audit committee of HEG from June 2014 to March 2019.

Ms. TAN graduated from Central Institute of Finance and Banking (中央財政金融學院, now known as Central University of Finance and Economics) in Beijing, the PRC, majoring in agricultural finance and credit, and obtained a Bachelor's degree in June 1992. She obtained a Master's degree of Business Administration (part-time) from the China Europe International Business School in Shanghai, the PRC upon completion of the Executive Master of Business Administration ("**EMBA**") programme in September 2010. She has been studying in the Global Finance Doctorate programme (part-time) at Wudaokou School of Finance of Tsinghua University in Beijing, the PRC since July 2016. Ms. TAN is among the first badge of Superior Management Accountants (特級管理會計師) accredited by China Association of Chief Accountants in April 2019. Ms. TAN was accredited as a Certified Public Accountant by the Australian Society of Certified Practising Accountants in December 2015. She is a Fellow of the Chartered Institute of Management Accountants (CIMA) and was designated as a Chartered Global Management Accountant (CGMA) in September 2013. She has been a member of the 12th session of executive committee of the All-China Women's Federation since November 2018. Ms. TAN was titled a Model Worker of Shandong Province (山東省勞動模範) by Shandong Provincial Party Committee and Provincial Government in April 2013, a National Outstanding Entrepreneur (全國優秀企業家) by China Enterprise Federation and China Entrepreneurs Association in June 2014, one of the China Top Ten Women in Economic Area (中國十大經濟女性年度人物) in January 2006 and the China CFO of the Year (中國總會計師年度人物) in November 2006.

Executive Directors

Mr. LI Huagang, aged 51, has been an Executive Director of the Company since June 2019 and the General Manager of the Company since April 2019. Mr. LI has served as the chief marketing officer of PRC Region of the Company since December 2015, mainly responsible for promoting brand upgrade and channel optimisation strategy for online business and offline domestic business of the Company. Mr. LI currently serves as an executive director of HEG since March 2019, and a director of various subsidiaries of our Group, including, among others, Chongqing New Goodaymart Electronics Sales Co., Ltd. Mr. LI has over 25 years of experience in the industry of manufacture, sales and marketing of household electrical appliances and corporate management. Mr. LI joined Haier Group in July 1991 and had since then held various senior positions in the sales and marketing functions of Haier Group until his resignation from the positions in Haier Group on 2 November 2020. Mr. LI also served as the chief operating officer and chief executive officer of HEG from November 2009 to March 2014 and from August 2017 to March 2019, respectively.

Mr. LI obtained a Bachelor's degree of Economics in technology and economy from Huazhong University of Science and Technology in Wuhan, the PRC in July 1991, and a Master's degree of Business Administration (part-time) from the China Europe International Business School in Shanghai, the PRC in January 2014.

Non-executive Directors

Mr. WU Changqi, aged 65, has been a Non-executive Director of the Company since April 2013. He is currently the director of Guanghua Leadership Institute (光華領導力研究中心) of Peking University since March 2011 and the president of Academy of Development Strategy for National High-Tech Industry Zones, Peking University (北京大學國家高新技術產業開發區發展戰略研究院) since June 2011. Mr. WU currently serves as an independent non-executive director of Beijing Media Corporation Limited, (a company listed on the Hong Kong Stock Exchange (stock code: 01000)) since

June 2016, and an independent director of Yijiahe Technology Co., Ltd. (億嘉和科技股份有限公司, a company listed on the Shanghai Stock Exchange (stock code: 603666)) since August 2016. Mr. WU has over 25 years of experience in research and studies in high-tech industry, business administration and corporate management. Mr. WU's previous working experience primarily include: serving as an assistant professor and associate professor of the Department of Economics of School of Business and Management of Hong Kong University of Science and Technology from September 1991 to August 2001; a professor of Guanghua School of Management of Peking University from September 2001 to July 2018; a director of the Department of Strategic Management of Guanghua School of Management of Peking University from September 2001 to December 2010; a director of the EMBA degree programme centre of Guanghua School of Management of Peking University from August 2002 to December 2010; a deputy dean of Guanghua School of Management of Peking University from February 2003 to December 2010; and an independent director of Beijing Electronic Zone High-tech Group Co., Ltd. (北京電子城高科技集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600658)) from December 2012 to June 2019.

Mr. WU obtained a Bachelor's degree of Economics in political economics from Shandong University in Jinan, the PRC in July 1982, and a Master's degree of Business Administration in February 1986 and a Doctoral degree in applied economics from Katholieke Universiteit Leuven in Belgium in October 1990.

Mr. LIN Sui, aged 63, has been a Non-executive Director of the Company since June 2019. Mr. LIN joined Deloitte & Touche as a tax consultant in January 1993. He was transferred to Deloitte Touche Tohmatsu China in January 2002 and served as a partner in Deloitte Touche Tohmatsu China from June 2002 to May 2019, during which he also served as a board member of the Deloitte China practice between September 2008 and May 2012. Mr. Lin is an external master's tutor of School of Economics, Fudan University since 2012, an external master's tutor of School of Public Economics and Administration, Shanghai University of Finance and Economics since 2008. Mr. LIN has around 30 years of experience in accounting, tax and corporate management.

Mr. LIN obtained a Master's degree of Business Administration in Accounting and a Master's degree of Science in Taxation from Baruch College of The City University of New York, the United States in December 1992 and May 1996, respectively. Mr. LIN is a Certified Public Accountant of New York State, the United States of America, and a member of American Institute of Certified Public Accountants.

Independent Non-executive Directors

Mr. DAI Deming, aged 58, has been an Independent Non-executive Director of the Company since June 2015. Mr. DAI currently serves as a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively. He also serves as an independent director in the following companies: China Zheshang Bank Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 02016) and the Shanghai Stock Exchange (stock code: 601916)) since February 2015, BOC Aviation Limited (a company listed on the Hong Kong Stock Exchange (stock code: 02588)) since May 2016, CSC Financial Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 06066) and the Shanghai Stock

Exchange (stock code: 601066)) since August 2016, Power Construction Corporation of China (中國電力建設股份有限公司, a company listed on the Shanghai Stock Exchange (stock code: 601669)) since March 2018, and Poly Developments And Holdings Group Co., Ltd. (保利發展控股集團股份有限公司, a company listed on the Shanghai Stock Exchange (stock code: 600048)) since September 2018. Mr. DAI has over 20 years of experience in accounting, finance and corporate management. Mr. DAI served as an independent director of Shanxi Taigang Stainless Steel Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 000825)) from May 2011 to October 2016, an independent director of Beijing Xinwei Technology Group Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600485)) from September 2014 to September 2016 and an independent director of Beijing Capital Development Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600376)) from September 2015 to May 2018.

Mr. DAI obtained a Bachelor's degree of Economics in industry finance and accounting from Hunan Institute of Finance and Economics (currently known as Hunan University) in Changsha, the PRC in July 1983, a Master's degree of Economics in accounting from Zhongnan University of Finance and Economics (currently known as Zhongnan University of Economics and Law in Wuhan, the PRC in October 1986, and a Doctoral degree of Economics from Renmin University of China in Beijing, the PRC in June 1991.

Mr. CHIEN, Da-chun, aged 67, has been an Independent Non-executive Director of the Company since June 2019. He currently serves as a director of ENN Group Co., Ltd. Mr. CHIEN has over 15 years of experience in business administration and corporate management. Mr. CHIEN worked for over 10 years at International Business Machines Corporation ("**IBM**") group of companies until 2015, achieving various senior management roles before his retirement by the end of 2015. He also served as an independent director of Haier US Appliance Solutions, Inc. from June 2016 to August 2017. In addition to his experience in business corporations, Mr. CHIEN has served as a professor of Management Practice and a member of the Teaching Steering Committee of the third session of the Executive Education Project at the School of Business of Renmin University of China since January 2019.

Mr. CHIEN received a Bachelor of Science from the Department of Mathematics of Tamkang College of Arts and Science (currently known as Tamkang University of Taiwan) in June 1975.

Mr. WONG, Hak Kun, aged 64, has been an Independent Non-executive Director of the Company since June 2020. He currently serves as an independent non-executive director of Yue Yuen Industrial Holdings (Limited) (a company listed on the Hong Kong Stock Exchange (stock code: 00551)) since June 2018, an independent non-executive director of Lung Kee (Bermuda) Holdings Limited (a company listed on the Hong Kong Stock Exchange (stock code: 00255)) since June 2018, an independent non-executive director of Zhejiang Cangnan Instrument Group Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 01743)) since June 2018, and an independent non-executive director of Guangzhou Automobile Group Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 02238) and the Shanghai Stock Exchange (stock code: 601238)) since May 2020. Mr. WONG has over 35 years of experience in auditing, assurance and management. Mr. WONG worked in Deloitte China from July 1980 to May 2017, during which he was a partner since 1992. Mr. WONG also served as a member of Deloitte China's Governance Board from

June 2000 to May 2008. Prior to his retirement from Deloitte China in May 2017, he was Deloitte China's National Managing Partner of Audit & Assurance.

Mr. WONG received a Bachelor's degree of social science from the University of Hong Kong in Hong Kong in November 1980. He is an associate of the Hong Kong Institute of Certified Public Accountants (HKICPA) since December 1983, an associate of the Association of Chartered Certified Accountants (ACCA) since September 1983, an associate of The Institute of Chartered Secretaries and Administrators in United Kingdom since April 1984, and an associate of the Chartered Institute Management Accountants (CIMA) since June 1990.

Save as disclosed in this Listing Document, as at the Latest Practicable Date, (i) none of our Directors held any directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this Listing Document; (ii) to the best knowledge, information and belief of the Directors having made all reasonable inquiries, there were no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules.

SUPERVISORS

Mr. WANG Peihua, aged 63, has been the Chairman of the Board of Supervisors of the Company since June 2010. He currently serves as the head of the Organisation Department of Haier Group since October 2015. Mr. WANG joined Haier Group in November 1991 and has held various positions in Haier Group, including serving as the general manager of Wuhan Haier Electric Co., Ltd., the director of the direct business department of Haier Washing Machine and the deputy secretary of the Party Committee and the deputy director of Haier Group Air-Conditioner Head Office (海爾集團空調本部), Haier Group Freezer & Heater Head Office (海爾集團冷櫃電熱本部) and Washing Machine Head Office (洗衣機本部) from March 1990 to December 1994, from December 1997 to June 1999 and from June 1999 to March 2000, respectively. He served as the chairman of the Labour Union of Haier Group Technology and Equipment Head Office (海爾集團技術裝備本部) from May 2002 to October 2013 and the deputy secretary of Discipline Inspection Committee of Haier Group from February 2010 to September 2015.

Mr. WANG graduated from the Party and Political Cadre Basic Division of Shandong Radio and TV University in Jinan, the PRC in October 1987. He also obtained a business administration training certificate after completing the Chinese Entrepreneur EMBA Special Correspondence Courses (中國企業家EMBA特訓函授班) of the SME International Cooperation Association (中小企業國際合作促進會) in November 2002. Mr. WANG passed the PRC bar exam and obtained the PRC lawyer qualification (non-practising) certificate in January 1990. He obtained the qualification of senior political analyst from Qualification Evaluation Committee for Senior Professional Posts of Qingdao Ideological and Political Workers (青島市思想政治工作人員高級專業職務任職資格評審委員會) in December 2004.

Mr. MING Guoqing, aged 59, has been a Supervisor of the Company since June 2007. He served as the vice chairman of the Labour Union of Haier Group from November 2006 to June 2013 and has served as the chairman of the Labour Union of Haier Group since June 2013. Mr. Ming joined

Haier Group in December 1986 and has held various positions in Haier Group, including successively serving as the deputy leader of the automobile team and the deputy secretary of Discipline Inspection Committee of Qingdao Refrigerator General Factory from December 1986 to June 1993; the secretary of the Party Committee and the vice manager of Qingdao Haier Transportation Company (青島海爾運輸公司) from June 1993 to December 1994; the head of the No. 2 Refrigerator Factory, the deputy head of the Organisation Division, the chairman of the Labour Union and the head of the General Department of our Company from December 1994 to November 2006; the deputy secretary of the Party committee, the secretary of Discipline Inspection Committee, the chairman of the Labour Union and the head of the General Department of Haier Refrigerator Products Head Office (海爾冰箱產品本部) from March 2000 to November 2006.

Mr. MING graduated from PLA Automobile Management School (currently known as PLA Automobile Management College (中國人民解放軍汽車管理學院)) in Bengbu, the PRC in July 1982. He also studied (part-time) in law major at the undergraduate class of the CPC Party School of Shandong Province in Jinan, the PRC from September 2006 to December 2008. He obtained the qualification of senior political analyst from Qualification Evaluation Committee for Senior Professional Posts of Qingdao Ideological and Political Workers (青島市思想政治工作人員高級專業職務任職資格評審委員會) in December 2010. Mr. MING was accredited as an "National Outstanding Labour Union Practitioner (全國優秀工會工作者)" by All-China Federation of Trade Unions in December 2015.

Mr. YU Miao, aged 37, has been an Employee Representative Supervisor of the Company since January 2019. He joined our Company in April 2012 and has since then served as the legal manager of our Company, mainly in charge of management of legal affairs.

Mr. YU obtained a Bachelor's degree of Law from Jinan University in Jinan, the PRC in July 2005, and a Master's degree of Law in economics law from Dongbei University of Finance and Economics in Dalian, the PRC in December 2008. Mr. YU passed the PRC bar exam and obtained the PRC lawyer qualification (non-practising) certificate in February 2008.

Save as disclosed above, none of our Supervisors held any directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this Listing Document. Save as disclosed herein, to the best knowledge, information and belief of the Directors having made all reasonable inquiries, there were no other matters with respect to the appointment of the Supervisors that need to be brought to the attention of our Shareholders and there was no information relating to our Supervisors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. LI Huagang. See "— Directors — Executive Directors".

Mr. GONG Wei, aged 46, has been the Chief Financial Officer of the Company since January 2010 and a Vice General Manager of the Company since April 2013. He also currently serves as a director of Qingdao Thunderobot Technology Co., Ltd. (青島雷神科技股份有限公司, a company publicly traded on the National Equities Exchange and Quotations (stock code: 872190)) since May

2017. Mr. GONG joined our Group in July 1994, and has held various positions, including successively serving as the head of finance of Haier Refrigerator Co., Ltd. from July 1994 to August 1999; the financial manager of Haier Northern China Business Development Division (海爾商流華北事業部) from August 1999 to March 2001; the chief financial officer of Haier White Goods Group (海爾白電集團) from April 2001 to June 2008.

Mr. GONG obtained a Master's degree of EMBA from the University of International Business and Economics in Beijing, the PRC in December 2011. He was granted honorary titles such as "Labour Model of Qingdao City (2012-2014)" in 2015 and "National Outstanding Accounting Workers (全国优秀会計工作者)" in December 2005, and was accredited as one of the Top Ten CFOs in China by "New Money" Magazine (《新理財雜誌》) in April 2012. Mr. GONG was admitted as a fellow of The Chartered Institute of Management Accountants in March 2020.

Ms. MING Guozhen, aged 56, has been a Vice General Manager of the Company since May 2008 and the Board Secretary since April 2009. Ms. MING also currently serves as a director of Qingdao Huaqiao Industrial Co., Ltd. since July 2008. Ms. MING joined Haier in August 2007 and served as the business director and merger & acquisition director of the Haier Asset Operation Division (海爾資產運營事業部) from August 2007 to May 2008. Prior to that, her previous working experience primarily includes: serving as a lecturer of investment department and a deputy director of the Teaching and Research Office of investment department of China Institute of Finance and Banking (中國金融學院) from July 1986 to January 1992; successively serving as salesman, manager, assistant to the general manager in Everbright Bank of China International Trust and Investment Corp. (中國光大國際信託投資公司) from January 1992 to September 1998; serving as the vice president of Everbright International Investment Consulting Corporation (光大國際投資諮詢公司) from October 1998 to December 2000; serving as director of the general office of Analyst Professional Committee (分析師專業委員會), deputy director of the department of association qualification management (協會資格管理部) and deputy director of Association Practitioner Standard Committee (協會執業標準委員會) of Securities Association of China from January 2001 to August 2007.

Ms. MING obtained a Bachelor's degree of Economics in Sichuan Finance and Economics College (四川財經學院, currently known as Southwestern University of Finance and Economics (西南財經大學)) in Chengdu, the PRC in July 1984, and a Master's degree of Economics in Southwestern University of Finance and Economics in Chengdu, the PRC in December 1990. She obtained the title of lecturer granted by the People's Bank of China in June 1992, qualification of economist and senior economist granted by the Senior Professional Technical Function Evaluation Committee of China Everbright (Group) Corporation in May 1993 and November 1994, respectively, and the qualification of board secretary granted by the Shanghai Stock exchange in November 2008. Ms. MING was awarded as a member of "Golden Model Board Secretary Celebrities House (金牌董秘名人堂)" at the 12th session of New Finance Election in June 2016.

Save as disclosed above, none of our senior management held any directorship in any public companies the shares of which are listed in Hong Kong or overseas stock markets during the three years prior to the date of this Listing Document.

To the knowledge, information and belief of the Board, our Directors, Supervisors and senior management do not have any relationship amongst them.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this Listing Document, none of our Directors, Supervisors and senior management holds any interest in the H Shares and A Shares as set out in Part XV of the Securities and Futures Ordinance as at the Latest Practicable Date.

COMPANY SECRETARY

Ms. SUEN Pui Chun Hannah (孫佩真) joined Vistra Corporate Services (HK) Limited, a corporate service provider, in August 2014 and currently serves as a manager of corporate services. Ms. SUEN has over thirteen years of experience in providing company secretarial and compliance services. She currently serves as the company secretary of Peijia Medical Limited (a company listed on the main board of Hong Kong Stock Exchange (stock code: 9996)) and the joint company secretary of Ocumension Therapeutics (a company listed on the main board of Hong Kong Stock Exchange (stock code: 1477)).

Ms. SUEN obtained a Master of Corporate Governance from The Open University of Hong Kong in August 2019 and a Bachelor of Arts (Hons) in Translation and Interpretation from The City University of Hong Kong in November 2000. She has been an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Chartered Governance Institute in United Kingdom since November 2019.

Pursuant to Code F.1.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, an issuer can engage an external service provider as its company secretary, provided that the issuer should disclose the identity of a person with sufficient seniority at the issuer whom the external provider can contact. Ms. SUEN does not act as an individual employee of the Company, but as an external service provider in respect of the appointment of Ms. SUEN as the company secretary of the Company. In this respect, Ms. MING Guozhen, Vice General Manager and Board Secretary of our Company, will be the key contact person with whom Ms. SUEN can contact.

COMPETING INTERESTS

As at the Latest Practicable Date, none of our Directors (other than Independent Non-executive Directors) had interests in business, which competes or is likely to compete, either directly or indirectly with our business.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, the Company intends to comply with the corporate governance requirements under the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules after the Listing.

BOARD COMMITTEES

In accordance with relevant PRC laws, regulations, the Articles and the corporate governance practise prescribed in the Hong Kong Listing Rules, we have formed four board committees, namely the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Assessment Committee.

Strategy Committee

The Strategy Committee of the Company consists of eight Directors, namely Mr. LIANG Haishan, Ms. TAN Lixia, Mr. WU Changqi, Mr. LI Huagang, Mr. LIN Sui, Mr. CHIEN, Da-chun, Mr. DAI Deming and Mr. WONG, Hak Kun. Mr. LIANG Haishan serves as chairman of the committee. The primary duties of the Strategy Committee of the Company include (but are not limited to):

- Studying and regularly advising on our business objectives and medium- to long-term development strategy in accordance with operation and the changes in the market;
- reviewing annual business plans and any material change or adjustment in implementation and advise the Board accordingly;
- regularly assessing and inspecting the implementation of the above issues after they have been approved by the Board and report back to the Board; and
- handling other matters required by laws, regulations, rules, normative documents, regulatory rules of the jurisdictions where the Shares of the Company are listed, the Articles of Association or as authorised by the Board.

Audit Committee

The Audit Committee of the Company consists of five Directors, namely Ms. TAN Lixia, Mr. CHIEN, Da-chun, Mr. DAI Deming, Mr. LIN Sui and Mr. WONG, Hak Kun. Mr. DAI Deming serves as the chairman of the committee. The primary duties of the Audit Committee of the Company include (but are not limited to):

- supervising the annual audit work, making judgement on the authenticity, accuracy and completeness of the information in the audited financial reports before submitting to the Board for review;
- providing recommendations on engaging or changing external auditors, and supervising the performance of external auditors;
- responsible for the communication between internal auditors and external auditors; and
- handling other matters required by laws, regulations, rules, normative documents, regulatory rules of the jurisdictions where the Shares of the Company are listed, the Articles of Association or as authorised by the Board.

Nomination Committee

The Nomination Committee of the Company consists of five Directors, namely Mr. LIANG Haishan, Mr. WU Changqi, Mr. CHIEN, Da-chun, Mr. DAI Deming and Mr. WONG, Hak Kun. Mr. WONG, Hak Kun serves as the chairman of the committee. The primary duties of the Nomination Committee of the Company include (but are not limited to):

- formulating procedures and standards for the election of Directors and senior management and make recommendations to the Board on the proposed procedures and standards;

- making recommendations to the Board on the nomination of candidates for Directors, General Manager and secretary to the Board;
- preliminarily examining the eligibility of candidates for Directors and senior management;
- making recommendations to the Board on the nomination of candidates for chairmen and members of the Board committees; and
- handling other matters required by laws, regulations, rules, normative documents, regulatory rules of the jurisdictions where the Shares of the Company are listed, the Articles of Association or as authorised by the Board.

Remuneration And Assessment Committee

The Remuneration and Assessment Committee of the Company consists of five Directors, namely Mr. LIANG Haishan, Ms TAN Lixia, Mr. CHIEN, Da-chun, Mr. DAI Deming and Mr. WONG, Hak Kun. Mr. CHIEN, Da-chun serves as the chairman of the committee. The primary duties of the Remuneration and Assessment Committee of the Company include (but are not limited to):

- reviewing and making recommendations on the assessment and remuneration management system for Directors and senior management;
- assessing the Directors and senior management and making recommendations; and
- handling other matters required by laws, regulations, rules, normative documents, regulatory rules of the jurisdictions where the Shares of the Company are listed, the Articles of Association or as authorised by the Board.

THE PARTY COMMITTEE

The Company established the Communist Party Committee of Haier Smart Home Co., Ltd. (the "**Party Committee**"). The Party Committee mainly assumes the following responsibilities:

- promoting the implementation of the directions, strategies and policies of the PRC and the Communist Party of China, and facilitating the sustainable development of the Company;
- responsible for the ideological and political work, promoting cultural and ideological progress of the Company, cultivating corporate culture and assisting the work of the labour union and the communist youth league of the Company. Leading the Company in building an honest and clean culture and supporting the supervisory work conducted by discipline inspection commission; and
- supporting the Board and the management team to fulfil their functions in accordance with applicable laws and regulations.

BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the approach to achieve and maintain diversity in our Board. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge, length of service and other related factors. We will also consider our own business model and special needs. The ultimate selection of Director candidates will be based on merits of the candidates and contribution that the candidates will bring to our Board.

Our Nomination Committee is responsible for the implementation of our board diversity policy. Upon completion of the Listing, our Nomination Committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of our board diversity policy in our corporate governance report on an annual basis.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors, Supervisors and senior management members who receive emolument from the Company are remunerated in forms of salaries, allowances, contribution to pension schemes, discretionary bonuses and others.

In 2017, 2018 and 2019, the total remuneration paid to our Directors amounted to approximately RMB18.2 million, RMB40.6 million and RMB44.9 million, respectively.

In 2017, 2018 and 2019, the total remuneration paid to our Supervisors amounted to approximately RMB0.7 million, RMB1.4 million and RMB1.4 million, respectively.

In 2017, 2018 and 2019, the total remuneration paid to our key management personnel amounted to approximately RMB20.9 million, RMB49.2 million and RMB52.4 million, respectively.

In 2017, 2018 and 2019, the total emoluments paid to the five highest paid individuals (excluding directors) by the Group amounted to approximately RMB6.7 million, RMB24.1 million and RMB19.1 million, respectively.

Under the arrangement currently in force, the Company expects that the total remuneration (excluding year-end bonuses) to be paid to our Directors and Supervisors by the Company for the year ending 31 December 2020 will be approximately RMB45.0 million and RMB1.4 million, respectively.

During the Track Record Period, no fees were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join us or as compensation for loss of office. None of the Directors or Supervisors waived any remuneration during the relevant period.

The remuneration of our Directors, Supervisors and senior management is determined with reference to the remuneration paid by comparable companies and the achievement of major operating indicators of the Company. Fixed remuneration is determined with reference to the remuneration data provided by the professional management consultation company and position of the Company among its major competitors.

COMPLIANCE ADVISOR

We have agreed to appoint Anglo Chinese Corporate Finance, Limited as our compliance advisor upon the Listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The material terms of the compliance advisor's agreement are as follows:

(i) Anglo Chinese Corporate Finance, Limited shall act as our compliance advisor for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(ii) the compliance advisor will provide us with certain services including proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

(iii) the compliance advisor will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and

(iv) the compliance advisor will act as one of the key channels of communication of the Company with the Hong Kong Stock Exchange.

SHARE CAPITAL

This section presents certain information regarding the share capital of our Company following the completion of the Introduction and the Privatisation.

Immediately before the Introduction

As of the Latest Practicable Date, the registered share capital of our Company was RMB6,579,566,627, divided into 6,308,552,654 A Shares and 271,013,973 D Shares with a nominal value of RMB1.00 each, of which the A Shares are listed on the Shanghai Stock Exchange and the D Shares are listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange.

Immediately after the Introduction and the Privatisation

Immediately after the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), the share capital of our Company will be as follows:

Description of Shares	Number of Shares	Approximate percentage of registered share capital
A Shares in issue	6,308,552,654	69.88%
D Shares in issue	271,013,973	3.00%
H Shares to be issued under the Introduction	2,448,279,814	27.12%
Total Share Capital	9,027,846,441	100%

CLASSES OF SHARES

Upon completion of the Introduction and the Privatisation, we have three classes of Shares, namely, A Shares, D Shares and H Shares. All A Shares, D Shares and H Shares in issue are ordinary Shares in our share capital.

Shanghai-Hong Kong Stock Connect, activated on 17 November 2014, and Shenzhen-Hong Kong Stock Connect, initiated on 5 December 2016, have established a stock connect mechanism between the mainland China and Hong Kong. The A Shares of the Company can be subscribed and traded by mainland China investors, qualified overseas institutional investors or qualified overseas strategic investors. The A Shares of the Company are eligible securities under the Northbound Trading Link, they can also be subscribed and traded by Hong Kong and other overseas investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect. The H Shares of the Company can be subscribed or traded by Hong Kong and other overseas investors and qualified domestic institutional investors. If the H Shares of the Company are eligible securities under the Southbound Trading Link pursuant to applicable laws and regulations, in particular the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* (《上海證券交易所滬港通業務實施辦法》) and the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect* (《深圳證券交易所深港通業務實施辦法》), they can also be subscribed and traded by mainland China investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. According to Article 57 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 58 of the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect*, where a company listed on the Shanghai Stock Exchange seeks H-share listing on the Stock Exchange, its H shares can be included in the stocks for southbound trading after the end of the price stabilisation period of H shares and the lapse of 10 trading days after the listing of the corresponding A shares. According to Article 59 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 61 of the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect*, the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange shall announce the list of stocks for southbound trading through the website designated by it, the time when relevant stocks are included in or removed out of the stocks for southbound trading shall be that announced by the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange. As the Joint Sponsors have no current plans to effect stabilisation actions for our H Shares after the Listing and our A Shares have been listed on the Shanghai Stock Exchange, pursuant to Article 57 of the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* and Article 58 of the *Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect*, the earliest possible time for our H Shares to be eligible for the Southbound Trading Link of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect is the Listing Date. However, as mentioned above, the exact time when our H Shares will be included in or removed out of the stocks for southbound trading is subject to the determination by the securities trading service company of the Shanghai Stock Exchange or the Shenzhen Stock Exchange, which would be beyond control of our Company. The D Shares are issued exclusively for a listing on the CEINEX D Shares Market through an admission to trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) and will not be traded on the Shanghai Stock Exchange or the Hong Kong Stock Exchange. According to Special Regulations of the State Council concerning Floating and Listing of Shares Overseas by Companies Limited by Shares (國務院關於股份有限公司境外募集股份及上市的特別規定), issuance of new D shares shall be approved by the CSRC, which has the same approval process as an initial public offering.

All dividends on H Shares shall be paid in Hong Kong dollars, the dividends on A Shares shall be paid in Renminbi and the dividends on D Shares shall be paid in Euro.

In addition to cash, dividends may also be distributed in the form of shares. Holders of H Shares will receive share dividends in the form of H Shares, holders of A Shares will receive share dividends in the form of A Shares, and holders of D Shares will receive share dividends in the form of D Shares.

A Shares, D Shares and H Shares are regarded as different classes of Shares. The differences between the three classes of Shares, provisions on rights of class of Shareholders, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares, the procedure of Share transfer and appointment of dividend receiving agents are set out in the Articles of Association, which is summarised in "Appendix VI — Summary of the Articles of Association".

SHARE CAPITAL

Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the Shareholders' general meeting and by a class shareholders meeting of class Shareholders convened by the affected class of Shareholders. The circumstances under which a general meeting and a class meeting are required are summarised in "Appendix VI — Summary of the Articles of Association". However, the approval of separate classes of Shareholders is not required under the following circumstances: (i) issue of A Shares, D Shares and H Shares of not more than 20% of existing A Shares, D Shares and H Shares respectively, either separately or concurrently, in a period of 12 months, pursuant to an approval by a special resolution of the general meeting; (ii) plans of issuance of A Shares, D Shares and H Shares upon establishment of the Company, provided that it is completed within 15 months from the date of an approval from the securities regulatory authority under the State Council or a specified period applicable provided under relevant requirements.

A Shares, D Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Introduction becoming unconditional, a proposal to grant our Directors a general mandate to repurchase our securities on the Stock Exchange (the "**Repurchase Mandate**") will be submitted to the first Shareholders' meeting after Listing for consideration, authorising our Directors to exercise all the powers of our Company, depending on the then capital market condition, without affecting our Company's debt repayment capabilities and continuous business operation, and in accordance with our Articles of Association and relevant laws and regulations, to repurchase H Shares with total amount of up to 10% of the total number of H Shares in issue at the date of the Shareholders resolution granting the Repurchase Mandate. The amount of H Shares to be repurchased pursuant to the Repurchase Mandate within one year from the date of Shareholders' approval is expected to be not less than HKD1 billion.

The Repurchase Mandate only relates to repurchases to be made on the Stock Exchange in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Appendix VII — Statutory and General Information — 1. Further Information about our Group — E. Repurchase of Our Own Securities."

This Repurchase Mandate will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

See "Appendix VII — Statutory and General Information — 1. Further Information about our Group — E. Repurchase of Our Own Securities."

CONVERSION OF A SHARES OR D SHARES INTO H SHARES

Upon completion of the Introduction and the Privatisation, the share capital of the Company will consist of A Shares, D Shares and H Shares. If any holder of A Shares or D Shares wishes to transfer its A Shares or D Shares to overseas investors for listing and trading on Hong Kong Stock Exchange as H Shares, it must comply with the relevant regulations prescribed by, and obtain the approval of, if so required, the relevant regulatory authorities in places where our Shares are listed, including the CSRC for the conversion of the A Shares and the approval of Hong Kong Stock Exchange for the listing and trading of the converted H Shares, as well as following the procedures set forth below:

(1) the holder of A Shares must obtain the requisite approval of the CSRC or the authorised securities approval authorities of the State Council for the conversion of all or part of its A Shares into H Shares;

(2) we may apply for the listing of all or any portion of our A Shares or D Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and we must obtain prior approval from the Hong Kong Stock Exchange before the converted H Shares can be listed and traded on the Hong Kong Stock Exchange;

(3) the holder of A Shares or D Shares must request that we remove its A Shares or D Shares from the A Share register or D Share register, attaching the relevant documents of title together with the request;

(4) subject to obtaining the approval of the Board and the Hong Kong Stock Exchange, we would then instruct the H Share Registrar, with effect from a specified date, to issue the relevant holder H Share certificates for a specified number of H Shares;

(5) the specified number of A Shares or D Shares to be converted to H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:

   a. our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate; and

   b. the admission of the H Shares for trading in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;

(6) upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares or D Shares in our A Share register or D Share register will be reduced by such number of A Shares or D Shares transferred and the number of H Shares registered will correspondingly be increased by the same number of H Shares; and

(7) in compliance with the Hong Kong Listing Rules, we will publicly announce the transfer and conversion not less than three days prior to the proposed effective date.

As a result of the conversion, the shareholding of the relevant holders of A Shares in our A Share capital registered shall be reduced by the number of A Shares converted, the shareholding of

SHARE CAPITAL

the relevant holders of D Shares in our D Share capital registered shall be reduced by the number of D Shares converted, and the number of H Shares shall be increased by the corresponding number of H Shares. If all or a significant number of D Shares were converted into H Shares, and as a result ordinary stock exchange trading would be considered by the management of the Frankfurt Stock Exchange as no longer ensured in the long term, the management of the Frankfurt Stock Exchange could revoke the admission of D Shares to trading on the regulated market on the Frankfurt Stock Exchange. Under the China Europe International Exchange AG's General Terms and Conditions for CEINEX D-Share Market, CEINEX may remove an issuer from the CEINEX D-Share Market if the shares of the issuer are no longer admitted to the regulated market of the Frankfurt Stock Exchange. As at the Latest Practicable Date, the Directors were not aware of any intention of any holder of A Shares or D Shares to convert all or part of their A Shares or D Shares into H Shares.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons directly or in directly control or were entitled to exercise the control of 5% or more of our A Shares and/or D Shares:

Name of Shareholder	Class of Shares held	Number of Shares held	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in the total share capital of the Company
Haier Group Notes 1 to 3	A Share	2,576,559,148	Beneficial owner	40.84%	39.16%
			Interest in controlled corporation		
			Interest through voting rights entrustment arrangement		
	D Share	57,142,857	Interest in controlled corporation	21.08%	0.87%
Haier International Appliances Notes 1 and 2	A Share	1,258,684,824	Beneficial owner	19.95%	19.13%
Haier International Co., Limited Note 3	D Share	57,142,857	Beneficial owner	21.08%	0.87%
Other D class substantial Shareholders Note 4					

Notes:

1. *As at the Latest Practicable Date, Haier Group holds directly 1,072,610,764 A Shares, representing approximately 16.30% of the Company's voting rights. In addition, Haier Group indirectly owns or controls (i) 1,258,684,824 A Shares (representing approximately 19.13% of the Company's voting rights) through Haier International Appliances, one of its subsidiaries, (ii) 172,252,560 A Shares (representing approximately 2.62% of the Company's voting rights) through Qingdao Haier Venture & Investment Information Co., Ltd., one of its subsidiaries and (iii) 73,011,000 A Shares (representing approximately 1.11% of the Company's voting rights) through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), a party acting in concert with Haier Group.*

2. *As at the Latest Practicable Date, Haier Group holds 51.20% of the issued shares in Haier International Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier International Appliances through an irrevocable voting rights entrustment arrangement.*

3. *Haier International Co., Limited is a wholly-owned subsidiary of Haier Group. Therefore, Haier Group is deemed to be interested in the 57,142,857 D Shares (representing approximately 0.87% of the Company's voting rights) held by Haier International Co., Limited.*

4. *To the best knowledge of our Company after due and reasonable inquiry, as at the Latest Practicable Date, Silk Road Fund Co., Ltd. holds 55,000,000 D Shares, representing approximately 20.29% of the total number of D Shares and 0.84% of the total share capital of the Company; Industrial and Commercial Bank of China — Financial Planning Agent holds 26,390,504 D Shares, representing approximately 9.74% of the total number of D Shares and 0.40% of the total share capital of the Company; China Investment Corporation holds 24,000,000 D Shares, representing approximately 8.86% of the total number of D Shares and 0.36% of the total share capital of the Company; Shougang Holding Trade (Hong Kong) Limited holds 23,800,000 D Shares, representing approximately 8.78% of the total number of D Shares and 0.36% of the total share capital of the Company; Rechi Precision Co. Ltd. holds 19,047,619 D Shares, representing approximately 7.03% of the total number of D Shares and 0.29% of the total share capital of the Company.*

SUBSTANTIAL SHAREHOLDERS

Immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), the share capital of our Company will comprise 6,308,552,654 A Shares, 271,013,973 D Shares and 2,448,279,814 H Shares, representing approximately 69.88%, 3.00% and 27.12% of the total share capital of the Company, respectively.

To the best knowledge of the Directors, immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), the following persons will have interest or short positions in our Shares or underlying Share of our Company which would be required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Class of Shares to be held	Number of Shares to be held	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in the total share capital of the Company
Haier Group[Notes 1 to 4]	A Share	2,576,559,148	Beneficial owner	40.84%	28.54%
			Interest in controlled corporation		
			Interest through voting rights entrustment arrangement		
	H Share	538,560,000	Interest in controlled corporation	22.00%	5.97%
	D Share	57,142,857	Interest in controlled corporation	21.08%	0.63%
Haier International Appliances[Notes 1 and 2]	A Share	1,258,684,824	Beneficial owner	19.95%	13.94%
HCH (HK)[Note 3]	H Share	538,560,000	Beneficial owner	22.00%	5.97%
Haier International Co., Limited[Note 4]	D Share	57,142,857	Beneficial owner	21.08%	0.63%
Other D class substantial Shareholders [Note 5]					

Notes:

1. *As at the Latest Practicable Date, Haier Group holds directly 1,072,610,764 A Shares. In addition, Haier Group indirectly owns or controls (i) 1,258,684,824 A Shares through Haier International Appliances, one of its subsidiaries, (ii) 172,252,560 A Shares through Qingdao Haier Venture & Investment Information Co., Ltd., one of its subsidiaries and (iii) 73,011,000 A Shares through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership) Interest, a party acting in concert with Haier Group.*

2. *As at the Latest Practicable Date, Haier Group holds 51.20% of the issued shares in Haier International Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier International Appliances through an irrevocable voting rights entrustment arrangement.*

3. *Upon completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have*

been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), HCH (HK) will hold 538,560,000 H Shares. As at the Latest Practicable Date, Haier Group controls 100% voting rights in HCH (HK), thus is deemed to be interested in the 538,560,000 H Shares held by HCH (HK).

4. *Haier International Co., Limited is a wholly-owned subsidiary of Haier Group. Therefore, Haier Group is deemed to be interested in the 57,142,857 D Shares held by Haier International Co., Limited.*

5. *To the best knowledge of our Company after due and reasonable inquiry, as at the Latest Practicable Date, Silk Road Fund Co., Ltd. holds 55,000,000 D Shares, representing approximately 20.29% of the total number of D Shares; Industrial and Commercial Bank of China - Financial Planning Agent will hold 26,390,504 D Shares, representing approximately 9.74% of the total number of D Shares; China Investment Corporation holds 24,000,000 D Shares, representing approximately 8.86% of the total number of D Shares; Shougang Holding Trade (Hong Kong) Limited will hold 23,800,000 D Shares, representing approximately 8.78% of the total number of D Shares; Rechi Precision Co. Ltd. will hold 19,047,619 D Shares, representing approximately 7.03% of the total number of D Shares.*

Save as disclosed herein, the Directors are not aware of any other person who will, immediately following the Introduction and the Privatisation, have an interest or short position in Shares or underlying Shares of the Company, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save as disclosed in this Listing Document, to the best knowledge of the Company, it is not aware of any other relationship among the substantial shareholders of the Company as at the Latest Practicable Date. Our Company is not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

OVERVIEW

As at the Latest Practicable Date, Haier Group directly and indirectly through its subsidiaries and voting rights arrangements, holds approximately 40.03% of the voting rights of our Company (as to approximately 16.30% being held directly, and approximately 23.73% being held through its subsidiaries and voting rights arrangement, i.e., Haier International Appliances (as to approximately 19.13%), Qingdao Haier Venture & Investment Information Co., Ltd. (as to approximately 2.62%), Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership) (as to approximately 1.11%) and Haier International Co., Limited (as to approximately 0.87%), respectively).

Immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), Haier Group will continue to hold approximately 35.14% of the voting rights of our Company directly and indirectly through subsidiaries and voting rights arrangements, thus remain our Controlling Shareholder.

DELINEATION OF BUSINESS AND COMPETITION

Our Business

We are a global leader in major home appliance and pioneer in smart home solutions. We operate a global business with operations across various home appliance types and smart home solutions. Our business is operated in three major segments: our smart home business in China, our smart home business overseas, and other businesses.

In China, we are dedicated to provide our users with a comprehensive portfolio of home appliance products and smart home solutions. Our smart home business in China consists of four solution pillars: (1) Household Food Solutions, which consists of our refrigerator and freezers business and our kitchen appliances business in China; (2) Household Air Solutions, which consists of our air-conditioners business in China; (3) Household Clothing Solutions, which consists of our laundry appliances business in China; and (4) Household Water Solutions, which consists of our water appliances business in China. For further details of our business, see “Business”.

Controlling Shareholder’s Business

Our Controlling Shareholder, apart from its interests in our Group, has also been primarily engaged in the following businesses through its subsidiaries and close associates: (i) production, sourcing and sales of black goods; (ii) investment and incubation platforms; (iii) financial services; (iv) real estates; (v) cultural platforms; and (vi) manufacturing of medical equipment and relevant solutions.

As illustrated in the “Business” section of this Listing Document and above, our Company focuses on the manufacturing and sales of white goods, including air-conditioners, refrigeration appliances such as refrigerators and freezers, laundry appliances such as washing machines, and water appliances such as water heaters. On the other hand, the electronic products manufactured, sourced and sold by Haier Group and/or its associates primarily include black goods, such as television and consumer electronic products. According to Euromonitor, there is a clear delineation between the white goods and black goods business markets. White goods and black goods involve different production methods and techniques, and the white goods and black goods business markets target different customers as they serve different needs.

As illustrated under "Business — Other Businesses", in addition to the provision of smart home solutions, our Group also expanded its business to cover, among other things, distribution services business which involves distribution of products for Haier Group, leveraging the extensive sales network of our Group. For this purpose (among others), our Company has entered into products procurement agreements with Haier Group from time to time to procure the black goods which our Group distributes for Haier Group. See "Connected Transaction — Non-Exempt Continuing Connected Transactions — 7. Products and Materials Procurement Framework Agreement". This collaborative business arrangement allows Haier Group to increase its the sales volume and brings additional profits from distribution service to our Group. Our Group does not manufacture the black goods and sales of the black goods does not constitute a principal business activity of our Group. Our Group only acts as a distribution channel for Haier Group by procuring and reselling the black goods manufactured or sourced by Haier Group. Such collaborative business arrangement does not constitute any material competition and does not affect the clear delineation between the businesses operated by Haier Group and the Group. For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the revenue from distribution of black goods for Haier Group accounted for approximately 4%, 3%, 2% and 2% of our total revenue, respectively. Furthermore, our Group will continue to focus on our core business, and Haier Group has no plan to change its core business focus in the future which would result in material competition between our Group and Haier Group.

Therefore, the Directors are of the view that there is a clear delineation between the businesses operated by our Controlling Shareholder and our Group. The Controlling Shareholder has no interest in a business apart from our Group's business, which competes, or is likely to compete, whether directly or indirectly, with our Group, which would otherwise require disclosure under Rule 8.10(1) of the Hong Kong Listing Rules.

NON-COMPETITION UNDERTAKING

Haier Group signed a non-competition undertaking on 29 July 2020 in favour of our Group (the "**Non-competition Undertaking**"). Pursuant to the Non-competition Undertaking, Haier Group has undertaken that (1) Haier Group, Haier International Appliances, their subsidiaries and entities that Haier Group and Haier International Appliances holding more than 30% shares are not involved in any existing or potential competition with our Group, (2) there will be no new or potential business competing between our Group and Haier Group, including its subsidiaries and associates, and its related enterprises, and (3) as long as the Shares of our Company are listed on the Stock Exchange and Haier Group remains our controlling shareholder, Haier Group, including its subsidiaries and associates, will not operate or be involved in any business competing or is likely to compete with our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

INDEPENDENCE FROM CONTROLLING SHAREHOLDER

Having considered the following factors, the Directors believe that our Group can conduct our business independently from our Controlling Shareholder and its close associates after the completion of the Introduction.

Management Independence

Directors

The Board of our Company consists of eight Directors, including two executive Directors, three Non-executive Directors and three Independent Non-executive Directors, of which two Directors, namely Mr. LIANG Haishan (梁海山) and Ms. TAN Lixia (譚麗霞) (the "**Overlapping Directors**") also hold and will continue to hold positions in the Controlling Shareholder and/or its close associates after the completion of the Introduction. The following table sets forth the positions held by our Directors in the Controlling Shareholder and/or its close associates as at the Latest Practicable Date:

Name	Position within our Company	Positions within the Controlling Shareholder and/or its close associates
Mr. LIANG Haishan (梁海山)	Chairman of the Board and executive Director	positions in Haier Group mainly includes deputy chairman of the board of directors of Haier Group, and director of Haier International Appliances, Haier Finance Co., Ltd., Haier Group Holding Co., Ltd. and seven other close associates of Haier Group
Ms. TAN Lixia (譚麗霞)	Vice Chairwoman of the Board and Non-executive Director	positions in Haier Group mainly includes director of Haier Group, director and/or general manager of Haier Group (Qingdao) Financial Holdings Co., Ltd., Haier International Appliances, Haier Finance Co., Ltd., Haier Group Holding Co., Ltd. and other 19 close associates of Haier Group
Mr. LI Huagang (李華剛)	Executive Director and General Manager	None
Mr. WU Changqi (武常岐)	Non-executive Director	None
Mr. LIN Sui (林綏)	Non-executive Director	None
Mr. DAI Deming (戴德明)	Independent Non-executive Director	None
Mr. CHIEN, Da-chun (錢大群)	Independent Non-executive Director	None
Mr. WONG, Hak Kun (王克勤)	Independent Non-executive Director	None

Mr. LIANG Haishan (梁海山), the Chairman of the Board and an Executive Director of our Company, also held a senior position in Haier Group. His title in Haier Group represents recognition of his seniority. Mr. LIANG has no direct involvement in Haier Group's daily corporate affairs, nor receives any remuneration from Haier Group. In addition. Mr. LIANG also held positions as director or person in charge in certain associates of Haier Group, through which he has not participated and will not participate in the daily business operations and management of such entities, but is primarily responsible for making decisions on matters regarding general development and corporate operation strategy as member of the board of directors of such entities. Therefore, Mr. LIANG does not expect that his positions with our Controlling Shareholder and its close associates will take up a substantial amount of his time. Mr. LIANG focuses on management of our Company, and has been able to execute his office faithfully and diligently in our Company without interference from his senior position in Haier Group as well as his directorships in close associates of Haier Group. Upon completion of the Introduction, Mr. LIANG will continue to devote substantially all of his time and effort to our Group.

Ms. TAN Lixia (譚麗霞) has been a Vice Chairwoman of the Board and a non-executive Director of our Company, and is not involved in our daily business operations and management of our Company. She is primarily responsible for making decisions on matters such as formulation of our general development strategy and corporate operation strategy as members of the Board. The daily business operations and management of the Company are managed by the executive Directors and senior management team who have substantial experience and time devotion to ensure the proper functioning of our daily operation and management.

Senior Management

The following table sets forth the positions held by members of the senior management of our Company in the Controlling Shareholder and/or its close associates (together with the Overlapping Directors, the "**Overlapping Management**") as at the Latest Practicable Date:

Name	Position within our Company	Positions within the Controlling Shareholder and/or its close associates
Mr. LI Huagang (李華剛)	Executive Director and General Manager	None
Mr. GONG Wei (宮偉)	Vice General Manager and Chief Financial Officer	Director of Qingdao Economic & Technology Development Zone Haier Electric Appliances Co., Ltd, Pegasus Telecom (Qingdao) Co., Ltd. and other seven close associates of Haier Group
Ms. MING Guozhen (明國珍)	Vice General Manager and Board Secretary	Director of Qingdao Huaqiao Industrial Co., Ltd.

Mr. GONG Wei (宮偉), who is a senior management, holds positions as directors in certain close associates of our Controlling Shareholder, and Ms. MING Guozhen (明國珍), who is a senior management, also holds position as director in one close associate of our Controlling Shareholder. Neither of them has participated or will participate in the daily business operations and management of such close associates of our Controlling Shareholder. They are primarily responsible for making decisions on matters regarding general development and corporate operation strategy as members of the board of directors. Therefore, neither of them expects that their respective positions with close associates of our Controlling Shareholder will take up a substantial amount of their respective time. They will be able to devote sufficient time to the management of our Company.

Save as disclosed above, none of the Directors or members of senior management of our Company holds any other position in the Controlling Shareholder and/or its close associates. The

Company and the Controlling Shareholder and its close associates are managed by separate management teams. Hence, we have sufficient management team members who do not hold any position in our Controlling Shareholder and/or its close associates, and are independent and have the adequate relevant experience to ensure the normal operation of the day-to-day business and management of our Group.

The Directors believe that our management is capable of managing the Group's business and operation independently of the Controlling Shareholder after the Listing for the following reasons:

- The management personnel of the Company have clear reporting lines, and ultimately the management team reports to the executive Directors, who are responsible for reporting to the Board. The Board supervises and monitors the performance of our Company's management team generally through the regular reports made by our executive Directors to the Board, regular meetings of the Board and ad hoc meetings of the Board to consider, deliberate and approve material matters which exceed the delegated authorities of management team, as well as the regular updates of operational and financial data and information that are provided to our Directors;

- Each of the Directors of our Company is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the best interests of our Company and the shareholders;

- According to the Articles of Association, in case of any conflict of interest or potential conflict of interest issues relating to transactions entered into by us with any corporation or entity in which our Directors or their close associates hold concurrent positions or any contract or arrangement or any other matters where they or any of their close associates has a material interest, the interested Directors shall abstain from voting on the resolutions to approve such matters, and shall not be counted into the quorum present at the meeting or participate in the discussion, therefore the overlapping roles of the Directors will not affect the independence of their roles or the independence of the Board. The Company further undertakes that any overlapping Directors shall, given the perception of conflict of interest and for the purpose of good corporate governance, abstain from voting on the relevant resolutions involving any transaction between our Controlling Shareholder and/or its close associates, and our Group. On the other hand, our non-interested Executive Director, Non-executive Directors and the Independent Non-executive Directors have extensive expertise and experience in the industry and in corporate management, many of whom have been Directors of our Company for years and thus are familiar with the business operation, financial conditions and other aspects of our Group and many of whom have been continuously engaged in the management of our Company and other companies for years. Mr. Li Huagang ceased to hold any positions in Haier Group or its close associates on 2 November 2020. As our Executive Director and general manager responsible for the daily operation of the Group, he is able to make well-informed decisions at the Board meetings. In addition, upon reasonable request by the non-interested Directors, the Company may engage external experts (including but not limited to engage financial advisors to provide financial recommendations, industry consultants to introduce industry overview and update industry dynamics, accountants to provide accounting advice, legal advisors to provide legal analysis etc.) whenever necessary to provide assistance and advice to the non-interested Directors, so as to enable the them to make well-informed decisions at the Board meetings based on comprehensive background and knowledge. Therefore, the Company believes that in the event that certain Directors are required to abstain from voting at the Board on relevant resolutions involving our Controlling Shareholder and/or its close associates, the non-interested Directors will be able to make decisions which are for the best interests of our Company and the Shareholders;

- Having considered (i) the fact that none of the Controlling Shareholder or its close associates is engaged in businesses which are similar to the core businesses of our Group and (ii) the management system on connected transactions adopted and implemented by us as set out in "Connected Transactions — Internal Control Measures", the Company believes that the possibility of conflict of interest or potential conflict of interest issues in discharging the Overlapping Management's duties of business and operation management of our Group is relatively low;
- The Board of our Company comprises eight Directors, and three of them are Independent Non-executive Directors who represent more than one-third of the members of the Board. This provides a balance between the number of interested Directors and Independent Non-executive Directors, with a view to promoting the interests of the Company and its Shareholders as a whole. This is also in line with the requirement as set out in the Listing Rules;
- Our Supervisors are primarily responsible for monitoring the operation and financial activities as well as the performance of Directors and senior management as members of the Board of Supervisors. Moreover, none of the Overlapping Management expect that their positions held in our Controlling Shareholder and/or its close associates will affect their ability to devote sufficient time to the management of our Company.

Based on the above, our Directors believe that our management can operate our business independently from our Controlling Shareholder and/or its close associates.

Operational Independence

Currently, our Company is in possession of all production and operating facilities and technology relating to our Group's business. Our Company makes and implements operational decisions independently of the Controlling Shareholder. Our Company has its own organisational structure with independent departments, each with specific areas of responsibility. Our Company also maintains a set of comprehensive internal control measures to facilitate the effective operation of our business. Our Company has independent access to customers and is not dependent on the Controlling Shareholder and its close associates with respect to suppliers for our business operations. Our Company has its own employees to operate the business and can independently manage its human resources. We have obtained relevant licences, approvals and permits from relevant regulatory authorities which are material to our operations in the PRC.

Due to the features and characteristics of our businesses, we entered into certain continuing connected transactions with Haier Group and its associates in respect of some of our business segments. For more details, see "Connected Transactions". Considering that our access to independent sources and the sufficiently competitive market, our Directors believe that, even if such agreements are terminated, the Company will be able to easily identify other suitable partners or substitutes through fair negotiation at similar terms and conditions in line with the market terms to meet our business and the operational needs without causing any undue delay.

Based on the above, our Directors believe that we are able to operate our business independently from our Controlling Shareholder and/or its close associates.

Financial Independence

Our Company has established its own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control functions independent from the Controlling Shareholder, as well as a sound and independent financial system, and makes independent financial decisions according to our own business needs. Our Company maintains bank accounts independently and does not share any bank account with the Controlling Shareholder. Our Company makes tax registration and pays tax independently with its own funds. As such, Our Company's financial functions, such as cash and accounting management, invoices and bills, operate independently of the Controlling Shareholder and its close associates.

In addition, we have been receiving financial services from Haier Finance, a subsidiary of Haier Group, including deposit services, loan services and other financial services in connection with our ordinary course of business operation. For more details, see "Connected Transactions". Our Directors consider that the financial services arrangements are fair and reasonable and are in the interests of the Company and the shareholders as a whole. The Group is able to choose deposit services, loan services and other financial services provided by other Independent Third Party commercial banks and financial services institutions, even if the arrangements with Haier Finance is terminated.

Set out below are the existing guarantees provided by Haier Group for members of our Group as at the Latest Practicable Date:

- On 13 October 2015, Haier Group provided guarantee to a loan granted to Haier Singapore Investment Holding with an aggregate amount of JPY5,700 million from an Independent Third Party commercial bank. Haier Singapore Investment Holding used the loan to fund the construction of its research and development building in Japan. The Company expects to repay such loan in full on the maturity date before the Listing.
- On 26 May 2016, Haier Group, our Company and an independent commercial bank entered into a guarantee contract, pursuant to which Haier Group agreed to provide guarantee to a loan granted to Haier US Appliance Solutions Inc., an indirect subsidiary of our Company, with an aggregate amount of USD3.3 billion. Haier US Appliance Solutions Inc. used the loan to fund its overseas acquisition activities. The outstanding amount of such loan is approximately USD704 million, and the Company expects to repay such outstanding amount in full on 21 December 2020 and 2 June 2021, respectively.

Taking into consideration that: (i) we have sufficient capital, cash and cash equivalent and bank facilities and credit to operate our business independently, and have sufficient internal resources to support our day-to-day operations. As at 30 June 2020, our cash and cash equivalents amounted to RMB43,022 million, (ii) we have access to Independent Third Party financial institutions and are not required to rely on any guarantee or mortgage from our Controlling Shareholder or its close associates to obtain the relevant financing. As at 30 July 2020, we had strategic cooperation agreements with a number of PRC commercial banks totalling over RMB116,564 million of credit line and we also had approximately RMB58,477 million of unutilised banking facilities. For details, see "Financial Information", (iii) our Group has a strong financial position with our business operations established in relatively mature markets and (iv) the early release of certain guarantee provided by Haier Group would involve cost in time and expenses and would not be commercially reasonable, which would be detrimental to the best interests of the shareholders as a whole, our Directors are of the view that the Company has the ability to obtain financing independently, and the guarantee from Haier Group does not affect our financial independence.

Save as above, all amounts of a non-trade nature due the Controlling Shareholder by us have been settled, and all guarantees provided to us by the Controlling Shareholder and/or its close associates have been released as at the Latest Practicable Date.

FINANCIAL INFORMATION

The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report", together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" and elsewhere in this Listing Document.

OVERVIEW

We are a leader in the global major home appliance industry. According to Euromonitor, we ranked first in major home appliance industry in the world in terms of retail volume of major home appliances for nine consecutive years from 2011 to 2019, with a market share of 14.7% in 2019. We have a global portfolio of home appliance brands consisting of Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Our Haier brand refrigeration appliances and laundry appliances also ranked first among major home appliance brands in the world in terms of retail volume for 11 consecutive years from 2009 to 2019. As at the Latest Practicable Date, we operate in more than 160 countries and regions around the world including China, North America, Europe, South Asia and Southeast Asia, Australia and New Zealand, Japan, Middle East and Africa.

We are also a global pioneer in providing smart home solutions. Capitalising on our full-range home appliances products, according to Euromonitor, we are one of the first home appliance enterprises in the industry to launch smart home solutions. Centring on our interconnected home appliance products, and supported by Haier Smart Home App and Haier Smart Home Experiential Cloud Platform as well as our experience stores and franchised stores, we provide smart home solutions suited for various lifestyle scenarios for users to satisfy their pursuit for a better life.

During the Track Record Period, our revenue was mainly generated from sales of home appliances. In 2017, 2018 and 2019, our revenue amounted to RMB154.2 billion, RMB177.6 billion, RMB198.0 billion, respectively, with a CAGR of 13.3%, and our gross profit amounted to RMB50.2 billion, RMB52.2 billion and RMB58.6 billion, respectively, with a CAGR of 8.1%. For the six months ended 30 June 2020, our revenue amounted to RMB95.7 billion and our gross profit amounted to RMB26.2 billion, with a decrease of 1.6% and 7.3%, respectively, compared to those for the six months ended 30 June 2019, primarily due to (i) the impact of the COVID-19 pandemic, (ii) decrease in average selling price for our smart home business in China, (iii) increase in revenue and contribution from smart home business overseas which has a relatively low profit margin, and (iv) fixed costs such as production overhead and production staff costs remaining relatively stable despite the decrease in revenue.

BASIS OF PRESENTATION

Our consolidated financial statements included in this Listing Document have been prepared in accordance with IFRSs, which include all International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. In the application of our Group's accounting policies, the directors of our Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3 of the Accountants' Report in Appendix I to this Listing Document. The adoption of IFRS 9, IFRS 15 and IFRS 16 had no significant impact on our Group's financial position and performance as compared to that of IAS 39, IAS 18 and IAS 17.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

Economic conditions and consumer spending in key markets

Our products are currently sold in more than 160 countries and regions around the world, including China, North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa. China is our largest single market, accounting for 50.9% of our total revenue for the six months ended 30 June 2020.

Our business is significantly affected by consumer spending in these markets. Consumer confidence, demand and spending patterns are largely affected by local, regional and global economic conditions. Macroeconomic factors that influence consumer confidence, demand and spending behaviour include, among other things, the level of inflation and unemployment, fluctuations in energy prices, real estate market conditions, the availability of consumer credit, interest rates, consumer debt levels, stability in political environment and the overall global economic conditions. In particular, user demand of major home appliances are significantly affected by real estate industry conditions. An actual or anticipated improvement or deterioration of economic conditions in any of our major markets may affect consumer confidence, demand and spending, resulting in a corresponding fluctuation in consumption that would impact the level of demand for our products and the selling prices.

For example, in September 2018, the U.S. administration began collection of a 10% tariff on US$200 billion of Chinese imports, including certain goods upon which we rely, and in January 2019, the U.S. administration was set to increase such tariff to 25%. Although these tariffs have had an adverse impact on our operations, such impact has not, so far, been material, mainly due to our efforts to localise procurement, production and sales. See "Risk Factors — Risks Relating to our Business and Industry — Our growth and profitability depend on economic conditions and the level of consumer spending in the PRC and our other key markets". The ongoing COVID-19 pandemic could also have an adverse effect on our growth and profitability. See "Risk Factors — Risks Relating to our Business and Industry — The outbreak of COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions".

Trends and developments in the home appliance industry

Our ability to generate revenue is significantly affected by trends and developments in the global home appliance industry. Our business has been supported by steady market growth in recent years. Retail value of the global major home appliances market grew from US$307.3 billion in 2017 to US$328.9 billion in 2019, according to Euromonitor. In China, our largest market, retail value of the major home appliances market grew from US$90.5 billion in 2017 to US$93.9 billion in 2019, according to Euromonitor.

We believe that several trends are currently affecting the global home appliance industry. Rising household disposable income in China and emerging markets is driving the increasing demand for home appliances, while also supporting a premiumisation trend as consumers increasingly opt for higher-end products. Developments in housing markets generally affect demand for home appliances, especially the demand for full-suite home appliances which facilitates the purchase process, creating opportunities for companies with extensive product portfolios. The home appliance market has also been affected by growing consumer interest in green technologies and energy efficient appliances, particularly refrigerators and air-conditioners, and increasing consumer awareness around health and fresh food, which has driven the demand for higher-end refrigerators. In addition, the home appliance industry has been supported by the rapid development of e-commerce in China and emerging markets, as well as an expanding nascent market for interconnected appliances and smart home solutions.

These market developments have driven the revenue growth across our key markets in recent years and we expect that they will continue to have a favourable impact on our results of operations. As we further grow our global business, our business will also become increasingly exposed to market developments across the world. See “Industry Overview”.

Industry Competition

The home appliances industry is highly fragmented and competitive, and our success depends on our ability to compete effectively with a broad array of competitors ranging from large multinational brands to local and specialised brands. In the domestic market, we face competition in most of our product lines from a number of Chinese manufacturers that compete primarily on price, product quality, positioning and after-sales service. Our major competitors in the overseas markets across a wide range of our products consist primarily of large United States, German, Korean and Japanese manufacturers of similar product categories. We have responded to the competitive pressure by excelling on value rather than purely competing on price, including focusing on the sales of full-suite home appliances and provision of industry leading and one-stop smart home solutions. In addition, we have been relentlessly improving the user experience through timely adaptation to evolving customer needs.

We expect that the competition in domestic and international markets in which we sell our home appliances will likely remain intense. Besides prices, we expect that the competition will concentrate on product qualities, brand images, distribution capabilities, product development capabilities, advertising and after-sales services. In addition, as we continue to expand our business scope and markets, we will encounter new competitors and competitive environments that may evolve over time. See “Industry Overview” and “Risk Factors — Risks Relating to our Business and Industry

— We operate in a highly competitive environment which may involve price competition from time to time resulting in declined average selling prices and profit margins, and failure to compete successfully would adversely affect our market position, business and financial results".

Retail volume, average selling prices and product mix

Retail volume, average selling prices and the relative demand for particular products, or product mix, are key drivers of our result of operations.

Our retail volume is driven by a number of factors, including overall market conditions, price levels and customer reach, as well as successful new product introductions. In mature markets, such as China, the United States and Europe, demand is primarily driven by product replacements and upgrades. Our ability to increase retail volume in these markets is therefore particularly dependent on the successful introduction of new products and features, as well as effective stimulation of consumer demand for smart home appliances. In emerging markets, where demand is to a larger extent correlated with the market penetration, we aim to expand our distribution network to extend our customer reach. In the Track Record Period, our retail volume increased, driven by favourable market trends in the global home appliance industry. We seek to further increase retail volume through continued global expansion, new product introductions and the optimisation of our distribution network, including the further integration of our online and offline businesses.

In recent years, we have focused our resources on the mid- and high-end market, smart home appliances and mass customised products, which generally command higher prices and higher profit margins. One example is our Casarte products, which are primarily marketed in the high-end market in China and whose revenue increased from RMB4.1 billion in 2017 to RMB7.6 billion in 2019 with a CAGR of 36%. In addition to our Casarte brand in China, we also promote our high-end brands in major overseas markets, including GE Appliances in the United States and Fisher&Paykel in Australia and New Zealand. We aim to further optimise our product mix and promote our high-end products to ensure rapid increase in market share of our high-end product.

Our results of operations are further dependent on our ability to offer a favourable product mix. To this end, we maintain an extensive product portfolio with a wide range of pricing and margin levels catering to the diverse needs of customers in the luxury, high-end, mid-end and mass markets. We primarily market this portfolio through seven key brands, namely Fisher&Paykel, which generally caters to the high-end to luxury markets, Casarte, which generally caters to the high-end market, Candy, which generally caters to the mass market, GE Appliances, which generally caters to the mass to luxury markets and targeted market, AQUA, which generally caters to the mass market, Haier, which generally caters to the mass to high-end markets, and Leader, our value brand for appliances.

Global Footprint and Coordinated Development Enabled by Acquisitions and Reorganisation

Our results of operations have been, and are expected to continue to be, affected by acquisitions and reorganisation.

On 31 July 2018, we acquired 100% interest in Haier NZ Investment from Haier (Singapore) Management Holding Co., Pte. Limited, a subsidiary of Haier Group. Haier NZ Investment is the holding company of Fisher&Paykel, a New Zealand-based luxury home appliance brand. See "History and Corporate Structure — Major Acquisitions and Disposal — Enhanced brand metrics through the acquisition of Haier NZ Investment".

On 30 August 2018, we, via an indirect subsidiary, entered into an asset swap agreement with Haier International Appliances, a subsidiary of Haier Group, pursuant to which we acquired 51% equity interest in Qingdao Haishi from Haier International Appliances. See "History and Corporate Structure – Major Acquisitions and Disposal — Strengthened our strategic positioning through assets swap of Qingdao Haishi and Bingji Company".

On 28 September 2018, we, via a wholly-owned subsidiary, entered into a share purchase agreement to acquire 100% equity interest in Candy, an European home appliance manufacturer. See "History and Corporate Structure — Major Acquisitions and Disposal — Further expansion in Europe through the acquisition of Candy".

Through historical acquisitions and upon the Privatisation and the Introduction, we will focus on increasing overseas market shares and accelerating the consolidation and coordination of resources in the future based on our established global footprint. We may pursue selective acquisitions when there are appropriate targets. The impact of these acquisitions on our financial conditions and results of operations will depend on our success in identifying and acquiring appropriate target businesses and assets, integrating them into our business and maximising our ability to realise synergies. See "Risk Factors — Risks Relating to our Business and Industry — We may undertake acquisitions, investments, partnerships and new business lines, which may not be successful". We will also take advantage of the opportunities brought by the Privatisation Proposal, focusing on improving our operation efficiency and our strategies in sales of full-suite home appliances and provision of smart home solutions.

Raw Material Prices

Our results of operations are significantly affected by the cost of raw materials, the single largest component of our cost of sales in the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020. The principal raw materials that we utilise in our products are steel, aluminium, copper, plastic and foam materials for the manufacturing of home appliances and their key components. The prices of these materials and components containing these materials are susceptible to significant price fluctuations due to supply and demand trends in the commodities markets, transportation costs, geopolitical events, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances.

We seek to manage our raw material costs through competitive tenders, by entering into long-term supply contracts and the continuous optimisation of our supplier portfolio, as well as proactive inventory management. The term of our raw material supply contracts generally ranges from one year to three years with flexible pricing adjustment terms depending on the contract. We also seek to manage our raw material costs by having the suppliers participate in the design of our products to optimise the cost of the components. We use financial instruments to hedge our raw material exposure to the fluctuation of raw material prices. We enter into hedging arrangements from time to time based on market outlook and demand forecast to lock up the price of raw materials such as copper, ensuring no substantial fluctuations of our raw material costs and maintaining our profitability.

Foreign currency fluctuations

Due to the global presence of our business, our results of operations are affected by foreign exchange rate movements, both on a translation and transactional basis.

We are primarily exposed to movements in the Renminbi, our reporting currency, against the U.S. dollar and, to a lesser extent, the Euro and other currencies. Translational effects of exchange rate fluctuations arise because financial results of our subsidiaries are measured in the currency of the primary economic environment in which the subsidiary operates (its functional currency). The results of operations of our global subsidiaries are, therefore, measured in currencies other than Renminbi and are then translated into Renminbi for presentation of our financial results in the consolidated financial statements. Consequently, fluctuations in the applicable foreign currency exchange rates may increase or decrease the Renminbi value of our non-Renminbi assets, liabilities, revenues and costs, even if their value has not changed in their local functional currency. For the purposes of presenting our consolidated financial statements included in this Listing Document, the assets and liabilities of our Group's operations are translated into the presentation currency of our Group, the Renminbi, using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions will be used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange differences on translation of financial statements reserve (attributed to non-controlling interests as appropriate). During the Track Record Period, we recognised losses of RMB251 million and RMB78 million in exchange differences on translating foreign operations in 2017 and the six months ended 30 June 2020, and income of RMB632 million, RMB500 million and RMB241 million in 2018, 2019 and the six months ended 30 June 2019.

Transactional effects of exchange rate fluctuations arise when one of our subsidiaries enters into a sale or purchase transaction in a currency other than its functional currency. We conduct most of our overseas businesses through localised procurement, manufacturing and sales, which gives us the advantage to match costs and revenues along the value chain in the local markets in the same currency, creating a natural hedge for some of the transaction risks. We also use forward foreign exchange contracts to mitigate its transactional exchange rate exposure. We believe we have contained our foreign currency risk to the extent practicable. See Note 47 of the Accountants' Report in Appendix I to this Listing Document for the foreign currency risk.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRSs. The Accountants' Report in Appendix I to this Listing Document sets forth these significant accounting policies and estimates in Note 2 and Note 3, which are important for an understanding of our financial conditions and results of operations.

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgements related to accounting items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Our management has identified below the accounting policies, estimates and judgements that they believe are critical to the preparation of our financial statements.

Revenue (upon application of IFRS 15)

Our Group recognises revenue when (or as) a performance obligation is satisfied, which is when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs;
- our Group's performance creates or enhances an asset that the customer controls as our Group performs; or
- our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents our Group's right to consideration in exchange for goods or services that our Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our Group's unconditional right to consideration, which means only the passage of time is required before payment of that consideration is due.

A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, our Group allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which our Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, our Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which our Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict our Group's performance in transferring control of goods or services.

As a practical expedient, if our Group has a right to consideration in an amount that corresponds directly with the value of our Group's performance completed to date, our Group recognises revenue in the amount to which our Group has the right to invoice.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of our Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict our Group's performance in transferring control of goods or services.

(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.

(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 our 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.

(ii) Sales rebates

Retrospective sales rebates may be provided to certain customers once the value 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 threshold and the expected value method for contracts with more than one threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the 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) 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 our Group and the amount of the dividend can be measured reliably.

Revenue recognition (prior to application of IFRS 15 on 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Investments in associates and joint ventures

An associate is an entity over which our Group has 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The consolidated financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of our Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of our Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise our Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by our Group. When our Group's share of losses of an associate or joint venture exceeds our Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of our Group's net investment in the associate or joint venture), our Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that our Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over our Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of our Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Our Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When our Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When our Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, our Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, our Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, our Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal / partial disposal of the relevant associate or joint venture.

Our Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When our Group reduces its ownership interest in an associate or a joint venture but our Group continues to use the equity method, our Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of our Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in our Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to our Group.

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by our Group, liabilities incurred by our Group to the former owners of the acquiree and the equity interests issued by our Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of our Group entered into to replace share-

based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by our Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, our Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, which is the date when our Group obtains control, and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if our Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, our Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of our Group's operations are translated into the presentation currency of our Group, Renminbi, using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange differences on translation of financial statements reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of our Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in our Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in our Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Fair value measurement of financial instruments

During the Track Record Period, we had certain financial assets and liabilities categorised within level 3 of fair value measurement ("**Level 3 Financial Assets/Liabilities**"). As at 31 December 2017, 2018 and 2019 and 30 June 2020, our Level 3 Financial Assets amounted to RMB46 million, RMB15,795 million, RMB15,427 million and RMB14,525 million, respectively, and our Level 3 Financial Liabilities amounted to RMB60 million, RMB209 million, RMB55 million and RMB55 million, respectively.

We have formulated internal policies to ensure the reasonableness of fair value measurement on financial assets (including three levels) in line with our accounting policies, the applicable laws and regulations. Our finance personnel are responsible for managing the valuation of level 3 instruments for financial reporting purposes. Our finance personnel manage the valuation exercise of the financial assets on a case-by-case basis.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 46 of the Accountants' Report in Appendix I which was issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out in Appendix I to this Listing Document.

In relation to the valuation of the Level 3 Financial Assets/Liabilities, our Directors have carefully reviewed the valuation related policies, the financial statements prepared in accordance with IFRS and other supporting documents, and have had sufficient understanding of the valuation model, methodologies and techniques. Based on the above, our Directors are of the view that the valuation analysis performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. Our Directors are satisfied with the valuation work for the Level 3 Financial Assets/Liabilities performed during the Track Record Period. In relation to the valuation of the Level 3 Financial Assets/Liabilities, the Joint Sponsors have conducted relevant due diligence work, including (i) reviewing relevant notes in the Accountants' Report as contained in Appendix I, (ii) discussing with the Group to understand the internal policies and procedures for the management of the financial instruments and the key basis, methodology and assumptions for the valuation of the financial instruments, and (iii) interviewing with the Reporting Accountants to understand the work they have performed in relation to the valuation and their assessment of the accuracy of such valuation. Based on the Joint Sponsors' due diligence work above, nothing material has come to the Joint Sponsors' attention that would cause them to question the relevant valuation work performed on the Level 3 Financial Assets/Liabilities.

Estimation uncertainty

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires our Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. No impairment losses were recognised during the Track Record Period. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of goodwill are approximately RMB20,428 million, RMB21,239 million, RMB23,352 million and RMB24,141 million, respectively. Our management has based its cash flow projections on various key parameters including pre-tax discount rates, annual growth rates, terminal growth rates, EBIT rates, EBITDA rates, headroom and sensitivity analyses to undertake impairment testing of goodwill. See Note 18 of the Accountants' Report in Appendix I to this Listing Document. Our Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of GE Appliances, Haier NZ Investment and Candy have been determined by using cash flow projections based on financial budgets approved by our senior management.

Assumptions were used in the value-in-use or fair value less cost of disposal calculation of the above cash-generating units as at 31 December 2017, 2018, 2019 and 30 June 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill. The annual growth rates of each cash-generating unit are based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash flows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Key assumptions used in the calculation the recoverable amount of GE Appliances are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom
						(RMB in millions)
As at 31 December 2017	13.05%	5.30% to 5.80%	2.00%	5.60% to 8.00%	9.40% to 11.40%	4,744
As at 31 December 2018	11.78%	3.08% to 5.50%	2.00%	5.40% to 6.20%	8.42% to 9.23%	4,056
As at 31 December 2019	11.11%	2.50% to 3.79%	2.00%	5.38% to 6.97%	8.65% to 10.11%	10,798
As at 30 June 2020	11.69%	2.50% to 4.28%	2.00%	5.99% to 6.91%	9.03% to 9.95%	8,670

Key assumptions used in the calculation the recoverable amount of Haier NZ Investment are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom
						(RMB in millions)
As at 31 December 2017	13.12%	15.00% to 23.10%	2.00%	2.81% to 8.40%	8.13% to 11.74%	2,821
As at 31 December 2018	13.06%	9.00% to 23.00%	2.00%	3.00% to 8.00%	9.00% to 12.00%	299
As at 31 December 2019	13.19%	0.63% to 3.08%	2.00%	3.36% to 8.90%	10.15% to 15.01%	122
As at 30 June 2020	13.19%	2.84% to 5.03%	2.00%	4.89% to 8.98%	12.17% to 15.44%	154

Key assumptions used in the calculation the recoverable amount of Candy are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom
						(RMB in millions)
As at 31 December 2019	9.83%	8.92% to 46.30%	1.80%	2.11% to 7.14%	2.68% to 7.98%	524
As at 30 June 2020	10.13% to 10.15%	1.80% to 22.37%	1.80%	1.48% to 7.14%	3.46% to 9.88%	454

Sensitivity analysis of the recoverable amount are disclosed as below:

	GE Appliances	Haier NZ Investment	Candy
		(RMB in millions)	
1% (increase)/decrease in discount rate would result in recoverable amount (decrease)/increase by:			
31 December 2017	(3,811)/4,615	(563)/664	N/A
31 December 2018	(3,850)/4,764	(458)/595	N/A
31 December 2019	(4,766)/5,958	(380)/462	(850)/1,105
30 June 2020	(4,557)/5,650	(364)/435	(770)/979

As at 31 December 2017, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the goodwill of GE Appliances and Haier NZ Investment will reduce approximately RMB3,811 million and RMB563 million respectively, and further impairment of goodwill of GE Appliances and Haier NZ Investment of approximately nil and nil respectively.

As at 31 December 2018, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the goodwill of GE Appliances and Haier NZ Investment will reduce approximately RMB3,850 million and RMB458 million respectively, and further impairment of goodwill of GE Appliances and Haier NZ Investment of approximately nil and RMB160 million respectively.

As at 31 December 2019, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the goodwill of GE Appliances, Haier NZ Investment and Candy will reduce approximately RMB4,766 million, RMB380 million and RMB850 million respectively, and further impairment of goodwill of GE Appliances, Haier NZ Investment and Candy of approximately nil, RMB262 million and RMB332 million respectively.

As at 30 June 2020, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the goodwill of GE Appliances, Haier NZ Investment and Candy will reduce approximately RMB4,557 million, RMB364 million and RMB770 million respectively, and further impairment of goodwill of GE Appliances, Haier NZ Investment and Candy of approximately nil, RMB213 million and RMB326 million respectively.

Estimated impairment of other intangible assets

Other intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, our Group has to exercise judgement and make estimation, particularly in assessing: (i) whether an event has occurred or any indicators that may affect the asset value; (ii) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (iii) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our other intangible assets amounted to RMB6,561 million, RMB7,379 million, RMB9,640 million and RMB9,584 million, respectively.

Our valuers adopt various key parameters including annual growth rates, pre-tax discount rates, terminal growth rates, royalty rates, sensitivity analyses and headroom to perform the impairment of the intangible assets with indefinite useful lives. See Note 19 of the Accountants' Report in Appendix I to this Listing Document. The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the respective valuers. The management of our Group considered that the basis and assumptions used for preparing the cash flow projection and the valuation methodology, basis and assumptions used for preparing the valuation report were reasonable and appropriate. There was no impairment loss recognised during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

In estimating the fair value of trademark, a variation of the income approach, the relief from royalty ("**RfR**") method, was applied. In the RfR method, the fair value of the intangible asset is estimated to be the present value of the royalties saved because we own the intangible asset. In other words, the owner of the intangible asset realises a benefit from owning the intangible asset rather than pay a rent or royalty for the use of the intangible asset.

Set out below are details of the value of inputs used in the value-in-use or fair value less cost of disposal calculation under IAS 36. The calculation uses cash flow projections based on financial budgets approved by management, and key parameters adopted by the valuer for performing the impairment assessment of the intangible assets belong to GE Appliances, Haier NZ Investment, Candy, being the cash generating unit of our Group with indefinite useful lives as at 31 December 2017, 2018, 2019 and 30 June 2020 are as follows:

		GE Appliances	Haier NZ Investment	Candy
	Key parameters on valuation:			
(a)	Annual growth rate			
	31 December 2017:	7.00%-15.00%	15.00%-26.00%	N/A
	31 December 2018:	7.00%-11.00%	3.00%-10.00%	N/A
	31 December 2019:	7.00%	8.33%-8.81%	9.21%-18.19%
	30 June 2020:	7.00%	6.59%-8.75%	6.65%-13.59%
(b)	Pre-tax discount rate			
	31 December 2017:	10.90%	12.05%	N/A
	31 December 2018:	10.07%	13.19%	N/A
	31 December 2019:	11.22%	18.70%	9.27%
	30 June 2020:	11.85%	18.70%	10.06%
(c)	Terminal growth rate			
	31 December 2017:	2.00%	2.00%	N/A
	31 December 2018:	2.00%	2.00%	N/A
	31 December 2019:	2.00%	—%	1.80%
	30 June 2020:	2.00%	—%	1.80%
(d)	Royalty rate			
	31 December 2017:	1.00%	3.00%	N/A
	31 December 2018:	1.00%	2.00%	N/A
	31 December 2019:	1.25%	2.50%	1.25%
	30 June 2020:	1.25%	2.50%	1.25%

The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the respective valuers. The management of our Group considered that the basis and assumptions used for preparing the cash flow projection, the valuation methodology and the valuation report were reasonable and appropriate.

The below sensitivity analysis by our management estimate if a reasonably possible change in a key assumption would cause the intangible assets carrying amount to exceed its recoverable amount:

	GE Appliances	Haier NZ Investment	Candy
		(RMB in millions)	
Sensitivity analysis			
1% (increase)/decrease in the discount rate would result in recoverable amount (decrease)/increase by:			
31 December 2017 (in million):	(74)/88	(184)/224	N/A
31 December 2018 (in million):	(80)/99	(50)/64	N/A
31 December 2019 (in million):	(84)/103	(43)/48	(286)/386
30 June 2020 (in million):	(71)/84	(40)/48	(242)/309
Headroom			
31 December 2017 (in million):	20	1,283	N/A
31 December 2018 (in million):	55	43	N/A
31 December 2019 (in million):	133	146	1,039
30 June 2020 (in million):	43	129	817

Estimated impairment of interests in associates

Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of our Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associate and the proceeds from the ultimate disposal of the investment taking into account of factors, including discount rate, dividend payout rate etc. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Impairment losses of interests in associates were recognised for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020 was approximately RMB21 million, RMB6 million, RMB56 million, nil and nil respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the net carrying amount of the investment in associates are approximately RMB13,012 million, RMB13,994 million, RMB20,461 million and RMB20,935 million respectively. See Note 20 of the Accountants' Report in Appendix I to this Listing Document.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table summarises our results of operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
CONTINUING OPERATIONS					
Revenue	154,165	177,594	198,006	97,274	95,723
Cost of sales	(104,001)	(125,415)	(139,393)	(68,974)	(69,496)
Gross profit	50,164	52,179	58,613	28,300	26,227
Other gains or losses	2,228	2,389	3,324	1,404	688
Selling and distribution expenses	(29,979)	(29,076)	(33,843)	(14,939)	(14,527)
Administrative expenses	(11,994)	(14,027)	(17,165)	(7,413)	(8,085)
Finance costs	(1,396)	(1,464)	(1,732)	(851)	(709)
Share of profits and losses of associates	1,189	1,325	1,409	543	679
Profit before tax from continuing operations	10,212	11,326	10,606	7,044	4,273
Income tax expenses	(1,421)	(1,793)	(1,584)	(1,009)	(661)
Profit for the year/period from continuing operations	8,791	9,533	9,022	6,035	3,612
DISCONTINUED OPERATION					
Profit for the year/period from a discontinued operation	353	367	3,313	150	-
PROFIT FOR THE YEAR/PERIOD	**9,144**	**9,900**	**12,335**	**6,185**	**3,612**
Profit for the year/period attributable to owners of the Company					
from continuing operations	6,844	7,391	6,715	5,017	2,781
from discontinued operations	100	93	1,491	41	-
	6,944	7,484	8,206	5,058	2,781
Profit for the year/period attributable to non-controlling interests					
from continuing operations	1,947	2,142	2,307	1,018	831
from discontinued operations	253	274	1,822	109	-
	2,200	2,416	4,129	1,127	831
	9,144	**9,900**	**12,335**	**6,185**	**3,612**

In 2017, 2018 and 2019, our profit amounted to RMB9.1 billion, RMB9.9 billion and RMB12.3 billion, respectively, with a CAGR of 16.1%. Our profit decreased by RMB2.6 billion, or 41.6%, from RMB6.2 billion in the six months ended 30 June 2019 to RMB3.6 billion in the six months ended 30 June 2020, primarily due to (i) a decrease in revenue of RMB1.6 billion primarily resulting from the impact of the COVID-19 pandemic, (ii) an increase in cost of sales of RMB0.5 billion primarily resulting from an increase in cost of sales of our other businesses segment by RMB2.1 billion due to the increase in revenue of our other businesses segment by RMB1.8 million, mainly contributed by our COSMOPlat business which has a relatively low profit margin, (iii) a decrease in other gains or losses of RMB0.7 billion primarily resulting from a decrease in foreign exchange recognition by

RMB0.3 billion, and (iv) an increase in administrative expenses of RMB0.7 billion primarily resulting from the increase in research and development expenses by RMB0.2 billion and staff costs by RMB0.2 billion resulting from our continued investment in product innovation, especially in high-end home appliance products with health concepts addressing the increasing user demands for such products affected by the outbreak of COVID-19 pandemic.

CONTINUING OPERATIONS

Revenue

Our revenue represents income from sales of our products and provision of our services.

The following table summarises our revenue by business segment (after elimination of inter-segment revenue) for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Smart Home Business in China										
Household Food Solutions										
Refrigerators/freezers	26,416	17.1	29,638	16.7	30,424	15.4	14,902	15.3	13,240	13.8
Kitchen appliances	1,940	1.3	2,271	1.3	2,149	1.1	1,169	1.2	1,137	1.2
Household Air Solutions										
Air-conditioners	21,555	14.0	23,420	13.2	20,366	10.3	11,646	12.0	10,819	11.3
Household Clothing Solutions										
Laundry appliances	18,421	11.9	20,853	11.7	22,113	11.1	9,748	10.0	8,958	9.4
Household Water Solutions										
Water appliances	7,932	5.1	8,812	4.9	9,521	4.8	4,656	4.8	4,405	4.6
Smart Home Business Overseas	69,914	45.4	74,896	42.2	92,392	46.7	45,689	47.0	45,890	47.9
Other Businesses	7,987	5.2	17,704	10.0	21,041	10.6	9,464	9.7	11,274	11.8
Total	**154,165**	**100.0**	**177,594**	**100.0**	**198,006**	**100.0**	**97,274**	**100.0**	**95,723**	**100.0**

FINANCIAL INFORMATION

The following table sets forth a breakdown of our sales volume by business segment for smart home business for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	(Units in thousands)				
Smart Home Business in China					
Household Food Solutions					
Refrigerators/freezers	12,620	14,125	14,568	7,212	7,053
Kitchen appliances	2,721	3,034	2,965	1,469	1,410
Household Air Solutions					
Air-conditioners	8,848	9,291	8,597	4,681	5,355
Household Clothing Solutions					
Laundry appliances	13,747	14,528	15,610	6,790	6,908
Household Water Solutions					
Water appliances	7,288	7,508	8,634	4,064	4,573
Smart Home Business Overseas	40,886	42,981	55,568	28,205	28,636

The following table sets forth a breakdown of our average selling price by business segment for smart home business for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	(RMB)				
Smart Home Business in China					
Household Food Solutions					
Refrigerators/freezers	2,093	2,098	2,088	2,066	1,877
Kitchen appliances	713	749	725	796	806
Household Air Solutions					
Air-conditioners	2,436	2,521	2,369	2,488	2,020
Household Clothing Solutions					
Laundry appliances	1,340	1,435	1,417	1,436	1,297
Household Water Solutions					
Water appliances	1,088	1,174	1,103	1,146	963
Smart Home Business Overseas	1,710	1,743	1,663	1,620	1,603

Our average selling price for our refrigerators/freezers, air-conditioners, laundry appliances and water appliances businesses in China significantly decreased in the six months ended 30 June 2020 mainly due to offering of massive discounts in response to the impact of COVID-19. Our average selling price for our air-conditioners business in China decreased significantly in 2019 in response to the escalated price competition initiated by several of our major competitors in the second half of 2019.

The following table sets forth a breakdown of our revenue by geographical location for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Mainland China	82,715	53.7	100,394	56.5	103,887	52.5	50,561	52.0	48,725	50.9
Other countries/ regions	71,450	46.3	77,200	43.5	94,119	47.5	46,713	48.0	46,998	49.1
Total	**154,165**	**100.0**	**177,594**	**100.0**	**198,006**	**100.0**	**97,274**	**100.0**	**95,723**	**100.0**

Cost of sales

The following table sets forth the breakdown of our cost of sales by business segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Smart Home Business in China										
Household Food Solutions										
Refrigerators/freezers	17,736	17.1	19,255	15.4	18,681	13.4	9,287	13.5	8,007	11.5
Kitchen appliances	1,167	1.1	1,347	1.1	1,115	0.8	547	0.8	535	0.8
Household Air Solutions										
Air-conditioners	14,245	13.7	15,465	12.3	13,388	9.6	7,712	11.2	7,397	10.6
Household Clothing Solutions										
Laundry appliances	11,262	10.8	12,727	10.1	13,629	9.8	6,252	9.1	5,711	8.2
Household Water Solutions										
Water appliances	4,595	4.4	4,963	4.0	5,239	3.8	2,718	3.9	2,568	3.7
Smart Home Business Overseas	47,716	45.9	55,549	44.3	67,768	48.6	33,759	48.9	34,452	49.6
Other Businesses	7,280	7.0	16,109	12.8	19,573	14.0	8,700	12.6	10,826	15.6
Total	**104,001**	**100.0**	**125,415**	**100.0**	**139,393**	**100.0**	**68,974**	**100.0**	**69,496**	**100.0**

Our cost of sales primarily includes raw materials, direct labour, depreciation, utilities, and others.

Raw materials cost represents our purchase cost of raw materials including copper, steel, aluminium, and plastic and foam materials for the manufacturing of home appliances and their key components. Direct labour cost primarily includes wages and salaries, pension scheme contributions and other social welfare payments for our production employees. Depreciation mainly represents depreciation of our property, plant and equipment, investment properties and right-of-use assets. Utilities primarily include consumption of water, electric power and fuels. Others mainly include inspection and maintenance expenses, spare parts expenses and freight expenses.

The following table summarises our cost of sales by nature for our major business lines (including refrigerators/freezers, kitchen appliances, air-conditioners, laundry appliances, and water appliances business lines) for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Raw materials	78,773	86.0	88,697	83.9	95,918	83.2	48,260	83.1	46,929	83.0
Direct labour	6,346	6.9	5,916	5.6	6,983	6.1	3,243	5.6	3,504	6.2
Depreciation	1,692	1.8	1,758	1.7	2,082	1.8	1,010	1.7	1,203	2.1
Utilities	407	0.4	611	0.6	624	0.5	271	0.5	274	0.5
Others	4,408	4.9	8,679	8.2	9,622	8.4	5,262	9.1	4,642	8.2
Total	**91,626**	**100.0**	**105,661**	**100.0**	**115,229**	**100.0**	**58,046**	**100.0**	**56,552**	**100.0**

Gross Profit and Gross Margin

The following table sets forth our gross profit and gross margin by business segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
							(unaudited)			
	(RMB in millions, except percentages)									
Smart Home Business in China										
Household Food Solutions										
Refrigerators/freezers	8,680	32.9	10,383	35.0	11,743	38.6	5,615	37.7	5,233	39.5
Kitchen appliances	773	39.8	924	40.7	1,034	48.1	622	53.2	602	52.9
Household Air Solutions										
Air-conditioners	7,310	33.9	7,955	34.0	6,978	34.3	3,934	33.8	3,422	31.6
Household Clothing Solutions										
Laundry appliances	7,159	38.9	8,126	39.0	8,484	38.4	3,496	35.9	3,247	36.2
Household Water Solutions										
Water appliances	3,337	42.1	3,849	43.7	4,282	45.0	1,938	41.6	1,837	41.7
Smart Home Business Overseas	22,198	31.8	19,347	25.8	24,624	26.7	11,930	26.1	11,438	24.9
Other Businesses	707	8.9	1,595	9.0	1,468	7.0	764	8.1	448	4.0
Total	**50,164**	**32.5**	**52,179**	**29.4**	**58,613**	**29.6**	**28,300**	**29.1**	**26,227**	**27.4**

Our gross profit margin decreased from 32.5% in 2017 to 27.4% in the six months ended 30 June 2020, mainly due to decrease in gross profit margin of our air-conditioners and laundry appliances businesses in China and smart home business overseas.

The decrease in gross profit margin of our air-conditioners and laundry appliances businesses in China in the six months ended 30 June 2020 was mainly due to the substantial decrease in average selling price resulting from increased discount and relevant marketing expenses in response to the impact of COVID-19, and increase in air-conditioners and laundry appliances delivery and installation service expenses due to increased time and burden of delivery and installation as lock-downs and social distancing measures were implemented in various cities in China and heightened safety and security measures were required for delivery and installation and incurred higher costs. The decrease in gross profit margin of our smart home business overseas in 2018 was mainly due to GE Appliances' reclassification of transportation expenses from selling and distribution expenses to cost of sales.

Other gains or losses

Our other gains or losses primarily include (i) government grants, (ii) interest income from bank, (iii) net gains or losses on disposal of non-current assets, (iv) compensation received from suppliers, (v) net foreign exchange gains or losses and (vi) interest income from wealth management products.

Our government grants primarily include fiscal grants from the governments for our contribution to local economy, provided at the sole discretion of the relevant local government authorities.

Our interest income from bank primarily represents interests from our bank deposits.

Our net gains or losses on disposal of non-current assets mainly consists of gains or losses from disposal of buildings, plants, and machinery.

Our compensation received from suppliers mainly includes compensation paid by suppliers due to their incompliance with the supply agreements with us such as late delivery.

Our net foreign exchange gains or losses primarily include the net gain or loss caused by (i) changes in the exchange rates arising from our global operations and (ii) the bank borrowings denominated in U.S. dollar.

Our interest income from wealth management products represents interests from the wealth management products we purchased. All of our wealth management products purchased during the Track Record Period are principal protected and we do not invest in non-principal protected wealth management products in accordance with our investment management policy and in line with our risk appetite.

Our cash discount income represents our cash discount received from our suppliers due to our advanced payment within the credit period.

The following table summarises our other gains or losses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
Interest income from bank	309	449	525	243	212
Interest income from wealth management products	43	69	130	61	48
Other interest income	15	27	22	8	8
Cash discount income	179	171	162	85	66
Dividend income from available-for-sale financial assets	41	—	—	—	—
Dividend income from equity investments designated at fair value through other comprehensive income	—	105	39	18	15
Compensation received from suppliers	329	356	279	252	18
Compensation received from our Controlling Shareholder	32	2	—	—	—
Compensation received from legal settlement	171	—	—	—	—
Net gain/(loss) on disposal of non-current assets	(77)	52	399	3	(11)
Net gain on disposal of available-for-sale financial assets	1	—	—	—	—
Net gain on disposal of equity investments designated at fair value through other comprehensive income	—	—	2	—	—
Net gain/(loss) on disposal of financial assets/liabilities measured at fair value through profit or loss	49	129	36	99	15
Gain/(loss) on disposal of subsidiaries	129	178	(4)	1	—
Government grants	902	899	1,256	448	525
Rental income from investment properties	21	12	13	5	2
Net fair value gain/(loss) on financial assets/liabilities at fair value through profit or loss	614	(153)	72	57	(31)
Net foreign exchange (losses)/gains	(589)	2	276	114	(217)
Sundry income	59	91	117	10	38
Total	**2,228**	**2,389**	**3,324**	**1,404**	**688**

Selling and distribution expenses

Our selling and distribution expenses consist primarily of warehousing and logistics expenses, marketing expenses, staff costs, after-sales expenses, and other expenses.

Warehousing and logistics expenses primarily include warehousing fees for our finished goods and raw materials and freight fees for transportation and delivery of our products. Marketing expenses primarily relate to our selling and marketing activities. Staff costs primarily include wages and salaries, pension scheme contributions and other social welfare payments for our selling and distribution employees. After-sales expenses mainly represent maintenance expenses, spare parts expenses and customer service fees. Other expenses mainly include amortisation, rental expenses and depreciation.

The following table summarises our selling and distribution expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
Warehousing and logistics	8,595	7,660	9,292	4,096	4,599
Marketing expense	6,097	6,437	8,317	2,991	2,990
Staff costs	5,614	6,116	6,531	3,258	3,322
After-sales expense	4,375	4,201	5,077	1,824	1,975
Others	5,298	4,662	4,626	2,770	1,641
Total	**29,979**	**29,076**	**33,843**	**14,939**	**14,527**

Administrative expenses

Our administrative expenses primarily include research and development expenses, staff costs, depreciation and amortisation, taxation and other expenses.

Research and development expenses primarily include expenses for our research and development of proprietary technologies. Staff costs mainly represent wages and salaries, pension scheme contributions and other social welfare payments for our administrative employees. Depreciation and amortisation primarily include (i) depreciation of our property, plant and equipment and (ii) amortisation of our intangible assets such as patents and licences, trademarks and our proprietary technology. Other expenses mainly include transportation expenses and travel expenses.

The following table summarises our administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
Research and development expenses	4,510	5,104	6,221	2,751	2,940
Staff costs	3,256	3,644	4,766	1,930	2,100
Depreciation and amortisation	594	723	986	502	624
Taxation	348	402	510	177	141
Others	3,286	4,154	4,682	2,053	2,280
Total	**11,994**	**14,027**	**17,165**	**7,413**	**8,085**

Operating profit and operating profit margin

Our segment operating profit represents our segment revenue (including inter-segment revenue) less segment cost (being adjusted to include cost of sales, other gain or losses, selling and distribution expenses, administrative expenses and other costs). Our operating profit margin represents our segment operating profit as a percentage of our segment revenue. The following table sets forth our segment operating profit and operating profit margin for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Operating profit	Operating profit margin	Operating profit	Operating profit margin	Operating profit	Operating profit margin	Operating profit	Operating profit margin	Operating profit	Operating profit margin
							(unaudited)			
	(RMB in millions, except percentages)									
Smart Home Business in China										
Household Food Solutions										
Refrigerators/freezers	1,692	6.0%	2,090	6.6%	2,109	6.4%	1,991	12.4%	1,455	9.9%
Kitchen appliances	35	1.7%	19	0.8%	18	0.7%	110	8.4%	10	0.8%
Household Air Solutions										
Air-conditioners	968	4.0%	1,141	4.3%	12	0.1%	972	7.0%	0	0.0%
Household Clothing Solutions										
Laundry appliances	1,816	9.1%	1,971	8.8%	2,119	8.7%	982	9.1%	583	5.6%
Household Water Solutions										
Water appliances	864	10.8%	1,029	11.6%	1,117	11.6%	549	11.7%	530	11.8%
Smart Home Business Overseas	2,858	4.0%	3,077	4.1%	3,155	3.4%	1,631	3.6%	1,507	3.3%
Other Businesses	610	1.0%	376	0.5%	47	0.1%	47	0.1%	(233)	(0.6)%
Total	**8,843**	**4.2%**	**9,703**	**4.0%**	**8,577**	**3.2%**	**6,282**	**4.8%**	**3,852**	**2.9%**

Our operating profit margin decreased from 4.2% in 2017 to 2.9% in the six months ended 30 June 2020, mainly due to decrease in operating profit margin of our air-conditioners and laundry appliances businesses in China and smart home business overseas. Our operating profit margin decreased significantly in the six months ended 30 June 2020, primarily due to increase in revenue contribution from our smart home business overseas which entailed relatively low profit margin and decreased sales and selling price of our products under the impact of COVID-19 in the first quarter of 2020, whilst fixed costs and expenses including staff costs and maintenance expenses such as amortisation and depreciation remaining relatively stable despite the decrease in revenue.

In the second half of 2019, increasingly intensified market competition in the air-conditioner market has led to escalated price competition. In anticipation of the release of the new national standard on air-conditioner energy efficiency index, several of our major competitors initiated substantial price decrease for their low energy-efficient and high electricity consuming air-conditioners to reduce inventories of such products before the release and effectiveness of the new national standard. In order to maintain and enhance our market position, we are forced to react by significantly decreasing the price of our air conditioners in response to the price pressure. We experienced sharp decline in segment operating profit margin of our air-conditioners business in China in 2019 as a result. Due to the impact of COVID-19, our segment operating profit margin of our air-conditioners business in China further decreased in the six months ended 30 June 2020. We seek to seize the opportunities brought by strengthened health awareness of consumers after the COVID-19 outbreak and focus on high-end segment such as our branded self-cleaning air-conditioners which were highly recognised by the users during the COVID-19 pandemic to improve our segment profit margin in the future.

The decline in operating profit margin of our laundry appliances business in China in the six months ended 30 June 2020 was mainly due to increased discount and relevant marketing expenses in response to the impact of COVID-19. The decline in operating profit margin of our smart home business overseas during the Track Record Period was mainly due to our acquisition of Fisher&Paykel and Candy which entailed relatively low profit margins as these businesses incurred higher labour costs and marketing expenses and had higher expense ratio during the Track Record Period.

Finance costs

Our finance costs primarily include (i) interest on our bank loans for our business expansion and (ii) other finance costs which mainly represents factoring fees.

The following table summarises our finance costs for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
Interest on borrowings	1,208	1,081	1,078	589	461
Interest on convertible and exchangeable bonds	12	168	274	134	89
Interest on finance leases	1	—	—	—	—
Interest on lease liabilities	—	—	98	47	62
Other finance costs	175	215	282	81	97
Total	**1,396**	**1,464**	**1,732**	**851**	**709**

Share of profits and losses of associates

Our share of profits and losses of associates primarily represents our share of profits or losses from our long-term investments in our associates, mainly include Gooday Supply Chain, Controladora Mabe, S.A. de C.V. ("Mabe"), Bank of Qingdao Co., Ltd. and Haier Group Finance Co., Ltd.

Income tax expenses

Pursuant to the EIT Law and Implementation Regulation of the EIT Law, the tax rate of our PRC subsidiaries is 25% for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020. In addition, certain of our subsidiaries enjoy preferential tax treatments, including 46 subsidiaries with tax rate of 15% due to preferential tax policies for high-tech enterprises, one subsidiary with tax rate of 10% due to preferential tax policies for important software enterprises, 12 subsidiaries with tax rate of 5% or 10% due to preferential policies for small and micro enterprises, and ten subsidiaries with tax rate of 15% due to preferential tax policies for China western development. We are also subject to varying tax rates in different jurisdictions. As a result, our effective tax rate for continuing operations was 13.9%, 15.8%, 14.9%, 14.3% and 15.5%, respectively, for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020. As at the Latest Practicable Date, we did not have any dispute with any tax authority.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investor from China effective from 1 January 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors.

Profit for the years/periods from a discontinued operation

On 30 August 2018, we via an indirect subsidiary, entered into an asset swap agreement with Haier International Appliances, a subsidiary of Haier Group, pursuant to which we acquired 51% equity interest in Qingdao Haishi from Haier International Appliances. In satisfaction of the consideration, we transferred a 55% equity interest in Bingji Company, to Haier International Appliances. On 26 July 2019, we completed this asset swap. As a result, Bingji Company has become an associate to us, and its business is classified as a discontinued operation. Qingdao Haishi is principally engaged in the research and development and sales of household water purifying solutions, and Bingji Company is an investment holding company that indirectly controls Gooday Supply Chain, which is principally engaged in the business of providing logistics services in China. There is no other discontinued operation of our business during the Track Record Period. See "History and Corporate Structure — Major Acquisitions and Disposal — Strengthened our strategic positioning through assets swap of Qingdao Haishi and Bingji Company" and Note 11 of the Accountants' Report in Appendix I to this Listing Document.

During the Track Record Period, our discontinued operation recorded profit of RMB353 million, RMB367 million, RMB3,313 million, RMB150 million and nil in the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively, accounted for 3.9%, 3.7%, 26.9%, 2.4% and nil of our total profit in the same periods, respectively.

RESULTS OF OPERATIONS

The following discussion compares the major components of our operating results during the Track Record Period.

Revenue

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our revenue decreased by 1.6% to RMB95,723 million in the six months ended 30 June 2020 from RMB97,274 million in the six months ended 30 June 2019 as a result of decreases in revenue from our refrigerators/freezers, kitchen appliances, air-conditioners, laundry appliances and water appliances businesses in China, which was partially offset by the increases in our revenue from smart home business overseas and other businesses.

- Revenue from our refrigerators/freezers business in China decreased by 11.2% from RMB14,902 million for the six months ended 30 June 2019 to RMB13,240 million for the six months ended 30 June 2020, with decrease in sales volume primarily due to the decrease in consumer demand resulting from reduced economic and social activities and practical difficulties associated with delivery due to lock-downs and social distancing measures implemented in various cities in China as impacted by COVID-19 and corresponding decrease in average selling price resulting from increased discount in response to the impact. We recorded substantial improvement of operating performance in the second quarter of 2020 driven by the gradual containment of COVID-19 in China;

- Revenue from our kitchen appliances business in China decreased by 2.7% from RMB1,169 million for the six months ended 30 June 2019 to RMB1,137 million for the six months ended 30 June 2020, with decrease in sales volume primarily due to the decrease in consumer demand for kitchen appliances resulting from the negative impact on the real estate industry caused by COVID-19. Our sales of kitchen appliances under the Casarte brand recorded substantial increase during the period. In the future, we intend to leverage the advantages of Fisher&Paykel, GE Appliances and Candy to build up our advanced global technology platform and optimise our product mix to provide consumers with high-end full-suite smart kitchen solutions. We will further focus on our high-end brand portfolio to improve competitiveness in the high-end market;

- Revenue from our air-conditioners business in China decreased by 7.1% from RMB11,646 million for the six months ended 30 June 2019 to RMB10,819 million for the six months ended 30 June 2020, primarily due to the decrease in customer demand for air-conditioners especially in the first quarter of 2020 resulting from the negative impact on the real estate industry caused by COVID-19 and the decrease in average selling price resulting from increased discount in response to the impact of COVID-19. We will focus on mid- and high-end products with health concepts to improve customer experiences and optimise our product mix going forward;

- Revenue from our laundry appliances business in China decreased by 8.1% from RMB9,748 million for the six months ended 30 June 2019 to RMB8,958 million for the six months ended 30 June 2020, primarily due to the decrease in customer demand for laundry appliances especially in the first quarter of 2020 resulting from reduced economic and social activities and practical difficulties associated with delivery due to lock-downs and social distancing measures implemented in various cities in China as impacted by COVID-19 and the decrease in average selling price resulting from increased discount in response to the impact of COVID-19. We recorded substantial improvement in sales in the second quarter of 2020 driven by the gradual containment of COVID-19 in China;

- Revenue from our water appliances business in China decreased by 5.4% from RMB4,656 million for the six months ended 30 June 2019 to RMB4,405 million for the six months ended 30 June 2020, primarily due to the decrease in customer demand for water appliances especially in the first quarter of 2020 resulting from the negative impact on the real estate industry caused by COVID-19 and decreased average selling price resulting from increased discount in response to the impact of COVID-19;

- Revenue from our smart home business overseas remained relatively stable at RMB45,689 million for the six months ended 30 June 2019 and RMB45,890 million for the six months ended 30 June 2020; and

- Revenue from our other businesses increased by 19.1% from RMB9,464 million for the six months ended 30 June 2019 to RMB11,274 million for the six months ended 30 June 2020, primarily due to the increase in revenue from our COSMOPlat business.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our revenue increased by 11.5% to RMB198,006 million for the year ended 31 December 2019 from RMB177,594 million for the year ended 31 December 2018 as a result of the increases in revenue from our refrigerators/freezers, laundry appliances, water appliances businesses in China, smart home business overseas and other businesses, which was partially offset by the decreases in our revenue from kitchen appliances and air-conditioners businesses in China. Specifically, in 2019, our revenue from the sales of smart home products in sets, measured as single sales with more than one piece of our products, accounted for 27.5% of our revenue from smart home business in China, representing an increase of 5.4 percentage point as compared with 2018.

- Revenue from our refrigerators/freezers business in China increased by 2.7% from RMB29,638 million for the year ended 31 December 2018 to RMB30,424 million for the year ended 31 December 2019, primarily due to the increase in sales of refrigerators/ freezers in China, and the increase in sales of products with higher selling prices as we tap into the high-end market;
- Revenue from our kitchen appliances business in China decreased by 5.4% from RMB2,271 million for the year ended 31 December 2018 to RMB2,149 million for the year ended 31 December 2019, with decrease in sales volume primarily due to the decrease in consumer demand caused by the downturn in real estate industry in 2019 and corresponding decrease in average selling price in response to the impact;
- Revenue from our air-conditioners business in China decreased by 13.0% from RMB23,420 million for the year ended 31 December 2018 to RMB20,366 million for the year ended 31 December 2019, primarily due to the decrease in average selling price as a result of intensified market competition, as well as decreased consumer demand caused by the downturn in real estate industry in 2019 and corresponding decrease in sales volume. Air-conditioners, particularly high-end air-conditioners under our Casarte brand, is one of the areas that we will focus on in the near future, to further enhance our competitive advantages in the market. In particular, the revenue from air-conditioners under our high-end brand Casarte increased by 129% in 2019;
- Revenue from our laundry appliances business in China increased by 6.0% from RMB20,853 million for the year ended 31 December 2018 to RMB22,113 million for the year ended 31 December 2019, primarily due to the increase in sales of washing machines in China as well as the increase in sales of products with higher selling prices as we tap into the high-end market;
- Revenue from our water appliances business in China increased by 8.0% from RMB8,812 million for the year ended 31 December 2018 to RMB9,521 million for the year ended 31 December 2019, primarily due to the consolidation of our water purifier business in 2019. Through the integration of sales channels for both water heaters and water purifiers, we have further promoted our Household Water Solutions which are widely recognised by the market;
- Revenue from our smart home business overseas increased by 23.4% from RMB74,896 million for the year ended 31 December 2018 to RMB92,392 million for the year ended 31 December 2019, primarily due to the significant increase in revenue from

various overseas markets including North America, Europe and Southeast Asia, and consolidation of Candy's revenue starting in 2019; and

- Revenue from our other businesses increased by 18.8% from RMB17,704 million for the year ended 31 December 2018 to RMB21,041 million for the year ended 31 December 2019, primarily due to the increase in revenue from our COSMOPlat business.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our revenue increased by 15.2% to RMB177,594 million for the year ended 31 December 2018 from RMB154,165 million for the year ended 31 December 2017 as a result of increases in our revenues from all business segments.

- Revenue from our refrigerators/freezers business in China increased by 12.2% from RMB26,416 million for the year ended 31 December 2017 to RMB29,638 million for the year ended 31 December 2018, primarily due to the increase in sales and average selling price of refrigerators/freezers in China as a result of innovation and upgrade of our refrigerator products and corresponding increase in consumer demand;
- Revenue from our kitchen appliances business in China increased by 17.1% from RMB1,940 million for the year ended 31 December 2017 to RMB2,271 million for the year ended 31 December 2018, primarily due to the increase in sales and average selling price of kitchen appliances in China and the increase in sales of products with higher selling price as we tap into the high-end market and promote our smart kitchen solutions comprising our high-end and full-suite product matrix;
- Revenue from our air-conditioners business in China increased by 8.7% from RMB21,555 million for the year ended 31 December 2017 to RMB23,420 million for the year ended 31 December 2018, primarily due to the increase in sales and average selling price of air-conditioners in China and the increase in sales of products with higher selling price as we tap into the high-end market by focusing on intelligent, high efficiency and products with health concepts and continuously adhering to technology innovation;
- Revenue from our laundry appliances business in China increased by 13.2% from RMB18,421 million for the year ended 31 December 2017 to RMB20,853 million for the year ended 31 December 2018, primarily due to the increase in sales and average selling price as a result of increase in consumer demand through technology innovation and upgrade of products;
- Revenue from our water appliances business in China increased by 11.1% from RMB7,932 million for the year ended 31 December 2017 to RMB8,812 million for the year ended 31 December 2018, primarily due to the increase in sales and average selling price as a result of the increase in consumer demand, our continued investment in product innovation and new technology research and development, and expansion of our store network and improvement in our online operation capabilities;
- Revenue from our smart home business overseas increased by 7.1% from RMB69,914 million for the year ended 31 December 2017 to RMB74,896 million for the year ended 31 December 2018, primarily due to the increase in revenue from various overseas markets primarily including North America, Europe and South Asia; and

- Revenue from our other businesses increased significantly from RMB7,987 million for the year ended 31 December 2017 to RMB17,704 million for the year ended 31 December 2018, primarily due to the increase in revenue from our COSMOPlat business.

Cost of sales

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our cost of sales remained relatively stable at RMB69,496 million for the six months ended 30 June 2020 and RMB68,974 million for the six months ended 30 June 2019. Our cost of sales as a percentage of revenue increased from 70.9% for the six months ended 30 June 2019 to 72.6% for the six months ended 30 June 2020, primarily due to the increase in revenue from our COSMOPlat business which has a relatively low profit margin.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our cost of sales increased by 11.1% to RMB139,393 million for the year ended 31 December 2019 from RMB125,415 million for the year ended 31 December 2018, primarily due to increase in each of major cost items and in line with the increase in our revenue during the period. Our cost of sales as a percentage of revenue remained relatively stable at 70.4% in 2019 and 70.6% in 2018.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our cost of sales increased by 20.6% to RMB125,415 million for the year ended 31 December 2018 from RMB104,001 million for the year ended 31 December 2017, mainly due to GE Appliances' reclassification of transportation expenses from selling and distribution expenses to cost of sales, and also in line with the increase in our revenue during the period. Our cost of sales as a percentage of revenue increased from 67.5% in 2017 to 70.6% in 2018.

Other gains or losses

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our other gains decreased by 51.0% to RMB688 million for the six months ended 30 June 2020 from RMB1,404 million for the six months ended 30 June 2019, primarily due to (i) we recorded net foreign exchange gains of RMB114 million for the six months ended 30 June 2019 while we had net foreign exchange losses of RMB217 million for the six months ended 30 June 2020, mainly as a result of fluctuations in exchange rates, and (ii) a decrease of RMB234 million in compensation received from suppliers, which mainly includes compensation paid by suppliers due to their incompliance with the supply agreements with us such as late delivery, resulting from reclassification of payment from suppliers for spare part replacement from compensation paid by suppliers to offset cost of sales.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our other gains increased by 39.1% to RMB3,324 million for the year ended 31 December 2019 from RMB2,389 million for the year ended 31 December 2018, primarily due to (i) an increase of RMB356 million in our government grants, (ii) an increase of RMB347 million in our net gain on disposal of non-current assets, mainly comprised of relocation compensation for one of our washing machine plants, and (iii) an increase of RMB274 million in our net foreign exchange gains, mainly as a result of fluctuations in the exchange rate between the U.S. dollar and Renminbi.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our other gains increased by 7.2% to RMB2,389 million for the year ended 31 December 2018 from RMB2,228 million for the year ended 31 December 2017, primarily because (i) we recorded net foreign exchange losses of RMB589 million for the year ended 31 December 2017 while we had net foreign exchange gains of RMB2 million for the year ended 31 December 2018, mainly as a result of fluctuations in exchange rates, and (ii) an increase of RMB140 million in our bank interest income mainly due to the increase in our bank deposits.

Selling and distribution expenses

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our selling and distribution expenses slightly decreased by 2.8% to RMB14,527 million for the six months ended 30 June 2020 from RMB14,939 million for the six months ended 30 June 2019, primarily due to decrease in other miscellaneous expenses, and partially counteracted by increase in warehousing and logistics expenses mainly due to our expenses for the distribution network expansion and increased warehousing expenses resulting from slow turnover of inventories under the impact of COVID-19 in the first quarter of 2020. Our selling and distribution expenses as a percentage of revenue remained relatively stable at 15.2% for the six months ended 30 June 2020 and 15.4% for the six months ended 30 June 2019.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our selling and distribution expenses increased by 16.4% to RMB33,843 million for the year ended 31 December 2019 from RMB29,076 million for the year ended 31 December 2018, primarily due to (i) the increase in marketing expenses for brand promotion, our selling expenses related to air-conditioners sales network, promotion of mid- and high-end brands under GE Appliances and overseas brands, (ii) the consolidation of Candy, and (iii) increase in warehousing and logistics costs as a result of the increase in logistics and relevant costs, sales of e-commerce products and increase in the inventories. Our selling and distribution expenses as a percentage of revenue increased from 16.4% in 2018 to 17.1% in 2019.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our selling and distribution expenses slightly decreased by 3.0% to RMB29,076 million for the year ended 31 December 2018 from RMB29,979 million for the year ended 31 December 2017, primarily due to GE Appliances' reclassification of transportation expenses from selling and distribution expenses to cost of sales. Our selling and distribution expenses as a percentage of revenue decreased from 19.4% in 2017 to 16.4% in 2018.

Administrative expenses

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our administrative expenses increased by 9.1% to RMB8,085 million for the six months ended 30 June 2020 from RMB7,413 million for the six months ended 30 June 2019, primarily due to (i) increase in other miscellaneous expenses as a result of our business expansion, and (ii) the increase in research and development expenses mainly due to the spending on technology development of smart home solutions. Our administrative expenses as a percentage of revenue increased from 7.6% for the six months ended 30 June 2019 to 8.4% for the six months ended 30 June 2020, mainly due to the increase in research and development expenses and staff costs resulting from our continued investment in product innovation, especially in high-end home appliance products with health concepts addressing the increasing user demands for such products affected by the outbreak of COVID-19 pandemic.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our administrative expenses increased by 22.4% to RMB17,165 million for the year ended 31 December 2019 from RMB14,027 million for the year ended 31 December 2018, primarily due to (i) the increase in research and development expenses, (ii) the payments to the fund for disposal of waste home appliances in India and (iii) the consolidation of Candy which recorded relatively high administrative expenses. Our administrative expenses as a percentage of revenue increased from 7.9% in 2018 to 8.7% in 2019.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our administrative expenses increased by 17.0% to RMB14,027 million for the year ended 31 December 2018 from RMB11,994 million for the year ended 31 December 2017, primarily due to the increase in administrative expenses of GE Appliances and Fisher&Paykel. Our administrative expenses as a percentage of revenue remained relatively stable at 7.9% in 2018 and 7.8% in 2017.

Operating profit and operating profit margin

Our total or segment operating profit refers to total or segment revenue (including inter-segment revenue) less total or segment cost (being adjusted to include cost of sales, other gains or losses, selling and distribution expenses, administrative expenses and other costs).

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our operating profit decreased by 38.7% to RMB3,852 million for the six months ended 30 June 2020 from RMB6,282 million for the six months ended 30 June 2019, and our operating profit margin decreased to 2.9% for the six months ended 30 June 2020 from 4.8% for the six months ended 30 June 2019, primarily due to decreased sales and selling price of our products under the impact of COVID-19 in the first quarter of 2020, whilst fixed costs and expenses including staff costs and maintenance expenses such as amortisation and depreciation remaining relatively stable despite the decrease in revenue.

- Segment operating profit of refrigerators/freezers business in China decreased by 26.9% from RMB1,991 million for the six months ended 30 June 2019 to RMB1,455 million for the six months ended 30 June 2020, and segment operating profit margin of our refrigerators/freezers business in China decreased from 12.4% for the six months ended 30 June 2019 to 9.9% for the six months ended 30 June 2020, with decrease in sales volume primarily due to the decrease in consumer demand resulting from reduced economic and social activities caused by COVID-19, the decrease in average selling price resulting from the impact of COVID-19, whilst fixed costs and expenses including staff costs and maintenance expenses remaining relatively stable despite the decrease in revenue;

- Segment operating profit of our kitchen appliances business in China decreased significantly from RMB110 million for the six months ended 30 June 2019 to RMB10 million for the six months ended 30 June 2020, and segment operating profit margin of our kitchen appliances business in China decreased from 8.4% for the six months ended 30 June 2019 to 0.8% for the six months ended 30 June 2020, with decrease in sales volume primarily due to the decrease in consumer demand and negative impact to the real estate industry caused by COVID-19, whilst fixed costs and expenses including staff costs and maintenance expenses remaining relatively stable despite the decrease in revenue;

- Segment operating profit of our air-conditioners business in China decreased from profit of RMB972 million for the six months ended 30 June 2019 to RMB0.0 million for the six months ended 30 June 2020, primarily due to the decrease in the average selling price of air conditioner in China as a result of the impact of COVID-19, whilst fixed costs and expenses including staff costs and maintenance expenses remaining relatively stable despite decrease in revenue;

- Segment operating profit of our laundry appliances business in China decreased by 40.6% from RMB982 million for the six months ended 30 June 2019 to RMB583 million for the six months ended 30 June 2020, and segment operating profit margin of our laundry appliances business in China decreased from 9.1% for the six months ended 30 June 2019 to 5.6% for the six months ended 30 June 2020, primarily due to the decrease in the average selling price of washing machines in China as a result of the impact of COVID-19, whilst fixed costs and expenses including staff costs and maintenance expenses remaining relatively stable despite decrease in revenue;

- Segment operating profit of our water appliances business in China decreased by 3.5% at RMB549 million for the six months ended 30 June 2019 and RMB530 million for the six months ended 30 June 2020, and segment operating profit margin of our water appliances business in China remained relatively stable at 11.7% for the six months ended 30 June 2019 and 11.8% for the six months ended 30 June 2020;

- Segment operating profit of our smart home business overseas decreased by 7.6% from RMB1,631 million for the six months ended 30 June 2019 to RMB1,507 million for the six months ended 30 June 2020, and segment operating profit margin of our overseas smart home business decreased from 3.6% for the six months ended 30 June 2019 to 3.3% for the six months ended 30 June 2020, mainly due to the increase in operational expenses caused by COVID-19; and

- Segment operating profit or loss of our other businesses decreased from profit of RMB47 million for the six months ended 30 June 2019 to loss of RMB233 million for the six months ended 30 June 2020, primarily due to the increase in research and development expenses for our smart home businesses, administrative expenses for ESOP and after-sales expenses.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our operating profit decreased by 11.6% to RMB8,577 million for the year ended 31 December 2019 from RMB9,703 million for the year ended 31 December 2018, and our operating profit margin decreased to 3.2% for the year ended 31 December 2019 from 4.0% for the year ended 31 December 2018, primarily due to the decreased selling price as a result of the increasingly intensive industry competition of our air-conditioners business in China and relatively low profit margin of our newly consolidated business, namely Candy, as well as our expenses for air-conditioners sales network expansion, smart home offline experience centres and overseas high-end brands and the increase in marketing expenses.

- Segment operating profit of our refrigerators/freezers business in China remained relatively stable at RMB2,090 million for the year ended 31 December 2018 and RMB2,109 million for the year ended 31 December 2019, and segment operating profit margin of our refrigerators/freezers business in China remained relatively stable at 6.6% for the year ended 31 December 2018 and 6.4% for the year ended 31 December 2019;

- Segment operating profit of our kitchen appliances business in China decreased by 5.3% from RMB19 million for the year ended 31 December 2018 to RMB18 million for the year ended 31 December 2019, and segment operating profit margin of our kitchen appliances business in China remained relatively stable at 0.8% for the year ended 31 December 2018 and 0.7% for the year ended 31 December 2019;

- Segment operating profit of our air-conditioners business in China decreased by 98.9% from RMB1,141 million for the year ended 31 December 2018 to RMB12 million for the year ended 31 December 2019, and segment operating profit margin of our air-conditioners business in China decreased from 4.3% for the year ended 31 December 2018 to 0.1% for the year ended 31 December 2019, primarily due to the increase in marketing expenses and the significant decrease in the price of our air-conditioners in response to the increasingly intensive industry competition. We will continue to focus on our sales of the air-conditioners, particularly in the high-end segment, to improve our segment operating profit and profit margin;

- Segment operating profit of our laundry appliances business in China increased by 7.5% from RMB1,971 million for the year ended 31 December 2018 to RMB2,119 million for the year ended 31 December 2019, and segment operating profit margin of our laundry appliances business in China remained relatively stable at 8.8% for the year ended 31 December 2018 and 8.7% for the year ended 31 December 2019;

- Segment operating profit of our water appliances business in China increased by 8.6% from RMB1,029 million for the year ended 31 December 2018 to RMB1,117 million for the year ended 31 December 2019, and segment operating profit margin of our water appliances business in China remained stable at 11.6% for the years ended 31 December 2018 and 2019;

- Segment operating profit of our smart home business overseas increased by 2.5% from RMB3,077 million for the year ended 31 December 2018 to RMB3,155 million for the year ended 31 December 2019, and segment operating profit margin of our overseas smart home business decreased from 4.1% for the year ended 31 December 2018 to 3.4% for the year ended 31 December 2019, primarily due to our consolidation of Candy in 2019, whose operating profit margin is lower than the overall operating profit margin of our overseas smart home business; and
- Segment operating profit of our other businesses decreased by 87.5% from RMB376 million for the year ended 31 December 2018 to RMB47 million for the year ended 31 December 2019, and segment operating profit margin of our other business decreased from 0.5% for the year ended 31 December 2018 to 0.1% for the year ended 31 December 2019, primarily due to the rapid growth of our COSMOPlat business which entailed a lower operating profit margin.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our operating profit increased by 9.7% to RMB9,703 million for the year ended 31 December 2018 from RMB8,843 million for the year ended 31 December 2017, and our operating profit margin decreased from 4.2% for the year ended 31 December 2017 to 4.0% for the year ended 31 December 2018.

- Segment operating profit of our refrigerators/freezers business in China increased by 23.5% from RMB1,692 million for the year ended 31 December 2017 to RMB2,090 million for the year ended 31 December 2018, and segment operating profit margin of our refrigerators/freezers business in China increased from 6.0% for the year ended 31 December 2017 to 6.6% for the year ended 31 December 2018, with increase in sales volume primarily due to the increase in consumer demand and because the average selling price of our refrigerators increased in 2018 as a result of innovation and upgrade of our refrigerator products;
- Segment operating profit of our kitchen appliances business in China decreased by 45.7% from RMB35 million for the year ended 31 December 2017 to RMB19 million for the year ended 31 December 2018, and segment operating profit margin of our kitchen appliances business in China decreased from 1.7% for the year ended 31 December 2017 to 0.8% for the year ended 31 December 2018, primarily due to our increased investments in distribution channels and research and development;
- Segment operating profit of our air-conditioners business in China increased by 17.9% from RMB968 million for the year ended 31 December 2017 to RMB1,141 million for the year ended 31 December 2018, and segment operating profit margin of our air-conditioners business in China slightly increased from 4.0% for the year ended 31 December 2017 to 4.3% for the year ended 31 December 2018, with increase in sales volume primarily due to the increase in consumer demand, the increase in average selling price and the increase in sales of products with higher selling price as we tap into the high-end market through product and technology innovation;

- Segment operating profit of our laundry appliances business in China increased by 8.5% from RMB1,816 million for the year ended 31 December 2017 to RMB1,971 million for the year ended 31 December 2018, and segment operating profit margin of our laundry appliances business in China remained relatively stable at 9.1% for the year ended 31 December 2017 and 8.8% for the year ended 31 December 2018;
- Segment operating profit of our water appliances business in China increased by 19.1% from RMB864 million for the year ended 31 December 2017 to RMB1,029 million for the year ended 31 December 2018, and segment operating profit margin of our water appliances business in China increased from 10.8% for the year ended 31 December 2017 to 11.6% for the year ended 31 December 2018, with increase in sales volume primarily due to the increase in consumer demand, the increase in average selling price and the increase in sales of products with higher selling price as we tap into the high-end market;
- Segment operating profit of our smart home business overseas increased by 7.7% from RMB2,858 million for the year ended 31 December 2017 to RMB3,077 million for the year ended 31 December 2018, and segment operating profit margin of our overseas smart home business remained relatively stable at 4.0% for the year ended 31 December 2017 and 4.1% for the year ended 31 December 2018; and
- Segment operating profit of our other businesses decreased by 38.4% from RMB610 million for the year ended 31 December 2017 to RMB376 million for the year ended 31 December 2018, and segment operating profit margin of our other business decrease from 1.0% for the year ended 31 December 2017 to 0.5% for the year ended 31 December 2018, primarily driven by the growth of our COSMOPlat business which entailed a lower operating profit margin.

Finance costs

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our finance costs decreased by 16.7% to RMB709 million for the six months ended 30 June 2020 from RMB851 million for the six months ended 30 June 2019, primarily due to (i) a decrease of RMB128 million in interest on borrowings and (ii) a decrease of RMB45 million in interest on convertible and exchangeable bonds, mainly due to the conversion of the convertible bonds.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our finance costs increased by 18.3% to RMB1,732 million for the year ended 31 December 2019 from RMB1,464 million for the year ended 31 December 2018, primarily due to (i) an increase of RMB106 million in interest on convertible and exchangeable bonds mainly due to the issuance of an RMB3 billion convertible corporate bond in December 2018 and (ii) an increase of RMB98 million in interest on lease liabilities mainly due to the adoption of IFRS 16 and the corresponding increase in lease liabilities.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our finance costs increased by 4.9% to RMB1,464 million for the year ended 31 December 2018 from RMB1,396 million for the year ended 31 December 2017, primarily due to an increase of

RMB156 million in interest on convertible and exchangeable bonds as Harvest International Company, a wholly owned subsidiary of our Company, issued an exchangeable bond in 2017, which was partially offset by a decrease of RMB127 million in our interest on borrowings as we repaid certain bank loans in 2018.

Share of profits and losses of associates

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our share of profits and losses of associates increased by 25.0% to RMB679 million for the six months ended 30 June 2020 from RMB543 million for the six months ended 30 June 2019, primarily due to improved performance of our associates, mainly contributed by Gooday Supply Chain.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our share of profits and losses of associates increased by 6.3% to RMB1,409 million for the year ended 31 December 2019 from RMB1,325 million for the year ended 31 December 2018, primarily due to improved performance of our associates, mainly contributed by Mabe.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our share of profits and losses of associates increased by 11.4% to RMB1,325 million for the year ended 31 December 2018 from RMB1,189 million for the year ended 31 December 2017, primarily due to improved performance of our associates, mainly contributed by Haier Group Finance Co., Ltd.

Income tax

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

Our income tax expense decreased by 34.5% to RMB661 million for the six months ended 30 June 2020 from RMB1,009 million for the six months ended 30 June 2019, primarily due to a decrease in our taxable income.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

Our income tax expense decreased by 11.7% to RMB1,584 million for the year ended 31 December 2019 from RMB1,793 million for the year ended 31 December 2018, primarily due to a decrease in our taxable income.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

Our income tax expense increased by 26.2% to RMB1,793 million for the year ended 31 December 2018 from RMB1,421 million for the year ended 31 December 2017, primarily due to an increase in our taxable income.

Profit for the year/period from continuing operations

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

As a result of the foregoing, our profit for the period from continuing operations decreased by 40.1% to RMB3,612 million for the six months ended 30 June 2020 from RMB6,035 million for the six months ended 30 June 2019.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

As a result of the foregoing, our profit for the year from continuing operations decreased by 5.4% to RMB9,022 million for the year ended 31 December 2019 from RMB9,533 million for the year ended 31 December 2018.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

As a result of the foregoing, our profit for the year from continuing operations increased by 8.4% to RMB9,533 million for the year ended 31 December 2018 from RMB8,791 million for the year ended 31 December 2017.

Profit for the year/period

Comparisons between six months ended 30 June 2020 and six months ended 30 June 2019

As a result of the foregoing, our profit for the period decreased by 41.6% to RMB3,612 million for the six months ended 30 June 2020 from RMB6,185 million for the six months ended 30 June 2019.

Comparisons between year ended 31 December 2019 and year ended 31 December 2018

As a result of the foregoing, our profit for the year increased by 24.6% to RMB12,335 million for the year ended 31 December 2019 from RMB9,900 million for the year ended 31 December 2018.

Comparisons between year ended 31 December 2018 and year ended 31 December 2017

As a result of the foregoing, our profit for the year increased by 8.3% to RMB9,900 million for the year ended 31 December 2018 from RMB9,144 million for the year ended 31 December 2017.

NET CURRENT ASSETS

The following table sets forth the components of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 30 September
	2017	2018	2019	2020	
					(unaudited)
	(RMB in millions)				
CURRENT ASSETS					
Inventories	22,575	22,411	28,229	25,282	26,868
Trade and bills receivables	26,047	24,834	24,967	30,177	31,617
Contract assets	—	457	423	471	328
Prepayments, deposits and other receivables	4,222	4,531	6,441	6,263	6,102
Financial assets measured at fair value through profit or loss	—	1,776	308	2,400	2,039
Financial assets measured at amortised cost	2,007	2,838	3,981	890	545
Derivative financial instruments	103	97	19	66	67
Pledged deposits	1,279	1,810	1,211	1,005	638
Other deposit with limited use	—	—	5	86	4
Cash and cash equivalents	35,292	36,561	34,963	43,022	43,330
Assets and disposal group held for sale	83	144	21	21	22
Total current assets	**91,608**	**95,459**	**100,568**	**109,683**	**111,560**
CURRENT LIABILITIES					
Trade and bills payables	43,062	47,937	53,059	49,171	52,585
Other payables and accruals	14,645	16,620	19,726	22,532	21,608
Receipt in advance or contract liabilities	5,890	5,533	5,583	4,757	5,074
Interest-bearing borrowings	17,028	9,314	13,315	22,697	13,887
Lease liabilities	—	—	595	631	653
Tax payable	1,296	1,187	1,278	999	1,979
Provisions	1,624	1,640	1,992	1,822	1,867
Derivative financial instruments	23	36	99	164	185
Financial liabilities measured at fair value through profit or loss	—	219	43	18	—
Bonds	—	—	—	—	5,500
Liabilities directly associated with assets classified as held for sale	—	32	—	—	—
Total current liabilities	**83,568**	**82,518**	**95,690**	**102,791**	**103,338**
NET CURRENT ASSETS	**8,040**	**12,941**	**4,878**	**6,892**	**8,222**

Our net current assets increased by 19.3% to RMB8,222 million as at 30 September 2020 from RMB6,892 million as at 30 June 2020, primarily due to increase in our cash and cash equivalents and trade and bills receivables resulting from our increase in revenue and the corresponding cash inflows.

Our net current assets increased by 41.3% to RMB6,892 million as at 30 June 2020 from RMB4,878 million as at 31 December 2019, primarily because the increase in our current assets outpaced the increase in our current liabilities. The increase in our current assets was mainly due to an increase of RMB8,059 million in our cash and cash equivalents as a result of proceeds from our borrowings for operations. The increase in our current liabilities was mainly due to an increase of RMB9,382 million in our interest-bearing borrowings in line with our business growth.

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Our net current assets decreased by 62.3% to RMB4,878 million as at 31 December 2019 from RMB12,941 million as at 31 December 2018, primarily because the increase in our current liabilities outpaced the increase in our current assets. The increase in our current liabilities was mainly due to (i) an increase of RMB5,122 million in our trade and bills payables which was in line with our business growth and (ii) an increase of RMB3,106 million in our other payables and accruals, as a result of our business growth as well as our acquisition of Candy in 2019. The increase in our current assets was primarily as a result of (i) an increase of RMB5,818 million in our inventories primarily due to our business growth as well as our acquisition of Candy in 2019 and (ii) an increase of RMB1,910 million in our prepayments, deposits and other receivables, primarily due to our business growth as well as our acquisition of Candy in 2019.

Our net current assets increased by 61.0% to RMB12,941 million as at 31 December 2018 from RMB8,040 million as at 31 December 2017, primarily due to the increase in our current assets and the decrease in our current liabilities. The increase in our current assets was mainly because of (i) an increase of RMB1,776 million in our financial assets measured at fair value through profit or loss and (ii) an increase of RMB1,269 million in our cash and cash equivalents, which was in line with our business growth. The decrease in our current liabilities was primarily due to a decrease of RMB7,714 million in our current portion of interest-bearing borrowings as we repaid certain bank loans.

Inventories

Our inventories mainly include finished goods and raw materials. Finished goods consist primarily of processed products for our refrigerators/freezers, kitchen appliances, air-conditioners, laundry appliances, water appliances businesses in China and smart home business overseas. Raw materials consist primarily of steel, aluminium, copper, and plastic and foam materials for the manufacturing of home appliances and their key components.

The following table sets forth details of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Raw material	3,644	2,439	2,953	3,177
Work in progress	455	205	408	330
Finished goods	18,476	19,767	24,868	21,775
Total	**22,575**	**22,411**	**28,229**	**25,282**

Our inventories decreased by 10.4% to RMB25,282 million as at 30 June 2020 from RMB28,229 million as at 31 December 2019, primarily due to the decrease in procurement under the impact of COVID-19 and accelerated turnover of inventories in the second quarter of 2020. Our inventories increased by 26.0% to RMB28,229 million as at 31 December 2019 from RMB22,411 million as at 31 December 2018, primarily due to our business growth as well as our acquisition of Candy in 2019. Our inventories remained relatively stable at RMB22,411 million as at 31 December 2018 and RMB22,575 million as at 31 December 2017, respectively.

We periodically assess impairment of inventories and typically recognise write-down of inventories when their carrying amount is lower than their net realisable value. Our impairment of inventories was RMB552 million, RMB556 million, RMB576 million and RMB412 million for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively.

The following table sets forth our inventories turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Inventories turnover days[(1)]	79.2	65.2	73.9	66.2

Note:

(1) Calculated as the ending inventories for the year/period divided by cost of sales for that year/period and multiplied by 365 days (for a year) or 182 days (for the six months period).

Our inventories turnover days were 79.2 days, 65.2 days, 73.9 days and 66.2 days for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively. The decrease in the six months ended 30 June 2020 was primarily due to the decrease in procurement due to the impact of COVID-19 and accelerated turnover of inventories in the second quarter of 2020. The decrease in 2018 was primarily due to the increase in revenue and cost of sales from our COSMOPlat business.

As at 30 September 2020, we had used or sold approximately RMB23,264 million, or 88.9% of our balance of inventories as at 30 June 2020.

Trade and bills receivables

Our trade and bills receivables represent amounts in connection with the sales of our products and provision of services due from our customers.

The following table sets forth details of our trade and bills receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Trade receivables	12,972	10,533	11,016	17,000
Bills receivable	13,075	14,301	13,951	13,177
Total	**26,047**	**24,834**	**24,967**	**30,177**

Our trade and bills receivables increased by 20.9% to RMB30,177 million as at 30 June 2020 from RMB24,967 million as at 31 December 2019, primarily due to decrease in the factoring arrangement of GE Appliances and its increase in revenue. Our trade and bills receivables remained relatively stable at RMB24,967 million as at 31 December 2019 and RMB24,834 million as at 31 December 2018, respectively. Our trade and bills receivables decreased by 4.7% to RMB24,834 million as at 31 December 2018 from RMB26,047 million as at 31 December 2017, primarily as a result of the settlement of trade receivables with our customers.

As at 30 September 2020, RMB24,419 million, or 79.6% of our trade and bills receivables as at 30 June 2020 had been settled.

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The following is an ageing analysis of our trade receivables based on the invoice date and net of expected credit loss or impairment loss:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
One to three months	11,552	9,143	9,247	14,997
Three months to one year	1,103	943	1,276	1,410
One year to two years	173	262	266	303
Two years to three years	121	98	93	129
Over three years	23	87	134	161
Total	**12,972**	**10,533**	**11,016**	**17,000**

During the Track Record Period, substantially all of our trade and bills receivables were outstanding for less than one year. Generally, we require full payment upon delivery of goods. Depending on the credit history of our customers and their transaction amounts with us, we allow the flexibility by offering a credit period of 30 to 90 days to certain customers.

Loss allowance for trade and bills receivables is measured at an amount that equals to a lifetime expected credit loss ("**ECL**") or impairment loss. We estimate the ECLs for trade and bills receivables using a provision matrix based on our historical credit losses and adjusted for factors that are specific to the debtors and an assessment of both current and forecasted macro-economic conditions for the year or period ended 31 December 2018 and 2019 and 30 June 2020 and measure the impairment loss based on incurred credit loss for the year ended 31 December 2017. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our loss allowance for impairment of trade and bills receivables was RMB445 million, RMB346 million, RMB445 million and RMB490 million, respectively, mainly in line with our business expansion.

The following table sets forth our trade and bills receivables turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Trade and bills receivables turnover days(1)	61.7	51.0	46.0	57.4

Note:

(1) Calculated as the ending net trade and bills receivables for the year/period divided by revenue for that year/period and multiplied by 365 days (for a year) or 182 days (for the six months period).

Our trade and bills receivables turnover days were 61.7 days, 51.0 days, 46.0 days and 57.4 days for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively. The increase in the six months ended 30 June 2020 was primarily due to the increase in trade and bills receivables resulting from the decrease in the factoring arrangement of GE Appliances and its increase in revenue. The decrease in 2018 was primarily due to increase in our factoring arrangement.

The following table sets forth our trade and bills receivables and contract assets turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Trade and bills receivables and contract assets turnover days[(1)]	61.7	52.0	46.8	58.3

Note:

(1) Calculated as the ending net trade and bills receivables and contract assets for the year/period divided by revenue for that year/period and multiplied by 365 days (for a year) or 182 days (for the six months period).

Our trade and bills receivables and contract assets turnover days were 61.7 days, 52.0 days, 46.8 days and 58.3 days for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively. The increase in the six months ended 30 June 2020 was primarily due to the increase in trade and bills receivables resulting from the decrease in the factoring arrangement of GE Appliances and its increase in revenue. The decrease in 2018 was primarily due to increase in our factoring arrangement.

Prepayments, deposits and other receivables

Our current portion of prepayments, deposits and other receivables mainly consist of taxes recoverable and prepayments. Prepayments mainly represent prepayments with our suppliers.

The following table sets forth details of the current portion of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Dividend receivables	5	5	5	95
Interest receivables	207	234	273	211
Taxes recoverable	1,953	1,659	2,578	2,321
Prepaid land lease payments	43	40	—	—
Prepayments	614	594	1,273	1,720
Deposits	86	5	3	108
Other receivables	1,094	1,625	2,228	1,725
Loan to associates	297	289	—	—
Right-of-return assets	—	323	374	389
Less: Impairment	(77)	(243)	(293)	(306)
Total	**4,222**	**4,531**	**6,441**	**6,263**

The current portion of our prepayments, deposits and other receivables slightly decreased by 2.8% to RMB6,263 million as at 30 June 2020 from RMB6,441 million as at 31 December 2019, primarily due to a decrease of RMB503 million in other receivables. The current portion of our prepayments, deposits and other receivables increased by 42.2% to RMB6,441 million as at 31 December 2019 from RMB4,531 million as at 31 December 2018, primarily due to an increase of RMB919 million in taxes recoverable resulting from difference in timing of recognition and as a result of our business growth. The current portion of our prepayments, deposits and other receivables increased by 7.3% to RMB4,531 million as at 31 December 2018 from RMB4,222 million as at 31 December 2017, as a result of an increase of RMB531 million in other receivables which was related to our disposal of plants and land in 2018.

Trade and bills payables

Our trade and bills payables mainly represent the amounts due to our suppliers for purchases of raw materials.

The following table sets forth details of our trade and bills payables as at the dates indicated:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
		(RMB in millions)		
Trade payables	26,347	27,899	33,751	29,649
Bills payables	16,715	20,038	19,308	19,522
Total	**43,062**	**47,937**	**53,059**	**49,171**

Our trade and bills payables decreased by 7.3% from RMB53,059 million as at 31 December 2019 to RMB49,171 million as at 30 June 2020, primarily due to decrease in our procurement of raw materials due to decreased consumer demand. Our trade and bills payables increased by 11.3% from RMB43,062 million as at 31 December 2017, to RMB47,937 million as at 31 December 2018, and further increased by 10.7% to RMB53,059 million as at 31 December 2019, in line with our business growth.

As at 30 September 2020, RMB40,913 million, or 83.2% of our trade and bills payables as at 30 June 2020 had been settled.

The following is an ageing analysis of our trade and bills payables based on the invoice date as at the dates indicated:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
		(RMB in millions)		
Within one year	42,631	47,369	52,492	48,633
One to two years	127	300	169	121
Two to three years	107	53	156	106
Over three years	197	215	242	311
Total	**43,062**	**47,937**	**53,059**	**49,171**

During the Track Record Period, substantially all of our trade and bills payables were outstanding for within one year. The trade and bills payables are generally non-interest bearing and our suppliers typically granted us a credit period from 30 to 180 days.

The following table sets forth our trade and bills payables turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Trade and bills payables turnover days(1)	151.1	139.5	138.9	128.8

Note:

(1) Calculated as the ending trade and bills payables for the year/period divided by cost of sales for that year/period and multiplied by 365 days (for a year) or 182 days (for the six months period).

Our trade and bills payables turnover days were 151.1 days, 139.5 days, 138.9 days and 128.8 days, for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively. The decrease in the six months ended 30 June 2020 was primarily due to the settlement of the existing trade and bills payables during the period and the decrease in procurement due to the impact of COVID-19. The decrease in 2018 was primarily due to the increase in revenue and cost of sales from our COSMOPlat business.

Other payables and accruals

Our other payables and accruals mainly consist of other payables and accruals and sales rebate. Other payables and accruals primarily include the amounts due to logistics service providers and advertising and promotion service providers. Sales rebate primarily represents rebates we granted to our customers based on their value of products purchased from us.

The following table sets forth details of our other payables and accruals as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Other payables and accruals	12,993	14,801	17,491	20,272
Refund liabilities:				
Sales rebate	1,332	1,357	1,695	1,695
Sales return	265	372	459	459
Deferred income	55	90	81	106
Total	**14,645**	**16,620**	**19,726**	**22,532**

Our other payables and accruals increased by 14.2% to RMB22,532 million as at 30 June 2020 from RMB19,726 million as at 31 December 2019. Our other payables and accruals increased by 13.5% to RMB16,620 million as at 31 December 2018 from RMB14,645 million as at 31 December 2017, and further increased by 18.7% to RMB19,726 million as at 31 December 2019, primarily due to the increases in other payables and accruals, which was in line with our business growth.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital primarily from cash generated from our business operations, bank borrowings and equity contributions from our shareholders, and we plan to continue to do so. We do not anticipate any changes to the availability of financing to fund our operations in the future.

As at 30 September 2020, we had aggregate cash and cash equivalents of RMB43,330 million.

Our Directors are of the view that, taking into account the financial resources available to us, including cash and cash equivalents, our available banking facilities and cash flows from operating activities, we have sufficient working capital for our present requirements, that is at least 12 months from the date of this Listing Document.

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor any breach of financial covenants during the Track Record Period.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows and indebtedness.

Cash Flows

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
	(RMB in millions)				
Operating cash inflow before movements in working capital	**14,014**	**15,236**	**16,090**	**9,610**	**7,466**
Cash generated from/(used in) operations	18,753	20,318	16,304	4,712	(123)
Interest received	244	394	488	170	291
Income tax paid	(1,773)	(1,569)	(1,709)	(1,263)	(712)
Net cash generated from/(used in) operating activities	**17,224**	**19,143**	**15,083**	**3,619**	**(544)**
Net cash used in investing activities	(5,778)	(7,651)	(10,960)	(7,858)	(2,063)
Net cash (used in)/generated from financing activities	(25)	(10,502)	(6,013)	887	10,582
Net increase/(decrease) in cash and cash equivalents	**11,421**	**990**	**(1,890)**	**(3,352)**	**7,975**
Cash and cash equivalents at the beginning of the year/period	24,233	35,292	36,561	36,561	34,963
Net effect of foreign exchange rate changes	(362)	279	292	109	84
Cash and cash equivalents at the end of year/period	**35,292**	**36,561**	**34,963**	**33,318**	**43,022**

During the Track Record Period, we have continuously focused on forward-looking strategic investment layout with the intention of improving our competitiveness and future development potential, including investment in smart home business, air-conditioners network, interconnected factories, overseas acquisitions such as acquisition of Candy and Fisher&Paykel, and investment in high-end brands. Such investments helped us improve our high-end brand layout, deepen global coordination through localised operations, and improve industrial chain efficiencies, but also to some extent affected our short-term cash flow.

We incurred net cash used in operating activities of RMB544 million in the six months ended 30 June 2020 mainly due to the increase in trade and bill receivables, prepayment, deposits and other receivables and contract assets resulting from prolonged settlement of receivables due to the impact of the COVID-19 pandemic especially in the first quarter of 2020 and decrease in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities as we settled substantial amount of payables during the period. Our operating cash flow position substantially improved in the second quarter of 2020 as we gradually recovered from the impact of COVID-19 and generated net operating cash inflows during the period. We intend to further improve our operating cash flow position in the future by enhancing credit control and increasing the turnover of our inventories and receivables.

Net cash generated from or used in operating activities

Cash flows from operating activities reflects (i) profit before tax adjusted for non-cash and non-operating items (such as net gain on disposal of associates and subsidiaries, depreciation of property, plant and equipment, finance costs and share of profits and losses of associates); (ii) the effects of movements in working capital (such as increase in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities and increase in inventories); and (iii) other cash items (such as interest received and income tax paid).

In the six months ended 30 June 2020, we had net cash used in operating activities of RMB544 million, resulting from our profit before tax of RMB4,273 million, adjustment of non-cash and non-operating items of RMB3,193 million, income tax paid of RMB712 million, interest received of RMB291 million and movements in working capital. Our movements in working capital primarily reflected (i) an increase of RMB5,911 million in trade and bill receivables, prepayment, deposits and other receivables and contract assets resulting from prolonged settlement of receivables due to the impact of the COVID-19 pandemic especially in the first quarter of 2020, (ii) a decrease of RMB4,296 million in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities as we settled substantial amount of payables during the period and (iii) a decrease of RMB2,543 million in inventories primarily due to decrease in procurement due to decreased consumer demand.

In 2019, we had net cash generated from operating activities of RMB15,083 million, resulting from our profit before tax from continuing and a discontinued operations of RMB14,631 million, adjustment of non-cash and non-operating items of RMB1,459 million, income tax paid of RMB1,709 million, interest received of RMB488 million and movements in working capital. Our movements in working capital primarily reflected (i) an increase of RMB5,228 million in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities in line with our business growth and (ii) an increase of RMB3,949 million in inventories, primarily due to our business growth as well as our acquisition of Candy in 2019.

In 2018, we had net cash generated from operating activities of RMB19,143 million, resulting from our profit before tax from continuing and a discontinued operations of RMB11,782 million, adjustment of non-cash and non-operating items of RMB3,454 million, income tax paid of RMB1,569 million, interest received of RMB394 million and movements in working capital. Our movements in working capital primarily reflected (i) an increase of RMB3,912 million in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities, in line with our business growth and (ii) a decrease of RMB2,056 million in trade and bills receivables, prepayment, deposits and other receivables and contract assets primarily as a result of settlement of trade receivables with our customers.

In 2017, we had net cash generated from operating activities of RMB17,224 million, resulting from our profit before tax from continuing and a discontinued operations of RMB10,659 million, adjustment of non-cash and non-operating items of RMB3,355 million, income tax paid of RMB1,773 million, interest received of RMB244 million and movements in working capital. Our movements in working capital primarily reflected (i) an increase of RMB10,410 million in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities in line with our business growth and (ii) an increase of RMB6,715 million in inventories, primarily due to our business growth.

Net cash used in investing activities

Our cash outflows used for investing activities consist primarily of payment for purchases of non-current assets, payment for acquisition of subsidiaries, net of cash acquired and purchases of financial assets measured at amortised cost and financial assets at fair value through profit or loss. Our cash inflows generated from investing activities consist primarily of dividends received from associates, proceeds from disposal of non-current assets and interest received from financial assets measured at amortised cost and financial assets at fair value through profit or loss.

In the six months ended 30 June 2020, our net cash used in investing activities was RMB2,063 million, due primarily to cash outflows of RMB3,119 million for payment for purchases of non-current assets, mainly due to maintenance of our production facilities. The cash outflows were partially offset by cash inflow of RMB1,128 million from our disposal of financial assets measured at amortised cost and financial assets at fair value through profit or loss.

In 2019, our net cash used in investing activities was RMB10,960 million, primarily due to (i) payment for purchases of non-current assets of RMB6,194 million, mainly due to our procurement of non-current assets to increase production capacities, in response to increase in purchase orders; (ii) payment for acquisition of subsidiaries, net of cash acquired of RMB2,730 million, mainly comprised our acquisition of Candy; and (iii) purchases of financial assets measured at amortised cost and financial assets at fair value through profit or loss of RMB1,782 million.

In 2018, our net cash used in investing activities was RMB7,651 million due primarily to (i) payment for purchases of non-current assets of RMB6,759 million, mainly due to our procurement of non-current assets to increase production capacities, in response to increase in purchase orders; and (ii) purchases of financial assets measured at amortised cost and financial assets at fair value through profit or loss of RMB2,598 million.

In 2017, our net cash used in investing activities was RMB5,778 million due primarily to (i) payment for purchases of non-current assets of RMB4,343 million, mainly due to our procurement of non-current assets to increase production capacities, in response to increase in purchase orders; and (ii) purchases of financial assets measured at amortised cost and financial assets at fair value through profit or loss of RMB1,390 million.

Net cash used in or generated from financing activities

Financing activities primarily include new borrowings, repayment of borrowings, dividends paid to shareholders, and proceeds from issue of convertible and exchangeable bonds.

In the six months ended 30 June 2020, our net cash generated from financing activities was RMB10,582 million, mainly due to cash inflow of RMB15,878 million from our proceeds from borrowings. The cash inflow was partially offset by the cash outflows of RMB5,449 million for repayment of borrowings.

In 2019, our net cash used in financing activities was RMB6,013 million, primarily due to (i) cash outflows of RMB19,018 million for repayment of borrowings and (ii) cash outflows of RMB2,235 million for dividends paid to shareholders. The cash outflows were partially offset by the cash inflow of RMB18,468 million from our proceeds from borrowings.

In 2018, our net cash used in financing activities was RMB10,502 million, primarily due to (i) cash outflows of RMB22,418 million for repayment of borrowings and (ii) cash outflows of RMB2,085 million for dividends paid to shareholders. The cash outflows were partially offset by (i) cash inflow of RMB12,700 million from our proceeds from borrowings and (ii) cash inflow of RMB2,983 million from our proceeds from issue of convertible and exchangeable bonds.

In 2017, our net cash used in financing activities was RMB25 million, primarily due to (i) cash outflows of RMB23,334 million for repayment of borrowings and (ii) cash outflows of RMB1,512 million for dividends paid to shareholders. The cash outflows were partially offset by (i) cash inflow of RMB18,694 million from our proceeds from borrowings and (ii) cash inflow of RMB6,796 million from our proceeds from issue of convertible and exchangeable bonds.

INDEBTEDNESS

Interest-bearing borrowings

Other than our operating cash flow, we also finance our working capital using bank loans and other borrowings. As at 30 September 2020, the latest date for determining our indebtedness, the aggregate balance of our interest-bearing borrowings was RMB28,673 million.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our interest-bearing borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 30 September
	2017	2018	2019	2020	
					(unaudited)
	(RMB in millions)				
Bank loans					
— Secured	25,234	22,744	12,521	6,185	5,735
— Unsecured	7,920	2,200	14,164	31,285	22,938
	33,154	**24,944**	**26,685**	**37,470**	**28,673**
Other borrowings					
— Secured	3	—	—	—	—
— Unsecured	—	5	—	—	—
	3	**5**	**—**	**—**	**—**
Total	**33,157**	**24,949**	**26,685**	**37,470**	**28,673**

As at 31 December 2017, 2018, and 2019 and 30 June and 30 September 2020, 51.4%, 37.3%, 49.9%, 60.6% and 48.4% of our interest-bearing borrowings would be required to be repaid within one year.

Our bank loans decreased by 5.6% to RMB35,373 million as at 31 July 2020 from RMB37,470 million as at 30 June 2020, primarily due to repayment of the bank loans. Our bank loans increased by 40.4% to RMB37,470 million as at 30 June 2020 from RMB26,685 million as at 31 December 2019, primarily due to our bank loan for operations. Our bank loans increased by 7.0% to RMB26,685 million as at 31 December 2019 from RMB24,944 million as at 31 December 2018, primarily due to our bank loan for acquisition of Candy in 2019. Our bank loans decreased by 24.8% to RMB24,944 million as at 31 December 2018 from RMB33,154 million as at 31 December 2017, primarily due to our repayment of certain bank loans.

During the Track Record Period, our bank loans came from Mainland China and foreign commercial banks and financial institutions bearing effective interest rates in the range of 0.09% to 14.00% per annum. Additionally, we maintain facilities with a number of commercial banks in support of our operations. As at 30 September 2020, we had banking facilities of approximately RMB121,832 million in aggregate, of which RMB72,091 million were unutilised and unconditional.

Our loan agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. We also undertake financial covenants that require us to meet certain financial ratio requirements in our loan agreements. Our Directors confirm that we had neither material defaults in payment of trade and non-trade payables and loans and borrowings, nor any breach of financial covenants during the Track Record Period.

Set out below are the existing guarantees provided by Haier Group for members of our Group as at the Latest Practicable Date:

On 13 October 2015, Haier Group provided guarantee to a loan granted to Haier Singapore Investment Holding with an aggregate amount of JPY5,700 million from an Independent Third Party commercial bank. Haier Singapore Investment Holding used the loan to fund the construction of its research and development building in Japan. We expect to repay such loan in full on the maturity date before the Listing.

On 26 May 2016, Haier Group, our Company and an independent commercial bank entered into a guarantee contract, pursuant to which Haier Group agreed to provide guarantee to a loan granted to Haier US Appliance Solutions Inc., an indirect subsidiary of our Company, with an aggregate amount of USD3.3 billion. Haier US Appliance Solutions Inc. used the loan to fund its overseas acquisition activities. The outstanding amount of such loan is approximately USD704 million, and we expect to repay such outstanding amount in full by 2 June 2021.

With regard to the existing guarantees provided by Haier Group for members of our Group as at the Latest Practicable Date, our Directors are of the view that our Company has the ability to obtain financing independently, and the guarantee from Haier Group does not affect our financial independence. We expect that the existing guarantees provided by Haier Group will be released before the Listing, except for the guarantee provided for loan amount of USD704 million expected to be repaid in full by 2 June 2021. See "Relationship with Controlling Shareholder — Independence from Controlling Shareholder — Financial Independence."

Lease liabilities

As required by IFRS 16, at the commencement of a lease, a lessee will recognise a liability to make lease payments, namely, the lease liabilities, and an asset representing the right to use the underlying asset during the lease term, namely, the right-of-use assets. During the Track Record Period, we entered into leases for offices, plants, equipment and motor vehicles.

As at 30 September 2020, we had lease liabilities of RMB2,748 million.

Put option liabilities

In 2017, as part of the purchase agreement in relation to our Group's acquisition of 51% interest in GREENoneTEC Solarindustrie GmbH. ("**GoT**"), the seller, which has then become the non-controlling shareholder of GoT, was granted a put option to sell the remaining 49% interest in GoT which is valid until no later than 31 December 2027, to our Group at a price to be determined based on an agreed formula. The put option liability was carried at fair value of approximately RMB55 million as at 31 December 2017, 2018, 2019 and 30 June 2020, and was categorised in Level 3 of the fair value measurement.

Bonds

On 17 July 2020, we issued an ultra-short-term financing bonds at a principal amount of approximately RMB3,000 million which is unsecured, bearing a fixed interest rate of 1.45% per annum.

On 28 August 2020, we issued an ultra-short-term financing bonds at a principal amount of approximately RMB2,500 million which is unsecured, bearing a fixed interest rate of 1.71% per annum.

Convertible and exchangeable bonds

On 20 March 2014, our Group issued a convertible and exchangeable bond (the "**CEB**") to Alibaba Group with a principal amount of approximately HK$1,316 million (equivalent to approximately RMB1,055 million). The CEB is interest-bearing at a rate of 1.5% per annum and is due to mature on 20 March 2017. The CEB is convertible into ordinary shares of HEG at a conversion price of HK$19.334 per share (the "**Conversion Right**") or exchangeable into the ordinary shares of Gooday Supply Chain (the "**Exchange Right**"), at the option of the CEB holders. If the Conversion Right is exercised, all interests accrued up to the date of the conversion will be payable and taken into account in arriving at the number of convertible shares. If the Exchange Right is exercised, no interest will be payable by HEG.

The fair value of the liability component of the CEB amounting to approximately RMB1,000 million was estimated at the issuance date using an equivalent market interest rate for a similar bond without conversion and exchange options. The CEB was fully converted by Alibaba Group in 2017.

On 21 November 2017, Harvest International Company, a wholly owned subsidiary of our Company, issued an exchangeable bond with a principal amount of HK$8,000 million. This exchangeable bond matures at the fifth anniversary of the issue date and bears zero coupon. In case of redemption or early redemption, the issuer will pay an amount representing gross yield of 1% per annum.

On 18 December 2018, we issued an approximately RMB3,000 million convertible corporate bond. The convertible bond issued has a maturity of six years. The coupon rate is 0.2% in the first year, 0.5% in the second year, 1.0% in the third year, 1.5% in the fourth year, 1.8% in the fifth year, and 2.0% in the sixth year.

On 16 December 2019, we early redeemed certain portion of the convertible corporate bond at approximately RMB9 million from the bondholders. Since the closing price of the shares in 15 of the 30 consecutive trading days were not less than 120% of the conversion price, the conditions of early redemption have been satisfied. The remaining portion of the convertible corporate bond of approximately RMB2,605 million has been converted by the bondholders.

The movement of the liability component of our convertible and exchangeable bonds is as follows:

	2017	2018	2019	2020
	(RMB in millions)			
At 1 January	1,223	6,211	9,192	7,005
Additions	6,300	2,507	—	—
Interest expense	12	168	274	89
Exercise of CEB	(1,223)	—	(2,605)	—
Redemption of CEB	—	—	(9)	—
Exchange realignment	(101)	306	153	138
At 31 December /30 June	**6,211**	**9,192**	**7,005**	**7,232**

As at 30 September 2020, we had convertible and exchangeable bonds of approximately RMB7,002 million.

Apart from the foregoing, we did not have, as at 30 September 2020, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as at 31 December 2017, 2018 and 2019 and 30 June and 31 July 2020 respectively.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for the purchase of plant and equipment, intangible assets, land use rights and right-of-use assets. The following table sets forth our capital expenditures for the periods presented:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Property, plant and equipment	3,653	5,342	6,357	2,575
Other intangible assets	427	1,098	1,201	228
Prepaid land and land use rights	183	395	—	—
Total	**4,263**	**6,835**	**7,558**	**2,803**

In 2017, 2018 and 2019 and the six months ended 30 June 2020, our capital expenditures were primarily related to the purchase of our plant and equipment. We funded these expenditures primarily with our operating cash flow.

We estimate that our capital expenditures for 2020 will be primarily used for our purchase of plant and equipment, intangible assets, land use rights and right-of-use assets. We expect to fund these capital expenditures with our operating cash flow.

KEY FINANCIAL RATIOS

	As at/For the year ended 31 December			As at/For the six months ended 30 June
	2017	2018	2019	2020
	(%)			
Gearing ratio(1)	117.2	85.9	75.7	98.4
Net gearing ratio(2)	12.1	(6.1)	2.7	9.4
Return on equity (ROE)(3)	20.4	18.6	14.0	11.5
Return on assets (ROA)(4)	5.6	5.7	4.8	3.6

Notes:

(1) Gearing ratio is calculated by dividing the closing balance of total debt (interest bearing indebtedness including interest bearing borrowings, lease liabilities and convertible and exchangeable bonds) by the closing balance of equity attributable to owners of the Company.

(2) Net gearing ratio is calculated by dividing the closing balance of net debt (total debt less cash and cash equivalent) by the closing balance of equity attributable to owners of the Company.

(3) ROE is calculated by dividing profit for the year/period attributable to owners of the Company from continuing operations by the closing balance of equity attributable to owners of the Company. For the six months ended 30 June 2020, ROE is annualised by multiplying the number by two.

(4) ROA is calculated by dividing profit for the year/period from continuing operations by the closing balance of total assets. For the six months ended 30 June 2020, ROA is annualised by multiplying the number by two.

CAPITAL COMMITMENTS

The table below sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Contracted, but not provided for:				
Property, plant and equipment	2,685	3,152	2,053	2,658
Total	**2,685**	**3,152**	**2,053**	**2,658**

We have funded and expect to continue to fund our capital commitments by our operating cash flow. In 2017, 2018 and 2019 and the six months ended 30 June 2020, our capital commitments were mainly attributable to purchase of property, plant and equipment.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in Note 14 to the Accountants' Report in Appendix I to this Listing Document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

As at 31 December 2017, 2018 and 2019 and 30 June 2020, we had outstanding balance due from related parties of non-trade nature of RMB5 million, RMB93 million, RMB330 million and RMB350 million, respectively, and outstanding balance due to related parties of non-trade nature of RMB128 million, RMB120 million, RMB190 million and RMB1,311 million, respectively. All the non-trade balances due from or to related parties will be settled prior to the Listing. The below tables set forth our Group's outstanding balances with its related parties as at the dates indicated:

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Balances due from related parties:				
Trade related				
— Controlling shareholder	—	—	—	16
— Associates	243	430	573	739
— Haier Affiliates	993	997	1,503	1,500
	1,236	1,427	2,076	2,255

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Balances due from related parties:				
Non-trade related				
— Controlling shareholder	—	—	215	215
— Associates	5	5	5	83
— Haier Affiliates	—	88	110	52
	5	93	330	350

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Balances due to related parties:				
Trade related				
— Associates	459	604	285	647
— Haier Affiliates	3,545	4,101	5,368	4,171
	4,004	4,705	5,653	4,818

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in millions)			
Balances due to related parties:				
Non-trade related				
— Controlling shareholder	—	—	—	874
— Haier Affiliates	128	120	190	437
	128	120	190	1,311

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of financial risks, including foreign currency risk, credit risk, and liquidity risk.

Foreign currency risk

We have transactional currency exposures. These exposures mainly arise from sales or purchases and borrowing by us other than our operating units' functional currencies, such as RMB or Hong Kong dollar.

Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, and financial assets included in prepayments, deposits and other receivables and other financial assets represent our maximum exposure to credit risk in relation to financial assets. Substantially all of our cash and cash equivalents and pledged deposits are held in major financial institutions, which management believes are of high credit quality. We have 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.

We trade only with recognised and creditworthy third parties and Haier Affiliates. It is our 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 our exposure to bad debts is not significant.

The credit risk of our financial assets, which comprise cash and cash equivalents, pledged deposits, and financial assets included in prepayments, deposits and other receivables 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 2017, 2018 and 2019 and 30 June 2020, which is mainly based on past due information unless other information is available without undue cost or effort.

Since we trade only with recognised and creditworthy third parties and Haier Affiliates, there is no requirement for collateral. Concentrations of credit risk are managed by customer or counterparty. There are no significant concentrations of credit risk within our Group as the customer bases of our trade receivables are widely dispersed in different sectors. The credit risk of our trade and bills receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts and we apply the simplified approach in calculating ECLs of our trade and bills receivables.

Further quantitative data in respect of our exposure to credit risk arising from trade and bills receivables and other receivables are respectively disclosed in Notes 26 and 27 to the consolidated financial statements.

Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets, such as trade receivables, and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings and lease liabilities. It is our policy to renew our loan agreements with major local banks where we operate upon the maturity of our short and long term borrowings when funding is needed.

DIVIDEND POLICY

Our Company has implemented a proactive and flexible dividend policy. Future profit distributions may be carried out in the form of cash dividends or stock dividends or by interim cash profit distributions. The dividend policy shall maintain consistency and stability. In case that the legal conditions as mentioned below for both cash dividends and stock dividends are satisfied, cash dividends shall prevail.

Our Company's dividend policy shall be determined by the Board of Directors based on the business development and performance of our Company and will be subject to the approval of the shareholders' general meeting.

Subject to the satisfaction of conditions for cash dividend distribution provided in the PRC Company Law, our Company shall in principle pay cash dividend once each fiscal year. The Board of Directors may propose to pay an interim profit distribution depending on the profitability and capital reserve of our Company. In addition, the Board of Directors may put forward a stock dividend distribution proposal in addition to cash dividend after considering factors such as our Company's performance, share price, share capital scale and debt structure.

Our Company expects that, in the future, the principal source of profits for the payment of dividends will be income from its operating business, and dividends and other payments received from current and future direct and indirect subsidiaries. The determination of each subsidiary's ability to pay dividends is subject to applicable law.

On the basis of the unconsolidated financial statements of the Company and subject to PRC law, the Articles of Association and the Company's capital needs for normal production and operation, planned investments and other significant capital outlays, the annual cash dividends shall, in principle, account for at least 20%, and contingent upon each year's performance, not less than 15% of the Company's net profits for the prior fiscal year which are available for distribution and attributable to the ordinary equity holders of the Company, calculated in accordance with PRC GAAP. The cash dividend or any other payments which are paid in Euro shall be converted from Renminbi to Euro based on the exchange rate which shall be the average exchange rate of the medium rates of converting Renminbi into Euro as quoted by the People's Bank of China for the week immediately prior to the announcement of the dividend or the decision to pay any other payment. Instead of paying a cash amount the Company may decide to make the dividend distribution in the form of A-Share(s) or D-Share(s), as the case may be, or a combination of cash and shares.

In 2017 and 2018, we declared cash dividends of RMB2,085 million and RMB2,235 million, respectively, representing a dividend of RMB0.342 and RMB0.351 per share, respectively. In 2019, we proposed a dividend of RMB2,467 million, representing a dividend of RMB0.375 per share, which was approved by our Company's shareholders at the annual general meeting on 3 June 2020 and distributed in July 2020.

After the completion of the Privatisation Proposal and with the improvement in the efficiency of capital use and operating capacity, the Company plans to gradually increase the dividend rate to 33%, 36% and 40% for 2021, 2022 and 2023 to enhance the return of all shareholders.

DISTRIBUTABLE RESERVES

As at 30 June 2020, we had distributable reserves of approximately RMB36,762 million.

LISTING AND PRIVATISATION EXPENSES

The estimated listing and privatisation expenses, which are non-recurring in nature, are approximately RMB279 million. We expect to charge approximately RMB22 million of the estimated listing and privatisation expenses to profit or loss and to capitalise approximately RMB257 million following the Listing. The listing expenses above are the current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared by the directors of our Company in accordance with Rule 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the Privatisation and Introduction on the consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 if the Privatisation and Introduction had taken place on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared for illustrative purpose only, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 or at any future dates following the Privatisation and the Introduction.

FINANCIAL INFORMATION

The unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company is prepared based on the audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 as shown in the Accountants' Report as set out in Appendix I to the Listing Document and adjusted as described below.

Adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020(1)	Effect of the Privatisation and Introduction(2)	Effect of the Scheme Shares payable(3)	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company(4)
RMB' million	RMB' million	RMB' million	RMB' million
14,606	15,565	(2,725)	27,446

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 is extracted from the Accountants' Report set out in Appendix I to this Listing Document, and is based on the audited consolidated net assets of our Group as at 30 June 2020 of RMB66,508 million adjusted for intangible assets including goodwill and other intangible assets as at 30 June 2020 of RMB33,725 million and non-controlling interests of RMB18,177 million.

(2) The adjustment represents the decrease in non-controlling interest in HEG upon the completion of the Privatisation and Introduction, and a corresponding increase in equity attributable to the owners of our Company, net of listing and privatisation expenses of approximately RMB279 million.

(3) The adjustment represents upon the completion of the Privatisation and the Scheme becoming unconditional and effective, the payment of approximately HK$2,984 million (equivalent to approximately RMB2,725 million based on the exchange rate of HK$1.00 to RMB0.9134) is calculated based on the total number of Scheme Share of 1,530,174,884 at HK$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG as at 30 June 2020.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2020 to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2020.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Save as otherwise disclosed in this Listing Document, our Directors have confirmed that as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

RECENT DEVELOPMENT

On 30 July 2020, our Company entered into a share transfer agreement, pursuant to which our Company agrees to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment, a wholly-owned subsidiary of Haier Group, at the consideration of RMB4.06 billion. The consideration was determined based on the valuation from independent valuer of the total equity interests of COSMO, as well as a capital increase of RMB200 million from series A+ funding which took place after the record date of the aforementioned valuation and at arm's length negotiation between us and Haier Ecological Investment on a certain extent of transaction premium. The consideration for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020.

We generated revenue from COSMO of RMB726 million, RMB7,988 million, RMB14,012 million and RMB7,949 million in 2017, 2018 and 2019 and for the six months ended 30 June 2020, accounting for 0.5%, 4.5%, 7.1% and 8.3% of our total revenue, respectively. We gained net profits from COSMO of RMB297 million, RMB393 million, RMB250 million and RMB120 million in 2017, 2018 and 2019 and for the six months ended 30 June 2020, accounting for 3.2%, 4.0%, 2.0% and 3.3% of our total net profits, respectively. The net assets of COSMO were RMB2,158 million, RMB2,594 million, RMB3,327 million and RMB4,447 million as at 31 December 2017, 2018, 2019 and 30 June 2020, accounting for 4.5%, 4.6%, 5.1% and 6.7% of our total net assets, respectively. During the Track

Record Period, revenue and net profits from COSMO and the net assets of COSMO accounted for no more than 10% of our total revenue, net profits or net assets.

Our operating profit which excludes the one-off gain of RMB2,267 million from transfer of 54.50% equity interest in COSMO was RMB6,674 million for the nine months ended 30 September 2020, decreasing by 17.5% from RMB8,085 million for the nine months ended 30 September 2019, and our operating profit margin was 4.3% for the nine months ended 30 September 2020, decreasing from 5.5% for the nine months ended 30 September 2019. But for the one-off gain of RMB2,267 million from transfer of 54.50% equity interest in COSMO, our net profit from continuing operations would have been RMB5,752 million for the nine months ended 30 September 2020, decreasing by 26.2% from RMB7,793 million for the nine months ended 30 September 2019, and our net profit margin for continuing operations would have been 3.7% for the nine months ended 30 September 2020, decreasing from 5.3% for the nine months ended 30 September 2019.

IMPACT OF THE COVID-19 OUTBREAK

General

Since the end of December 2019, the outbreak of COVID-19 pandemic has materially and adversely affected the global economy. Governments around the world have implemented strict measures of varying degrees to control such outbreak. In particular, school and business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19 pandemic. Demand for home appliance products and the operations of the home appliance industry were both significantly affected.

Since February 2020, resumption of work in China has gradually taken place at locations less affected by the COVID-19 pandemic outbreak. According to the Ministry of Industry and Information Technology, as at 28 March 2020, 98.6% of industrial enterprises of national scale had resumed operation and as at 10 April 2020, over 80% of small and medium enterprises in China had resumed operation. With gradual containment of COVID-19 pandemic in China, people's life and production activities had gradually returned to normal. Currently, many countries around the world have relaxed the previously imposed strict measures and allowed gradual resumption of work and normalisation of social contacts and businesses.

Upon the outbreak, we have taken measures to make sure our employees around the world work under safe conditions. We have implemented strict pandemic prevention measures and stored necessities including masks and hand sanitisers to create a safe working environment.

Sales and Customers

Due to the impact of the COVID-19 outbreak, our revenue decreased by 1.6% from RMB97,274 million in the six months ended 30 June 2019 to RMB95,723 million in the six months ended 30 June 2020, our operating profit decreased by 38.7% from RMB6,282 million to RMB3,852 million, and we recorded net cash used in operating activities of RMB544 million in the six months ended 30 June 2020. With the outbreak gradually becoming under control, resumption of work and business in various locations has gradually taken place since April 2020 and people's life gradually returned to normal. We have not experienced any delayed delivery or cancellation of orders due to

COVID-19 that materially and adversely affected our business, results of operations and financial conditions.

Offline channels, including national and regional chain stores and franchised stores, were temporarily closed due to the impact of COVID-19 pandemic. By April 2020, our offline sales channels in China have generally resumed operation and by June 2020, our offline sales channels in our overseas markets have generally resumed operation, subject to local requirements which may be changed from time to time. E-commerce channels became the population's first choice of shopping channel, but the sales growth from online channels when lock-downs and stringent social distancing measures were implemented was also limited, primarily due to limitations in logistics and distribution in the early stage of the outbreak. For example, according to public information, while online sales volume of refrigerators, freezers and washing machines in China still increased in January 2020 by approximately 4.5%, 11.7% and 7.2%, respectively, compared to the same period last year, it recorded decreases in February 2020 by approximately 4.3%, 21.3% and 12.0%, respectively, compared to the same periods last year, when China announced and implemented draconian containment and social distancing measures to combat the COVID-19 pandemic. Comparatively, according to the same public information, offline sales volume of refrigerators, freezers and washing machines in China generally decreased in the first half of 2020, particularly in February 2020 when the offline sales volume of refrigerators, freezers and washing machines in China decreased by approximately 69.9%, 80.7% and 65.1%, respectively, compared to the same period in 2019. During the pandemic, the restricted economic and social activities, reduction in household income and adverse impact and delays in the real estate and construction industry all contributed to the decreased demand for home appliances.

Our revenue from sales of home appliances in China was generally affected by the pandemic and experienced decrease in the first quarter of 2020 by approximately 20.6% compared to the same period last year, and was substantially offset by the increased sales in the second quarter of 2020 by approximately 12.8% compared to the same period last year. Affected by the temporary closing down of offline shops, slower logistics and distribution arrangement and the public awareness of social distancing, we experienced reduced sales volume of products and decreased revenue from sales of home appliances in China in the first quarter of 2020. Market competition has intensified under such pressures, resulting in decreases in average retail prices for products of most business lines. According to Euromonitor, the average retail price of refrigeration appliances, major cooking appliances, laundry appliances and air-conditioners are generally expected to decrease in 2020 compared to 2019. For example, the average retail price of air-conditioners in China was US$432 in 2019, and is expected to decrease to US$408 in 2020, representing a decrease of 5.4% from 2019. We have strengthened our cooperation with offline sales partners and increased the placement of our products with national and regional chain stores and franchised stores during the pandemic. We have also strengthened our sales efforts through online channels by enhancing our e-commerce flagship store construction and user interaction experiences. We have also promoted our digitalised marketing through new channels including live broadcast and marketing on the e-commerce platforms and other social medias, and cloud broadcasting around the globe. As a result of our active measures, as well as the containment of COVID-19 outbreak in China, our revenue from sales of home appliance in China increased in the second quarter of 2020.

Our revenue from overseas smart home business slightly increased from RMB45,689 million for the six months ended 30 June 2019 to RMB45,890 million for the six months ended 30 June 2020.

The outbreak of COVID-19 has generally resulted in a decrease in the total sales revenue across the major home appliances industry in our major overseas markets in the second quarter of 2020. Despite negative impact caused by recurring outbreaks in our major overseas markets, we have gained strong performance in the first quarter of 2020 by approximately 5.1% compared to the same period in 2019, and managed to stabilise our overseas sales by accelerating the business development of online channels and focusing on high-end products with health concepts. The increase of our revenue from overseas smart home business in the first quarter of 2020 reflected our steady business development in the overseas markets, which was partially offset by the decrease of our revenue from overseas smart home business in the second quarter of 2020 by approximately 4.0% compared to the same period in 2019 primarily due to the impacts of COVID-19 pandemic.

During the COVID-19 outbreak, the health awareness of consumers has been strengthened. Home appliance products with health concepts, such as germ-free refrigerators and washing machines, and self-cleaning air-conditioners have attracted consumers with higher sensitivity requirements for health and quality. We have devoted our resources to the development of products with health concepts, including washing machines with sterilisation functions and air-conditioners with self-cleaning functions, which were highly recognised by the consumers. We believe the increased health awareness among consumers around the world will have a long-term positive effect on the demand for our products in the future, which matches our strategies to tap into the global high-end markets with innovation and advanced technologies.

Production and Supply Chain

Affected by the COVID-19 outbreak and the relevant control measures imposed by governments globally, business operations of our production sites in areas severely impacted by the outbreak, such as Wuhan, Italy and India, were temporarily suspended. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, established the health and safety management system and implemented emergency plans. We incurred additional costs, for example, costs related to disinfection activities and purchase of hygiene supplies, to maintain our production process. Such additional costs will not have material adverse impact on our financial performance, given that the amount is not material. We have fully resumed our business operations in China since the end of March 2020 and in other countries and regions by June 2020, except that in India and Italy, the operation schedules are subject to adjustment in accordance with local requirements. We did not experience material operation disruption or deterioration in financial performance taken as a whole due to temporary suspension in these countries. We have leveraged our experiences of COVID-19 prevention in China to implement similar measures to our overseas production sites. As travel restrictions have gradually been uplifted, the adverse effects on the supply chain, including logistics and distribution, have also gradually subsided.

Liquidity Position

Under the very unlikely circumstance that the outbreak of COVID-19 pandemic further prolongs leading to the worst case scenario, where we:

- cease all operations from October 2020 onward, and therefore we cease to earn any revenue in relation to sales and services activities, or incur any expenses in relation to (i) the production of products, (ii) marketing activities, (iii) warehousing and logistics of products, (iv) the after sales activities, and (v) R&D activities from October 2020 onward;

- do not lay-off any of our employees or reduce their salaries;
- continue to make payment of all interest expenses when they fall due;
- settle all of our outstanding trade payables, other payables and accruals as at 30 September 2020;
- receive settlement of all of our trade receivables, estimated by prudently taking into account our historical settlement patterns;
- sell all of our inventories as at 30 September 2020;
- make the Cash Payments of RMB2,686 million to Scheme Shareholders in respect of the Privatisation;
- incur and pay RMB279 million (excluding tax) for the listing expenses;
- use our unutilised and unconditional credit facilities as at 30 September 2020 when needed;
- repay all of our short term borrowings;
- settle lease payments when they fall due; and
- settle payment of capital commitments of property, plant and equipment as at 30 September 2020;

we would have sufficient cashflow for our business to remain financially viable for at least 12 months ending 30 September 2021. The above analysis under the worst case scenario is for illustrative purpose only and our Directors currently assessed that the likelihood of such situation arising would be remote.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that up to the date of this Listing Document there has been no material adverse change in our financial or trading position or prospects since 30 June 2020 (being the date of our latest audited financial statements) and there has been no event since 30 June 2020 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this Listing Document.

FINANCIAL EFFECTS OF THE PRIVATISATION

As at the Latest Practicable Date, our Company holds 45.68% interest in HEG, while the remaining 54.32% of outstanding HEG Shares are held by HEG Shareholders other than us. As a result, only approximately 45.68% of the profits generated from HEG, is attributable to equity holders of our Company, while the remaining 54.32% of the profits of HEG is attributable to HEG Shareholders other than us. Upon the Scheme becoming effective, Scheme Shareholders will become our Shareholders and HEG will become our Company's wholly-owned subsidiary (assuming the EB to CB Proposal become effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds as a result). Subsequently, 100% of profits from HEG will be attributable to the equity holders of our Company. See “Appendix III — Unaudited Pro Forma Financial Information” of this Listing Document which has been prepared for the purpose of illustrating the financial effects of the Privatisation.

RECENT DEVELOPMENTS

The following discussion and our analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in "Appendix II — Unaudited Interim Financial Report", together with the accompanying notes, and "Financial Information" and our audited consolidated financial statements included in "Appendix I — Accountants' Report", together with the accompanying notes. Our unaudited condensed consolidated financial statements included in Appendix II have been prepared in accordance with IFRSs and reviewed by our reporting accountants in accordance with International Standard on Review Engagements 2410.

Our historical results of operations and financial condition as at and for the nine months ended 30 September 2020 do not necessarily indicate our results of operations or financial condition expected for any future periods, nor do they necessarily indicate our expected annual results of operations or year-end financial condition for 2020.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" and elsewhere in this Listing Document.

As required by the SSE Listing Rules, we published our quarterly report on 29 October 2020, containing our unaudited consolidated financial statements as at and for the nine months ended 30 September 2020 prepared under PRC GAAP. We have included our unaudited consolidated financial statements prepared in accordance with IAS 34 as at and for the nine months ended 30 September 2020, in condensed form, in the unaudited interim financial report set forth in Appendix II to this Listing Document. Our unaudited condensed consolidated financial statements have been reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410.

RECENT DEVELOPMENTS

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020 COMPARED TO THE NINE MONTHS ENDED 30 SEPTEMBER 2019

The following table sets forth our summary results of operations for the periods indicated:

	Nine months ended 30 September	
	2019	**2020**
	(unaudited) (RMB in millions)	
CONTINUING OPERATIONS		
Revenue	147,481	154,403
Cost of sales	(105,009)	(111,915)
Gross Profit	42,472	42,488
Other gains or losses	1,781	3,371
Selling and distribution expenses	(23,006)	(23,362)
Administrative expenses	(11,790)	(12,836)
Finance costs	(1,290)	(1,029)
Shares of profits and losses of associates	888	1,108
Profit before tax from continuing operations	9,055	9,740
Income tax expenses	(1,262)	(1,721)
Profit for the period from continuing operations	7,793	8,019
DISCONTINUED OPERATION		
Profit for the period from a discontinued operation	3,313	—
PROFIT FOR THE PERIOD	**11,106**	**8,019**
Profit for the period attributable to owners of the Company		
from continuing operations	6,121	6,301
from discontinued operations	1,491	—
	7,612	6,301
Profit for the period attributable to non-controlling interests		
from continuing operations	1,672	1,718
from discontinued operations	1,822	—
	3,494	1,718
	11,106	**8,019**

RECENT DEVELOPMENTS

SEGMENT RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020 COMPARED TO THE NINE MONTHS ENDED 30 SEPTEMBER 2019

The following table summarises our revenue by business segment (after elimination of inter-segment revenue) for the periods indicated:

	Nine months ended 30 September	
	2019	2020
	(unaudited)	(unaudited)
	(RMB in millions)	
Smart Home Business in China		
Household Food Solutions		
Refrigerators/freezers	22,136	21,701
Kitchen appliances	1,685	1,840
Household Air Solutions		
Air-conditioners	16,999	17,384
Household Clothing Solutions		
Laundry appliances	15,288	15,414
Household Water Solutions		
Water appliances	6,771	6,778
Smart Home Business Overseas	69,235	72,928
Other businesses	15,367	18,358
Total	**147,481**	**154,403**

We recorded substantial improvement in financial performances in the third quarter of 2020. Our revenue increased by 16.9% to RMB58,680 million in the third quarter of 2020 from RMB50,207 million in the third quarter of 2019, and our gross profit increased by 14.7% to RMB16,261 million in the third quarter of 2020 from RMB14,172 million in the third quarter of 2019. Our financial information for the third quarter of 2019 and 2020 is preliminary, unaudited and subject to finalisation.

Our revenue increased by 4.7% in the nine months ended 30 September 2020 as compared to that in the nine months ended 30 September 2019, while our revenue decreased by 1.6% in the six months ended 30 June 2020 as compared to that in the six months ended 30 June 2019, as we recorded increases in revenue from all of our business segments for the third quarter of 2020 as compared to that for the third quarter of 2019, primarily due to improved sales of all our business segments resulting from gradual recovery from the impact of COVID-19 in the third quarter of 2020.

- Revenue from our refrigerators/freezers business in China decreased by 2.0% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment decreased by 11.2% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, primarily due to the decrease in consumer demand resulting from reduced economic and social activities and practical difficulties associated with delivery due to lock-downs and social distancing measures implemented in various cities in China as impacted by COVID-19. We recorded substantial improvement of operating performance in the third quarter of 2020 driven by the gradual containment of COVID-19 in China, our focus on high-end products with health concepts such as germ-free refrigerators and our customised sales efforts targeting different categories of customers on both online and offline channels.

- Revenue from our kitchen appliances business in China increased by 9.2% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment decreased by 2.7% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, primarily attributable to our focus on high-end full-suite smart kitchen solutions as our sales of kitchen appliances under the Casarte brand recorded substantial increase during the third quarter of 2020. We have achieved breakthrough in sales through strengthened franchise network at the township level and provided customers with one-stop cooking solutions through promotion of self-developed smart kitchen appliances.
- Revenue from our air-conditioners business in China increased by 2.3% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment decreased by 7.1% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, primarily attributable to our focus on high-end products with health concepts such as self-cleaning air-conditioners, our continuous efforts to improve efficiency through expansion of our franchise network and our differentiated branding strategies with high-end products under the Casarte brand, mass products under the Haier brand and customised products under the Leader brand covering all categories of customers.
- Revenue from our laundry appliances business in China increased by 0.8% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment decreased by 8.1% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, as we focused on sales of middle- and high-end products and improved our network operating efficiency through coordination of online and offline sales efforts to counter the negative impact by COVID-19.
- Revenue from our water appliances business in China increased by 0.1% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment decreased by 5.4% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, as we targeted replacement demand of urban renewal project to attract new customers, and also focused on designers and new home decoration demand to further improve our brand image and reputation among high-end customers.
- Revenue from our smart home business overseas increased by 5.3% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while revenue from this business segment increased by 0.4% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, primarily because we leveraged our global procurement, supply chain and R&D platform capabilities to minimise the adverse impact of the COVID-19 pandemic in our overseas operations. Our global factories suffered minimal impact such as closure as we actively leveraged our experiences of COVID-19 prevention in China to implement similar measures to our overseas productions sites and maintained routine communications with the local

authorities to ensure the factories are operated under safety conditions. We have also actively explored online sales in the overseas market to increase sales and brand reputation among overseas customers.

Our cost of sales increased by 6.6% in the nine months ended 30 September 2020 as compared to that in the nine months ended 30 September 2019, and our gross profit margin decreased from 28.8% for the nine months ended 30 September 2019 to 27.5% for the nine months ended 30 September 2020, primarily due to further intensified competition due to the impact of COVID-19 which resulted in decrease in average selling prices for most of our major products. We have focused on improving our operation efficiency through optimization of suppliers network and production sites layout to cut unnecessary costs. Our overseas operations have achieved improved cost structure through focus on high-end products and enhanced qualities to attract customers while limiting after-sales costs, as well as improvement in manufacturing efficiencies in certain overseas operation such as Russia and Pakistan. As a result, our gross profit margin increased from 27.4% for the six months ended 30 June 2020 to 27.5% for the nine months ended 30 September 2020.

Our other gains increased significantly to RMB3,371 million in the nine months ended 30 September 2020 from RMB1,781 million in the nine months ended 30 September 2019, primarily resulting from gains recognised on our transfer of 54.50% equity interest in COSMO. COSMO is a company incorporated in the PRC in 2017 which operates industrial internet-related businesses including industrial internet, intelligent control, industrial intelligence and automation, precision moulds, intelligent energy and intellectual research institutes. On 30 July 2020, our Company entered into a share transfer agreement, pursuant to which our Company agrees to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment, a wholly-owned subsidiary of Haier Group, at the consideration of RMB4.06 billion. The consideration was determined based on the valuation from independent valuer of the total equity interests of COSMO, as well as a capital increase of RMB200 million from series A+ funding which took place after the record date of the aforementioned valuation and an arm's length negotiation between us and Haier Ecological Investment on a certain extent of transaction premium. The consideration for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020. The disposal allows us to focus on our core business of smart home solutions and divest non-core business, optimise resource allocation, reduce capital expenditure in non-core business and improve cash flow.

Our selling and distribution expenses increased by 1.5% to RMB23,362 million in the nine months ended 30 September 2020 from RMB23,006 million in the nine months ended 30 September 2019, and our selling and distribution expenses as a percentage of revenue decreased from 15.6% in the nine months ended 30 September 2019 to 15.1% in the nine months ended 30 September 2020, primarily due to increased efficiency for our marketing activities as we conducted more marketing activities through digital channels under the impact of COVID-19 and focused on improving efficiency of our retail system through digitalization and streamlined processes to reduce manual operations and promote online and automatic selling and distribution activities.

Our administrative expenses increased by 8.9% to RMB12,836 million in the nine months ended 30 September 2020 from RMB11,790 million in the nine months ended 30 September 2019, and our administrative expenses as a percentage of revenue increased from 8.0% in the nine months ended

30 September 2019 to 8.3% in the nine months ended 30 September 2020, primarily due to increase in research and development expenses and staff costs resulting from our continued investment in product innovation, especially in high-end home appliance products with health concepts addressing the increasing user demand for such products affected by the outbreak of COVID-19 pandemic.

Our finance costs decreased by 20.3% to RMB1,029 million in the nine months ended 30 September 2020 from RMB1,290 million in the nine months ended 30 September 2019, primarily due to repayment of our borrowings with higher interest rates using the proceeds from our issuance of ultra-short-term financing bonds totalling RMB5.5 billion on 17 July and 28 August 2020.

Our shares of profits of associates increased by 24.8% to RMB1,108 million in the nine months ended 30 September 2020 from RMB888 million in the nine months ended 30 September 2019, primarily due to improved performance of our associates, mainly contributed by Gooday Supply Chain.

Our income tax expense increased by 36.4% to RMB1,721 million in the nine months ended 30 September 2020 from RMB1,262 million in the nine months ended 30 September 2019, primarily due to an increase in our taxable income.

Our net profit for the period from continuing operations increased by 2.9% for the nine months ended 30 September 2020 as compared to that for the nine months ended 30 September 2019, while our profit for the period from continuing operations decreased by 40.1% for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019, primarily attributable to (i) decrease in gross profit margin and average selling prices for most of our major products resulting from further intensified competition due to the impact of COVID-19, (ii) one-off gain of RMB2,267 million from transfer of 54.50% equity interest in COSMO, as we further optimised our corporate and business structure and focused our resources on the major home appliances industry, (iii) increased efficiency of selling and distribution expenses through digitalization and streamlined processes to reduce manual operations, especially under the impact of COVID-19, (iv) increase in administrative expenses resulting from our continuous focus and efforts on research and development, which enabled our release of high-end products with health concepts such as germ-free refrigerators and washing machines, and self-cleaning air-conditioners during the COVID-19 outbreak, attracting customers with growing health awareness and strong demand for quality, and (v) decrease in financing costs resulting from optimisation and expansion of our financing channels through issuance of ultra-short-term bonds totalling RMB5.5 billion with interest rates at 1.45% and 1.71% per annum to repay our interest-bearing borrowings with higher interest rates. As a result of the foregoing, our net profit margin for continuing operations was 5.2% for the nine months ended 30 September 2020, which showed a decrease from 5.3% for the nine months ended 30 September 2019 but an increase from 3.8% for the six months ended 30 June 2020. But for the one-off gain of RMB2,267 million (including RMB1,546 million after-tax gain attributable to owners of the Company) from transfer of 54.50% equity interest in COSMO, our net profit margin for continuing operations would have been 3.7% for the nine months ended 30 September 2020.

RECENT DEVELOPMENTS

NET CURRENT ASSETS

The following table sets forth the components of our current assets and liabilities as at the dates indicated:

	As at 31 December	As at 30 September
	2019	2020
		(unaudited)
	(RMB in millions)	
CURRENT ASSETS		
Inventories	28,229	26,868
Trade and bills receivables	24,967	31,617
Contract assets	423	328
Prepayments, deposits and other receivables	6,441	6,102
Financial assets measured at fair value through profit or loss	308	2,039
Financial assets measured at amortised cost	3,981	545
Derivative financial instruments	19	67
Pledged deposits	1,211	638
Other deposit with limited use	5	4
Cash and cash equivalents	34,963	43,330
Assets and disposal group held for sale	21	22
Total current assets	**100,568**	**111,560**
CURRENT LIABILITIES		
Trade and bills payables	53,059	52,585
Other payables and accruals	19,726	21,608
Contract liabilities	5,583	5,074
Interest-bearing borrowings	13,315	13,887
Lease liabilities	595	653
Tax payable	1,278	1,979
Provisions	1,992	1,867
Derivative financial instruments	99	185
Financial liabilities measured at fair value through profit or loss	43	—
Bonds	—	5,500
Total current liabilities	**95,690**	**103,338**
NET CURRENT ASSETS	**4,878**	**8,222**

Our net current assets increased significantly to RMB8,222 million as at 30 September 2020 from RMB4,878 million as at 31 December 2019, primarily because the increase in our current assets outpaced the increase in our current liabilities. The increase in our current assets was mainly due to (i) an increase of RMB8,367 million in our cash and cash equivalents as a result of continuously improved financial performances and the corresponding cash inflows, proceeds from our transfer of 54.50% equity interest in COSMO, and net cash inflow from financing activities and (ii) an increase of RMB6,650 million in our trade and bills receivables primarily resulting from decrease in our factoring arrangement and our increase in revenue. The increase in our current liabilities was mainly due to (i) an increase of RMB5,500 million in our bonds as we issued ultra-short-term financing bonds with principal amount totalling approximately RMB5.5 billion on 17 July and 28 August 2020, and (ii) an increase of RMB1,883 million in other payables and accruals as a result of our business growth.

RECENT DEVELOPMENTS

CASH FLOWS

The following table sets forth selected cash flow statement information for the periods indicated:

	Nine months ended 30 September	
	2019	2020
	(unaudited)	(unaudited)
	(RMB in millions)	
Net cash generated from operating activities	**8,476**	**5,711**
Net cash used in investing activities	(8,978)	(2,695)
Net cash generated from/(used in) financing activities	(1,249)	5,751
Net increase/(decrease) in cash and cash equivalents	**(1,751)**	**8,767**
Cash and cash equivalents at beginning of the period	36,561	34,963
Net effect of foreign exchange rate changes	283	(400)
Cash and cash equivalents at the end of the period	**35,093**	**43,330**

In the nine months ended 30 September 2020, we had net cash generated from operating activities of RMB5,711 million, significantly improving from net operating cash outflow position for the six months ended 30 June 2020, primarily attributable to our continuously improved financial performances and the corresponding cash inflows.

Our net cash used in investing activities was RMB2,695 million, increasing from RMB2,063 million for the six months ended 30 June 2020, primarily due to purchase of equipment for the maintenance of our production facilities, which is partially offset by our proceeds from our transfer of 54.50% equity interest in COSMO.

Our net cash generated from financing activities was RMB5,751 million, decreasing from RMB10,582 million for the six months ended 30 June 2020, primarily due to repayment of our interest-bearing borrowings with higher interest rates partially using the proceeds from our issuance of ultra-short-term financing bonds totalling RMB5.5 billion on 17 July and 28 August 2020, as well as dividend payment.

FUTURE PLANS AND PROSPECTS

During the Track Record Period, we have established our global footprint, and strengthened our leading position in providing smart home solutions.

We plan to take the following integration initiatives in business, finance and corporate governance after completion of Privatisation and the Introduction, so as to accelerate the full implementation of the IoT smart home ecosystem brand strategy.

BUSINESS INTEGRATION PLANS

Continue to expand smart home solutions

By systematically developing and integrating different product categories, we aim to provide users with smart home solutions that form an indispensable part of users' home life. With the help of IoT, big data, cloud computing, AI and other technologies, we are committed to continuously building Haier Smart Home App and Experiential Cloud platform. By improving convenience and connectivity, we can provide users with consistent, full-process, sustainable and iterative smart home experience. We hope to increase the proportion of sales of full-suite of smart home products, to deepen the integration and collaboration of different categories of our products, and to enhance user loyalty.

Strengthen global collaboration and enhance competitiveness

To fully leverage our global resources, unified platform and industry experience and give full play to the advantages in collaboration, we will deepen the collaboration of laundry appliances and water appliance business in R&D, product development, procurement, supply chain, marketing and branding in various regions of the world. We further enhance localised operational competitiveness of overseas R&D, manufacturing, and marketing. In addition, we will continue to strengthen our leading position in overseas markets of high-end products to improve overseas performance.

Improve operating efficiency through full-process digital transformation

Centring on user experience improvements, we improve operation efficiency and competitiveness through full-process digital transformation. For sales network, we will continue to build a more transparent and efficient sales network, promote the digital transformation of sales network and the integration of online and offline channels, and promote synergistic cross selling of all categories. For manufacturing, we will build interconnected factories around the world, and strengthen digitalised smart manufacturing capability, so as to realise a more flexible allocation of our global production capacity and strengthen digital coordination and integration of global supply chain.

FINANCIAL INTEGRATION PLANS

Improve capital efficiency and optimise capital structure

We will improve capital efficiency; the available cash we obtain from HEG after this transaction will be prioritised for repayment of borrowings incurred in the Cash Payment, as well as maintaining working capital, and the remaining part will be used to repay or replace existing loans. This will optimise the capital structure, and reduce financial expenses.

FUTURE PLANS AND PROSPECTS

After the Privatisation and the Introduction, we will have a larger business and financial scale which will further exert the advantages of scale economy in financial operation, and improve financial performance.

Increase shareholder returns

With improvement in fund management and operational efficiency, we plan to, within three years (2021-2023), increase the dividend payout ratio to 33%, 36% and 40% based on net profit attributable to ordinary shareholders. Our main considerations in determining the shareholder return plan include internal factors such as profitability, cash flow and capital expenditure, as well as external factors such as bank credit availability and the general financing environment. HSH's general meeting had approved the scheme of HSH (2021-2023) shareholder return plan.

CORPORATE GOVERNANCE PLANS

Simplify decision-making process and improve efficiency

With HEG's delisting and becoming our wholly-owned subsidiary, its business development will no longer be restricted by measures to reduce horizontal competition and connected transactions of listed companies, which will facilitate our implementation of cross-category integration, and the global development of laundry appliances and water appliances will benefit from efficiency improvement brought about by the simplified decision-making process.

Continue to attract and retain our talents through comprehensive and effective employee incentive schemes

Our incentive schemes are expected to target our directors and employees with the following features:

(i) Our incentive schemes can be in a single or combined form of employee stock ownership plans (ESOP), restricted stock units (RSU), share award scheme and stock options scheme. At present, our equity incentives primarily involve A Shares. The Introduction will provide us with new tools for equity incentives. We will increase the incentives granted to core management and excellent talents in different markets worldwide with various classes of stocks.

(ii) We intend to maintain a wide coverage under the incentive schemes to strengthen the incentives and reach more key personnel, especially overseas employees.

(iii) The incentive schemes will be linked to performance and profitability targets, with reference to terms of employees incentive plans stipulated by comparable companies in the industry. Such performance and profitability targets may include, but are not limited to, operating profit and earning per share.

We will comply with all applicable regulatory requirements in formulation and implementation of our incentive schemes after the Introduction. Our incentive schemes will be reviewed by our Remuneration and Assessment Committee and approved by our Board of Directors and Shareholders. Details of such incentive schemes are subject to our internal review and approval process and are subject to change. Announcements of our incentive schemes may be made by us from time to time, as appropriate.

Adhere to the green development strategy and continuously improve the level of ESG disclosure

We will closely focus on and implement the ESG concept of "Green, Life, and Care" and improve our ESG standard in terms of ESG governance, ESG disclosure, and ESG management. We will gradually incorporate impact of climate change into the Company's strategic considerations and risk management processes. In combination with the Company's business development goals and our previous annual emission level and resource usage, we will set clear short/medium/long-term quantitative emission and resource goals which are subject to regular review with improvement initiatives in place. We will integrate global user and supply chain resources to create and develop an environmental-friendly and society-harmonious green value chain. We will actively uphold corporate responsibility and protect employees' rights and interests, while giving back to the society, by carrying out public welfare activities and bringing warmth to the society.

The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HAIER SMART HOME CO., LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED

Introduction

We report on the historical financial information of Haier Smart Home Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages I-4 to I-207, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the statement of financial position of the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 (collectively referred to as the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-207 forms an integral part of this report, which has been prepared for inclusion in the listing document of the Company dated 16 November 2020 (the "**Listing Document**") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "*Accountants' Reports on Historical Financial Information in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's and the Company's financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2019 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about dividends paid by the Company, in respect of the Track Record Period.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 16 November 2020

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest million ('M) (RMB'M) except when otherwise indicated.

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
CONTINUING OPERATIONS						
REVENUE	5	154,165	177,594	198,006	97,274	95,723
Cost of sales		(104,001)	(125,415)	(139,393)	(68,974)	(69,496)
Gross profit		50,164	52,179	58,613	28,300	26,227
Other gains or losses	5	2,228	2,389	3,324	1,404	688
Selling and distribution expenses		(29,979)	(29,076)	(33,843)	(14,939)	(14,527)
Administrative expenses		(11,994)	(14,027)	(17,165)	(7,413)	(8,085)
Finance costs	7	(1,396)	(1,464)	(1,732)	(851)	(709)
Share of profits and losses of associates		1,189	1,325	1,409	543	679
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	10,212	11,326	10,606	7,044	4,273
Income tax expenses	10	(1,421)	(1,793)	(1,584)	(1,009)	(661)
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		8,791	9,533	9,022	6,035	3,612
DISCONTINUED OPERATION						
Profit for the year/period from a discontinued operation	11	353	367	3,313	150	—
PROFIT FOR THE YEAR/PERIOD		9,144	9,900	12,335	6,185	3,612
OTHER COMPREHENSIVE (LOSS) /INCOME						
Items that may be reclassified to profit or loss in subsequently periods:						
Share of other comprehensive (loss)/ income of associates		(308)	177	103	19	24
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		12	(6)	(21)	(25)	(84)
Exchange differences on translating foreign operations		(251)	632	500	241	(78)
Change in fair value of available-for-sale ("**AFS**") financial assets		(3)	—	—	—	—
		(550)	803	582	235	(138)
Items that will not be reclassified to profit or loss in subsequent periods:						
Changes arising from re-measurement of defined benefit plans		(4)	80	(10)	—	—
Change in fair value of equity investments designated at fair value through other comprehensive income ("**FVTOCI**"), net of tax		—	(40)	(3)	(29)	(123)
		(4)	40	(13)	(29)	(123)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR/PERIOD, NET OF TAX		(554)	843	569	206	(261)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		8,590	10,743	12,904	6,391	3,351

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Profit for the year/period attributable: to owners of the Company						
— from continuing operations		6,844	7,391	6,715	5,017	2,781
— from discontinued operations	11	100	93	1,491	41	—
		6,944	7,484	8,206	5,058	2,781
Profit for the year/period attributable: to non-controlling interests						
— from continuing operations		1,947	2,142	2,307	1,018	831
— from discontinued operations	11	253	274	1,822	109	—
		2,200	2,416	4,129	1,127	831
		9,144	9,900	12,335	6,185	3,612
Total comprehensive income attributable to:						
Owners of the Company		6,391	8,211	8,751	5,292	2,561
Non-controlling interests		2,199	2,532	4,153	1,099	790
		8,590	10,743	12,904	6,391	3,351
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY						
From continuing and discontinued operations						
— Basic (RMB per share)	13	1.14	1.22	1.29	0.79	0.42
— Diluted (RMB per share)	13	1.09	1.19	1.19	0.76	0.42
From continuing operations						
— Basic (RMB per share)	13	1.12	1.20	1.05	0.79	0.42
— Diluted (RMB per share)	13	1.07	1.17	0.96	0.76	0.42

Consolidated statements of financial position

	Notes	As at 31 December 2017	2018	2019	As at 30 June 2020
		RMB'M	RMB'M	RMB'M	RMB'M
NON-CURRENT ASSETS					
Property, plant and equipment	15	18,983	21,441	23,919	24,684
Investment properties	16	31	31	29	31
Right-of-use assets	17(b)	—	—	3,802	4,135
Prepaid land lease payments	17(a)	1,626	1,828	—	—
Goodwill	18	20,428	21,239	23,352	24,141
Other intangible assets	19	6,561	7,379	9,640	9,584
Interests in associates	20	13,012	13,994	20,461	20,935
AFS financial assets	21	1,415	—	—	—
Equity investments designated at FVTOCI	21	—	1,400	1,396	1,270
Financial assets measured at fair value through profit or loss ("**FVTPL**")	22	—	327	295	73
Financial assets measured at amortised cost	23	295	268	332	338
Derivative financial instruments	24	389	95	77	63
Long-term prepayments	27	758	2,119	1,423	887
Deferred tax assets	36	2,088	1,822	1,579	1,432
Other non-current assets		1,107	690	581	787
Total non-current assets		66,693	72,633	86,886	88,360
CURRENT ASSETS					
Inventories	25	22,575	22,411	28,229	25,282
Trade and bills receivables	26	26,047	24,834	24,967	30,177
Contract assets	32(a)	—	457	423	471
Prepayments, deposits and other receivables	27	4,222	4,531	6,441	6,263
Financial assets measured at FVTPL	22	—	1,776	308	2,400
Financial assets measured at amortised cost	23	2,007	2,838	3,981	890
Derivative financial instruments	24	103	97	19	66
Pledged deposits	28	1,279	1,810	1,211	1,005
Other deposit with limited use	28	—	—	5	86
Cash and cash equivalents	28	35,292	36,561	34,963	43,022
		91,525	95,315	100,547	109,662
Assets and disposal group held for sale	29	83	144	21	21
Total current assets		91,608	95,459	100,568	109,683

	Notes	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 30 June 2020
		RMB'M	RMB'M	RMB'M	RMB'M
CURRENT LIABILITIES					
Trade and bills payables	30	43,062	47,937	53,059	49,171
Other payables and accruals	31	14,645	16,620	19,726	22,532
Receipt in advance/contract liabilities	32(b)	5,890	5,533	5,583	4,757
Interest-bearing borrowings	33	17,028	9,314	13,315	22,697
Lease liabilities	17(c)	—	—	595	631
Tax payable		1,296	1,187	1,278	999
Provisions	34	1,624	1,640	1,992	1,822
Derivative financial instruments	24	23	36	99	164
Financial liabilities measured at FVTPL	43	—	219	43	18
		83,568	82,486	95,690	102,791
Liabilities directly associated with assets classified as held for sale	29	—	32	—	—
Total current liabilities		83,568	82,518	95,690	102,791
NET CURRENT ASSETS		8,040	12,941	4,878	6,892
TOTAL ASSETS LESS CURRENT LIABILITIES		74,733	85,574	91,764	95,252
NON-CURRENT LIABILITIES					
Interest-bearing borrowings	33	16,129	15,635	13,370	14,773
Lease liabilities	17(c)	—	—	1,980	2,215
Convertible and exchangeable bonds	44	6,211	9,192	7,005	7,232
Deferred income	35(a)	442	555	628	642
Deferred tax liabilities	36	344	405	1,154	1,213
Derivative financial instruments	24	249	—	—	—
Provisions for pensions and similar obligations	48	950	935	1,122	1,120
Provisions	34	1,051	1,207	1,399	1,412
Put option liabilities	35(b)	917	1,792	55	55
Other non-current liabilities		45	45	61	82
Total non-current liabilities		26,338	29,766	26,774	28,744
Net assets		**48,395**	**55,808**	**64,990**	**66,508**
EQUITY					
Share capital	37	6,098	6,369	6,580	6,580
Reserves	39(a)	27,502	33,373	41,307	41,751
Equity attributable to owners of the Company		33,600	39,742	47,887	48,331
Non-controlling interests	39(b)	14,795	16,066	17,103	18,177
Total equity		**48,395**	**55,808**	**64,990**	**66,508**

Consolidated statements of changes in equity

	Notes	Issued equity	Share held for the restricted share award scheme	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	AFS financial assets reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserves *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		Attributable to owners of the Company															
				Reserves													
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017 . . .		6,098	(1)	1,400	(6)	34	6	34	2,076	—	17,228	490	83	21,345	27,442	11,428	38,870
Profit for the year		—	—	—	—	—	—	—	—	—	6,944	—	—	6,944	6,944	2,200	9,144
Other comprehensive income/(loss) for the year:																	
— Share of other comprehensive loss of associates		—	—	—	—	—	—	(307)	—	—	—	—	—	(307)	(307)	(1)	(308)
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		—	—	—	—	12	—	—	—	—	—	—	—	12	12	—	12
— Exchange differences on translating foreign operations		—	—	—	—	—	—	—	—	—	—	(251)	—	(251)	(251)	—	(251)
— Changes arising from re-measurement of defined benefit plans		—	—	—	(4)	—	—	—	—	—	—	—	—	(4)	(4)	—	(4)
— Change in fair value of AFS financial assets . .		—	—	—	—	—	(3)	—	—	—	—	—	—	(3)	(3)	—	(3)
Total comprehensive income/(loss) for the year		—	—	—	(4)	12	(3)	(307)	—	—	6,944	(251)	—	6,391	6,391	2,199	8,590
Capital injection of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	—	7	7

		Attributable to owners of the Company															
				Reserves													
	Notes	Issued equity	Share held for the restricted share award scheme	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	AFS financial assets reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserves *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	—	(285)	(285)
Dividend payments	12	—	—	—	—	—	—	—	—	—	(1,512)	—	—	(1,512)	(1,512)	—	(1,512)
Disposal of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12)	(12)
Cancellation of restricted share		—	1	(1)	—	—	—	—	—	—	—	—	—	(1)	—	—	—
Changes in ownership interests in subsidiaries that do not result in a loss of control		—	—	109	—	—	—	—	—	—	—	—	—	109	109	211	320
Deemed disposal of associates		—	—	—	—	—	—	—	—	—	—	—	743	743	743	—	743
Transfer to capital reserve		—	—	209	—	—	—	—	(21)	—	(188)	—	—	—	—	—	—
Transfer to reserves fund		—	—	—	—	—	—	—	47	—	(47)	—	—	—	—	—	—
Issue of exchangeable bonds		—	—	—	—	—	—	—	—	431	—	—	—	431	431	—	431
Conversion of convertible and exchangeable bonds of a subsidiary		—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,223	1,223
Other changes		—	—	—	—	—	—	—	—	—	(4)	—	—	(4)	(4)	24	20
As at 31 December 2017		**6,098**	**—**	**1,717**	**(10)**	**46**	**3**	**(273)**	**2,102**	**431**	**22,421**	**239**	**826**	**27,502**	**33,600**	**14,795**	**48,395**

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	AFS financial assets/ FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 31 December 2017		6,098	1,717	(10)	46	3	(273)	2,102	431	22,421	239	826	27,502	33,600	14,795	48,395
Effect of adoption of IFRS 9	2.2	—	—	—	—	—	41	—	—	(10)	—	—	31	31	38	69
Effect of adoption of IFRS 15	2.2	—	—	—	—	—	—	—	—	(45)	—	—	(45)	(45)	(45)	(90)
As at 1 January 2018 (As restated)		6,098	1,717	(10)	46	3	(232)	2,102	431	22,366	239	826	27,488	33,586	14,788	48,374
Profit for the year		—	—	—	—	—	—	—	—	7,484	—	—	7,484	7,484	2,416	9,900
Other comprehensive income/ (loss) for the year																
— Share of other comprehensive income of associates		—	—	—	—	—	166	—	—	—	—	—	166	166	11	177
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		—	—	—	(6)	—	—	—	—	—	—	—	(6)	(6)	—	(6)
— Exchange differences on translating foreign operations		—	—	—	—	—	—	—	—	—	516	—	516	516	116	632
— Changes arising from re-measurement of defined benefit plans		—	—	80	—	—	—	—	—	—	—	—	80	80	—	80
— Change in fair value of equity investments designated at FVTOCI		—	—	—	—	(29)	—	—	—	—	—	—	(29)	(29)	(11)	(40)
Total comprehensive income/ (loss) for the year		—	—	80	(6)	(29)	166	—	—	7,484	516	—	8,211	8,211	2,532	10,743
Issue of shares		271	1,862	—	—	—	—	—	—	—	—	—	1,862	2,133	—	2,133
Dividend payments	12	—	—	—	—	—	—	—	—	(2,085)	—	—	(2,085)	(2,085)	—	(2,085)
Capital injection of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	462	462
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	(569)	(569)

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	AFS financial assets/ FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Transfer to reserves fund		—	—	—	—	—	—	246	—	(246)	—	—	—	—	—	—
Disposal of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	—	(288)	(288)
Acquisition of non-controlling interests		—	(491)	—	—	—	—	—	—	—	—	—	(491)	(491)	(457)	(948)
Changes in ownership interests in subsidiaries that do not result in a loss of control		—	—	—	—	—	—	—	—	—	—	—	—	—	18	18
Deemed disposal of associates		—	—	—	—	—	—	—	—	—	—	22	22	22	—	22
Issue of convertible bonds		—	—	—	—	—	—	—	473	—	—	—	473	473	—	473
Business combination under common control		—	(2,091)	—	—	—	—	—	—	—	—	—	(2,091)	(2,091)	—	(2,091)
Transfer to capital reserve		—	606	—	—	—	—	(61)	—	(545)	—	—	—	—	—	—
Other changes		—	—	—	—	—	—	—	—	(16)	—	—	(16)	(16)	(420)	(436)
As at 31 December 2018		**6,369**	**1,603**	**70**	**40**	**(26)**	**(66)**	**2,287**	**904**	**26,958**	**755**	**848**	**33,373**	**39,742**	**16,066**	**55,808**

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 31 December 2018		6,369	1,603	70	40	(26)	(66)	2,287	904	26,958	755	848	33,373	39,742	16,066	55,808
Effect of adoption of IFRS 16	2.2	—	—	—	—	—	—	—	—	(47)	—	—	(47)	(47)	(14)	(61)
As at 1 January 2019 (As restated)		6,369	1,603	70	40	(26)	(66)	2,287	904	26,911	755	848	33,326	39,695	16,052	55,747
Profit for the year		—	—	—	—	—	—	—	—	8,206	—	—	8,206	8,206	4,129	12,335
Other comprehensive income/(loss) for the year																
— Share of other comprehensive income of associates		—	—	—	—	—	84	—	—	—	—	—	84	84	19	103
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		—	—	—	(36)	—	—	—	—	—	—	—	(36)	(36)	15	(21)
— Exchange differences on translating foreign operations		—	—	—	—	—	—	—	—	—	510	—	510	510	(10)	500
— Changes arising from re-measurement of defined benefit plans		—	—	(10)	—	—	—	—	—	—	—	—	(10)	(10)	—	(10)
— Change in fair value of equity investments designated at FVTOCI		—	—	—	—	(3)	—	—	—	—	—	—	(3)	(3)	—	(3)
Total comprehensive (loss)/income for the year		—	—	(10)	(36)	(3)	84	—	—	8,206	510	—	8,751	8,751	4,153	12,904
Dividend payments	12	—	—	—	—	—	—	—	—	(2,235)	—	—	(2,235)	(2,235)	—	(2,235)
Capital injection of non-controlling interests		—	23	—	—	—	—	—	—	—	—	—	23	23	737	760
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	(579)	(579)
Transfer to reserves fund		—	—	—	—	—	—	367	—	(367)	—	—	—	—	—	—

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Disposal of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	—	(1,904)	(1,904)
Changes in ownership interests in subsidiaries that do not result in a loss of control		—	(577)	—	—	—	—	—	—	—	—	—	(577)	(577)	(1,264)	(1,841)
Acquisition of non-controlling interests		—	1	—	—	—	—	—	—	—	—	—	1	1	(121)	(120)
Deemed disposal of associates		—	—	—	—	—	—	—	—	—	—	(50)	(50)	(50)	—	(50)
Business combination under common control		—	(280)	—	—	—	—	—	—	—	—	—	(280)	(280)	—	(280)
Converted convertible bonds to shares		211	2,867	—	—	—	—	—	(473)	—	—	—	2,394	2,605	—	2,605
Other changes		—	—	—	—	—	—	—	—	(46)	—	—	(46)	(46)	29	(17)
As at 31 December 2019		**6,580**	**3,637**	**60**	**4**	**(29)**	**18**	**2,654**	**431**	**32,469**	**1,265**	**798**	**41,307**	**47,887**	**17,103**	**64,990**

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2020		6,580	3,637	60	4	(29)	18	2,654	431	32,469	1,265	798	41,307	47,887	17,103	64,990
Profit for the period		—	—	—	—	—	—	—	—	2,781	—	—	2,781	2,781	831	3,612
Other comprehensive income/(loss) for the period																
— Share of other comprehensive income of associates		—	—	—	—	—	29	—	—	—	—	—	29	29	(5)	24
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		—	—	—	(84)	—	—	—	—	—	—	—	(84)	(84)	—	(84)
— Exchange differences on translating foreign operations		—	—	—	—	—	—	—	—	—	(108)	—	(108)	(108)	30	(78)
— Change in fair value of equity investments designated at FVTOCI		—	—	—	—	(57)	—	—	—	—	—	—	(57)	(57)	(66)	(123)
Total comprehensive (loss)/income for the period		—	—	—	(84)	(57)	29	—	—	2,781	(108)	—	2,561	2,561	790	3,351
Dividend payable to owners of the Company	12	—	—	—	—	—	—	—	—	(2,467)	—	—	(2,467)	(2,467)	—	(2,467)
Capital injection of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	804	804
Dividend payable to non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	(680)	(680)
Changes in ownership interests in subsidiaries that do not result in a loss of control		—	352	—	—	—	—	—	—	—	8	—	360	360	155	515
Acquisition of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	—	5	5
Other changes		—	—	—	—	—	—	—	—	(10)	—	—	(10)	(10)	—	(10)
As at 30 June 2020		**6,580**	**3,989**	**60**	**(80)**	**(86)**	**47**	**2,654**	**431**	**32,773**	**1,165**	**798**	**41,751**	**48,331**	**18,177**	**66,508**

	Notes	Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 31 December 2018		6,369	1,603	70	40	(26)	(66)	2,287	904	26,958	755	848	33,373	39,742	16,066	55,808
Adjustment on initial application of IFRS 16	2.2	—	—	—	—	—	—	—	—	(47)	—	—	(47)	(47)	(14)	(61)
As at 1 January 2019 (As restated)		6,369	1,603	70	40	(26)	(66)	2,287	904	26,911	755	848	33,326	39,695	16,052	55,747
Profit for the period (unaudited)		—	—	—	—	—	—	—	—	5,058	—	—	5,058	5,058	1,127	6,185
Other comprehensive income/(loss) for the period (unaudited)																
— Share of other comprehensive income of associates (unaudited)		—	—	—	—	—	19	—	—	—	—	—	19	19	—	19
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax (unaudited)		—	—	—	(25)	—	—	—	—	—	—	—	(25)	(25)	—	(25)
— Exchange differences on translating foreign operations (unaudited)		—	—	—	—	—	—	—	—	—	251	—	251	251	(10)	241
— Change in fair value of equity investments designated at FVTOCI (unaudited)		—	—	—	—	(11)	—	—	—	—	—	—	(11)	(11)	(18)	(29)
Total comprehensive income/(loss) for the period (unaudited)		—	—	—	(25)	(11)	19	—	—	5,058	251	—	5,292	5,292	1,099	6,391
Dividend payable to owners of the Company (unaudited)	12	—	—	—	—	—	—	—	—	(2,235)	—	—	(2,235)	(2,235)	—	(2,235)
Dividend payable to non-controlling interests (unaudited)		—	—	—	—	—	—	—	—	—	—	—	—	—	(535)	(535)

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds *(Note 39(a)(i))*	Convertible and exchangeable bonds reserve *(Note 39(a)(ii))*	Retained profits	Exchange differences on translation of financial statements reserve *(Note 39(a)(iii))*	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
		RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Changes in ownership interests in subsidiaries that do not result in a loss of control (unaudited)		—	(246)	—	—	—	—	—	—	—	—	—	(246)	(246)	(225)	(471)
Acquisition of non-controlling interests (unaudited)		—	19	—	—	—	—	—	—	—	—	—	19	19	(124)	(105)
Deemed disposal of associates (unaudited)		—	—	—	—	—	—	—	—	—	—	(89)	(89)	(89)	—	(89)
Other changes (unaudited)		—	—	—	—	—	—	—	—	(12)	—	—	(12)	(12)	—	(12)
As at 30 June 2019 (Unaudited)		**6,369**	**1,376**	**70**	**15**	**(37)**	**(47)**	**2,287**	**904**	**29,722**	**1,006**	**759**	**36,055**	**42,424**	**16,267**	**58,691**

Consolidated statements of cash flows

	Notes	Year ended 31 December 2017 RMB'M	2018 RMB'M	2019 RMB'M	Six months ended 30 June 2019 RMB'M (unaudited)	2020 RMB'M
Cash flows from operating activities						
Profit before tax						
From continuing operations		10,212	11,326	10,606	7,044	4,273
From a discontinued operation	11	447	456	4,025	197	—
Adjustments for:						
Finance costs		1,396	1,473	1,763	851	709
Interest income	5	(367)	(545)	(677)	(312)	(268)
Share of profits and losses of associates		(1,189)	(1,325)	(1,409)	(543)	(679)
Dividends income from AFS financial assets	5	(41)	—	—	—	—
Dividends income from equity investments designated at FVTOCI	5	—	(105)	(39)	(18)	(15)
Gain on disposal of AFS financial assets	5	(1)	—	—	—	—
Gain on disposal of equity investments designated at FVTOCI	5	—	—	(2)	—	—
Gain on disposal of financial assets/liabilities measured at FVTPL, net	5	(49)	(129)	(36)	(99)	(15)
Gain on disposal of associates and subsidiaries, net		(154)	(259)	(3,824)	(1)	—
Loss/(gain) on disposal of non-current assets, net		179	(214)	(396)	(3)	11
Fair value (gain)/loss on financial assets/ liabilities at FVTPL, net	5	(614)	153	(72)	(57)	31
Depreciation of property, plant and equipment	15	2,643	2,589	2,998	1,446	1,680
Depreciation of investment properties	16	2	2	2	1	1
Depreciation of right-of-use assets	17(b)	—	—	898	397	365
Amortisation of other non-current assets	6	9	11	13	6	10
Amortisation of prepaid land lease payments	17(a)	44	40	—	—	—
Amortisation of other intangible assets	19	431	515	752	346	466
Provision for obsolete and slow-moving inventories, net	6	552	556	576	250	412
Impairment/(reversal) of trade and bills receivables, net	26	64	80	131	(48)	101
(Reversal)/impairment of prepayments, deposits and other receivables and long term prepayments, net	27	(7)	188	233	10	205
Impairment of AFS financial assets	6	27	—	—	—	—
Impairment of property, plant and equipment	15	4	32	11	—	—
Impairment of interests in associates	20	21	6	56	—	—
Impairment of other intangible assets	19	10	—	—	—	—
Impairment of contract asset	32	—	—	4	—	—
Equity-settled restricted share award scheme expense, net	6	395	386	477	143	179
Operating cash inflow before movements in working capital		14,014	15,236	16,090	9,610	7,466

	Notes	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Operating cash inflow before movements in working capital		14,014	15,236	16,090	9,610	7,466
(Increase)/decrease in inventories		(6,715)	(676)	(3,949)	(1,500)	2,543
Decrease/(increase) in trade and bills receivables, prepayment, deposits and other receivables and contract assets		597	2,056	(908)	(4,917)	(5,911)
Increase/(decrease) in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities		10,410	3,912	5,228	1,385	(4,296)
Change in other working capital		447	(210)	(157)	134	75
Cash generated from/(used in) operations		18,753	20,318	16,304	4,712	(123)
Interest received		244	394	488	170	291
Income tax paid		(1,773)	(1,569)	(1,709)	(1,263)	(712)
Net cash generated from/(used in) operating activities		17,224	19,143	15,083	3,619	(544)
Cash flows from investing activities						
Payment for purchases of non-current assets		(4,343)	(6,759)	(6,194)	(3,572)	(3,119)
Receipt of government grants related to assets		188	—	—	—	—
Proceeds from disposal of non-current assets		201	471	261	201	50
Payment for acquisition of subsidiaries, net of cash acquired		(377)	(103)	(2,730)	(2,705)	(346)
Proceeds from disposal of subsidiaries, net of cash disposed		261	658	(952)	(10)	—
Payment for acquisition of associates		(743)	(33)	—	—	—
Proceeds from disposal of associates		188	505	—	—	2
Payment for purchases of AFS financial assets		(44)	—	—	—	—
Payment for purchases of equity investments designated at FVTOCI		—	(156)	(221)	(24)	—
Proceeds from disposal of equity investments designated at FVTOCI		—	4	70	—	—
Dividends received from associates		201	239	348	158	146
Dividends received from AFS financial assets		37	—	—	—	—
Dividends received from equity investment designated at FVTOCI		—	25	35	—	—
Dividends received from investments		—	3	2	—	—
Net (payments for acquisition)/proceeds from disposal of financial assets measured at amortised cost and financial assets at FVTPL		(1,390)	(2,598)	(1,782)	(1,990)	1,128
Interest received from financial assets measured at amortised cost and financial assets at FVTPL		43	93	203	84	76
Net cash flows used in investing activities		(5,778)	(7,651)	(10,960)	(7,858)	(2,063)

	Notes	Year ended 31 December 2017 RMB'M	2018 RMB'M	2019 RMB'M	Six months ended 30 June 2019 RMB'M (unaudited)	2020 RMB'M
Cash flows from financing activities						
Proceeds from issue of shares		—	2,133	—	—	—
Repurchase of shares		(1)	—	—	—	—
Proceeds from issue of convertible and exchangeable bonds		6,796	2,983	—	—	—
Payment of bond issuance costs		—	(68)	—	—	—
Proceed from borrowings		18,694	12,700	18,468	9,176	15,878
Repayment of borrowings		(23,334)	(22,418)	(19,018)	(6,692)	(5,449)
Redemption of convertible and exchangeable bond		—	—	(9)	—	—
Deposit (paid)/received for borrowing		(550)	30	—	—	—
Dividends paid to shareholders		(1,512)	(2,085)	(2,235)	—	—
Dividends paid to non-controlling interests		(285)	(569)	(579)	—	—
Capital element of finance lease obligation		(17)	—	—	—	—
Interest element of finance lease obligation		(1)	—	—	—	—
Lease payments		—	—	(894)	(412)	(384)
Interest paid for borrowings		(1,109)	(1,162)	(1,388)	(245)	(565)
Changes in ownership interests in subsidiaries		1,294	(2,046)	(358)	(940)	1,102
Net cash flows (used in)/generated from financing activities		(25)	(10,502)	(6,013)	887	10,582
Net increase/(decrease) in cash and cash equivalents		11,421	990	(1,890)	(3,352)	7,975
Cash and cash equivalents at beginning of the year/period		24,233	35,292	36,561	36,561	34,963
Effect of foreign exchange rate changes, net		(362)	279	292	109	84
Cash and cash equivalents at end of the year/period		**35,292**	**36,561**	**34,963**	**33,318**	**43,022**
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Non-pledged cash and bank balances		19,486	21,687	18,890	18,167	24,678
Time deposits		15,806	14,874	16,073	15,151	18,344
Cash and cash equivalents as stated in the statement of financial position		**35,292**	**36,561**	**34,963**	**33,318**	**43,022**

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December 2017	2018	2019	As at 30 June 2020
		RMB'M	RMB'M	RMB'M	RMB'M
NON-CURRENT ASSETS					
Property, plant and equipment		133	157	246	250
Right-of-use assets		—	—	5	7
Prepaid land lease payments		6	6	—	—
Other intangible assets		8	12	11	10
Interests in associates	20	3,098	3,176	3,177	3,233
Investments in subsidiaries		20,483	30,668	32,390	33,293
AFS financial assets		6	—	—	—
Equity investments designated at FVTOCI		—	5	5	5
Financial assets measured at amortised cost	23	8,600	—	—	—
Deferred tax assets		106	82	97	103
Other non-current assets		—	34	9	21
Total non-current assets		32,440	34,140	35,940	36,922
CURRENT ASSETS					
Inventories		90	125	234	182
Trade and bills receivables	26	288	223	1,182	5,609
Prepayments, deposits and other receivables	27	1,314	2,221	6,018	4,696
Financial assets measured at amortised cost	23	—	—	605	554
Cash and cash equivalents		2,071	7,069	5,624	4,609
Total current assets		3,763	9,638	13,663	15,650

STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	Notes	As at 31 December			As at
		2017	2018	2019	30 June 2020
		RMB'M	RMB'M	RMB'M	RMB'M
CURRENT LIABILITIES					
Trade and bills payables		310	335	3,412	166
Other payables and accruals	31	21,356	21,916	27,007	30,855
Contract liabilities		2,466	2,391	17	14
Interest-bearing borrowings	33	—	1,500	—	4,500
Lease liabilities		—	—	—	1
Tax payable		47	62	67	21
Total current liabilities		24,179	26,204	30,503	35,557
NET CURRENT LIABILITIES		(20,416)	(16,566)	(16,840)	(19,907)
TOTAL ASSETS LESS CURRENT LIABILITIES		12,024	17,574	19,100	17,015
NON-CURRENT LIABILITIES					
Interest-bearing borrowings		20	20	20	20
Lease liabilities		—	—	—	1
Convertible and exchangeable bonds	44	—	2,511	—	—
Deferred income		29	59	51	48
Deferred tax liabilities		36	29	44	45
Total non-current liabilities		85	2,619	115	114
Net assets		11,939	14,955	18,985	16,901
EQUITY					
Share capital	37	6,098	6,369	6,580	6,580
Reserves	51	5,841	8,586	12,405	10,321
Total equity		11,939	14,955	18,985	16,901

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION OF THE GROUP

The predecessor of Haier Smart Home Co., Ltd. (hereinafter referred to as the "**Company**") was Qingdao Refrigerator Factory, which was established in 1984. As permitted to offering by People's Bank of China, Qingdao Branch on 16 December 1989, with the document of Qing TiGai 1989 No.3 issued on 24 March 1989, based on the reconstruction of the original Qingdao Refrigerator Factory, a limited company was set up by directional fund raising of RMB150 million. In March and September 1993, as approved by the document of Qing Gu Ling Zi 1993 No. 2 and No. 9 issued by the pilot leading team of Qingdao joint stock company, the Company was converted from a directional offering company to a public subscription company and issued additional 50 million shares to the public and listed with trading on Shanghai Stock Exchange in November 1993.

Besides, D Shares of the Company were listed on the China Europe International Exchange (CEINEX D-Share Market) through admission to trading on the regulated market (regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) for the year ended 31 December 2018.

The Company's registered office is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province, and the headquarters is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province.

In the opinion of the directors, the ultimate controlling parent company of the Company is Haier Group Corporation ("**Haier Group**").

The Company is mainly engaged in research, development, production and sales of home appliances covering research and development of refrigerator/freezers, kitchen appliances, air-conditioners, laundry appliances, water appliances and other smart home business, as well as offering complete sets of smart home solutions. The Group was involved in the following principal activities:

1. Manufacturing and sales of household electrical appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen utensils and industrial robots;
2. Business wholesale and retail; import and export business (see foreign trade enterprise certification);
3. Provision of logistics services, which have been classified as a discontinued operation during the Track Record Period (Note 11).

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company. All values are rounded to the nearest million ('M) (RMB'M) except otherwise indicated.

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Haier Electronics Group Co., Ltd.	Bermuda/Bermuda and Hong Kong	Hong Kong Dollars ("HKD") 282	14.01	29.68	14.01	30.95	14.00	31.87	13.94	31.74	Investment holding, manufacture and sale of laundry appliance and water heaters, distribution and logistics service	Limited liability company	(i)
Wonder Global (BVI) Investment Limited	The United State of America ("USA")/British Virgin Islands ("BVI")	RMB18,596	—	100	—	100	—	100	—	100	Manufacture and sale of household electrical appliances and logistics service	Limited liability company	(ii)
Haier Singapore Investment Holding Pte., Ltd.	Singapore and other overseas areas/Singapore	United States Dollars ("USD") 896	—	100	—	100	—	100	—	100	Investment holding and general wholesale trade	Limited liability company	(ii)
Qingdao Haier Air Conditioner Gen. Corp., Ltd	Mainland China/ Mainland China	RMB918	99.95	—	99.95	—	99.95	—	99.95	—	Manufacture and operation of household air-conditioners	Limited liability company	(iv)
Guizhou Haier Electronics Co., Ltd.	Mainland China/ Mainland China	RMB141	59	—	59	—	59	—	59	—	Manufacture and sale of refrigerator	Limited liability company	(iv)
Hefei Haier Air- conditioning Co., Limited	Mainland China/ Mainland China	RMB12	100	—	100	—	100	—	100	—	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Wuhan Haier. Electronics Co., Ltd.	Mainland China/ Mainland China	RMB62	60	—	60	—	60	—	60	—	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	Mainland China/ Mainland China	RMB956	99.83	—	99.83	—	99.83	—	99.83	—	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Information Plastic Development Co., Ltd.	Mainland China/ Mainland China	RMB78	100	—	100	—	100	—	100	—	Manufacture of plastic product	Limited liability company	(iv)
Dalian Haier Precision Products Co., Ltd.	Mainland China/ Mainland China	RMB48	90	—	90	—	90	—	90	—	Manufacture and sale of precise plastics	Limited liability company	(iv)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Hefei Haier Plastic Co., Ltd.	Mainland China/ Mainland China	RMB34	94.12	5.88	94.12	5.88	94.12	5.88	94.12	5.88	Manufacture and sale of plastic parts	Limited liability company	(iv)
Qingdao Haier Moulds Co., Ltd.	Mainland China/ Mainland China	RMB158	75	25	75	25	75	25	75	25	Research and manufacture of precise mould and product	Limited liability company	(iv)
Qingdao Meier Plastic Powder Co., Ltd.	Mainland China/ Mainland China	RMB12	40	60	40	60	40	60	40	60	Manufacture of plastic powder, plastic sheet and high performance coatings	Limited liability company	(iv)
Chongqing Haier Precision Plastic Co., Ltd.	Mainland China/ Mainland China	RMB65	90	10	90	10	90	10	90	10	Plastic products, sheet metal work, electronics and hardware	Limited liability company	(iv)
Chongqing Haier Intelligent Electronics Co., Ltd.	Mainland China/ Mainland China	RMB10	90	10	90	10	90	10	90	10	Manufacture and sale of electronics and automatic control system equipment	Limited liability company	(iv)
Qingdao Haier Robot Co., Ltd.	Mainland China/ Mainland China	RMB16	50	—	50	—	100	—	100	—	Research, development, manufacture and sale of robot	Limited liability company	(iv)
Qingdao Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB207	97.2	—	97.2	—	97.2	—	97.2	—	Manufacture and production of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Refrigerator (International) Co., Ltd.	Mainland China/ Mainland China	RMB260	75	—	75	—	100	—	100	—	Manufacture and production of refrigerators	Limited liability company	(iv)
Qingdao Haier Whole Set Home Appliance Service Co., Ltd.	Mainland China/ Mainland China	RMB120	98.33	—	98.33	—	98.33	—	98.33	—	Research, development and sales of health series of small home appliance	Limited liability company	(iv)
Qingdao Haier Intelligent Electronics Co., Ltd.	Mainland China/ Mainland China	RMB292	100	—	100	—	100	—	100	—	Design and development of electronics and automatic control system	Limited liability company	(iv)
Qingdao Haier Special Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB166	100	—	100	—	100	—	100	—	Manufacture and sales of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Dishwasher Co., Ltd.	Mainland China/ Mainland China	RMB180	100	—	100	—	100	—	100	—	Manufacture and production of dish washing machine and gas stove	Limited liability company	(iv)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Qingdao Haier Special Freezer Co., Ltd.	Mainland China/ Mainland China	RMB388	96.06	—	96.06	—	96.06	—	96.06	—	Research, manufacture and sales of freezer and other refrigeration products	Limited liability company	(iv)
Dalian Haier Air-conditioning Co., Ltd.	Mainland China/ Mainland China	RMB110	90	—	90	—	90	—	90	—	Manufacture and production of air-conditioners	Limited liability company	(iv)
Dalian Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB110	90	—	90	—	90	—	90	—	Manufacture and production of refrigerators	Limited liability company	(iv)
Qingdao Haier Electronic Plastic Co., Ltd.	Mainland China/ Mainland China	RMB60	80	—	80	—	80	—	80	—	Development, assembling and sales of plastics, electronics and product	Limited liability company	(iv)
Wuhan Haier Freezer Co., Ltd.	Mainland China/ Mainland China	RMB50	95	5	95	5	95	5	95	5	Research, manufacture and sales of freezer and other refrigeration products	Limited liability company	(iv)
Qingdao Haidarui Procurement Service Co., Ltd.	Mainland China/ Mainland China	RMB110	98	2	98	2	98	2	98	2	Development, purchase and sales of electrical product and components	Limited liability company	(iv)
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	Mainland China/ Mainland China	RMB330	98.91	1.09	98.91	1.09	98.91	1.09	98.91	1.09	Development and application of household appliances, communication, electronics and network engineering technology	Limited liability company	(iv)
Chongqing Haier Air-conditioning Co., Ltd	Mainland China/ Mainland China	RMB130	76.92	23.08	76.92	23.08	76.92	23.08	76.92	23.08	Manufacture and sales of air conditioners	Limited liability company	(iv)
Qingdao Haier Precision Products Co., Ltd.	Mainland China/ Mainland China	RMB10	—	70	—	70	—	70	—	70	Development and manufacture of precise plastic, metal plate, mould and electronic products for household appliances	Limited liability company	(iv)
Qingdao Haier Air Conditioning Equipment Co., Ltd.	Mainland China/ Mainland China	RMB20	—	70	—	70	—	70	—	70	Manufacture of household appliances and electronics	Limited liability company	(iv)
Dalian Free Trade Zone Haier Air-conditioning Trading Co., Ltd.	Mainland China/ Mainland China	RMB1	—	100	—	100	—	100	—	100	Domestic trade	Limited liability company	(iv)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Dalian Free Trade Zone Haier Refrigerator Trading Co., Ltd.	Mainland China/ Mainland China	RMB1	—	100	—	100	—	100	—	100	Domestic trade	Limited liability company	(iv)
Qingdao Ding Xin Electronics Technology Co., Ltd.	Mainland China/ Mainland China	RMB20	—	100	—	100	—	100	—	100	Manufacture and sale of electronic parts	Limited liability company	(iv)
Chongqing Haier Electronics Sales Co., Ltd.	Mainland China/ Mainland China	RMB10	95	5	95	5	95	5	95	5	Household appliance sales	Limited liability company	(iv)
Chongqing Haier Refrigeration Appliance Co., Ltd.	Mainland China/ Mainland China	RMB108	84.95	15.05	84.95	15.05	84.95	15.05	84.95	15.05	Manufacture and production of refrigerator	Limited liability company	(iv)
Hefei Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB49	100	—	100	—	100	—	100	—	Manufacture and production of refrigerator	Limited liability company	(iv)
Wuhan Haier Energy and Power Co., Ltd.	Mainland China/ Mainland China	RMB8	—	75	—	75	—	75	—	75	Energy service	Limited liability company	(iv)
Qingdao Haier HVAC Engineering Co., Ltd	Mainland China/ Mainland China	RMB8	—	100	—	100	—	100	—	100	Air-conditioning	Limited liability company	(iv)
Chongqing Gooddaymart Electric Appliance Sale Co., Ltd.	Mainland China/ Mainland China	RMB5	—	51	—	51	—	51	—	51	Wholesale and sales of household appliances electronics products	Limited liability company	(iv)
Qingdao Haier (Jiaozhou) Air-conditioning Co., Ltd.	Mainland China/ Mainland China	RMB119	—	100	—	100	—	100	—	100	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Air-conditioning Co., Ltd.	Mainland China/ Mainland China	RMB80	—	100	—	100	—	100	—	100	Manufacture and sales of plastic and precise sheet metal products	Limited liability company	(iv)
Haier Shareholdings (Hong Kong) Limited	Mainland China/ Mainland China	HKD28,029	100	—	100	—	100	—	100	—	Investment holding	Limited liability company	(iv)
Shenyang Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB100	100	—	100	—	100	—	100	—	Manufacture and sales of refrigerator	Limited liability company	(iv)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Foshan Haier Freezer Co., Ltd.	Mainland China/ Mainland China	RMB100	100	—	100	—	100	—	100	—	Manufacture and sales of freezer	Limited liability company	(iv)
Zhengzhou Haier Air- conditioning Co., Ltd.	Mainland China/ Mainland China	RMB100	100	—	100	—	100	—	100	—	Manufacture and sales of air conditioner	Limited liability company	(iv)
Qingdao Haidayuan Procurement Service Co., Ltd.	Mainland China/ Mainland China	RMB20	100	—	100	—	100	—	100	—	Development, purchase and sales of electrical product and components	Limited liability company	(iv)
Qingdao Haier Intelligent Technology Development Co., Ltd.	Mainland China/ Mainland China	RMB130	100	—	100	—	100	—	100	—	Development and research of household appliances	Limited liability company	(iv)
Qingdao Hai Ri High-Tech Model Co., Ltd.	Mainland China/ Mainland China	RMB7	—	100	—	100	—	100	—	100	Design, manufacture and sales of product model and mould	Limited liability company	(iv)
Qingdao Hai Gao Design and Manufacture Co., Ltd.	Mainland China/ Mainland China	RMB1	—	75	—	75	—	75	—	75	Industrial design and prototype production	Limited liability company	(iv)
Beijing Haier Guangke Digital Technology Co., Ltd.	Mainland China/ Mainland China	RMB6	—	55	—	55	—	55	—	55	Development, promotion and transfer of technology	Limited liability company	(iv)
Shanghai Haier Medical Technology Co., Ltd.	Mainland China/ Mainland China	RMB28	—	100	—	100	—	100	—	100	Wholesale and retail of medical facility	Limited liability company	(iv)
Qingdao Haier Technology Co., Ltd.	Mainland China/ Mainland China	RMB80	100	—	100	—	100	—	100	—	Development and sales of software and information product	Limited liability company	(iv)
Qingdao Haier Technology Investment Co., Ltd.	Mainland China/ Mainland China	RMB302	100	—	100	—	100	—	100	—	Entrepreneurship investment and consulting	Limited liability company	(iv)
Qingdao Casarte Smart Living Appliances Co., Ltd.	Mainland China/ Mainland China	RMB10	—	100	—	100	—	100	—	100	Development, production and sales of appliances	Limited liability company	(iv)
Qingdao Haichuangyuan Appliances Sales Co., Ltd.	Mainland China/ Mainland China	RMB10	—	100	—	100	—	100	—	100	Sales of household appliances and digital products	Limited liability company	(iv)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Haier Overseas Electric Appliance Co., Ltd.	Mainland China/ Mainland China	RMB40	100	—	100	—	100	—	100	—	Sales of household appliances, international freight forwarding	Limited liability company	(iv)
Haier Group (Dalian) Electrical Appliances Industry Co., Ltd.	Mainland China/ Mainland China	RMB5	100	—	100	—	100	—	100	—	Sales of household appliances, international freight forwarding	Limited liability company	(iv)
Qingdao Haier Central Air-conditioner Co., Ltd.	Mainland China/ Mainland China	RMB110	—	100	—	100	—	100	—	100	Production and sales of air conditioners and refrigeration equipment	Limited liability company	(iv)
Chongqing Haier Home Appliance Sales (Hefei) Co., Ltd.	Mainland China/ Mainland China	RMB5	—	100	—	100	—	100	—	100	Household appliance sales	Limited liability company	(iv)
Beijing Haier Zhongyou Netmedia Co., Ltd.	Mainland China/ Mainland China	RMB15	—	51	—	51	—	51	—	51	Radio and television programme	Limited liability company	(iv)
Qingdao Weixi Smart Technology Co., Ltd.	Mainland China/ Mainland China	RMB4	—	71.43	—	71.43	—	71.43	—	71.43	Intelligent bathroom	Limited liability company	(iv)
Haier U+smart Technology (Beijing) Co., Ltd.	Mainland China/ Mainland China	RMB143	100	—	100	—	100	—	100	—	Software development	Limited liability company	(iv)
Qingdao Haier Industry Intelligence Research Institute Co., Ltd.	Mainland China/ Mainland China	RMB34	100	—	100	—	100	—	100	—	Industrial intelligent technology	Limited liability company	(iv)
Haier (Shanghai) Appliance Co., Ltd.	Mainland China/ Mainland China	RMB5	100	—	100	—	100	—	100	—	Sales, research and development of household appliances	Limited liability company	(iv)
Hefei Haier Washing Machinery Co., Ltd.	Mainland China/ Mainland China	RMB92	—	99.95	—	99.95	—	99.5	—	99.95	Manufacture of household cleaning and sanitary electric	Limited liability company	(v)
Qingdao Economy and Technology Development Zone Haier Heater Co., Ltd.	Mainland China/ Mainland China	RMB120	—	100	—	100	—	100	—	100	Manufacture and sales of water heater	Limited liability company	(v)
Qingdao Haier Smart Kitchen Appliances Co., Ltd.	Mainland China/ Mainland China	RMB180	100	—	100	—	100	—	100	—	Smart kitchen appliances sales	Limited liability company	(iv)
Haier New Zealand Investment Holding Company Limited	New Zealand/ New Zealand	New Zealand Dollars ("NZD")477	—	100	—	100	—	100	—	100	Production and distribution of home appliances	Limited liability company	(iii)
Qingdao Gooday Lejia IOT Technology Co, Ltd.	Mainland China/ Mainland China	RMB66	—	—	—	—	—	—	75.96	—	Household appliances	Limited liability company	(v)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company								Principal activities	Type of legal status	Note
			As at 31 December						As at 30 June				
		'M	2017		2018		2019		2020				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Aqua Co., Ltd	Japan/Japan	Japanese Yen ("JPY") 90	—	100	—	100	—	100	—	100	Import of electrical appliances and materials	Limited liability company	(vi)
Candy S.p.A	Italy/Italy	Euro ("EUR") 42	—	—	—	—	—	100	—	100	Manufacture and sales of household appliances	Limited liability company	(vii)
Fisher&Paykel Appliances Limited	New Zealand	NZD246	—	100	—	100	—	100	—	100	Research, development manufacture, sale and distribution of home appliances business	Limited liability company	(iii)

Notes:

* *The English names of Mainland China companies referred to above in this note represents management's best efforts in translating the Chinese names of these companies as no English name have been registered or available.*

** *The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.*

(i) *The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by Ernst & Young, a certified public accounting firm registered in Hong Kong.*

(ii) *The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by Mazars LLP, a certified public accounting firm registered in USA.*

(iii) *The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by PricewaterhouseCoopers New Zealand, a certified public accounting firm registered in New Zealand.*

(iv) *The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with Chinese accounting standards have been audited by Hexin Certified Public Accountants LLP, registered in the Mainland China.*

(v) *The statutory financial statements for the six months ended 30 June 2020 prepared in accordance with International Financial Reporting standards have been audited by Ernst & Young, a certified public accounting firm registered in Hong Kong.*

(vi) *The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by Mazars Audit LLC, a certified public accounting firm registered in Japan.*

(vii) *The statutory financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting standards have been audited by Mazars Italia S.p.A, a certified public accounting firm registered in Italy.*

All companies comprising the Group have adopted 31 December as their financial year end.

2.1 BASIS OF PREPARATION

The Historical Financial Information has 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 IASB and the disclosure requirements of the Hong Kong Companies Ordinance.

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Application of new and amendments to IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied IASs, IFRSs, amendments and interpretations ("**(IFRIC)-Int**") issued by the IASB which are effective for the Group's annual accounting period beginning on 1 January 2020, except for IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* with effect from 1 January 2018 and IFRS 16 *Leases* with effect from 1 January 2019. The accounting policies are set out in Note 2.3 to the Historical Financial Information below.

(a) Impacts of adoption of IFRS 9 and IFRS 15 on the consolidated financial statements

The following table summarises the impacts of the adoption of IFRS 9 and IFRS 15 on the Group's consolidated statement of financial position at 1 January 2018 and shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new IFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	As at 31 December 2017	IFRS 9	IFRS 15	As at 1 January 2018
	RMB'M	RMB'M	RMB'M	RMB'M
Non-current assets				
Interests in associates	13,012	(32)	—	12,980
AFS financial assets	1,415	(1,415)	—	—
Equity investments designated at FVTOCI	—	1,409	—	1,409
Financial assets measured at FVTPL	—	7	—	7
Deferred tax assets	2,088	(59)	17	2,046
Other non-current assets	1,107	—	1	1,108
Current assets				
Inventories	22,575	—	(188)	22,387
Trade and bills receivables	26,047	139	—	26,186
Prepayments, deposits and other receivables	4,222	20	121	4,363
Contract assets	—	—	428	428
Current liabilities				
Receipt in advance	5,890	—	(5,890)	—
Contract liabilities	—	—	6,130	6,130
Other payables and accruals	14,645	—	302	14,947
Non-current liability				
Provisions	1,051	—	(73)	978
Equity				
Equity method investments reserve	(273)	41	—	(232)
Retained profits	22,421	(10)	(45)	22,366
Non-controlling interests	14,795	38	(45)	14,788

(b) Impacts of adoption of IFRS 16 on the consolidated financial statements

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

	Increase/ (decrease)
	RMB'M
Assets	
Increase in right-of-use assets	4,910
Decrease in prepaid land lease payments	(1,828)
Increase in deferred tax assets	22
Decrease in prepayments, deposits and other receivables	(39)
Increase in total assets	**3,065**
Liabilities	
Increase in lease liabilities	3,153
Decrease in trade and bill payable	(22)
Decrease in other payables and accruals	(5)
Increase in total liabilities	**3,126**
Equity	
Decrease in retained profits	**(47)**
Decrease in non-controlling interests	**(14)**

(c) IFRS 9 *Financial Instruments*

Impact on changes in accounting policies of application on IFRS 9

From 1 January 2018, the Group has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 disclosed in Note 2.3 to the Historical Financial Information.

Summary of effects arising from initial application of IFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included.

(i) Classification and measurement

	IAS 39 carrying amounts as at 31 December 2017	Reclassification	IFRS 9 carrying amounts as at 1 January 2018
	RMB'M	RMB'M	RMB'M
Financial assets measured at FVTOCI			
Listed equity investments	—	27	27
Unlisted equity investments	—	1,388	1,388
Financial assets classified as AFS financial assets under IAS 39			
Listed equity investments	27	(27)	—
Unlisted equity investments	1,388	(1,388)	—

Classification and measurement of financial assets and financial liabilities measured at amortised cost

All recognised financial assets and financial liabilities that are within the scope of IFRS 9 are subsequently measured at amortised cost.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected credit loss rates for the trade receivables on the same basis. Based on assessment by the directors, the directors consider the ECL for trade receivables is insignificant at 1 January 2018.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets measured at amortised cost, including financial assets measured at amortised cost, other receivables and bank balances and cash, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

For other receivables, the directors make periodic collective as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience with available reasonable and supportive forward-looking information.

Except for the above, the adoption of IFRS 9 did not have any significant impact on the Group's financial position and performance as compared with IAS 39.

(d) IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15, prior period comparative figures have not been restated. The Company recognises revenue mainly from the following major sources which arise from contracts with customers:

- manufacture and sales of refrigerators/freezers
- manufacture and sales of kitchen appliances
- manufacture and sales of air-conditioners
- manufacture and sales of laundry appliances
- manufacture and sales of water appliances

Information about the Company's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Note 2.3 to the Historical Financial Information.

IFRS 15 was generally adopted without restating any other comparative information. The adoption of IFRS 15 has not had any significant impact on the amounts reported in the financial information and/or disclosures set out in the Historical Financial Information at the earliest period presented.

The Directors considered the adoption of IFRS 15 would not result in significant impact on the Group's financial position and performance as compared with IAS 18.

(e) IFRS 16 Leases

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of prepaid land lease, land and building, machinery and equipment, Motor vehicles and furniture, fixture and equipment were determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the interest rate implicit in the lease or incremental borrowing rate of the relevant group entities at the date of initial application.

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

	RMB'M
Operating lease commitments as at 31 December 2018	3,903
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(356)
	3,547
Discounted operating lease commitments and lease liabilities as at 1 January 2019	**3,153**

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'M
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		3,092
Reclassified from prepaid land lease payments as at 1 January 2019	(a)	1,868
Adjustments on rental deposits at 1 January 2019	(b)	(1)
Adjustments on deferred tax assets at 1 January 2019		(22)
Less: Accrued lease liabilities relating to properties at 1 January 2019	(c)	(27)
		4,910

Notes:

(a) *Upfront payments for leasehold lands in the Mainland China for own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB40 million and RMB1,828 million respectively were reclassified to right-of-use assets.*

(b) *Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied under other receivables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB1 million was adjusted to refundable rental deposits paid and right-of-use assets.*

(c) *These relate to accrued lease liabilities of several operating leases in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities under trade and bill payable and other payables and accruals as at 1 January 2019 was adjusted to right-of-use assets at transition.*

Effective from 1 January 2019, leasehold lands which were classified as prepaid land lease payments are measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses.

The recognised right-of-use assets related to the following types of assets:

	RMB'M
Prepaid land lease payments	1,868
Land and building	2,803
Motor vehicles	2
Furniture, fixtures and equipment	237
	4,910

The following table summarises the impact of transition to IFRS 16 on retained profits and non-controlling interests at 1 January 2019:

	As at 31 December 2018	Reclassification	Recognition of leases	As at 1 January 2019
	RMB'M	RMB'M	RMB'M	RMB'M
Equity				
Retained profits	26,958	—	(47)	26,911
Non-controlling interests	16,066	—	(14)	16,052

The adoption of IFRS 16 did not have any significant impact on the financial performance during the Track Record Period and the financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020 as compared with IAS 17.

New and amendments to IFRSs in issue but not yet effective

The Group has not applied the following new and amendments to IFRSs, that have been issued but are not yet effective, in the Historical Financial Information

Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2018 - 2020[2]
IFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use[1]

Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]

[1] *Effective for annual periods beginning on or after 1 January 2022.*

[2] *Effective for annual periods beginning on or after 1 January 2023.*

[3] *No mandatory effective date yet determined but available for adoption.*

[4] *Business Combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022.*

[5] *Effective for annual periods beginning on or after 1 June 2020.*

The directors of the Company anticipate that the application of all the new and amendments to IFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with IFRS issued by the IASB. In addition, the Historical Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving businesses under common control

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the Historical Financial Information is presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

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 Group, 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 approximately RMB1,074 million 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 Group 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 Company acquired 100% equity interest in Qingdao Gooday Health Industry Development Co., Ltd ("**Gooday Health**") at a cash consideration of RMB34 million (the "**Acquisition**"), which has been fully paid during the year ended 31 December 2019. Gooday Health was an indirect wholly-owned subsidiary of Haier Group 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 Group both before and after the completion of the Acquisition, the Acquisition was accounted for using the principles of merger accounting.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to relevant assets at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the Historical Financial Information using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Historical Financial Information of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal / partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's Historical Financial Information only to the extent of interests in the associate or joint venture that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of IFRS 9 and investment properties which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue recognition (upon application of IFRS 15 in accordance with transition in Note 2.2)

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

(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.

(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.

(ii) Sales rebates

Retrospective sales rebates may be provided to certain customers once the value 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- threshold and the expected value method for contracts with more than one threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the 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) 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.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Notwithstanding the above criteria, the Group shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

- the subsequent sale or usage occurs; and
- the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

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.

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to by 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.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to application of IFRS 15 on 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2.2)

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.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2.2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and buildings, machinery and equipment, motor vehicles and furniture, fixtures 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 lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight- line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of- use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment properties.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to application of IFRS 16 on 1 January 2019)

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in Note 2.2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the Historical Financial Information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non- monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange differences on translation of financial statements reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

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.

Share-based payments

Equity-settled share-based payment transactions

Shares/Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to capital reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will continue to be held in share-based payments reserve/will be transferred to retained profits.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to capital reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right- of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than freehold lands and properties under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than freehold land and properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% to 19%
Leasehold improvements	10% to 50%
Machinery and equipment	5% to 50%
Furniture, fixtures and equipment	5% to 33%
Motor vehicles	9% to 35%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation (including properties under construction for such purposes).

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates used for this purpose from 3% to 5%.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective from 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of IFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses/ revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The following useful lives are used in the calculation of amortisation as follows:

Proprietary technology	10 years
Patents and licences	40 years
Trademarks	Indefinite
Software & Others	not exceeding than 10 years

Proprietary technology

Accordance with the contractual agreements and the Company historical experience, proprietary technology with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Patents and licences

Accordance with the contractual agreements and the Company historical experience, purchase patents and licences with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 40 years.

Trademarks

The trademark has different legal life at different jurisdiction, and can renewable at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

Software & Others

Accordance with the contractual agreements and the Company historical experience, Software & Others are amortised on a straight-line basis over an estimate useful life of not exceeding than 10 years. The useful of the software is estimated based on the expected usage of the software and its authorised periods for use.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of certain products are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest, rental and dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/ will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other gains or losses" line item in profit or loss.

(iii) Financial assets measured at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other gains or losses" line item.

Impairment of financial assets

The Group performs impairment assessment under ECL model on financial assets (including trade and bills receivables, other receivables and contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings (should tailor to reporting entity's specific facts and circumstances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the afore going, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for investments in debt instruments that are measured at FVTOCI, financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities measured at amortised cost

Financial liabilities including borrowings, convertible and exchangeable bonds, trade payables, others payables and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Convertible and exchangeable bonds

The component parts of the convertible loan notes are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Put option liabilities

A put option liability is the obligation for the Group or Group's subsidiaries to purchase certain subsidiaries equity instruments for cash or another financial asset gives rise to a financial liability carried at the present value of the redemption amount as at the end of the reporting period. The Group recognises the non-controlling interests that are granted put options, including the share of profits and losses, up to the end of the reporting period or the exercise date of the put options, whichever is earlier. Then, at the end of each reporting period, the Group de-recognises the non-controlling interests and recognises the put option financial liability with the difference recognised in equity as if the non-controlling interests are acquired at the end of reporting period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains or losses' line item.

Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in the translation reserve are reclassified to profit or loss on disposal of the foreign operation.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For fair value hedge of debt instruments at amortised cost or debt instruments at FVTOCI, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins. In the case of debt instruments at FVTOCI, amortisation applies in the same manner but to the extent of the cumulative hedging gain or loss previously recognised in profit or loss.

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Financial instruments (before application of IFRS 9 on 1 January 2018)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at FVTPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

(i) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at FVTPL are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

Financial assets designated upon initial recognition as at FVTPL are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at FVTPL. These 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 FVTPL category.

(ii) Loans and receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment is recognised in the statement of profit or loss in "other gains or losses".

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments in listed equity investment are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of 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 assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, interest-bearing borrowings, 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 interest-bearing borrowings, net of directly attributable transaction costs.

Subsequent measurement

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

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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.

Financial liabilities designated upon initial recognition as at FVTPL are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

(ii) Interest-bearing borrowings

After initial recognition, interest-bearing 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.

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.

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.

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 Historical Financial Information.

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.

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;

(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.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A related party transaction is a transfer of resources, services or obligations between reporting entity and a related party, regardless of whether a price is charged.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in Note 2.3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition from sales of goods at a point in time (upon applications of IFRS15 in accordance with transition in Note 2.2)

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

Control over Haier Electronics Group Co., Ltd.

Note 39 describes that Haier Electronics Group Co., Ltd. is a subsidiary of the Group although the Group has only 43.69%, 44.96%, 45.87% and 45.68% of ownership interest in Haier Electronics Group Co., Ltd. as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Haier Electronics Group Co., Ltd. is listed on the Main Board of the Stock Exchange of Hong Kong Limited. The remaining 56.31%, 55.04%, 54.13% and 54.32% voting rights as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively were held by a lot in dividend who will not group in voting. Details of Haier Electronics Group Co., Ltd. are set out in Note 39.

The directors of the Company assessed whether or not the Group has control over Haier Electronics Group Co., Ltd. based on whether the Group has the practical ability to direct the relevant activities of Haier Electronics Group Co., Ltd. unilaterally. In making the assessment, the directors of the Company considered the Group's majority of voting rights in Haier Electronics Group Co., Ltd., concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Haier Electronics Group Co., Ltd. and therefore the Group has control over Haier Electronics Group Co., Ltd..

Control over Qingdao Haier Robot Co., Ltd.

Qingdao Haier Robot Co., Ltd. is a subsidiary of the Group although the Group has only 50% ownership interest and voting rights in Qingdao Haier Robot Co., Ltd. The Group has the 50% ownership since June 2011 and the remaining 50% of shareholdings are owned by one shareholder that is unrelated to the Group.

The directors of the Company assessed whether or not the Group has control over Qingdao Haier Robot Co., Ltd. based on whether the Group has the practical ability to direct the relevant activities of Qingdao Haier Robot Co., Ltd. unilaterally. In making the judgment, the directors of the Company considered the Group able to control the majority of the board appointment. After assessment, the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Haier Robot Co., Ltd. and therefore the Group has control over Haier Robot Co., Ltd..

Significant influence over Bank of Qingdao Co., Ltd.

Note 20 describes that Bank of Qingdao Co., Ltd. is an associate of the Group, although the Group only owns 9.61%, 9.61%, 8.65%, and 8.65% of ownership interest in Bank of Qingdao Co., Ltd. as at 31 December 2017, 2018 and 2019 and 30 June 2020. The Group has significant influence over Bank of Qingdao Co., Ltd. by virtue of the contractual right to appoint two out of the six directors to the board of directors of that company. Details of Bank of Qingdao Co., Ltd. are set out in Note 20.

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.

Key sources of estimation uncertainty

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

Deferred tax assets

Deferred tax assets as at 31 December 2017, 2018, 2019 and 30 June 2020 were approximately RMB2,088 million, RMB1,822 million, RMB1,579 million and RMB1,432 million respectively, in relation to unused tax losses for certain operating subsidiaries has been recognised in the Group's consolidated statement of financial position. No deferred tax assets have been recognised on the tax losses for non-operating subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Fair value measurement of financial instruments

The fair value of the unlisted equity investments as at 31 December 2017, 2018, 2019 and 30 June 2020 were approximately RMBNil, RMB1,380 million, RMB1,374 million and RMB1,251 million, are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See Note 21 for further disclosures.

Estimation uncertainty

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on days past due as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 26.

Estimated impairment of property, plant and equipment, right-of-use assets and other intangible assets

Property, plant and equipment, right-of-use assets and other intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

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. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amount of the property, plant and equipment were approximately RMB18,983 million, RMB21,441 million, RMB23,919 million and RMB24,684 million respectively.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. No impairment losses were recognised during the Track Record Period. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of goodwill are approximately RMB20,428 million, RMB21,239 million, RMB23,352 million and RMB24,141 million, respectively. Further details are given in Note 18 to the Historical Financial Information.

Estimated impairment of interests in associates

Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associate and the proceeds from the ultimate disposal of the investment taking into account of factors, including discount rate, dividend payout rate etc. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Impairment losses of interests in associates were recognised for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020 was approximately RMB21 million, RMB6 million, RMB56 million, RMBNil (unaudited) and RMBNil respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the net carrying amount of the investment in associates are approximately RMB13,012 million, RMB13,994 million, RMB20,461 million and RMB20,935 million respectively. Further details are given in Note 20 to the Historical Financial Information.

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. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the net carrying amounts of inventories (after impairment provision) were approximately RMB22,575 million, RMB22,411 million, RMB28,229 million and RMB25,282 million respectively.

Product warranty provisions

Product warranty provisions are made with reference to the retail 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. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the product warranties amounted to approximately RMB2,655 million, RMB2,827 million, RMB3,058 million and RMB2,874 million respectively. Further details are included in Note 34 to the Historical Financial Information.

Determining the lease term

As explained in Note 2.2 and 2.3, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying assets to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4. OPERATING SEGMENT INFORMATION

Information reported to the directors, being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

For segment reporting, these individual operating segments have been aggregated into a single reportable segment. For management purposes, the Group is organised into business units based on their products and services.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

(a) Smart Home Business in China

(i) Household Food Solutions

- the domestic refrigerator business segment manufactures and sells refrigerator within Mainland China ("**Refrigerators/Freezers**");
- the domestic kitchen appliances business segment manufactures and sells kitchen appliances within Mainland China ("**Kitchen Appliances**");

(ii) Household Air Solutions

- the domestic air conditioner business segment manufactures and sells air conditioner within Mainland China ("**Air-conditioners**");

(iii) Household Clothing Solutions

- the domestic washing machines business segments manufactures and sells washing machines within Mainland China ("**Laundry Appliances**");

(iv) Household Water Solutions

- the domestic water appliances business segments manufactures and sells water appliances within Mainland China ("**Water Appliances**");

(b) Smart Home Business in Overseas

- the overseas home appliances and smart home business segments manufacture and sells home appliances and smart home appliances worldwide other than Mainland China ("**Smart Home Business Overseas**"); and

(c) Other Business

- the others comprise business less than quantitative thresholds ("**Other Business**"). Such Other Business includes, among other things, parts and components, small home appliances and distribution services. The parts and components business primarily involves procurement, manufacturing and sales of ancillary parts and components for home appliances, and manufacturing and sales of moulds. Small home appliances business primarily involves design, outsourced manufacturing and sales of various small home appliances of our brands, to supplement our smart home solutions business. Distribution services business primarily involves distribution of televisions, consumer electronic products and others for Haier Group and other third parties, leveraging the Group's extensive sales network.

Upon the completion of the Asset Swap as detailed in Note 2.3 to the Historical Financial Information, the Bingji Group is regarded as an associate, an operating segment regarding the logistics business was classified as discontinued. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are described in more detail in Note 11.

(a) All assets are allocated to operating segments other than unallocated corporate assets (mainly comprising certain of goodwill, interests in associates and cash and cash equivalents); and

(b) All liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising of interests-bearing borrowings, convertible and exchangeable bonds).

Inter-segment sales represent the goods and services provided between segments. Segment result has been derived after elimination of inter-segment cost changed between segments.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

For the year ended 31 December 2017

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	26,416	1,940	21,555	18,421	7,932	69,914	7,987	154,165
Inter-segment revenue	2,010	149	2,623	1,472	46	773	51,486	58,559
Total	28,426	2,089	24,178	19,893	7,978	70,687	59,473	212,724
Reconciliation:								
Inter-segment eliminations								(58,559)
Total								**154,165**
Segments results	1,692	35	968	1,816	864	2,858	610	8,843
Reconciliation:								
Elimination of inter-segment results								(48)
								8,795
Corporate and other unallocated income and gains or losses								1,847
Corporate and other unallocated expenses								(223)
Finance costs								(1,396)
Share of profits and losses of associates								1,189
Profit before taxation								**10,212**

For the year ended 31 December 2018

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	29,638	2,271	23,420	20,853	8,812	74,896	17,704	177,594
Inter-segment revenue	1,976	193	3,224	1,655	43	528	60,221	67,840
Total	31,614	2,464	26,644	22,508	8,855	75,424	77,925	245,434
Reconciliation:								
Inter-segment eliminations								(67,840)
Total								**177,594**
Segments results	2,090	19	1,141	1,971	1,029	3,077	376	9,703
Reconciliation:								
Elimination of inter-segment results								(49)
								9,654
Corporate and other unallocated income and gains or losses								2,138
Corporate and other unallocated expenses								(327)
Finance costs								(1,464)
Share of profits and losses of associates								1,325
Profit before taxation								**11,326**

For the year ended 31 December 2019

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	30,424	2,149	20,366	22,113	9,521	92,392	21,041	198,006
Inter-segment revenue	2,323	286	3,126	2,331	75	521	62,626	71,288
Total	32,747	2,435	23,492	24,444	9,596	92,913	83,667	269,294
Reconciliation:								
Inter-segment eliminations								(71,288)
Total								**198,006**
Segments results	2,109	18	12	2,119	1,117	3,155	47	8,577
Reconciliation:								
Elimination of inter-segment results								44
								8,621
Corporate and other unallocated income and gains or losses								2,544
Corporate and other unallocated expenses								(236)
Finance costs								(1,732)
Share of profits and losses of associates								1,409
Profit before taxation								**10,606**

For the six months ended 30 June 2019 (unaudited)

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	14,902	1,169	11,646	9,748	4,656	45,689	9,464	97,274
Inter-segment revenue	1,110	141	2,164	1,043	38	171	29,445	34,112
Total	16,012	1,310	13,810	10,791	4,694	45,860	38,909	131,386
Reconciliation:								
Inter-segment eliminations								(34,112)
Total								**97,274**
Segments results	1,991	110	972	982	549	1,631	47	6,282
Reconciliation:								
Elimination of inter-segment results								30
								6,312
Corporate and other unallocated income and gains or losses								1,211
Corporate and other unallocated expenses								(171)
Finance costs								(851)
Share of profits and losses of associates								543
Profit before taxation								**7,044**

For the six months ended 30 June 2020

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	13,240	1,137	10,819	8,958	4,405	45,890	11,274	95,723
Inter-segment revenue	1,443	130	2,574	1,455	76	223	30,494	36,395
Total	14,683	1,267	13,393	10,413	4,481	46,113	41,768	132,118
Reconciliation:								
Inter-segment eliminations								(36,395)
Total								**95,723**
Segments results	1,455	10	—	583	530	1,507	(233)	3,852
Reconciliation:								
Elimination of inter-segment results								2
								3,854
Corporate and other unallocated income and gains or losses								557
Corporate and other unallocated expenses								(108)
Finance costs								(709)
Share of profits and losses of associates								679
Profit before taxation								**4,273**

As at 31 December 2017

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	4,594	785	11,139	7,126	2,083	35,655	40,419	101,801
Reconciliation:								
Elimination of segment assets								(21,809)
Goodwill								20,428
Interests in associates								13,012
AFS financial assets								1,415
Deferred tax assets								2,088
Financial assets measured at amortised cost								2,007
Derivative financial instruments								103
Other receivables								2,368
Other non-current assets								289
Pledged deposits								1,279
Cash and cash equivalents								35,292
Assets and disposal group held for sale								28
Total assets								**158,301**
Segment liabilities	18,312	927	4,970	5,947	3,684	15,247	39,252	88,339
Reconciliation:								
Elimination of segment liabilities								(21,408)
Tax payable								1,296
Other payables								863
Derivative financial instruments								249
Interest-bearing borrowings								33,064
Deferred tax liabilities								344
Convertible and exchangeable bonds								6,211
Other non-current liabilities								31
Put option liabilities								917
Total liabilities								**109,906**

As at 31 December 2018

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	4,977	1,711	14,369	8,221	2,752	33,831	47,424	113,285
Reconciliation:								
Elimination of segment assets								(29,693)
Goodwill								21,239
Interests in associates								13,994
Equity investments designated at FVTOCI								1,400
Deferred tax assets								1,822
Financial assets measured at FVTPL								1,776
Financial assets measured at amortised cost								2,838
Derivative financial instruments								97
Pledged deposits								1,810
Cash and cash equivalents								36,561
Assets and disposal group held for sale								144
Other receivables								2,246
Other non-current financial assets								573
Total assets								**168,092**
Segment liabilities	23,184	1,314	7,379	5,592	3,316	16,366	45,970	103,121
Reconciliation:								
Elimination of segment liabilities								(29,415)
Tax payable								1,187
Other payables								829
Derivative financial instruments								36
Financial liabilities measured at FVTPL								219
Interest-bearing borrowings								24,855
Deferred tax liabilities								405
Convertible and exchangeable bonds								9,192
Liabilities directly associated with assets classified as held for sale								32
Other non-current liabilities								31
Put option liabilities								1,792
Total liabilities								**112,284**

As at 31 December 2019

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	10,183	1,601	16,081	9,675	3,322	45,754	48,932	135,548
Reconciliation:								
Elimination of segment assets								(38,980)
Goodwill								23,352
Interests in associates								20,461
Equity investments designated at FVTOCI								1,396
Deferred tax assets								1,579
Financial assets measured at FVTPL								308
Financial assets measured at amortised cost								3,981
Derivative financial instruments								19
Pledged deposits								1,211
Other deposits with limited use								5
Cash and cash equivalents								34,963
Other receivables								2,988
Assets and disposal group held for sale								21
Other non-current financial assets								602
Total assets								**187,454**
Segment liabilities	30,598	1,468	8,590	7,447	4,135	23,786	48,312	124,336
Reconciliation:								
Elimination of segment liabilities								(39,098)
Tax payable								1,278
Other payable								892
Derivative financial instruments								99
Financial liabilities measured at FVTPL								43
Interest-bearing borrowings								26,685
Deferred tax liabilities								1,154
Convertible and exchangeable bonds								7,005
Other non-current liabilities								15
Put option liabilities								55
Total liabilities								**122,464**

As at 30 June 2020

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-Conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	13,026	1,537	16,153	9,644	3,256	51,145	47,257	142,018
Reconciliation:								
Elimination of segment assets								(42,339)
Goodwill								24,141
Interests in associates								20,935
Equity investments designated at FVTOCI								1,270
Deferred tax assets								1,432
Financial assets measured at FVTPL								2,400
Financial assets measured at amortised cost								890
Derivative financial instruments								66
Pledged deposits								1,005
Other deposits with limited use								86
Cash and cash equivalents								43,022
Other receivables								2,705
Assets and disposal group held for sale								21
Other non-current financial assets								391
Total assets								**198,043**
Segment liabilities	26,962	1,368	9,010	6,137	3,624	26,318	49,035	122,454
Reconciliation:								
Elimination of segment liabilities								(42,309)
Tax payable								999
Other payable								4,217
Derivative financial instruments								164
Financial liabilities measured at FVTPL								18
Interest-bearing borrowings								37,470
Deferred tax liabilities								1,213
Convertible and exchangeable bonds								7,232
Other non-current liabilities								22
Put option liabilities								55
Total liabilities								**131,535**

For the year ended 31 December 2017

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	1,354	99	1,105	548	451	818	—	4,375
Provision for obsolete and slow-moving inventories, net	76	7	135	71	17	134	112	552
Impairment/(reversal) of trade and bills receivable, net	8	2	(2)	—	—	29	27	64
Impairment of prepayments, deposits and other receivables and other assets, net	21	—	—	—	—	3	29	53
Loss/(gain) on disposal of non-current assets, net	4	1	4	(4)	(2)	80	(6)	77
Depreciation and amortisation	314	11	236	116	77	2,026	192	2,972

For the year ended 31 December 2018

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	1,153	84	940	596	522	906	—	4,201
Provision for obsolete and slow-moving inventories, net	72	15	106	86	26	84	167	556
Impairment/(reversal) of trade and bills receivable, net	5	(1)	6	8	(3)	41	24	80
Impairment of prepayments, deposits and other receivables and other assets, net	63	4	53	—	—	36	70	226
(Gain)/loss on disposal of non-current assets, net	(84)	3	2	(2)	(1)	30	—	(52)
Depreciation and amortisation	314	14	247	129	88	2,017	210	3,019

For the year ended 31 December 2019

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	1,266	93	1,033	755	584	1,347	—	5,078
Provision for obsolete and slow-moving inventories, net	65	13	94	104	18	65	217	576
(Reversal)/impairment of trade and bills receivable, net	(9)	3	15	(3)	2	87	36	131
Impairment of prepayments, deposits and other receivables and other assets, net	133	6	64	—	—	20	81	304
Loss/(gain) on disposal of non-current assets, net	15	—	35	(487)	—	38	—	(399)
Depreciation and amortisation	350	39	308	176	98	3,053	347	4,371

For the six months ended 30 June 2019 (unaudited)

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	413	32	326	334	223	496	—	1,824
(Reversal of)/provision for obsolete and slow-moving inventories, net	73	3	13	68	14	(29)	108	250
Impairment/(reversal) of trade and bills receivable, net	—	1	—	3	1	88	(141)	(48)
Impairment of prepayments, deposits and other receivables and other assets, net	—	—	—	—	—	2	8	10
(Gain)/loss on disposal of non-current assets, net	(4)	—	—	(3)	(1)	14	(3)	3
Depreciation and amortisation	163	11	103	77	48	1,347	155	1,904

For the six months ended 30 June 2020

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	521	37	349	341	281	446	—	1,975
Provision for obsolete and slow-moving inventories, net	33	—	5	76	18	81	199	412
Impairment of trade and bills receivable, net	4	—	23	—	2	65	7	101
Impairment of prepayments, deposits and other receivables and other assets, net	132	8	18	40	—	2	5	205
(Gain)/loss on disposal of non-current assets, net	(2)	—	(2)	—	4	(22)	11	(11)
Depreciation and amortisation	205	43	154	176	59	1,655	230	2,522

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Mainland China	82,715	100,394	103,887	50,561	48,725
Other country/regions	71,450	77,200	94,119	46,713	46,998
	154,165	**177,594**	**198,006**	**97,274**	**95,723**

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

The revenue related to sales to overseas are subject to relevant tax at corresponding jurisdictions, if any.

(b) Non-current assets

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Mainland China	12,241	15,357	14,237	15,144
Other country/regions	17,509	18,494	25,566	25,365
	29,750	33,851	39,803	40,509
Interests in associates	13,012	13,994	20,461	20,935
Goodwill	20,428	21,239	23,352	24,141
AFS financial assets	1,415	—	—	—

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	—	1,400	1,396	1,270
Financial assets measured at FVTPL	—	327	295	73
Deferred tax assets	2,088	1,822	1,579	1,432
	66,693	**72,633**	**86,886**	**88,360**

The non-current asset information above is based on the locations of the assets and excludes interests in associates, goodwill, AFS financial assets, equity investments designated at FVTOCI, financial assets measured at FVTPL and deferred tax assets.

Information about major customers

No single customer of the Group contributed 10% or more to the total revenue of the Group during the Track Record Period.

5. REVENUE, OTHER GAINS OR LOSSES

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

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Sale of goods	153,915	177,325	197,746	97,147	95,536
Rendering of services	250	269	260	127	187
	154,165	**177,594**	**198,006**	**97,274**	**95,723**

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Sale of goods				
— Point in time	177,325	197,746	97,147	95,536
Rendering service				
— Point in time	121	77	45	58
— Over time	148	183	82	129
	177,594	**198,006**	**97,274**	**95,723**

The Group has no revenue contract that has an original expected duration more than one year, thus management applied practical expedient under IFRS 15 and are not disclosing the aggregate amount of the transaction price allocated to the performance obligation that are unsatisfied or partially satisfied as of the end of the reporting period.

Information about the Group's performance obligations under IFRS 15 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 or at point in time as services are rendered or when the customer obtains control of the distinct services and payment is generally due within 30 to 90 days from customers. Service contracts are for periods of one year or less, or are billed based on the time incurred.

An analysis of other gains or losses from continuing operation is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Treasury and investment income:					
Interest income from					
Bank	309	449	525	243	212
Wealth management products	43	69	130	61	48
Other	15	27	22	8	8
Cash discount income	179	171	162	85	66
Dividend income from					
AFS financial assets	41	—	—	—	—
Equity investments designated at FVTOCI	—	105	39	18	15
	587	821	878	415	349
Compensation received from					
Suppliers	329	356	279	252	18
Controlling shareholder ("**Haier Group**")	32	2	—	—	—
Legal settlement	171	—	—	—	—
Gain/(loss) on disposal of					
Non-current assets, net	(77)	52	399	3	(11)
AFS financial assets, net	1	—	—	—	—
Equity investments designated at FVTOCI	—	—	2	—	—
Financial assets/liabilities measured at FVTPL, net	49	129	36	99	15
Subsidiaries	129	178	(4)	1	—
Government grants (Note (a))	902	899	1,256	448	525
Rental income from investment properties (Note (b))	21	12	13	5	2
Net fair value gain/(loss) on financial assets/liabilities at FVTPL	614	(153)	72	57	(31)
Net foreign exchange (losses)/gains	(589)	2	276	114	(217)
Sundry income	59	91	117	10	38
	2,228	**2,389**	**3,324**	**1,404**	**688**

Notes:

(a) Various government grants have been received 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.

(b) The rental income from investment properties less direct outgoings for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020 amounted to approximately RMB13 million, RMB9 million, RMB5 million, RMB5 million (unaudited) and RMB2 million respectively.

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax from continuing operations has been arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'M	**RMB'M**	**RMB'M**	**RMB'M (unaudited)**	**RMB'M**
Cost of inventories sold	103,327	124,729	138,666	68,661	68,982
Provision for obsolete and slow-moving inventories, net (Note(a))	552	556	576	250	412
Cost of services	122	130	151	63	102
	104,001	**125,415**	**139,393**	**68,974**	**69,496**
Depreciation of property, plant and equipment	2,643	2,589	2,998	1,446	1,680
Depreciation of investment properties	2	2	2	1	1
Depreciation of right-of-use assets	—	—	898	397	365
Amortisation of prepaid land lease payments	44	40	—	—	—
Amortisation of other intangible assets	431	515	752	346	466
Amortisation of other non-current assets	9	11	13	6	10
Discontinued operation impact on depreciation and amortisation	(157)	(138)	(292)	(292)	—
	2,972	**3,019**	**4,371**	**1,904**	**2,522**
Employee benefit expense: (including directors, chief executive and supervisors' remuneration — Note 8):					
Salaries, bonuses, allowances and benefits in kind	14,656	17,709	20,157	9,926	9,547
Pension scheme contributions	1,789	1,376	1,882	863	543
Equity-settled Restricted Share Award Scheme expense	395	386	477	143	179
	16,840	**19,471**	**22,516**	**10,932**	**10,269**

Profit before tax from continuing operations has been arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Impairment/(reversal) of trade and bills receivables, net (Note(b))	64	80	131	(48)	101
(Reversal)/impairment of prepayments, deposits and other receivables and long term prepayments, net (Note(b))	(7)	188	233	10	205
Impairment of AFS financial assets (Note(b))	27	—	—	—	—
Impairment of property, plant and equipment (Note(b))	4	32	11	—	—
Impairment of interests in associates (Note(b))	21	6	56	—	—
Impairment of other intangible assets (Note(b))	10	—	—	—	—
Impairment of contract assets (Note(b))	—	—	4	—	—
	119	**306**	**435**	**(38)**	**306**
Research and development costs	4,510	5,104	6,221	2,751	2,940
Auditor's remuneration	10	10	10	—	—
Minimum lease payments under operating leases	641	871	—	—	—
Expenses relating to short-term leases and low value leases	—	—	356	158	132
Variable lease payments not included in the measurement of lease liabilities	—	—	93	60	64
Product warranty provisions	4,375	4,201	5,078	1,824	1,975
Net foreign exchange losses/(gains)	589	(2)	(276)	(114)	217
Loss/(gain) on disposal/write-off of non-current assets, net	77	(52)	(399)	(3)	11

Notes:

(a) *The net provision for obsolete and slow-moving inventories for the year/period is included in "Cost of sales" in the consolidated statement of profit or loss.*

(b) *Included in "Administrative expenses" in the consolidated statement of profit or loss.*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Interest on borrowings	1,208	1,081	1,078	589	461
Interest on convertible and exchangeable bonds	12	168	274	134	89
Interest on finance leases	1	—	—	—	—
Interest on lease liabilities	—	—	98	47	62
Other finance costs	175	215	282	81	97
	1,396	**1,464**	**1,732**	**851**	**709**

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year/period, disclosed pursuant to 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:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fees	200	200	351	175	175
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	3,202	3,202	4,419	2,382	2,356
Equity-settled Restricted Share Award Scheme expense	15,335	38,420	41,415	41,415	—
Pension scheme contributions	142	150	207	99	89
	18,679	41,772	46,041	43,896	2,445
	18,879	**41,972**	**46,392**	**44,071**	**2,620**

Note: Value are rounded to the nearest thousand (RMB'000).

(a) Independent non-executive directors

The remuneration of independent non-executive directors during the Track Record Period is as follows:

		Year ended 31 December 2017				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WU Cheng	(i)	—	200	—	—	200
DAI Deming		—	200	—	—	200
SHI Tiantao	(ii)	—	200	—	—	200
		—	**600**	**—**	**—**	**600**

		Year ended 31 December 2018				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WU Cheng	(i)	—	200	—	—	200
DAI Deming		—	200	—	—	200
SHI Tiantao	(ii)	—	200	—	—	200
		—	**600**	**—**	**—**	**600**

		Year ended 31 December 2019				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WU Cheng	(i)	—	125	—	—	125
DAI Deming		—	200	—	—	200
SHI Tiantao	(ii)	—	200	—	—	200
CHIEN Da-chun	(iii)	—	75	—	—	75
		—	**600**	—	—	**600**

		Six months ended 30 June 2019 (unaudited)				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WU Cheng	(i)	—	125	—	—	125
DAI Deming		—	125	—	—	125
SHI Tiantao	(ii)	—	125	—	—	125
CHIEN Da-chun	(iii)	—	13	—	—	13
		—	**388**	—	—	**388**

		Six months ended 30 June 2020				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
DAI Deming		—	125	—	—	125
SHI Tiantao	(ii)	—	125	—	—	125
CHIEN Da-chun	(iii)	—	125	—	—	125
WONG Hak Kun	(iv)	—	13	—	—	13
		—	**388**	—	—	**388**

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

The remuneration of executive directors, non-executive directors and the chief executive during the Track Record Period are as follows:

		Year ended 31 December 2017				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
LIANG Haishan (chief executive)		200	1,700	8,259	82	10,241
Non-executive directors:						
PENG Jianfeng	(vi)	—	200	—	—	200
ZHOU Hongbo	(vii)	—	200	—	—	200
LIU Haifeng David	(viii)	—	—	—	—	—
TAN Lixia		—	142	6,607	—	6,749
WU Changqi		—	200	—	—	200
		200	**2,442**	**14,866**	**82**	**17,590**

		Year ended 31 December 2018				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
LIANG Haishan (chief executive)		200	1,700	20,689	89	22,678
Non-executive directors:						
PENG Jianfeng	(vi)	—	200	—	—	200
ZHOU Hongbo	(vii)	—	200	—	—	200
LIU Haifeng David	(viii)	—	—	—	—	—
TAN Lixia		—	142	16,552	—	16,694
WU Changqi		—	200	—	—	200
		200	**2,442**	**37,241**	**89**	**39,972**

	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		Year ended 31 December 2019				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
LIANG Haishan		200	1,700	21,277	88	23,265
LI Huagang (chief executive)	(v)	151	1,275	1,956	59	3,441
Non-executive directors:						
PENG Jianfeng	(vi)	—	125	—	—	125
ZHOU Hongbo	(vii)	—	125	—	—	125
LIU Haifeng David	(viii)	—	—	—	—	—
TAN Lixia		—	34	17,022	—	17,056
WU Changqi		—	200	—	—	200
LIN Sui	(ix)	—	75	—	—	75
YAN, Andrew Y	(x)	—	75	—	—	75
		351	**3,609**	**40,255**	**147**	**44,362**

	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		Six months ended 30 June 2019 (unaudited)				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
LIANG Haishan		100	850	21,277	44	22,271
LI Huagang (chief executive)	(v)	75	638	1,956	28	2,697
Non-executive directors:						
PENG Jianfeng	(vi)	—	125	—	—	125
ZHOU Hongbo	(vii)	—	125	—	—	125
LIU Haifeng David	(viii)	—	—	—	—	—
TAN Lixia		—	—	17,022	—	17,022
WU Changqi		—	125	—	—	125
LIN Sui	(ix)	—	13	—	—	13
YAN, Andrew Y	(x)	—	13	—	—	13
		175	**1,889**	**40,255**	**72**	**42,391**

		Six months ended 30 June 2020				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
LIANG Haishan		100	850	—	49	999
LI Huagang (chief executive)	(v)	75	638	—	27	740
Non-executive directors:						
TAN Lixia		—	—	—	—	—
WU Changqi		—	125	—	—	125
LIN Sui	(ix)	—	125	—	—	125
YAN, Andrew Y	(x)	—	125	—	—	125
		175	**1,863**	**—**	**76**	**2,114**

(c) Supervisors

The remuneration of supervisors during the Track Record Period are as follows:

		Year ended 31 December 2017				
	Notes	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WANG Peihua		—	—	271	—	271
MING Guoqing		—	—	176	—	176
WANG Yuqing	(xi)	—	160	22	60	242
		—	160	469	60	689

		Year ended 31 December 2018				
		Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WANG Peihua		—	—	680	—	680
MING Guoqing		—	—	444	—	444
WANG Yuqing	(xi)	—	160	55	61	276
		—	160	1,179	61	1,400

	Notes	Year ended 31 December 2019				
		Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WANG Peihua		—	—	701	—	701
MING Guoqing		—	—	459	—	459
WANG Yuqing	(xi)	—	—	—	5	5
YU Miao	(xii)	—	210	—	55	265
		—	210	1,160	60	1,430

	Notes	Six months ended 30 June 2019 (unaudited)				
		Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WANG Peihua		—	—	701	—	701
MING Guoqing		—	—	459	—	459
WANG Yuqing	(xi)	—	—	—	—	—
YU Miao	(xii)	—	105	—	27	132
		—	105	1,160	27	1,292

	Note	Six months ended 30 June 2020				
		Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
WANG Peihua		—	—	—	—	—
MING Guoqing		—	—	—	—	—
YU Miao	(xii)	—	105	—	13	118
		—	105	—	13	118

Notes:

(i) WU Cheng resigned on 18 June 2019.

(ii) SHI Tiantao resigned on 03 June 2020.

(iii) CHIEN Da-chun appointed on 18 June 2019.

(iv) WONG Hak Kun appointed on 03 June 2020.

(v) LI Huagang appointed on 18 June 2019.

(vi) PENG Jianfeng resigned on 18 June 2019.

(vii) ZHOU Hongbo resigned on 18 June 2019.

(viii) LIU Haifeng David resigned on 18 June 2019.

(ix) LIN Sui appointed on 18 June 2019.

(x) YAN, Andrew Y appointed on 18 June 2019 and resigned on 03 November 2020.

(xi) WANG Yuqing resigned on 08 June 2019.

(xii) YU Miao appointed on 18 June 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included 2 directors, 2 directors, 3 directors, 3 directors (unaudited) and 2 directors for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020 respectively and 1 of them is the chief executive, details of whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining 3, 3, 2, 2 (unaudited) and 3 highest paid non-director employees for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020 respectively who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, bonuses, allowances and benefits in kind	2,896	3,977	3,188	1,508	2,025
Equity-settled Restricted Share Award Scheme expense	3,700	19,945	15,764	—	—
Pension scheme contributions	124	165	118	56	86
	6,720	**24,087**	**19,070**	**1,564**	**2,111**

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				
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019 (unaudited)	2020
HK$Nil to HK$1,000,000	—	—	—	1	2
HK$1,000,001 to HK$1,500,000	—	—	—	1	1
HK$1,500,001 to HK$2,000,000	2	—	—	—	—
HK$4,000,001 to HK$4,500,000	1	—	—	—	—
HK$5,000,001 to HK$5,500,000	—	1	—	—	—
HK$5,500,001 to HK$6,000,000	—	1	1	—	—
HK$16,000,001 to HK$16,500,000	—	—	1	—	—
HK$17,000,001 to HK$17,500,000	—	1	—	—	—
Total	**3**	**3**	**2**	**2**	**3**

For awarded shares were granted to these non-director and non-chief executive highest paid employees in respect of their services to the Group under the Restricted Share Award Scheme of the Group. The fair values of 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 Historical Financial Information for the Track Record Period are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Current tax					
Charge for the year/period	1,672	1,487	1,649	1,127	433
Deferred tax (Note 36)	(251)	306	(65)	(118)	228
Total tax charge for the year/period from continuing operations	**1,421**	**1,793**	**1,584**	**1,009**	**661**
Current tax					
Charge for the year/period	94	82	60	60	—
Deferred tax (Note 36)	—	7	652	(13)	—
Total tax charge for the year/period from a discontinuing operation	**94**	**89**	**712**	**47**	**—**

Under the Law of the Mainland China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Mainland China subsidiaries is 25% for during the Track Record Period.

Taxation, arising in other jurisdictions in calculated at the rates prevailing in the relevant jurisdictions.

The revenue related to sales to overseas are subject to relevant tax at corresponding jurisdictions, if any.

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:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Profit before tax from continuing operations	10,212	11,326	10,606	7,044	4,273
Profit before tax from a discontinued operation	447	456	4,025	197	—
	10,659	**11,782**	**14,631**	**7,241**	**4,273**
Tax at the statutory tax rate	2,667	2,945	3,656	1,810	1,068
Lower tax rates enacted by local authorities	(501)	(817)	(866)	(533)	(408)
Adjustments in respect of current tax of previous periods	(106)	(180)	(261)	(112)	(161)
Tax effect of share of profit or losses to associates	(179)	(199)	(211)	(79)	(131)
Tax effect of income not taxable for tax purpose	(90)	(25)	(164)	(13)	(43)
Tax effect of expenses not deductible for tax purpose	68	88	128	15	86
Tax effect of temporary differences not recognised	(344)	70	14	(32)	250
Total tax charge for the year/period	**1,515**	**1,882**	**2,296**	**1,056**	**661**
Total tax charge for the year/period from continuing operations	**1,421**	**1,793**	**1,584**	**1,009**	**661**
Total tax charge for the year/period from a discontinued operation	**94**	**89**	**712**	**47**	**—**

11. DISCONTINUED OPERATION

The consolidated statements of profit or loss and other 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 2017 and 2018 and the period from 1 January to 25 July 2019 and for the six months ended 30 June 2019, 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 2017 and 2018 and the period from 1 January to 25 July 2019, 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 2017, 2018 and 2019 and six months ended 30 June 2019 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 2017, 2018 and 2019 and six months ended 30 June 2019.

On 26 July 2019, the Group completed the Asset Swap as further detailed in Notes 2.3 and 4 to the Historical Financial Information. 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 years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 are presented below:

		Year ended 31 December		Period from 1 January to 25 July	Six months ended 30 June
		2017	2018	2019	2019
	Note	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)
Revenue		9,000	10,144	4,907	4,907
Cost and expenses		(8,553)	(9,688)	(4,710)	(4,710)
Profit from the discontinued operation		447	456	197	197
Gain recognised on the remeasurement of fair value of the discontinued operation		—	—	3,191	—
Gain recognised on disposal of the discontinued operation		—	—	637	—
Profit before tax from the discontinued operation		447	456	4,025	197
Income tax:					
Related to pre-tax profit	10	(94)	(89)	(47)	(47)
Related to remeasurement of fair value	10	—	—	(665)	—
Profit for the year from discontinued operation		**353**	**367**	**3,313**	**150**
Attributable to:					
Owners of the Company		100	93	1,491	41
Non-controlling interests		253	274	1,822	109
		353	**367**	**3,313**	**150**

The net cash flows incurred by the Bingji Group for the period from 1 January to 25 July 2019 and years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 (unaudited) are as follows:

	Year ended 31 December		Period from 1 January to 25 July	Six months ended 30 June
	2017	2018	2019	2019
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)
Operating activities	454	114	(161)	(161)
Investing activities	(862)	(1,659)	20	20
Financing activities	1,930	407	(283)	(283)
Net cash inflow/(outflow)	**1,522**	**(1,138)**	**(424)**	**(424)**
Earning per share:				
— Basic, from discontinued operations (RMB per share)	**0.02**	**0.02**	**0.23**	**0.01**
— Diluted, from discontinued operations (RMB per share)	**0.02**	**0.02**	**0.23**	**0.01**

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	Year ended 31 December		Period from 1 January to 25 July	Six months ended 30 June
	2017	2018	2019	2019
				(unaudited)
Profit attributable to ordinary equity holders of the Company from the discontinued operation (RMB million)	100	93	1,491	41
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (Note 13)	6,097,402,727	6,148,015,152	6,381,003,276	6,368,417,101
Effect of dilutive potential ordinary shares:				
Convertible bond	—	7,928,233	186,455,019	203,821,232
Weighted average number of ordinary shares used in the diluted earnings per share calculation (Note 13)	6,097,402,727	6,155,943,385	6,567,458,295	6,572,238,333

12. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Proposed final dividend	**2,085**	**2,235**	**2,467**	—	—
Dividend paid during the year/period	**1,512**	**2,085**	**2,235**	—	—

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB (unaudited)	RMB
Dividend per share	**0.342**	**0.351**	**0.375**	**N/A**	**N/A**

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 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue.

The calculation of the diluted earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the interest and effect of the convertible and exchangeable bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Track Record Period, 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:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Earnings					
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation:					
From continuing operations	6,844	7,391	6,715	5,017	2,781
From a discontinued operation	100	93	1,491	41	—
	6,944	**7,484**	**8,206**	**5,058**	**2,781**
Profit for the year/period attributable to owners of the Company	6,944	7,484	8,206	5,058	2,781
Less:					
Profit for the year/period from discontinued operations	(100)	(93)	(1,491)	(41)	—
Earnings for the purpose of basic earnings per share from continuing operation	6,844	7,391	6,715	5,017	2,781
Effect of dilutive potential ordinary shares:					
Interest on convertible and exchangeable bonds, net of tax	12	168	259	126	89
Profit for the year/period attributable to convertible and exchangeable bonds holders	(304)	(338)	(645)	(166)	(116)
Earnings for the purpose of diluted earnings per share from continuing operations	**6,552**	**7,221**	**6,329**	**4,977**	**2,754**
Number of shares					
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**6,097,402,727**	**6,148,015,152**	**6,381,003,276**	**6,368,417,101**	**6,579,566,627**
Effect of dilutive potential ordinary shares:					
Convertible bond	—	7,928,233	186,455,019	203,821,232	—
Weighted average number of ordinary shares in issue during the year/period used in the diluted earnings per share calculation	**6,097,402,727**	**6,155,943,385**	**6,567,458,295**	**6,572,238,333**	**6,579,566,627**

Notes:

The weighted average number of ordinary shares as above are adjusted by the number of shares that would have been issued assuming the conversion of convertible bonds.

The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share for the years ended 31 December 2018 and 2019 is the same because the Company's convertible bonds outstanding during these years/period were anti-dilutive.

Diluted earnings per share for the six months ended 30 June 2019 are calculated by adjusting the weighted average number of shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

14. RELATED PARTY TRANSACTIONS

(a) During the Track Record Period, in addition to the transactions detailed elsewhere in these Historical Financial Information, the Group had the following material transactions with the Group's related parties (and their affiliates):

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Relationship	Nature of transactions	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Associates	Sale of goods and services	2,326	1,737	1,566	422	426
	Logistics service fees	121	103	23	23	—
	Purchase of goods and services	10,985	13,061	15,841	7,917	7,155
	Interest income	60	105	94	41	71
	Interest expenses	277	124	63	24	52
Haier	Sale of goods and services	2,617	2,996	2,634	1,049	1,003
Affiliates	Logistics service fees	70	66	51	51	—
(Note)	Purchase of goods and services	23,936	19,222	20,120	8,574	8,944
	Other service fee expenses	299	375	181	91	89
Controlling shareholder	Compensation received	32	2	—	—	—

The above transactions were conducted in accordance with the terms and conditions mutually agreed by the parties involved.

Note: Haier Affiliates include Haier Group's associates and subsidiaries and its respective associates.

(b) Compensation of key management personnel (including the directors, chief executive and supervisors of the Company) of the Group

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short term employee benefits	4,652	4,652	6,020	3,181	3,156
Post-employment benefits	225	236	290	138	120
Equity-settled Restricted Share Award Scheme expense	16,041	44,295	46,068	46,068	—
Total compensation paid to key management personnel	**20,918**	**49,183**	**52,378**	**49,387**	**3,276**

Further details of directors' and chief executive's emoluments are included in Note 8 to the Historical Financial Information.

(c) The Group had the following balances with its related parties as at 31 December 2017, 2018, 2019 and 30 June 2020:

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Balances due from related parties:				
Trade related				
— Controlling shareholder	—	—	—	16
— Associates	243	430	573	739
— Haier Affiliates	993	997	1,503	1,500
	1,236	1,427	2,076	2,255

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Balances due from related parties:				
Non-trade related				
— Controlling shareholder	—	—	215	215
— Associates	5	5	5	83
— Haier Affiliates	—	88	110	52
	5	93	330	350

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Balances due to related parties:				
Trade related				
— Associates	459	604	285	647
— Haier Affiliates	3,545	4,101	5,368	4,171
	4,004	4,705	5,653	4,818

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Balances due to related parties:				
Non-trade related				
— Controlling shareholder	—	—	—	874
— Haier Affiliates	128	120	190	437
	128	120	190	1,311

The non-trade balance due from/to related parties will be settled prior to the listing.

(d) Guarantee

Certain of the Group's loans are guaranteed by:

(i) Haier Group, the controlling shareholder of the Company, approximately RMB21,038 million, RMB22,198 million, RMB12,175 million and RMB5,782 million as at 31 December 2017, 2018 and 2019 and 30 June 2020; and

(ii) Non-controlling shareholder of the Company, approximately RMB31 million, RMB22 million, RMBNil and RMBNil as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

Certain of the Group's loans are secured by:

(i) mortgages over the Group's land and buildings, which had an aggregate carrying amount as at 31 December 2017, 2018 and 2019 and 30 June 2020 of approximately RMB122 million, RMB55 million, RMB55 million and RMB56 million,

(ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value at 31 December 2017 of approximately, RMB5 million; and

(iii) pledge of the Group's trade and bills receivables totalling approximately RMB4,830 million, RMB373 million and RMB212 million and RMB350 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

Taking into consideration that: (i) the Group have sufficient capital, cash and cash equivalent and bank facilities and credit to operate our business independently, and have sufficient internal resources to support our day-to-day operations. As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB43,022 million, (ii) the Group have access to independent third party financial institutions and are not required to rely on any guarantee or mortgage from the Controlling Shareholder or its close associates to obtain the relevant financing. As at 30 July 2020, the Group had strategic cooperation agreements with a number of PRC commercial banks totalling over RMB116,564 million of credit line and we also had approximately RMB58,477 million of unutilised banking facilities. (iii) the Group has a strong financial position with our business operations established in relatively mature markets and (iv) the early release of certain guarantee provided by Haier Group would involve cost in time and expenses and would not be commercially reasonable, which would be detrimental to the best interests of the shareholders as a whole, the Directors are of the view that the Company has the ability to obtain financing independently, and the guarantee from Haier Group does not affect our financial independence.

Save as above, all guarantees provided to the Group by the Controlling Shareholder and/or its close associates have been released as at the Latest Practicable Date.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Machinery and equipment	Motor vehicles	Furniture fixture and equipments	Construction in progress	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Cost:							
As at 1 January 2017	8,020	218	16,046	275	1,112	1,831	27,502
Additions	287	36	746	15	41	2,528	3,653
Acquisition of subsidiaries (Note 40)	138	14	22	7	7	1	189
Disposal of subsidiaries (Note 41)	—	—	—	—	—	(1)	(1)
Disposals/write-off	(106)	(15)	(914)	(46)	(89)	—	(1,170)
Transfer from construction in progress	828	12	1,761	41	93	(2,735)	—
Exchange realignment	(86)	(4)	(402)	—	(2)	(12)	(506)
As at 31 December 2017 and 1 January 2018	9,081	261	17,259	292	1,162	1,612	29,667
Additions	31	72	526	19	68	4,626	5,342
Acquisition of subsidiaries (Note 40)	—	—	—	2	2	—	4
Disposal of subsidiaries (Note 41)	(163)	(26)	(12)	(92)	(17)	(7)	(317)
Disposals/write-of	(168)	(52)	(698)	(22)	(45)	—	(985)
Transfer from construction in progress	507	—	1,590	36	218	(2,351)	—
Transfer	—	(21)	—	—	21	—	—
Exchange realignment	122	—	440	(1)	2	18	581
As at 31 December 2018 and 1 January 2019	9,410	234	19,105	234	1,411	3,898	34,292
Additions	23	308	1,071	4	126	4,825	6,357
Acquisition of subsidiaries (Note 40)	790	—	465	4	168	58	1,485
Disposal of subsidiaries (Note 41)	(1,725)	(57)	(62)	(105)	(22)	(632)	(2,603)
Disposals/write-off	(302)	(20)	(1,169)	(11)	(109)	—	(1,611)
Transfer from construction in progress	1,286	8	3,786	29	625	(5,734)	—
Exchange realignment	96	(8)	271	2	51	11	423
As at 31 December 2019 and 1 January 2020	9,578	465	23,467	157	2,250	2,426	38,343
Additions	112	39	719	1	32	1,672	2,575
Acquisition of subsidiaries	—	—	50	1	—	1	52
Disposals/write-off	(18)	(15)	(225)	(4)	(103)	—	(365)
Transfer from construction in progress	409	11	541	10	141	(1,112)	—
Transfer to Investment properties (Note 16)	—	—	—	—	—	(2)	(2)
Exchange realignment	(23)	(2)	(23)	(2)	(15)	(11)	(76)
As at 30 June 2020	**10,058**	**498**	**24,529**	**163**	**2,305**	**2,974**	**40,527**
Accumulated depreciation and impairment:							
As at 1 January 2017	2,223	62	5,831	141	532	2	8,791
Depreciation provided for the year	439	40	2,020	49	95	—	2,643

	Land and buildings	Leasehold improvement	Machinery and equipment	Motor vehicles	Furniture fixture and equipments	Construction in progress	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Eliminated on disposals/write-off	(27)	(1)	(572)	(42)	(39)	(2)	(683)
Impairment provided for the year	—	—	4	—	—	—	4
Exchange realignment	(3)	(1)	(68)	(1)	2	—	(71)
As at 31 December 2017 and 1 January 2018	2,632	100	7,215	147	590	—	10,684
Depreciation provided for the year	443	30	1,903	30	183	—	2,589
Eliminated on disposal of subsidiaries (Note 41)	(12)	(14)	(2)	(7)	(9)	—	(44)
Eliminated on disposals/write-off	(28)	(52)	(518)	(18)	(24)	—	(640)
Transfers	—	(5)	—	—	5	—	—
Impairment provided for the year	—	—	5	—	4	23	32
Exchange realignment	34	—	193	(1)	3	1	230
As at 31 December 2018 and 1 January 2019	3,069	59	8,796	151	752	24	12,851
Depreciation provided for the year	469	97	2,147	23	262	—	2,998
Eliminated on disposal of subsidiaries (Note 41)	(346)	(31)	(38)	(85)	(12)	—	(512)
Eliminated on disposals/write-off	(191)	(20)	(826)	(10)	(97)	—	(1,144)
Impairment provided for the year	—	—	1	—	—	10	11
Exchange realignment	42	(9)	173	1	13	—	220
As at 31 December 2019 and 1 January 2020	3,043	96	10,253	80	918	34	14,424
Depreciation provided for the period	248	72	1,194	11	155	—	1,680
Eliminated on disposals/write-off	(9)	(15)	(157)	(3)	(80)	—	(264)
Exchange realignment	2	(2)	1	—	1	1	3
As at 30 June 2020	**3,284**	**151**	**11,291**	**88**	**994**	**35**	**15,843**
Carrying amounts							
As at 30 June 2020	**6,774**	**347**	**13,238**	**75**	**1,311**	**2,939**	**24,684**
As at 31 December 2019	**6,535**	**369**	**13,214**	**77**	**1,332**	**2,392**	**23,919**
As at 31 December 2018	**6,341**	**175**	**10,309**	**83**	**659**	**3,874**	**21,441**
As at 31 December 2017	**6,449**	**161**	**10,044**	**145**	**572**	**1,612**	**18,983**

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group's land and buildings with an aggregate net book value of approximately RMB2,047 million, RMB1,652 million, RMB1,173 million and RMB801 million, respectively, which did not have building ownership certificates registered under the names of the respective subsidiaries of the Company, respectively.

With respect to the above properties, the Group's investment properties and prepaid land lease payments, in prior years, Haier Group issued to the Group three undertakings, pursuant to which Haier Group agreed to provide other suitable properties to the Group to ensure the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against any losses arising from the above defective property title issue. The aggregate net book value of the Group's buildings indemnified by Haier Group as at 31 December 2017 and 2018 amounted to approximately RMB117 million and RMB114 million, respectively. Due to the relocation of the factories and the Asset Swap transaction, there was no building without ownership certificates under the names of the respective subsidiaries of the Company indemnified by Haier Group as at 31 December 2019 and 30 June 2020.

In the opinion of the directors of the Company, 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.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group' s land and buildings with an aggregate carrying amount of approximately RMB122 million, RMB55 million, RMB55 million and RMB56 million were pledged to secure bank loans granted to the Group (Note 33).

16. INVESTMENT PROPERTIES

	RMB'M
Cost:	
As at 1 January 2017	48
Exchange realignment	(2)
As at 31 December 2017 and 1 January 2018	46
Exchange realignment	2
As at 31 December 2018, 1 January 2019, 31 December 2019 and 1 January 2020	48
Transfer from property, plant and equipment (Note 15)	2
Exchange realignment	1
As at 30 June 2020	**51**
Accumulated depreciation:	
As at 1 January 2017	14
Depreciation provided for the year	2
Exchange realignment	(1)
As at 31 December 2017 and 1 January 2018	15
Depreciation provided for the year	2
As at 31 December 2018 and 1 January 2019	17
Depreciation provided for the year	2
As at 31 December 2019 and 1 January 2020	19
Depreciation provided for the period	1
As at 30 June 2020	**20**
Carrying amounts	
As at 30 June 2020	**31**
As at 31 December 2019	**29**
As at 31 December 2018	**31**
As at 31 December 2017	**31**

The Group's investment properties consist of one commercial property in Hong Kong and two, two, two and three industrial properties in Mainland China as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

The fair values of the Group's investment properties in Hong Kong were approximately RMB22 million, RMB27 million, RMB24 million and RMB23 million, as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

The fair values of the Group's investment properties in Mainland China were approximately RMB25 million, RMB39 million, RMB38 million and RMB40 million, as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

The fair value measurements of the Group's investment properties are categorised within Level 3. The fair value of the Group's investment properties has been determined by reference to the valuation reports prepared by the independent external professional valuers.

The valuation technique is the income approach and the significant inputs used in the fair value measurement are the estimated rental value, rent growth and discount rate for investment properties in Hong Kong.

The fair value of the industrial properties in Mainland China as at 31 December 2017 was determined based on the cost approach which reflects the amount that would be required to replace the asset. The fair value of the industrial properties in Mainland China as at 31 December 2018 and 2019 and 30 June 2020 was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Mainland China and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's investment properties.

	Valuation Technique	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Commercial property in Hong Kong	Income approach	Estimated rental value, taking into account differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of 31 December 2017: HKD 80.9 per square feet per month 31 December 2018: HKD 80.9 per square feet per month 31 December 2019: HKD 74.2 per square feet per month 30 June 2020: HKD 67.5 per square feet per month	A significant increase in the estimated rental value used would result in a significant increase in fair value, and vice versa.
		Rent growth rate, taking into account the growth of rental income potential nature of the	A significant increase in the rent growth rate used would result in a

	Valuation Technique	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		property, and prevailing market condition: 31 December 2017: 3.00% 31 December 2018: 3.00% 31 December 2019: 3.00% 30 June 2020: 3.00%	significant increase in fair value, and vice versa.
		Rent discount rate, taking into account the discount of rental income potential nature of the property, and prevailing market condition: 31 December 2017: 4.29% 31 December 2018: 3.13% 31 December 2019: 2.73% 30 June 2020: 2.49%	A significant increase in the rent discount rate used would result in a significant decrease in fair value, and vice versa.
Industrial properties in Mainland China	Cost approach	Estimated construction cost to replace the property, which ranged from: RMB936.5 to RMB1,345.9 per square meter	A significant increase in the estimated construction cost would result in a significant increase in fair value, and vice versa.
		Interest rate: 31 December 2017: 4.35%	A significant increase in the interest rate used significant would result in a significant increase in fair value, and vice versa.
Industrial properties in Mainland China	Income approach	Estimated net rental income, taking into account differences in location, and individual factors, such as frontage and size, between the comparable and the property, which ranged from: 31 December 2018: RMB95.1 to RMB103.3 per square meter per year 31 December 2019: RMB87.9 to RMB103.9 per square meter per year 30 June 2020: RMB87.9 to RMB103.9 per square meter per year	A significant increase in the estimated net rental income used would result in a significant increase in fair value, and vice versa.
		Net income growth rate, taking into account the growth of net rental income potential nature	A significant increase in the net income growth rate used

Valuation Technique	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	of the property, and prevailing used market condition: 31 December 2018: 0.20% - 0.50% 31 December 2019: 0.20% - 0.50% 30 June 2020: 0.20% - 0.50%	would result in a significant increase in fair value, and vice versa.
	Capitalization rate, taking into account the capitalisation of rental income potential nature of the property, and prevailing market condition: 31 December 2018: 6.00% 31 December 2019: 6.00% 30 June 2020: 6.00%	A significant increase in the capitalization rate used would result in a significant decrease in fair value, and vice versa.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's investment properties in Mainland China with a carrying amount of approximately RMB11 million, RMB10 million, RMB9 million and RMB7 million respectively, 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 Group in relation to this property title issue, details of which are set out in Note 15 to the Historical Financial Information.

17. LEASES

The Group as a leasee

The Group has lease contracts for various items of land use rights, buildings, machinery and equipment, furniture, fixtures and equipment 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 machinery and equipment, furniture, fixtures and equipment 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)

	2017	2018
	RMB'M	RMB'M
Carrying amount as at 1 January	1,542	1,669
Additions	183	395
Disposals	(1)	(101)
Disposal of subsidiaries (Note 41)	(13)	(57)
Amortisation provided for the year	(44)	(40)
Exchange realignment	2	2
Carrying amount as at 31 December	**1,669**	**1,868**
Analysed into:		
Current portion (included in prepayment, deposits and other assets)	43	40
Non-current portion	1,626	1,828
	1,669	**1,868**

As at 31 December 2017, certain of the Group's leasehold lands with an aggregate carrying amount of RMB5 million were pledged to secure bank loans granted to the Group (Note 33).

(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	Land and building	Machinery and equipment	Motor vehicles	Furniture, fixtures and equipment	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2019	1,868	2,803	—	2	237	4,910
Additions	280	1,202	37	165	129	1,813
Disposals	(3)	(4)	(7)	—	—	(14)
Disposal of subsidiaries (Note 41)	(1,070)	(983)	—	—	—	(2,053)
Depreciation provided for the year	(34)	(702)	(5)	(55)	(102)	(898)
Exchange realignment	6	31	1	2	4	44
As at 31 December 2019 and 1 January 2020	1,047	2,347	26	114	268	3,802
Additions	150	551	2	25	17	745
Disposals	(24)	(21)	—	—	—	(45)
Depreciation provided for the period	(12)	(272)	(2)	(27)	(52)	(365)
Exchange realignment	(1)	(1)	—	(3)	3	(2)
As at 30 June 2020	**1,160**	**2,604**	**26**	**109**	**236**	**4,135**

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB122 million, RMB41 million, RMB105 million and RMB51 million respectively, did not have land use right certificates registered under the names of the Group. As at 31 December 2017 and 2018, the Group obtained undertakings from Haier Group in relation to this title issue, details of which are set out in Note 15 to the Historical Financial Information.

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year/period are as follows:

	RMB'M
Carrying amount as at 1 January 2019	3,153
New leases	1,469
Interest expenses recognised during the year	125
Payments	(894)
Disposal of subsidiaries (Note 41)	(1,023)
Exchange realignment	(255)
Carrying amount as at 31 December 2019 and 1 January 2020	2,575
New leases	595
Interest expenses recognised during the period	62
Payments	(384)
Disposal	(23)
Exchange realignment	21
Carrying amount as at 30 June 2020	**2,846**
Analysed into:	
As at 30 June 2020	
Current portion	631
Non-current portion	2,215
	2,846
As at 31 December 2019	
Current portion	595
Non-current portion	1,980
	2,575

The maturity analysis of lease liabilities is disclosed in Note 47 to the Historical Financial Information.

(d) The amounts recognised in profit or loss from continuing operations in relation to leases are as follows:

	Year ended 31 December 2019
	RMB'M
Interest on lease liabilities	98
Depreciation charge of right-of-use assets	644
Expense relating to:	
Short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	356
Variable lease payments not included in the measurement of lease liabilities	93
Total amount recognised in profit or loss	**1,191**

	Six months ended 30 June 2020
	RMB'M
Interest on lease liabilities	62
Depreciation charge of right-of-use assets	365
Expense relating to:	
Short-term leases	120
Leases of low-value assets	12
Variable lease payments not included in the measurement of lease liabilities	64
Total amount recognised in profit or loss	**623**

(e) The total cash outflow for leases is disclosed in Note 42(c) to the Historical Financial Information.

The Group as a lessor

The Group leases its investment properties (Note 16) consisting of one commercial property in Hong Kong and two, two, two and three industrial properties in Hefei and Dalian, the Mainland China, under operating lease arrangements as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. Rental income recognised by the Group was approximately RMB21 million, RMB12 million and RMB13 million for the years ended 31 December 2017, 2018 and 2019 respectively and RMB2 million for the six months ended 30 June 2020, details of which are included in Note 5 to the Historical Financial Information.

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:

	As of 31 December			As of 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Within one year	18	27	13	13
In the second to fifth years, inclusive	11	37	19	19
After five years	1	9	7	7
	30	**73**	**39**	**39**

18. GOODWILL

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Cost:				
As at 1 January	21,611	20,428	21,239	23,352
Acquisition of subsidiaries (Note 40)	32	161	2,061	464
Disposal of subsidiaries (Note 41)	—	(317)	(285)	—
Exchange realignment	(1,215)	967	337	325
As at 31 December/30 June	**20,428**	**21,239**	**23,352**	**24,141**
Net carrying amount	**20,428**	**21,239**	**23,352**	**24,141**

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing:

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**");
- Guizhou Peiji Logistics Group Co., Ltd. ("**Peiji Logistics**");
- Shanghai Guangde Logistics Co., Ltd. ("**Grand Logistics**");
- Shengfeng Logistics Group Co., Ltd ("**Shengfeng Logistics**");

Water Appliances segment:

- Qingdao Strauss Water Equipment Co., Ltd.;

Smart Home Business Overseas segment:

- GE Appliances;
- GREENoneTEC Solarindustrie GmbH. ("**GoT**");
- Haier New Zealand Investment Holding Company Limited ("**HNZ**"); and
- Candy S.p.A ("**Candy**")

Other Business segment:

- Guangdong Heron Intelligent Technology Co., Ltd. ("**Heron**")
- Qingdao Gooday Lejia IOT Technology Co., Ltd. ("**Lejia IOT**")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Qingdao Furnishing Services	6	6	—	—
Shanghai Beiye Supply Chain	69	69	—	—
Peiji Logistics	—	161	—	—
Grand Logistics	29	29	—	—
Shengfeng Logistics	317	—	—	—
Qingdao Strauss Water Equipment Co., Ltd.	83	83	83	83
GE Appliances (Note)	19,420	20,391	20,725	21,029
GoT	3	3	3	3
HNZ (Note)	501	497	509	492
Candy (Note)	—	—	2,032	2,070
Heron	—	—	—	16
Lejia IOT	—	—	—	448
Net carrying amount	**20,428**	**21,239**	**23,352**	**24,141**

Note: The recoverable amounts of GE Appliances, HNZ and Candy have been determined by using cash flow projections based on financial budgets approved by senior management.

Assumptions were used in the value-in-use or fair value less cost of disposal calculation of the above cash-generating units as at 31 December 2017, 2018, 2019 and 30 June 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill. The annual growth rates of each CGUs are based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash flows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

During the years ended 31 December 2017, 31 December 2018, 31 December 2019 and the six months ended 30 June 2020, the management of the Group determines that there is no impairment on goodwill.

Key assumptions used in the calculation the recoverable amount of GE Appliances are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2017	13.05%	5.30% to 5.80%	2.00%	5.60% to 8.00%	9.40% to 11.40%	RMB4,744
As at 31 December 2018	11.78%	3.08% to 5.50%	2.00%	5.40% to 6.20%	8.42% to 9.23%	RMB4,056
As at 31 December 2019	11.11%	2.50% to 3.79%	2.00%	5.38% to 6.97%	8.65% to 10.11%	RMB10,798
As at 30 June 2020	11.69%	2.50% to 4.28%	2.00%	5.99% to 6.91%	9.03% to 9.95%	RMB8,670

Key assumptions used in the calculation the recoverable amount of HNZ are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2017	13.22%	15.00% to 23.10%	2.00%	2.81% to 8.40%	8.13% to 11.74%	RMB2,821
As at 31 December 2018	13.06%	9.00% to 23.00%	2.00%	3.00% to 8.00%	9.00% to 12.00%	RMB299
As at 31 December 2019	13.19%	0.63% to 3.08%	2.00%	3.36% to 8.90%	10.15% to 15.01%	RMB122
As at 30 June 2020	13.19%	2.84% to 5.03%	2.00%	4.89% to 8.98%	12.17% to 15.44%	RMB154

Key assumptions used in the calculation the recoverable amount of Candy are as follows:

	Pre-tax discount rate	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2019	9.83%	8.92% to 46.30%	1.80%	2.11% to 7.14%	2.68% to 7.98%	RMB524
As at 30 June 2020	10.13% to 10.15%	1.80% to 22.37%	1.80%	1.48% to 7.14%	3.46% to 9.88%	RMB454

Sensitivity analysis of the recoverable amount are disclosed as below:

	GE Appliances	HNZ	Candy
	'M	'M	'M
1% (increase)/decrease in discount rate would result in recoverable amount (decrease)/increase by:			
31 December 2017	RMB(3,811)/4,615	RMB(563)/664	N/A
31 December 2018	RMB(3,850)/4,764	RMB(458)/595	N/A
31 December 2019	RMB(4,766)/5,958	RMB(380)/462	RMB(850)/1,105
30 June 2020	RMB(4,557)/5,650	RMB(364)/435	RMB(770)/979

The below analysis by the management of the Company estimate of a reasonably possible change in a key assumption would cause the carrying amount of the CGU to exceed its recoverable amount:

As at 31 December 2017, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the GE Appliances and HNZ will reduce approximately RMB3,811 million and RMB563 million respectively, and further impairment of goodwill of GE Appliances and HNZ of approximately RMBNil and RMBNil respectively.

As at 31 December 2018, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the GE Appliances and HNZ will reduce approximately RMB3,850 million and RMB458 million respectively, and further impairment of goodwill of GE Appliances and HNZ of approximately RMBNil and RMB160 million respectively.

As at 31 December 2019, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the GE Appliances, HNZ and Candy will reduce approximately RMB4,766 million, RMB380 million and RMB850 million respectively, and further impairment of goodwill of GE Appliances, HNZ and Candy of approximately RMBNil, RMB262 million and RMB332 million respectively.

As at 30 June 2020, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the GE Appliances, HNZ and Candy will reduce approximately RMB4,557 million, RMB364 million and RMB770 million respectively, and further impairment of goodwill of GE Appliances, HNZ and Candy of approximately RMBNil, RMB213 million and RMB326 million respectively.

Annual growth rate — The basis used to determine the annual growth rate is the average growth rate achieved in the years immediately before the budget year, increased for expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

EBIT — Projected average earnings before interest and taxes.

EBITDA — Projected average earnings before interest, taxes, depreciation and amortisation.

Terminal growth rate — The constant rate that the Company is expected to grow at forever.

19. OTHER INTANGIBLE ASSETS

	Proprietary technology	Patents and licences	Trademarks	Software & Others	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017	1,196	3,898	1,282	620	6,996
Additions	123	59	2	243	427
Acquisition of subsidiaries (Note 40)	—	—	—	8	8
Write-off / Disposals	—	(54)	—	(10)	(64)
Amortisation provided for the year	(156)	(111)	—	(164)	(431)
Impairment provided for the year	—	—	—	(10)	(10)
Exchange realignment	(60)	(223)	(63)	(19)	(365)
As at 31 December 2017 and 1 January 2018	1,103	3,569	1,221	668	6,561
Additions	81	2	—	1,015	1,098
Disposal of subsidiaries (Note 41)	—	—	—	(2)	(2)
Disposals	(12)	—	—	(19)	(31)
Amortisation provide for the year	(146)	(93)	—	(276)	(515)
Exchange realignment	24	176	31	37	268
As at 31 December 2018 and 1 January 2019	1,050	3,654	1,252	1,423	7,379
Additions	150	140	—	911	1,201
Acquisition of subsidiaries (Note 40)	—	6	1,451	335	1,792
Disposal of subsidiaries (Note 41)	—	—	—	(56)	(56)
Disposals	—	—	—	(14)	(14)
Amortisation provided for the year	(164)	(112)	—	(476)	(752)
Exchange realignment	5	72	19	(6)	90
As at 31 December 2019 and 1 January 2020	1,041	3,760	2,722	2,117	9,640
Additions	63	21	—	144	228
Acquisition of subsidiaries (Note 40)	—	—	—	46	46
Disposals	—	—	—	(2)	(2)
Amortisation provided for the period	(91)	(65)	—	(310)	(466)
Exchange realignment	4	59	23	52	138
As at 30 June 2020	**1,017**	**3,775**	**2,745**	**2,047**	**9,584**

The carrying amounts of trademarks allocated to each of cash generating units of the Group is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
GE Appliances	621	652	663	672
HNZ	600	600	612	599
Candy	—	—	1,447	1,474
Net carrying amount	**1,221**	**1,252**	**2,722**	**2,745**

The trademark held represented the exclusive right to use of registered trademarks, including Fisher & Paykel, DCS and ELBA for HNZ business. GE Appliances operates under several key brands, including General Electric series (all product lines), Monogram (refrigerator and cooking), and Hotpoint (laundry and cooking), etc. Candy business operates under several key brands, including

Candy (mainly oriented to the low-to-mid-end kitchen and bathroom appliances) and Hoover (mainly oriented to the mid-to-high-end kitchen and bathroom appliances and the floor care appliances).

In estimating the fair value of trademark, a variation of the income approach, the Relief from Royalty ("**RfR**") Method, was applied. In the RfR method, the fair value of the intangible asset is estimated to be the present value of the royalties saved because the Company owns the intangible asset. In other words, the owner of the intangible asset realises a benefit from owning the intangible asset rather than pay a rent or royalty for the use of the intangible asset.

Set out below are details of the value of inputs used in the value-in-use or fair value less cost of disposal calculation under IAS 36. The calculation uses cash flow projections based on financial budgets approved by management, and key parameters adopted by the valuer for performing the impairment assessment of the intangible assets belong to GE Appliances, HNZ, Candy, being the cash generating unit of the Group with indefinite useful lives (i.e. trademark) as at 31 December 2017, 2018, 2019 and 30 June 2020 are as follows:

		GE Appliances	HNZ	Candy
	Key parameters on valuation:			
(a)	Annual growth rate			
	31 December 2017:	7.00%-15.00%	15.00%-26.00%	N/A
	31 December 2018:	7.00%-11.00%	3.00%-10.00%	N/A
	31 December 2019:	7.00%	8.33%-8.81%	9.21%-18.19%
	30 June 2020:	7.00%	6.59%-8.75%	6.65%-13.59%
(b)	Pre-tax discount rate			
	31 December 2017:	10.90%	12.05%	N/A
	31 December 2018:	10.07%	13.19%	N/A
	31 December 2019:	11.22%	18.70%	9.27%
	30 June 2020:	11.85%	18.70%	10.06%
(c)	Terminal growth rate			
	31 December 2017:	2.00%	2.00%	N/A
	31 December 2018:	2.00%	2.00%	N/A
	31 December 2019:	2.00%	—%	1.80%
	30 June 2020:	2.00%	—%	1.80%
(d)	Royalty rate			
	31 December 2017:	1.00%	3.00%	N/A
	31 December 2018:	1.00%	2.00%	N/A
	31 December 2019:	1.25%	2.50%	1.25%
	30 June 2020:	1.25%	2.50%	1.25%

The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the respective valuers. The Management of the Group considered that the basis and assumptions used for preparing the cash flow projection, the valuation methodology and the valuation report were reasonable and appropriate.

There was no impairment loss recognised during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

The below sensitivity analysis by management of the Company estimate if a reasonably possible change in a key assumption would cause the intangible assets carrying amount to exceed its recoverable amount:

	GE Appliances	HNZ	Candy
Sensitivity analysis			
1% (increase)/decrease in the discount rate would result in recoverable amount (decrease)/increase by:			
31 December 2017 (in million):	RMB(74)/88	RMB(184)/224	N/A
31 December 2018 (in million):	RMB(80)/99	RMB(50)/64	N/A
31 December 2019 (in million):	RMB(84)/103	RMB(43)/48	RMB(286)/386
30 June 2020 (in million):	RMB(71)/84	RMB(40)/48	RMB(242)/309
Headroom			
31 December 2017 (in million):	RMB20	RMB1,283	N/A
31 December 2018 (in million):	RMB55	RMB43	N/A
31 December 2019 (in million):	RMB133	RMB146	RMB1,039
30 June 2020 (in million):	RMB43	RMB129	RMB817

20. INTERESTS IN ASSOCIATES

Details of interests in associates of the Group and the Company is as follow:

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Cost of investments in associates	8,750	8,768	14,168	14,167
Share of post-acquisition profits and other comprehensive income, net of dividends received	4,283	5,253	6,376	6,851
Impairment loss	(21)	(27)	(83)	(83)
	13,012	**13,994**	**20,461**	**20,935**

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Cost of investments in associates	2,456	2,358	2,358	2,358
Share of post-acquisition profits and other comprehensive income, net of dividends received	663	839	888	944
Impairment loss	(21)	(21)	(69)	(69)
	3,098	**3,176**	**3,177**	**3,233**

Particulars of the material associates of the Group and the Company are as follows:

Name	Place of incorporation/ registration of business	Paid-up capital or registered capital	Percentage of equity attributable to the Company				Principal activities	Type of legal activity
			As at 31 December			As at 30 June		
		'000	2017	2018	2019	2020		
Haier Group Finance Co., Ltd.	Mainland China/ Mainland China	RMB7,000	42.00%	42.00%	42.00%	42.00%	Financing	Limited liability company
Controladora Mabe, S. A. de C.V.	Mexico	US$271,957	48.41%	48.41%	48.41%	48.41%	Manufacture of household appliances	Limited liability company
Bank of Qingdao Co., Ltd.	Mainland China/ Mainland China	RMB4,509,690	9.61%	9.61%	8.65%	8.65%	Commercial bank	Limited liability company

The following table illustrates summarised financial position of Haier Group Finance Co., Ltd, Controladora Mabe, S. A. de C.V. and Bank of Qingdao Co., Ltd information as at 31 December 2017, 2018, 2019 and 30 June 2020 and summarised financial performance information for the Track Record Period adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information.

Haier Group Finance Co., Ltd. ("**Haier Finance**")

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current assets	68,439	59,525	61,570	59,990
Non-current assets, excluding goodwill	7,914	6,772	5,906	8,947
Current liabilities	(62,030)	(51,569)	(52,897)	(53,910)
Non-current liabilities	(3,173)	(1,857)	(268)	(173)
Net assets, excluding goodwill	**11,150**	**12,871**	**14,311**	**14,854**
Reconciliation to the Group's interest in Haier Finance:				
Net assets of Haier Finance, excluding goodwill	**11,150**	**12,871**	**14,311**	**14,854**
Proportion of the Group's ownership	**42.00%**	**42.00%**	**42.00%**	**42.00%**
The Group's share of net assets of Haier Finance	**4,683**	**5,406**	**6,011**	**6,239**

	Year ended 31 December			Six month ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Revenue	2,653	2,564	2,541	1,300	1,116
Profit for the year/period	1,427	1,644	1,720	818	840
Other comprehensive (loss)/income	(60)	78	20	—	4
Total comprehensive income for the year/period	**1,367**	**1,722**	**1,740**	**818**	**844**
Dividends declared	**210**	**210**	**126**	**126**	**126**
Share of results of Haier Finance	**600**	**690**	**722**	**344**	**353**

Controladora Mabe, S. A. de C.V. ("**Mabe**")

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current assets	5,825	6,402	6,554	6,404
Non-current assets, excluding goodwill	10,304	10,722	11,977	12,176
Current liabilities	(7,048)	(8,730)	(8,493)	(8,287)
Non-current liabilities	(5,837)	(4,762)	(5,735)	(5,729)
Net assets, excluding goodwill	**3,244**	**3,632**	**4,303**	**4,564**
Reconciliation to the Group's interest in Mabe:				
Net assets of Mabe excluding goodwill	3,244	3,632	4,303	4,564
Goodwill on acquisition	2,922	2,922	2,922	2,922
	6,166	**6,554**	**7,225**	**7,486**
Proportion of the Group's ownership	**48.41%**	**48.41%**	**48.41%**	**48.41%**
The Group's share of net assets of Mabe	**2,985**	**3,173**	**3,498**	**3,624**

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Revenue	19,990	20,407	22,678	10,480	9,122
Profit for the year/period	387	299	730	110	199
Other comprehensive (loss)/income	(373)	62	89	15	103
Total comprehensive income for the year/period	**14**	**361**	**819**	**125**	**302**
Dividends declared	**33**	**—**	**67**	**32**	**20**
Share of results of Mabe	**221**	**145**	**353**	**53**	**96**

Bank of Qingdao Co., Ltd.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current assets	130,366	181,350	238,853	280,412
Non-current assets, excluding goodwill	175,910	136,308	134,769	160,110
Current liabilities	(203,654)	(223,355)	(264,535)	(326,610)
Non-current liabilities	(76,499)	(66,806)	(78,609)	(82,987)
Non-controlling interests	(493)	(512)	(563)	(596)
Net assets, excluding goodwill	**25,630**	**26,985**	**29,915**	**30,329**
Reconciliation on to the Group's interest in Bank of Qingdao Co., Ltd.:				
Net assets of the Bank of Qingdao Co., Ltd., excluding goodwill	**25,630**	**26,985**	**29,915**	**30,329**
Proportion of the Group's ownership	**9.61%**	**9.61%**	**8.65%**	**8.65%**
The Group's share of net assets of Bank of Qingdao Co., Ltd.	**2,463**	**2,593**	**2,587**	**2,623**

	Year ended 31 December			Six month ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Revenue	5,568	7,371	9,616	3,725	5,035
Profit for the year/period	1,904	2,043	2,335	1,438	1,531
Other comprehensive (loss)/income	(949)	1,016	105	(25)	(215)
Total comprehensive income for the year/period	**955**	**3,059**	**2,440**	**1,413**	**1,316**
Dividends declared	**77**	**78**	**78**	**78**	**78**
Share of results of Bank of Qingdao Co., Ltd.	**180**	**146**	**153**	**124**	**132**

The following table illustrates the aggregate financial information of the Group's and the Company's associates that are not individually material:

	Year ended 31 December			Six month ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Share of results of the associates for the year/period	188	344	181	22	98
Share of the associates' other comprehensive (loss)/ income	(12)	23	53	14	(12)

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Aggregate carrying amount of the Group's investments in the associates	**2,881**	**2,822**	**8,365**	**8,449**

The Group's trade receivable and payable balances with the associates are disclosed in Notes 26 and 30 to the Historical Financial Information, respectively.

21. AVAILABLE-FOR-SALE INVESTMENTS/EQUITY INVESTMENTS DESIGNATED AT FVTOCI

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
AFS financial assets				
Listed equity investments, at fair value:				
— Qingdao East soft Communication Technology Co., Ltd	15	—	—	—
— Other	12	—	—	—
Unlisted equity investments, at cost:				
— Sinopec Marketing Co, Limited	1,282	—	—	—
— Other	106	—	—	—
	1,415	**—**	**—**	**—**
Equity investments designated at FTVOCI				
Listed equity investments, at fair value:				
— Qingdao East soft Communication Technology Co., Ltd	—	9	11	11
— Other	—	11	11	8
Unlisted equity investments, at fair value:				
— Sinopec Marketing Co, Limited	—	1,262	1,243	1,112
— Other	—	118	131	139
	—	**1,400**	**1,396**	**1,270**

Upon initial application of IFRS 9, as of 1 January 2018, the equity investments were reclassified from AFS financial assets to equity investments designated at FVTOCI.

The above equity investments were irrevocably designated at FVTOCI 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 Historical Financial Information.

During the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 (unaudited) and 30 June 2020, the Group received dividends in the amount of approximately RMB41 million, RMB105 million, RMB39 million, RMB18 million and RMB15 million respectively from the above investments.

22. FINANCIAL ASSETS MEASURED AT FVTPL

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Current portion of wealth management products	—	1,568	198	2,342
Foreign currency forward contracts	—	189	85	24
Investment in other equity instruments	—	19	25	34
	—	**1,776**	**308**	**2,400**
Non-current				
Non-current portion of wealth management products	—	327	295	73
	—	**2,103**	**603**	**2,473**

As at 31 December 2017, 2018 and 2019 and 30 June 2020, included in the Group's wealth management products were products with floating returns which were measured at FVTPL. All wealth management products are principal protected.

23. FINANCIAL ASSETS MEASURED AT AMORTISED COST

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Wealth management products	2,007	2,838	3,981	890
Non-current				
Consignment loan	5	22	24	20
Long-term receivables	290	246	308	318
	295	268	332	338
	2,302	**3,106**	**4,313**	**1,228**

As at 31 December 2017, 2018 and 2019 and 30 June 2020, included in the Group's wealth management products were products with fixed returns which were stated at amortised cost. All wealth management products are principal protected. The expected credit losses for the wealth management products are immaterial to the Group.

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current assets				
Wealth management products	—	—	605	554
Non-current assets:				
Loan to a subsidiary	8,600	—	—	—
	8,600	**—**	**605**	**554**

24. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Non-current assets				
Derivative financial instruments	46	95	77	63
Foreign currency forward contracts	343	—	—	—
	389	95	77	63
Current assets				
Foreign currency forward contracts	21	39	17	63
Forward commodity contract	—	—	2	3
Interest rate swaps	82	58	—	—
	103	97	19	66
	492	**192**	**96**	**129**
Current liabilities				
Foreign currency forward contracts	23	25	85	72
Forward commodity contract	—	11	—	—
Interest rate swaps	—	—	14	92
	23	36	99	164
Non-current liabilities				
Foreign currency forward contracts	242	—	—	—
Others	7	—	—	—
	249	—	—	—
	272	**36**	**99**	**164**

25. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Raw material	3,644	2,439	2,953	3,177
Work in progress	455	205	408	330
Finished goods	18,476	19,767	24,868	21,775
	22,575	**22,411**	**28,229**	**25,282**

26. TRADE AND BILLS RECEIVABLES

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Trade receivables	13,417	10,879	11,461	17,490
Impairment	(445)	(346)	(445)	(490)
Trade receivables, net	12,972	10,533	11,016	17,000
Bills receivables	13,075	14,301	13,966	13,191
Impairment	—	—	(15)	(14)
Bills receivables, net	13,075	14,301	13,951	13,177
Total	**26,047**	**24,834**	**24,967**	**30,177**

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 ranges 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 ECL (2017: impairment under IAS 39), is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
1 to 3 months	11,552	9,143	9,247	14,997
3 months to 1 year	1,103	943	1,276	1,410
1 to 2 years	173	262	266	303
2 to 3 years	121	98	93	129
Over 3 years	23	87	134	161
	12,972	**10,533**	**11,016**	**17,000**

The movements in the ECL (2017: impairment under IAS 39) of trade receivables and bills receivable are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	409	445	346	460
Impairment losses, net (Note 6)	64	80	131	101
Amount written off as uncollectible	(21)	(35)	(83)	(59)
Acquisition of subsidiaries	7	9	120	—
Disposal of subsidiaries	(1)	(149)	(57)	—
Exchange realignment	(13)	(4)	3	2
As at 31 December/30 June	**445**	**346**	**460**	**504**

Impairment under IAS 39 for the year ended 31 December 2017 included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39. Provision for individually impaired trade receivables and a carrying amount before provision was approximately RMB445 million and RMB13,417 million respectively.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017
	RMB'M
Less than 1 year	12,655
1 to 2 years past due	173
2 to 3 years past due	121
Over 3 years past due	23
	12,972

As at 31 December 2018 and 2019 and 30 June 2020, impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The ECL 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 2018

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	2.68%	5.36%	5.42%	35.15%	3.18%
Gross carrying amount (*RMB'M*)	10,363	276	103	137	10,879
Expected credit losses (*RMB'M*)	278	15	5	48	346

As at 31 December 2019

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	3.89%	2.97%	5.30%	4.08%	3.88%
Gross carrying amount (*RMB'M*)	10,949	274	99	139	11,461
Expected credit losses (*RMB'M*)	426	8	5	6	445

As at 30 June 2020

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	2.44%	17.54%	6.11%	4.24%	2.80%
Gross carrying amount (*RMB'M*)	16,817	368	137	168	17,490
Expected credit losses (*RMB'M*)	410	65	8	7	490

Included in the Group's trade and bills receivables are amounts due from Haier Affiliates approximately RMB791 million, RMB768 million, RMB859 million and RMB747 million and amounts due from associates approximately RMB243 million, RMB430 million, RMB507 million and RMB653 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance at 30 June 2020 also included amount due from controlling shareholder of approximately RMB6 million. 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 Historical Financial Information.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group's bills receivable of approximately RMB10,123 million, RMB11,138 million, RMB12,706 million and RMB9,981 million were pledged to secure certain of the Group's bills payable (Note 30) respectively.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group's trade receivables of approximately RMB57 million, RMB1,356 million, RMB396 million and RMB1,280 million were pledged respectively.

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Trade receivables	303	224	1,183	5,604
Impairment	(15)	(1)	(1)	—
Trade receivables, net	288	223	1,182	5,604
Bills receivables	—	—	—	5
Total	**288**	**223**	**1,182**	**5,609**

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of ECL (2017: impairment under IAS 39), is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
1 to 3 months	254	196	1,146	2,199
3 months to 1 year	8	9	29	3,399
1 to 2 years	26	9	7	—
2 to 3 years	—	9	—	6
Over 3 years	—	—	—	—
	288	**223**	**1,182**	**5,604**

The movements in the ECL (2017: impairment under IAS 39) of trade receivables and bills receivable are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	14	15	1	1
Impairment losses/(reversal), net	1	(14)	—	(1)
As at 31 December/30 June	**15**	**1**	**1**	**—**

Impairment under IAS 39 for the year ended 31 December 2017 included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39. Provision for individually impaired trade receivables and a carrying amount before provision was approximately RMB303 million and RMB318 million respectively.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017
	RMB'M
Less than 1 year	262
1 to 2 years past due	26
2 to 3 years past due	—
Over 3 years past due	—
	288

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

As at 31 December 2018

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	0.39%	—	—	—	0.36%
Gross carrying amount (*RMB'M*)	206	9	9	—	224
Expected credit losses (*RMB'M*)	1	—	—	—	1

As at 31 December 2019

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	0.02%	3.95%	—	—	0.05%
Gross carrying amount (*RMB'M*)	1,175	8	—	—	1,183
Expected credit losses (*RMB'M*)	1	—	—	—	1

As at 30 June 2020

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	—	—	5.00%	—	0.01%
Gross carrying amount (*RMB'M*)	5,598	—	6	—	5,604
Expected credit losses (*RMB'M*)	—	—	—	—	—

Included in the Company's trade and bills receivables are amounts due from Haier Affiliates approximately RMB6 million, RMB16 million, RMB12 million and RMB Nil and amounts due from subsidiaries and fellow subsidiaries approximately RMB266 million, RMB208 million, RMB1,171 million and RMB5,604 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance at 30 June 2020 also included amount due from controlling shareholder of approximately RMB6 million. 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 Historical Financial Information.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Dividend receivables (Note a)	5	5	5	95
Interest receivables (Note a)	207	234	273	211
Taxes recoverable (Note a)	1,953	1,659	2,578	2,321
Prepaid land lease payments (Note a)	43	40	—	—
Prepayments (Note a)	614	594	1,273	1,720
Deposits (Note a)	86	5	3	108
Other receivables (Note a)	1,094	1,625	2,228	1,725
Loan to associates (Note a)	297	289	—	—
Right-of-return assets (Note a)	—	323	374	389
	4,299	4,774	6,734	6,569
Less: Impairment	(77)	(243)	(293)	(306)
	4,222	4,531	6,441	6,263
Non-current				
Long-term prepayments (Note b)	758	2,119	1,423	887
	4,980	**6,650**	**7,864**	**7,150**

Notes:

(a) Included in the Group's prepayments, deposits and other receivables are amounts due from Haier Affiliates of approximately RMB202 million, RMB317 million, RMB754 million and RMB805 million and amounts due from associates of approximately RMB5 million, RMB5 million , RMB71 million and RMB169 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance at 31 December 2019 and 30 June 2020 also included amounts due from controlling shareholders (and their affiliates) of approximately RMB215 million and RMB225 million, respectively. All of these amounts are unsecured, interest-free and repayable on demand.

Prepayments, deposits and other receivables mainly represent prepayments and the deposits with suppliers and other parties. The ECL 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 average loss rate applied as at the 31 December 2017, 2018 and 2019 and 30 June 2020 were 1.79%, 5.09%, 4.35% and 4.66% respectively. The credit quality of the financial assets included in prepayments, deposits and other receivables 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 approximately RMB360 million, RMB408 million, RMB185 million and RMB110 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The amounts are unsecured, interest-free and repayable on demand.

The movements in the ECL (2017: impairment under IAS 39) of prepayments and other receivables are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	98	77	243	293
Impairment losses, net (Note 6)	(7)	188	233	205
Amount written off as uncollectible	(14)	(5)	(179)	(192)
Acquisition of subsidiaries	1	5	—	—
Disposal of subsidiaries	—	(22)	(4)	—
Exchange realignment	(1)	—	—	—
As at 31 December/30 June	**77**	**243**	**293**	**306**

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Dividend receivables	971	1,912	3,836	173
Interest receivables	220	6	17	15
Taxes recoverable	—	2	—	—
Prepayments	20	29	31	1,510
Other receivables	104	272	2,134	2,998
	1,315	2,221	6,018	4,696
Less: Impairment	(1)	—	—	—
	1,314	**2,221**	**6,018**	**4,696**

Included in the Company's prepayments, deposits and other receivables are amounts due from subsidiaries and fellow subsidiaries of approximately RMB266 million, RMB1,409 million, RMB5,888 million and RMB4,467 million and amounts due from Haier Affiliates of approximately RMB4 million, RMB4 million, RMB10 million and RMB35 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance as at 30 June 2020 also included amount due from associate of approximately RMB78 million respectively. All of these amounts are unsecured, interest-free and repayable on demand.

Prepayments, deposits and other receivables 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 Company and is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at the 31 December 2017, 2018 and 2019 and 30 June 2020 were 0.07%, NA, NA and NA respectively. The credit quality of the financial assets included in prepayments, deposits and other receivables 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.

The movements in the ECL (2017: loss allowance) of prepayments and other receivables are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	17	1	—	—
Impairment losses, net	(16)	(1)	—	—
As at 31 December/30 June	**1**	**—**	**—**	**—**

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.30% to 0.40%, 0.30% to 0.40% and 0.30% to 0.40% and 0.30% to 0.40% per annum for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 respectively. The pledged deposits carry interest rate which range from 0.30% to 1.95%, 0.30% to 3.20% and 0.39% to 3.20% and 0.39% to 3.90% per annum for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 respectively. The pledged bank deposits will be released upon the settlement of relevant bills payables (Note 30).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately RMB1,271 million, RMB1,779 million, RMB1,204 million and RMB964 million have been pledged to secure bills payables (Note 30) respectively as at 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 respectively and are therefore classified as current assets.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Cash and bank balances	20,765	23,497	20,106	25,769
Time deposits	15,806	14,874	16,073	18,344
	36,571	38,371	36,179	44,113
Less: Cash and bank balances and time deposits pledged for:				
Bills payable (Note 30)	(1,271)	(1,779)	(1,204)	(964)
Bank guarantees	(8)	(31)	(7)	(41)
Pledged deposits	(1,279)	(1,810)	(1,211)	(1,005)
Other deposit with limited use:	—	—	(5)	(86)
Cash and cash equivalents	**35,292**	**36,561**	**34,963**	**43,022**

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the cash and bank balances and time deposits of the Group, denominated in RMB, amounted to approximately RMB24,434 million, RMB28,028 million and RMB26,505 million and RMB31,767 million respectively. 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 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 RMB13,584 million, RMB14,456 million, RMB16,566 million and RMB19,329 million placed with Haier Finance, as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively, 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 0.30% to 1.95%, 0.30% to 3.20% and 0.39% to 3.20% and 0.39% to 3.90% per annum for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 respectively. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in Note 14 to the Historical Financial Information.

29. ASSET AND DISPOSAL GROUP HELD FOR SALE AND ASSOCIATED LIABILITIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M (Notes a & b)	RMB'M (Notes c & d)	RMB'M (Note e)	RMB'M (Note e)
Assets	83	144	21	21
Liabilities	—	32	—	—

Notes:

(a) During the years ended 31 December 2015 and 2014, Qingdao Haier Refrigerator (International) Co., Ltd. and Qingdao Haier Air Conditioner Gen Corp., Ltd signed a demolition compensation agreement with the local government with regards to certain land use rights with the local government. The Group classified the land use rights as a disposal group held for sale and are presented separately in the consolidated statement of financial position, approximately RMB56 million. The land use right has been classified, and the transaction was completed for the year ended 31 December 2018.

*(b) During the year ended 31 December 2017, Fisher&Paykel Appliances Holdings Limited ("**FPA**"), one of subsidiaries of the Group, designed to disposal of plants and land use right, which are expected to be sold within twelve months, are carrying at a cost amounted to approximately RMB27 million and located in Mexico. The plants and land use right have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position, and the transaction was completed during the year ended 31 December 2018.*

(c) During the year ended 31 December 2018, the Group agreed to sell its entire 58.08% equity interest in Shengfeng Logistics Co., Ltd. to its non-controlling shareholders for approximately RMB798 million, of which 50.37% equity interest was disposed of in 2018, and the remaining 7.71% equity interest was disposed of in 2019 and is carried at fair value of approximately RMB106 million as at 31 December 2018 and 30 June 2019, and the transaction was completed during the year ended 31 December 2019.

(d) During the year ended 31 December 2018, the Group agreed to sell its entire 67.45% equity interest in Shanghai Guangfulai Co., Ltd., an indirect subsidiary, to its non-controlling shareholders for approximately RMB6 million, and the transaction was completed during the year ended 31 December 2019.

(e) During the year ended 31 December 2019, Qingdao Haier Information Plastic & Rubber Manufacture Co., Ltd. and Qingdao Household Appliance Technological Equipment Institute signed a demolition compensation agreement, with the fair value of approximately RMB5 million and RMB16 million respectively, with the local government with regards to certain land use rights with the local government. The land use right has been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

30. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Trade payables	26,347	27,899	33,751	29,649
Bills payables	16,715	20,038	19,308	19,522
	43,062	**47,937**	**53,059**	**49,171**

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Within 1 year	42,631	47,369	52,492	48,633
1 to 2 years	127	300	169	121
2 to 3 years	107	53	156	106
Over 3 years	197	215	242	311
	43,062	**47,937**	**53,059**	**49,171**

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 approximately RMB2,706 million, RMB3,502 million, RMB4,076 million and RMB2,754 million and amounts due from an associate of approximately RMB453 million, RMB598 million, RMB268 million and RMB630 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. Further details of the purchases from these related parties are set out in Note 14 to the Historical Financial Information.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to approximately RMB1,271 million, RMB1,779 million, RMB1,204 million and RMB964 million respectively (Note 28) and the Group's bills receivable amounting to approximately RMB10,123 million, RMB11,138 million, RMB12,706 million and RMB9,981 million respectively (Note 26).

31. OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Other payables and accruals	12,993	14,801	17,491	20,272
Refund liabilities:				
Volume rebate	1,332	1,357	1,695	1,695
Sales return	265	372	459	459
Deferred income (Note 35(a))	55	90	81	106
	14,645	**16,620**	**19,726**	**22,532**

Other payables are non-interest-bearing and repayable on demand.

Included in the Group's other payables and accruals are amounts due to Haier Affiliates of approximately RMB967 million, RMB719 million, RMB1,482 million and RMB1,854 million and amounts due to associates of approximately RMB6 million, RMB6 million, RMB17 million and RMB17 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance at 30 June 2020 also included amounts due to controlling shareholders (and their affiliates) of approximately RMB874 million. All of these amounts are unsecured, interest-free and repayable on demand.

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Other payables and accruals	21,348	21,908	26,999	30,847
Deferred income	8	8	8	8
	21,356	**21,916**	**27,007**	**30,855**

Other payables are non-interest-bearing and repayable on demand.

Included in the Company's other payables and accruals are amounts due to subsidiaries and fellow subsidiaries of approximately RMB20,977 million, RMB21,498 million, RMB26,417 million and RMB27,940 million and amounts due to Haier Affiliates of approximately RMB13 million, RMB15 million, RMB100 million and RMB117 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The balance as at 30 June 2020 also included amounts due to controlling shareholders (and their affiliates) of RMB874 million. All of these amounts are unsecured, interest-free and repayable on demand.

32. CONTRACT ASSETS/RECEIPT IN ADVANCE/CONTRACT LIABILITIES

(a) Contract assets

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current:				
Retention for rendering service	—	457	427	475
Impairment of contract assets	—	—	(4)	(4)
	—	**457**	**423**	**471**

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

The Group also typically agrees to a retention for 5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional at the end of warranty period.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

(b) Receipt in advance/Contract liabilities

The Group's engineering services contracts include payment schedules which require stage payments over the engineering period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum as part of its credit risk management policies. The Group typically require 10% of total contract sum for credit risk management.

The Group's receipt in advance/contract liabilities are analysed as follows:

Contract liabilities mainly include short-term advances received from customers for sales of products and provision of after-sales and logistics services and other value-added customer services.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Receipt in advance/contract liabilities				
Sale of goods	5,775	5,463	5,582	4,751
Rendering of services	115	70	1	6
	5,890	**5,533**	**5,583**	**4,757**

	2018	2019	2020
	RMB'M	RMB'M	RMB'M
Contract liabilities			
As at 1 January (Effect of adopting IFRS 15 on 2018)	5,890	5,533	5,583
Consideration received from customers over the amounts of revenue recognised	5,437	5,506	4,583
Less:			
Revenue recognised that was included in the contract during the year/period	(5,794)	(5,456)	(5,409)
As at 31 December/30 June	**5,533**	**5,583**	**4,757**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Receipt in advance	**5,890**	—	—	—

There were contract liabilities of approximately RMB5,794 million, RMB5,456 million and RMB5,409 million brought forward from the prior year and recognised during the years ended 31 December 2018 and 2019 and six months ended 30 June 2020 as revenue from continuing operations from sales of goods and rendering of services, respectively.

33. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest bearing borrowings is as follows:

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Bank loans — unsecured	7,632	2,110	5,286	16,521
Bank loans — secured	9,393	7,199	8,029	6,176
Other loans — unsecured	—	5	—	—
Other loans — secured	3	—	—	—
	17,028	9,314	13,315	22,697
Non-current				
Bank loans — unsecured	288	90	8,878	14,764
Bank loans — secured	15,841	15,545	4,492	9
	16,129	15,635	13,370	14,773
	33,157	**24,949**	**26,685**	**37,470**
Unsecured	7,920	2,205	14,164	31,285
Secured	25,237	22,744	12,521	6,185
	33,157	**24,949**	**26,685**	**37,470**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Analysed into:				
Loans repayable:				
Within one year or on demand	17,028	9,314	13,315	22,697
In the second year	7,925	4,551	6,599	4,637
In the third to fifth years, inclusive	8,151	11,035	6,723	10,088
Beyond five years	53	49	48	48
	33,157	**24,949**	**26,685**	**37,470**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Effective interest rate				
Current				
Bank loans — unsecured	0.13% to 9.15%	0.70% to 14.00%	0.45% to 11.95%	0.50% to 12.05%
Bank loans — secured	0.50% to 12.00%	0.09% to 4.35%	0.17% to 4.62%	0.50% to 6.00%
Other loans — unsecured	—%	4.30%	—%	—%
Other loans — secured	10.00%	—%	—%	—%
Non-current				
Bank loans — unsecured	1.35%	0.85% to 5.70%	0.80% to 3.61%	0.50% to 10.00%
Bank loans — secured	2.50% to 3.50%	1.29% to 3.45%	0.52% to 3.60%	2.50% to 3.00%

Included in the Group's interest-bearing borrowings of approximately RMB3,852 million, RMB1,388 million and RMB1,884 million and RMB3,400 million were borrowed from Haier Finance as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively, 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 loans ranges from 2.70% to 4.75%, 2.90% to 5.70% and 2.70% to 4.62% and 3.41% to 3.92% per annum for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 respectively. Further details of the interest expense attributable to the interest-bearing borrowings placed with Haier Finance are set out in Note 14 to the Historical Financial Information.

Certain of the Group's loans are guaranteed by:

(i) Haier Group, the controlling shareholder of the Company, approximately RMB21,038 million, RMB22,198 million, RMB12,175 million and RMB5,782 million as at 31 December 2017, 2018 and 2019 and 30 June 2020; and

(ii) Non-controlling shareholder of the Company, approximately RMB31 million, RMB22 million, RMBNil and RMBNil as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

Certain of the Group's loans are secured by:

(i) mortgages over the Group's land and buildings, which had an aggregate carrying amount as at 31 December 2017, 2018 and 2019 and 30 June 2020 of approximately RMB122 million, RMB55 million, RMB55 million and RMB56 million,

(ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value at 31 December 2017 of approximately RMB5 million; and

(iii) pledge of the Group's trade and bills receivables totalling approximately RMB4,830 million, RMB373 million and RMB212 million and RMB350 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

Taking into consideration that: (i) the Group have sufficient capital, cash and cash equivalent and bank facilities and credit to operate our business independently, and have sufficient internal resources to support our day-to-day operations. As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB43,022 million, (ii) the Group have access to Independent Third Party financial institutions and are not required to rely on any guarantee or mortgage from the Controlling Shareholder or its close associates to obtain the relevant financing. As at 30 July 2020, the Group had strategic cooperation agreements with a number of PRC commercial banks totalling over RMB116,564 million of credit line and we also had approximately RMB58,477 million of unutilised banking facilities. (iii) the Group has a strong financial position with our business operations established in relatively mature markets and (iv) the early release of certain guarantee provided by Haier Group would involve cost in time and expenses and would not be commercially reasonable, which would be detrimental to the best interests of the shareholders as a whole, the Directors are of the view that the Company has the ability to obtain financing independently, and the guarantee from Haier Group does not affect our financial independence.

Save as above, all guarantees provided to the Group by the Controlling Shareholder and/or its close associates have been released as at the Latest Practicable Date.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's interest-bearing borrowings were denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
United States dollar	28,604	21,350	14,033	19,571
Renminbi	4,125	2,755	2,055	8,549
Other currencies	428	844	10,597	9,350
	33,157	**24,949**	**26,685**	**37,470**

The Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current				
Bank loans — unsecured	—	1,500	—	4,500
Non-current				
Bank loans — unsecured	20	20	20	20
	20	**1,520**	**20**	**4,520**
Unsecured	**20**	**1,520**	**20**	**4,520**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Analysed into:				
Loans repayable:				
Within one year or on demand	—	1,500	—	4,500
In the second year	—	—	10	10
In the third to fifth years, inclusive	10	10	—	—
Beyond five years	10	10	10	10
	20	**1,520**	**20**	**4,520**

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Effective interest rate				
Current				
Bank loan — unsecured	N/A	4.57%	N/A	3.65%
Non-current				
Bank loan — unsecured	1.54%	1.54%	1.54%	1.54%

At the end of the reporting period, the Company's interest-bearing borrowings were denominated in Renminbi.

34. PROVISIONS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Product warranties	2,655	2,827	3,058	2,874
Legal claim	20	20	20	23
Others	—	—	313	337
	2,675	2,847	3,391	3,234
Portion classified as current liabilities	(1,624)	(1,640)	(1,992)	(1,822)
Non-current portion	**1,051**	**1,207**	**1,399**	**1,412**

The movements in product warranties are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	2,314	2,655	2,827	3,058
Additional provision (Note 6)	4,375	4,201	5,078	1,975
Acquisition of subsidiaries	4	—	172	—
Amounts utilised during the year/period	(4,019)	(4,051)	(5,035)	(2,163)
Exchange realignment	(19)	22	16	4
As at 31 December/30 June	**2,655**	**2,827**	**3,058**	**2,874**

The Group provides installation services and warranties of three to eight years to its customers for laundry appliances and water appliances under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on retail 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.

The movements in legal claim are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	16	20	20	20
Additional provision	3	—	2	3
Amounts utilised during the year/period	—	(1)	(1)	—
Exchange realignment	1	1	(1)	—
As at 31 December/30 June	**20**	**20**	**20**	**23**

35. DEFERRED INCOME AND PUT OPTION LIABILITIES

(a) Deferred Income

The movement of deferred income is set out below:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	343	497	645	709
Compensation received during the year/period	242	278	203	84
Credit to profit or loss	(88)	(131)	(109)	(42)
Exchange realignment	—	1	(30)	(3)
As at 31 December/30 June	497	645	709	748
Less: Current portion included in other payables and accruals (Note 31)	(55)	(90)	(81)	(106)
Non-current portion	**442**	**555**	**628**	**642**

Government grants mainly include subsidies income received by a subsidiary of the Group which operates in the Mainland China in accordance with the subsidy policies of local government authorities. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statements of profit or loss and other comprehensive income when received and no specific conditions are required. Those government grants recognised are recognised as other income, the government grants recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

(b) Put option liabilities

The put option liabilities as at arose from the put options granted to non-controlling shareholders of the Group's subsidiaries namely, GoT and Gooday Supplier Chain Technologies Co., Ltd. (former known as Qingdao Gooday Logistics Co., Ltd.) ("Gooday Logistics") to sell their respective interests in those entities to the Group at prices to be determined based on agreed formulae.

(a) During the year ended 31 December 2017, as part of the purchase agreement in relation to the Group's acquisition of a 51% interest in GoT, the seller, which has then become the non-controlling shareholder of GoT, was granted a put option to sell the remaining 49% interest in GoT which is valid no later than 31 December 2027, to the Group at a price to be determined based on an agreed formula. The put option liability is carried at fair value of approximately RMB55 million as at 31 December 2017, and is categorised in Level 3 of the fair value measurement.

(b) During the year ended 31 December 2017, as part of the joint venture agreement in relation to the capital contribution to Gooday Logistics, the new investors, which have then become the non-controlling shareholders of Gooday Logistics, were granted put options which is valid no later than 31 December 2017, to sell their interest in Gooday Logistics to the Group at prices to be determined based on an agreed formula. The put option liabilities are carried at fair value of approximately RMB862 million as at 31 December 2017, and is categorised in Level 2 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 approximately RMB55 million, RMB1,588 million and RMB149 million, respectively. All are valid no later than 31 December 2027.

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.

The key input for the put option granted to the non-controlling interest shareholders of Gooday Logistics is the corporate bond rate of Gooday Logistics; which can be observed in the market; as a result, the Company determined the fair vale measurement is a second-level fair value measurement.

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 approximately RMB55 million and categorised in Level 3 of the fair value measurement.

The put option liabilities as at 30 June 2020 arose from the put option granted to a non-controlling shareholder of 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 approximately RMB55 million and categorised in Level 3 of the fair value measurement.

36. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the Track Record Period are as follows:

Deferred tax assets

	Provisions	Accruals and payables	Unrealised profits	Others	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017	206	1,707	306	11	2,230
Deferred tax (charged)/credited to the statement of profit or loss during the year, net	(20)	(49)	112	548	591
Deferred tax credited to the statement of other comprehensive income during the year	—	—	—	23	23
Acquisition of subsidiaries (Note 40)	—	—	—	2	2
Exchange realignment	—	—	—	10	10
As at 31 December 2017 and 1 January 2018	186	1,658	418	594	2,856
Deferred tax credited/(charged) to the statement of profit or loss during the year, net	114	(289)	46	105	(24)
Acquisition of subsidiaries (Note 40)	—	—	—	5	5
Disposal of subsidiaries (Note 41)	—	—	—	(15)	(15)
As at 31 December 2018	300	1,369	464	689	2,822
Effect of adoption of IFRS 16	—	27	—	—	27
As at 1 January 2019	300	1,396	464	689	2,849
Deferred tax credited to the statement of profit or loss during the year, net	30	42	184	150	406
Acquisition of subsidiaries (Note 40)	—	261	—	—	261
Disposal of subsidiaries (Note 41)	—	(59)	—	—	(59)
Exchange realignment	—	—	—	9	9
As at 31 December 2019 and 1 January 2020	330	1,640	648	848	3,466
Deferred tax (charged)/credited to the statement of profit or loss during the period, net	(66)	40	(207)	116	(117)
Exchange realignment	—	—	—	(28)	(28)
As at 30 June 2020	**264**	**1,680**	**441**	**936**	**3,321**

Deferred tax liabilities

	Withholding taxes	Differences of depreciation and amortisation	Others	Total
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017	7	542	185	734
Deferred tax credited to the statement of profit or loss during the year, net	155	153	32	340
Deferred tax credited to the statement of other comprehensive income during the year	—	—	30	30
Acquisition of subsidiaries (Note 40)	—	—	8	8
As at 31 December 2017 and 1 January 2018	162	695	255	1,112
Deferred tax (charged)/credited to the statement of profit or loss during the year, net	(84)	424	(51)	289
Deferred tax credited to the statement of other comprehensive income during the year	—	—	8	8
Disposal of subsidiaries (Note 41)	—	—	(2)	(2)
Exchange realignment	—	—	(2)	(2)
As at 31 December 2018 and 1 January 2019	78	1,119	208	1,405
Deferred tax credited to the statement of profit or loss during the year, net	—	263	730	993
Deferred tax charged to the statement of other comprehensive income during the year	—	—	(6)	(6)
Acquisition of subsidiaries (Note 40)	—	653	—	653
Disposal of subsidiaries (Note 41)	—	(4)	—	(4)
As at 31 December 2019 and 1 January 2020	78	2,031	932	3,041
Deferred tax credited to the statement of profit or loss during the period, net	—	92	19	111
Deferred tax charged to the statement of other comprehensive income during the period	—	—	(50)	(50)
As at 30 June 2020	**78**	**2,123**	**901**	**3,102**

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:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Net deferred tax assets recognised in the consolidated statement of financial position	2,088	1,822	1,579	1,432
Net deferred tax liabilities recognised in the consolidated statement of financial position	(344)	(405)	(1,154)	(1,213)
Net deferred tax assets	**1,744**	**1,417**	**425**	**219**

Deferred tax assets have not been recognised in respect of certain tax losses as they have arisen in the certain 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 Mainland China 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 2017, 2018 and 2019 and 30 June 2020, the Group has recognised deferred tax liabilities of approximately RMB162 million, RMB78 million, RMB78 million and RMB78 million respectively in relation to withholding taxes for the earnings of the Mainland China subsidiaries to be remitted in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

37. SHARE CAPITAL

The movements of the Company's issued share capital during the Track Record Period are as follows:

	Number of shares	Share capital
	'M	RMB'M
As at 1 January 2017, 31 December 2017 and 1 January 2018	6,098	6,098
Issuance of D shares (Note a)	271	271
As at 31 December 2018 and 1 January 2019	6,369	6,369
Converted convertible bonds to shares (Note b)	211	211
As at 31 December 2019, 1 January 2020 and 30 June 2020	**6,580**	**6,580**

Notes:

(a) *As approved by the CSRC in October 2018, the Company issued 271,013,973 new D Shares (including 265,000,000 D Shares from the initial offering and 6,013,973 D Shares over-allotted) each with a par value of RMB1.00, which were listed on the China Europe International Exchange AG D-Share Market and quoted on the Frankfurt Stock Exchange (stock code: 690D).*

(b) *Upon conversion of convertible corporate bonds in December 2019, a total of 211,149,927 A shares were converted. For conversion details, please refer to Note 44 to the Historical Financial Information.*

(c) *All shares issued are at par value at RMB1.*

38. 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.

	Weighted average exercise price RMB per share	Number of awarded shares '000
As at 1 January 2017	4.57	228
Forfeited/lapsed of restricted share	4.57	(228)
As at 31 December 2017	—	—

39. RESERVES AND NON-CONTROLLING INTERESTS

(a) Reserves

The amounts of the Group's reserves and the movements therein for the Track Record Period are presented in the consolidated statement of changes in equity of the Historical Financial Information.

(i) According to the relevant rules and regulations in the People's Republic of China ("**PRC**"), subsidiaries of the Company established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the reserve fund until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Reserve fund can be used to set off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(ii) Convertible and exchangeable bonds reserves component reserve represents the value of the unexercised equity component of convertible and exchangeable bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible and exchangeable bonds. If the convertible and exchangeable bonds are not converted at the maturity date, the Convertible and exchangeable bonds reserves will not be reclassified subsequently to profit or loss.

(iii) Exchange differences on translation of financial statements reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations.

(b) Non-controlling interests

Reconciliation of movements of non-controlling interests are as follows:

	Share of net assets of subsidiaries	Conversion of convertible and exchangeable bond of a subsidiary	Total
	RMB'M	RMB'M	RMB'M
As at 1 January 2017	11,373	55	11,428
Share of profit for the year	2,199	—	2,199
Capital injection of non-controlling interests	7	—	7
Dividends paid to non-controlling interests	(285)	—	(285)
Disposal of subsidiaries	(12)	—	(12)
Changes in ownership interests in subsidiaries that do not result in a loss of control	211	—	211
Conversion of convertible and exchangeable bonds of a subsidiary	1,278	(55)	1,223
Other changes	24	—	24
As at 31 December 2017	14,795	—	14,795
Effect of adoption of IFRS 9 and IFRS 15	(7)	—	(7)
As at 1 January 2018 (As restated)	14,788	—	14,788
Share of profit for the year	2,532	—	2,532
Capital injection of non-controlling interests	462	—	462
Dividends paid to non-controlling interests	(569)	—	(569)
Disposal of subsidiaries	(288)	—	(288)
Acquisition of non-controlling interests	(457)	—	(457)
Change in ownership interests in subsidiaries that do not result in a loss of control	18	—	18
Other changes	(420)	—	(420)
As at 31 December 2018	16,066	—	16,066

	Share of net assets of subsidiaries	Conversion of convertible and exchangeable bond of a subsidiary	Total
	RMB'M	RMB'M	RMB'M
As at 31 December 2018	16,066	—	16,066
Effect of adoption of IFRS 16	(14)	—	(14)
As at 1 January 2019 (As restated)	16,052	—	16,052
Share of profit for the year	4,153	—	4,153
Capital injection of non-controlling interests	737	—	737
Dividends paid to non-controlling interests	(579)	—	(579)
Disposal of subsidiaries	(1,904)	—	(1,904)
Change in ownership interests in subsidiaries that do not result in a loss of control	(1,264)	—	(1,264)
Acquisition of non-controlling interests	(121)	—	(121)
Other changes	29	—	29
As at 31 December 2019 and 1 January 2020	17,103	—	17,103
Share of profit for the period	790	—	790
Capital injection of non-controlling interests	804		804
Dividend payable to non-controlling interests	(680)	—	(680)
Change in ownership interests in subsidiaries that do not result in a loss of control	155	—	155
Acquisition of subsidiaries	5	—	5
As at 30 June 2020	**18,177**	**—**	**18,177**

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of Subsidiary	Proportion of ownership interests held by non-controlling interests	Profit allocated to non-controlling interests	Accumulated non-controlling interests
		RMB'M	RMB'M
As at 31 December 2017			
Haier Electronics Group Co., Ltd	56.31%	2,090	13,933
Individually immaterial subsidiaries with non-controlling interest		110	862
		2,200	**14,795**
As at 31 December 2018			
Haier Electronics Group Co., Ltd	55.04%	2,286	15,061
Individually immaterial subsidiaries with non-controlling interest		130	1,005
		2,416	**16,066**
As at 31 December 2019			
Haier Electronics Group Co., Ltd	54.13%	4,079	16,109
Individually immaterial subsidiaries with non-controlling interest		50	994
		4,129	**17,103**
As at 30 June 2020			
Haier Electronics Group Co., Ltd	54.32%	793	16,364
Individually immaterial subsidiaries with non-controlling interest		38	1,813
		831	**18,177**

Haier Electronics Group Co., Ltd is listed on the stock exchange of Hong Kong. Although the Group has only 43.69%, 44.96%, 45.87% and 45.68% ownership in Haier Electronics Group Co., Ltd as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Haier Electronics Group Co., Ltd on the basis of the Group's absolute size of shareholding and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 56.31%, 55.04%, 54.13% and 54.32% ownership interests in Haier Electronics Group Co., Ltd as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively are owned by thousands of shareholders that are unrelated to the Group, none individually holding more than 1%.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Haier Electronics Group Co., Ltd ("**HEG**")

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Current assets	**34,783**	**37,333**	**35,533**	**33,329**
Non-current assets	**8,872**	**10,544**	**14,525**	**14,863**
Current liabilities	**(18,978)**	**(19,215)**	**(19,012)**	**(16,891)**
Non-current liabilities	**(1,646)**	**(2,476)**	**(1,407)**	**(1,432)**
Equity attributable to owners of HEG	**20,806**	**24,010**	**29,221**	**29,342**
Non-controlling interests	**2,225**	**2,176**	**418**	**527**

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M (unaudited)	RMB'M
Revenue	78,740	76,336	75,880	36,954	35,075
Expenses	(75,245)	(72,238)	(68,362)	(35,017)	(33,677)
Profit for the year/period	**3,495**	**4,098**	**7,518**	**1,937**	**1,398**
Profit attributable to:					
owners of HEG	3,332	3,845	7,351	1,836	1,335
non-controlling interests	163	253	167	101	63
Profit for the year/period	**3,495**	**4,098**	**7,518**	**1,937**	**1,398**
Other comprehensive (loss)/income for the year/period	**(116)**	**226**	**91**	**(32)**	**(100)**
Total comprehensive income attributable to:					
owners of HEG	3,281	3,947	7,394	1,804	1,235
non-controlling interests	98	377	215	101	63
Total comprehensive income for the year/period	**3,379**	**4,324**	**7,609**	**1,905**	**1,298**
Net cash inflow from operating activities	**4,166**	**4,352**	**4,705**	**2,219**	**1,893**
Net cash (outflow)/inflow from investing activities	**(2,538)**	**(4,131)**	**(3,325)**	**(797)**	**241**
Net cash inflow/(outflow) from financing activities	**772**	**(529)**	**(1,602)**	**(496)**	**92**
Net cash inflow/(outflow) in cash and cash equivalents	**2,400**	**(308)**	**(222)**	**926**	**2,226**

40. BUSINESS COMBINATIONS

(a) GoT

On 17 May 2017, the Group acquired a 51% interest in GoT, which is engaged in the manufacturing and sale of water appliances. The acquisition was made as part of the Group's strategy to further develop its water appliances business. The purchase consideration was in the form of cash which comprised (i) a lump-sum payment of approximately EUR7 million (equivalent to approximately RMB52 million); and (ii) a contingent consideration to be determined with reference to GoT's annual operating results from 2017 to 2019, which is included in the "other non-current liabilities" in the consolidated statement of financial position. As part of the purchase agreement, the Group was granted a call option to purchase from the seller the remaining 49% interest in GoT which is valid until and as long as the seller still holds any equity interest in GoT; while the seller was granted a put option to sell to the Group the remaining 49% interest in GoT which is valid no later than 31 December 2027. The call option and the put option are included in "other non-current assets" and "put option liabilities", respectively, in the consolidated statements of financial position.

The Group has elected to measure the non-controlling interests in GoT at the non-controlling interest's proportionate share of GoT's identifiable net assets.

The fair values of the identifiable assets and liabilities of GoT as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	167
Other intangible assets	7
Deferred tax assets	2
Inventories	29
Trade and other receivables	33
Prepayments, deposits and other receivables	14
Trade and bills payables	(10)
Other payables and accruals	(30)
Interest-bearing borrowings	(86)
Provisions	(4)
Deferred income	(3)
Deferred tax liabilities	(8)
Total identifiable net assets at fair value	111
Non-controlling interests	(54)
	57
Goodwill on acquisition	3
	60

	RMB'M
Satisfied by:	
Cash consideration	52
Other non-current assets	(6)
Other non-current liabilities — contingent consideration (Note (i))	5
Put option liabilities (Note (ii))	9
	60

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB33 million and RMB14 million, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB34 million and RMB4 million, respectively, of which trade and bills receivables of approximately RMB1 million are expected to be uncollectible.

The Group incurred transaction costs of approximately RMB6 million 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'M
Cash consideration	(52)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(52)
Transaction costs of the acquisition included in cash flows used in operating activities	(6)
	(58)

Since the acquisition, GoT contributed approximately RMB144 million to the Group's revenue and loss of approximately RMB1 million to the consolidated profit for the year ended 31 December 2017.

Note:

(i) Contingent consideration

The initial amount of contingent consideration recognised was approximately RMB5 million, which was determined using the Monte Carlo Simulation model and is categorised in Level 3 of the fair value measurement, as further detailed in Note 46 to the Historical Financial Information. The consideration is due for final measurement and payment to the seller in 2020.

Significant unobservable valuation inputs for the fair value measurement of the contingent consideration are as follows:

EBITDA of GoT	EUR2,004,000 to EUR4,713,000
Discount rate	1.23%

A significant increase/(decrease) in EBITDA of GoT would result in a significant increase/(decrease) in the fair value of the contingent consideration. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) in the fair value of the contingent consideration.

(ii) Put option liabilities

The indirect subsidiary of the Group recognised of approximately RMB9 million, represented the fair value of the contractual rights to acquire remaining 49% equity interest in GoT.

The initial fair value of the put option liabilities recognised was approximately RMB55 million at the Group, which was determined using the present value of the redemption amount and is categorised in Level 3 of the fair value measurement, as detailed in Note 46 at the Historical Financial Information.

The fair value of put options among indirect subsidiary and the Group as shown below:

	RMB'M
Put options liabilities recognised at subsidiary level	9
Adjustment in relation to put option liabilities at consolidation level	46
Put options recognised at consolidated financial statements	55

(b) Shanghai Grand Logistics Co., Ltd ("**Grand Logistics**")

On 31 August 2017, the Group increased its interest in Grand Logistics from 17% to 57% at RMBNil consideration in accordance with the equity interest adjustment clause (classified as a derivative financial instrument under other non-current assets) as stipulated in the investment agreement entered into in 2015. Grand Logistics was a then 17% owned investee company classified as an AFS investment, which is engaged in the provision of cold-chain logistics services. The transaction was made as part of the Group's strategy to expand its logistics service business.

The Group has elected to measure the non-controlling interests in Grand Logistics at the noncontrolling interest's proportionate share of Grand Logistics's identifiable net assets.

The fair values of the identifiable assets and liabilities of Grand Logistics as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	22
Other intangible assets	1
AFS financial assets	1
Trade and bill receivables	39
Prepayments, deposits and other receivables	18
Cash and cash equivalents	3
Trade and bills payables	(33)
Other payables and accruals	(16)
Interest-bearing borrowings	(34)
Total identifiable net assets at fair value	1
Non-controlling interests	(2)
	(1)
Goodwill on acquisition	29
	28
Satisfied by:	
AFS financial assets	8
Other non-current assets	20
	28

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to approximately RMB39 million and RMB15 million, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB40 million and RMB15 million, respectively, of which trade and bills receivables of approximately RMB1 million is expected to be uncollectible.

The Group incurred transaction costs of approximately RMB724,000 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'M
Cash consideration	—
Cash and bank balances acquired	3
Net inflow of cash and cash equivalents included in cash flows from investing activities	3
Transaction costs of the acquisition included in cash flows used in operating activities	(1)
	2

Since the acquisition, Grand Logistics contributed approximately RMB67 million to the Group's revenue and loss of approximately RMB8 million to the consolidated profit for the year ended 31 December 2017.

(c) Peiji Logistics

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 approximately RMB163 million during the year ended 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:

	RMB'M
Property, plant and equipment	4
Deferred tax assets	5
Long-term prepayments	2
Inventories	23
Trade and bill receivables	449
Prepayments, deposits and other receivables	86
Other current assets	2
Cash and bank balances	11
Trade and bills payables	(315)
Other payables and accruals	(73)
Interest-bearing borrowings	(165)
Tax payable	(18)
Contract liabilities	(6)
Payroll obligations, provisions for pensions and similar obligations	(4)
Total identifiable net assets at fair value	1
Non-controlling interests	1
	2
Goodwill on acquisition	161
	163
Satisfied by:	
Cash consideration	**163**

The fair values of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB449 million and RMB86 million, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB465 million and RMB91 million, respectively, of which trade and bills receivables and other receivables of approximately RMB16 million and RMB5 million, respectively, are expected to be uncollectible.

The Group incurred transaction costs of approximately RMB6 million 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'M
Cash consideration	(163)
Cash and bank balances acquired	11
Net outflow of cash and cash equivalents included in cash flows from investing activities	(152)
Transaction costs of the acquisition included in cash flows used in operating activities	(6)
	(158)

Since the acquisition, Peiji Logistics contributed approximately RMB672 million to the Group's revenue and RMB27 million to the consolidated profit for the year ended 31 December 2018.

(d) Candy

On 4 January 2019, the Group made a capital contribution of approximately RMB3,666 million (equivalent to approximately EUR467 million) to acquire a 100% equity interest in Candy held by Beppe Fumagalli, Aldo Fumagalli and Albe Finanziaria S.R.L in total. through the overseas wholly-owned subsidiary HAIER Europe Appliance Holding B.V. (hereinafter referred to as "**Haier Europe**"). Since the completion of the transaction, Haier Europe directly holds 100% of Candy. The Company indirectly holds 100% of Candy. The acquisition was made as part of the Group's strategy to further develop its home appliance brand.

The fair values of the identifiable assets and liabilities of Candy as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	1,483
Other intangible assets	1,790
Interests in associates	37
Deferred tax assets	261
Other non-current assets	82
Inventories	1,958
Trade and other receivables	1,317
Prepayments, deposits and other receivables	627
Cash and bank balances	976
Trade and bills payables	(3,036)
Other payables and accruals	(445)
Provision	(258)
Interest-bearing borrowings	(2,101)
Contract liabilities	(14)
Tax payable	(145)
Deferred tax liabilities	(653)
Other non-current liabilities	(100)
Long-term payables	(127)
Total identifiable net assets at fair value	1,652
Non-controlling interests	(26)
	1,626
Goodwill on acquisition	2,040
	3,666
Satisfied by:	
Cash consideration	**3,666**

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB1,317 million and RMB627 million (equivalent to approximately EUR167 million and EUR79 million), respectively.

The Group incurred transaction costs of approximately RMB8 million (equivalent to approximately EUR1 million) 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'M
Cash consideration	(3,666)
Cash and bank balances acquired	976
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,690)
Transaction costs of the acquisition included in cash flows used in operating activities	(8)
	(2,698)

Since the acquisition, Candy contributed approximately RMB122 million (equivalent to approximately EUR16 million) to the consolidated loss for the year ended 31 December 2019.

(e) Shanhai Feisheng International Logistics Co., Ltd. ("**Feisheng Logistics**")

On 12 April 2019, the Group made a capital contribution of approximately RMB20 million and a loan of approximately RMB22 million to acquire a 51% equity interest in 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 approximately RMB53 million , and the corresponding amount shared by the non-controlling shareholders was approximately RMB26 million 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 identifiable net assets.

The fair values of the identifiable assets and liabilities of Feisheng Logistics as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	2
Other intangible assets	2
Other current assets	3
Trade and bill receivables	60
Prepayments, deposits and other receivables	14
Cash and bank balances	5
Trade and bills payables	(15)
Other payables and accruals	(38)
Interest-bearing borrowings	(15)
Provisions	(2)
Lease liabilities	(3)
Other current liabilities	(2)
Payroll obligations, provisions for pensions and similar obligations	(2)
Total identifiable net assets at fair value	9
Non-controlling interests	(4)
	5
Goodwill on acquisition	21
	26
Satisfied by:	
Cash consideration	20
Other non-current liabilities	6
	26

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB60 million and RMB14 million, respectively.

The Group incurred transaction costs of approximately 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 approximately RMB6 million 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	RMB7 million to RMB14 million
Net income volatility	15.87%
Discount rate	2.37%

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	(20)
Cash and bank balances acquired	5
Net outflow of cash and cash equivalents included in cash flows from investing activities	(15)
Transaction costs of the acquisition included in cash flows used in operating activities	—
	(15)

Since the acquisition, Feisheng Logistics contributed approximately RMB2 million to the consolidated profit for the year ended 31 December 2019, which was included in the discontinued operation of the Group.

(f) Lejia IOT

On 23 January 2020, the Group entered into acquisition agreements with unrelated third parties to acquire 75.96% of the equity interest in Lejia IOT at a cash consideration of approximately RMB562 million. The Group has elected to measure the non-controlling interests in Lejia IOT at the non-controlling interest's proportionate share of Lejia IOT's identifiable net assets.

The fair values of the identifiable assets and liabilities of Lejia IOT as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	51
Other intangible assets	46
Trade and bill receivables	15
Prepayments, deposits and other receivables	8
Cash and bank balances	224
Trade and bills payables	(79)
Other payables and accruals	(75)
Contract liabilities	(20)
Interest-bearing borrowings	(1)
Tax payable	(1)
Deferred incomes	(2)
Total identifiable net assets at fair value	166
Non-controlling interests	(36)
	130
Goodwill on acquisition	448
	578
Satisfied by:	
Cash consideration	562
Other non-current liabilities	16
	578

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	(562)
Cash and bank balances acquired	224
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(338)**

Since the acquisition, Lejia IOT contributed approximately RMB111 million to the Group's revenue and RMB7 million to the consolidated loss for the six months ended 30 June 2020.

41. DISPOSAL OF SUBSIDIARIES

	Year ended 31 December		
	2017	2018	2019
	RMB'M	RMB'M	RMB'M
Net assets disposed of:			
Property, plant and equipment	1	273	2,091
Right-of-use assets	—	—	2,053
Prepaid land lease payments	13	57	—
Goodwill	—	317	285
Other intangible assets	—	2	56
Interests in associates	—	93	—
Long-term prepayments	—	—	76
Deferred tax assets	—	15	59
Other non-current assets	—	10	—
Inventories	31	56	—
Trade and bills receivables	36	401	2,216
Prepayments, deposits and other receivables	36	158	473
Pledged deposits	—	—	7
Cash and bank balances	11	70	938
Other financial assets	—	—	2,074
Asset and disposal group held for sale	—	—	124
Trade and bills payables	(18)	(138)	(2,096)
Other payables and accruals	(39)	(71)	(775)
Receipt in advance	(14)	—	—
Contract liabilities	—	(58)	(58)
Interest-bearing borrowings	—	(130)	(12)
Lease liabilities	—	—	(1,023)
Tax payable	(8)	(4)	(82)
Liabilities directly associated to the assets classified as held for sale	—	—	(14)
Deferred income	—	(11)	(88)
Deferred tax liabilities	—	(2)	(4)
Put option liabilities	—	—	(1,771)
Exchange fluctuation reserve	—	1	—
Non-controlling interests	(12)	(287)	(1,904)
	37	752	2,625
(Loss)/gain on disposal of subsidiaries, net	(2)	79	(2)
Gain recognised on the remeasurement of fair value of the discontinued operation	—	—	3,191
Gain recognised on disposal of the discontinued operation	—	—	637
	35	**831**	**6,451**

	Year ended 31 December		
	2017	2018	2019
	RMB'M	RMB'M	RMB'M
Satisfied by:			
Cash	34	703	1
Other receivables	1	22	—
Assets classified as held for sale	—	106	—
Interests in associates	—	—	5,376
Deemed distributions for business combination under common control	—	—	1,074
	35	**831**	**6,451**

An analysis of the net cash and cash equivalents receivable/(payable) in respect of the material disposal of subsidiaries is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'M	RMB'M	RMB'M
Cash consideration receivable	34	703	1
Cash and bank balance disposed of	(11)	(70)	(938)
Net cash and cash equivalents receivable/(payable) in respect of the disposal of subsidiaries	**23**	**633**	**(937)**

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019 and six months ended 30 June 2020, the Group had non-cash additions to right-of-use assets of approximately RMB1,533 million and RMB595 million and lease liabilities of approximately RMB1,469 million and RMB595 million respectively, in respect of lease arrangements for land and building, machinery and equipment, motor vehicles and furniture, fixtures and equipments.

During the year ended 31 December 2018, the Group purchased property, plant and equipment by endorsing bills receivable with an aggregate carrying amount of approximately RMB15 million (2017: approximately RMB44 million).

(b) Changes in liabilities arising from financing activities

	Other payables and accruals in relation to financing activities	Interest-bearing borrowings	Lease liabilities	Convertible and exchangeable bonds	Finance lease
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017	301	38,729	—	1,223	17
Changes from financing cash flows	(2,906)	(4,640)	—	6,796	(18)
Foreign exchange movement	(155)	(1,052)	—	(166)	
Acquisition of subsidiaries	—	120	—	—	—
Interest expense	1,383	—	—	12	1
Disposal of subsidiaries	(13)	—	—	—	—
Dividends payable to the shareholders	1,512	—	—	—	—
Dividends payable to non-controlling interests	285	—	—	—	—
Conversion of convertible and exchangeable bonds	—	—	—	(1,223)	—
Equity portion of convertible and exchangeable bond	—	—	—	(431)	—
As at 31 December 2017 and 1 January 2018	407	33,157	—	6,211	—
Changes from financing cash flows	(3,884)	(9,718)	—	2,983	—
Foreign exchange movement	(216)	1,486	—	303	
Acquisition of subsidiaries	15	165	—	—	—
Interest expense	1,305	—	—	168	—
Amounts reclassified as held for sale	—	(11)	—	—	—
Disposal of subsidiaries	(3)	(130)	—	—	—
Dividends payable to non-controlling interests settled by offsetting against trade receivables	(6)	—	—	—	—
Dividends payable to the shareholders	2,085	—	—	—	—
Dividends payable to non-controlling interests	569	—	—	—	—
Equity portion of convertible and exchangeable bond	—	—	—	(473)	—
As at 31 December 2018	272	24,949	—	9,192	—

	Other payables and accruals in relation to financing activities	Interest-bearing borrowings	Lease liabilities	Convertible and exchangeable bonds	Finance lease
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 31 December 2018	272	24,949	—	9,192	—
Effect of adoption of IFRS 16	—	—	3,153	—	—
As at 1 January 2019 (As restated)	272	24,949	3,153	9,192	—
Changes from financing cash flows	(4,202)	(550)	(894)	(9)	—
Foreign exchange movement	(33)	171	(255)	153	—
New leases	—	—	1,469	—	—
Acquisition of subsidiaries	—	2,116	—	—	—
Interest expense	1,364	—	125	274	—
Amounts reclassified as held for sale	—	11	—	—	—
Disposal of subsidiaries	(22)	(12)	(1,023)	—	—
Dividend payable to the shareholders	2,235	—	—	—	—
Dividends payable to non-controlling interests	579	—	—	—	—
Conversion of convertible bonds	—	—	—	(2,605)	—
As at 31 December 2019 and 1 January 2020	193	26,685	2,575	7,005	—
Changes from financing cash flows	(565)	10,429	(384)	—	—
Foreign exchange movement	27	355	21	138	—
New leases	—	—	595	—	—
Acquisition of subsidiaries	—	1	—	—	—
Interest expense	558	—	62	89	—
Disposal of subsidiaries	—	—	(23)	—	—
Dividend payable to the shareholders	2,467	—	—	—	—
Dividends payable to non-controlling interests	680	—	—	—	—
As at 30 June 2020	**3,360**	**37,470**	**2,846**	**7,232**	**—**
As at 31 December 2018	272	24,949	—	9,192	—
Effect of adoption of IFRS 16	—	—	3,153	—	—
As at 1 January 2019 (As restated)	272	24,949	3,153	9,192	—
Changes from financing cash flows	(245)	2,484	(412)	—	—
Foreign exchange movement	—	118	—	28	—
New leases	—	—	625	—	—
Acquisition of subsidiaries	—	1,803	—	—	—
Interest expense	643	—	74	134	—
Amounts reclassified as held for sale	—	11	—	—	—
Dividends payable to the shareholders	2,235	—	—	—	—
Dividends payable to non-controlling interests	535	—	—	—	—
As at 30 June 2019 (unaudited)	**3,440**	**29,365**	**3,440**	**9,354**	**—**

(c) Total cash outflow for leases

	Year ended 31 December	Six months ended 30 June	
	2019	2019	2020
	RMB'M	RMB'M (unaudited)	RMB'M
Within operating activities	(448)	(218)	(196)
Within financing activities	(894)	(412)	(384)
	(1,342)	**(630)**	**(580)**

43. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Foreign currency forward contracts	—	212	43	18
Forward currency option	—	7	—	—
	—	**219**	**43**	**18**

44. CONVERTIBLE AND EXCHANGEABLE BONDS

In the year 2014, the Group and the Alibaba Group agreed on a strategic collaboration through the Strategic Investments Agreements to further develop the Group's logistics business carried out by Gooday Logistics, an indirect wholly-owned subsidiary of the Company.

According to the Convertible and Exchangeable Bond Agreement entered into between the Group and the Alibaba Group on 20 March 2014, Haier Electronics Group Co., Ltd., issued convertible and exchangeable bonds (the "**CEB**") to Alibaba Group with a principal amount of HK$1,316,036,000 (equivalent to RMB1,055,023,000). The CEB is interest-bearing at a rate of 1.5% per annum and is due to mature on 20 March 2017. The CEB is convertible into ordinary shares of Haier Electronics Group Co., Ltd at a conversion price of HK$19.334 per share (the "**Conversion Right**") or exchangeable into the ordinary shares of Gooday Logistics (the "**Exchange Right**"), at the option of the CEB holders. If the Conversion Right is exercised, all interests accrued up to the date of the conversion will be payable and taken into account in arriving at the number of convertible shares. If the Exchange Right is exercised, no interest will be payable by Haier Electronics Group Co., Ltd.

The fair value of the liability component of the CEB amounting to approximately RMB1,000 million was estimated at the issuance date using an equivalent market interest rate for a similar bond without conversion and exchange options. During the year 31 December 2017, the CEB was fully converted by Alibaba Group.

On 21 November 2017, Harvest International Company, a wholly owned subsidiary of the Company, issued a principal amount of HK$8,000 million exchangeable bonds ("**EB**"). The EB matures at the five anniversaries of the issue date with zero coupon. In case of redemption or early redemption, the issuer will pay an amount representing gross yield of 1% per annum.

On 18 December 2018, the Company issued an approximately RMB3,000 million convertible corporate bond. The convertible bond issued was denominated in RMB and has a maturity of 6 years. The convertible corporate bond is convertible into ordinary shares of the Group at a conversion price of RMB14.55 per share. The holders have the option to convert between the date after 6 months of issue and date of maturity. The coupon rate is 0.2% in the first year, 0.5% in the second year, and 1.0% in the third year, 1.5% in the fourth year, 1.8% in the fifth year, and 2.0% in the sixth year.

At initial recognition, the equity component of the convertible corporate bond was separated from the liability component. The equity element is presented in equity heading "Convertible and exchangeable bonds reserve". The early redemption option is considered as closely related to the host debt. The effective interest rate of the liability component is 4.68%.

On 16 December 2019, the Company early redeemed certain portion of the convertible corporate bond at approximately RMB9 million from the bondholders. Since the closing price of the shares in 15 of the 30 consecutive trading days were not less than 120% of the conversion price. The conditions of early redemption have been satisfied. The remaining portion of the convertible corporate bond has been converted by the bondholders.

The Group

The fair value of the CEB on the issuance date were recognised into as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Liability component	6,300	8,807	6,300	6,300
Equity component (Note 39(a)(ii))	431	904	431	431
	6,731	**9,711**	**6,731**	**6,731**

The movement of the liability component of CEB is as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	1,223	6,211	9,192	7,005
Additions	6,300	2,507	—	—
Interest expense	12	168	274	89
Exercise of CEB	(1,223)	—	(2,605)	—
Redemption of CEB	—	—	(9)	—
Exchange realignment	(101)	306	153	138
As at 31 December/30 June	**6,211**	**9,192**	**7,005**	**7,232**

The Company

The fair value of the CEB on the issuance date were recognised into as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Liability component	—	2,507	—	—
Equity component	—	473	—	—
	—	**2,980**	**—**	**—**

The movement of the liability component of convertible bond is as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
At 1 January	—	—	2,511	—
Additions	—	2,507	—	—
Interest expense	—	4	103	—
Exercise of CEB	—	—	(2,605)	—
Redemption of CEB	—	—	(9)	—
At 31 December/30 June	**—**	**2,511**	**—**	**—**

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

Financial assets

As at 31 December 2017

	Derivative designated as hedges	Loans and receivables	AFS financial asset	Total
	RMB'M	RMB'M	RMB'M	RMB'M
AFS financial assets	—	—	1,415	1,415
Trade and bills receivables	—	26,047	—	26,047
Other receivables	—	3,479	—	3,479
Financial assets measured at amortised cost	—	2,302	—	2,302
Derivative financial instruments	492	—	—	492
Pledged deposits	—	1,279	—	1,279
Cash and cash equivalents	—	35,292	—	35,292
	492	**68,399**	**1,415**	**70,306**

As at 31 December 2018

	Financial assets at FVTPL-designated as such upon initial recognition	Financial assets at FVTOCI	Derivative designated as hedges	Financial assets measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	—	1,400	—	—	1,400
Trade and bills receivables	—	14,301	—	10,533	24,834
Other receivables	—	—	—	3,569	3,569
Financial assets at FVTPL	2,103	—	—	—	2,103
Financial assets measured at amortised cost	—	—	—	3,106	3,106
Derivative financial instruments	—	—	192	—	192
Pledged deposits	—	—	—	1,810	1,810
Cash and cash equivalents	—	—	—	36,561	36,561
	2,103	**15,701**	**192**	**55,579**	**73,575**

As at 31 December 2019

	Financial assets at FVTPL -designated as such upon initial recognition	Financial assets at FVTOCI	Derivative designated as hedges	Financial assets measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	—	1,396	—	—	1,396
Trade and bills receivables	—	13,951	—	11,016	24,967
Other receivables	—	—	—	4,791	4,791
Financial assets at FVTPL	603	—	—	—	603
Financial assets measured at amortised cost	—	—	—	4,313	4,313
Derivative financial instruments	—	—	96	—	96
Pledged deposits				1,211	1,211
Other deposits with limited use	—	—	—	5	5
Cash and cash equivalents	—	—	—	34,963	34,963
	603	**15,347**	**96**	**56,299**	**72,345**

As at 30 June 2020

	Financial assets at FVTPL -designated as such upon initial recognition	Financial assets at FVTOCI	Derivative designated as hedges	Financial assets measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	—	1,270	—	—	1,270
Trade and bills receivables	—	13,177	—	17,000	30,177
Other receivables	—	—	—	1,725	1,725
Financial assets at FVTPL	2,473	—	—	—	2,473
Financial assets measured at amortised cost	—	—	—	1,228	1,228
Derivative financial instruments	—	—	129	—	129
Pledged deposits	—	—	—	1,005	1,005
Other deposits with limited use	—	—	—	86	86
Cash and cash equivalents	—	—	—	43,022	43,022
	2,473	**14,447**	**129**	**64,066**	**81,115**

Financial liabilities

As at 31 December 2017

	Financial liabilities measured at FVTPL	Derivative designated as hedges	Financial liabilities measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	—	43,062	43,062
Other payables	—	—	12,993	12,993
Derivative financial instruments	—	272	—	272
Interest-bearing borrowings	—	—	33,157	33,157
Put option liabilities	917	—	—	917
CEB	—	—	6,211	6,211
Other non-current liabilities	5	—	40	45
	922	**272**	**95,463**	**96,657**

As at 31 December 2018

	Financial liabilities measured at FVTPL	Derivative designated as hedges	Financial liabilities measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	—	47,937	47,937
Other payables	—	—	14,801	14,801
Financial liabilities at FVTPL	219	—	—	219
Derivative financial instruments	—	36	—	36
Interest-bearing borrowings	—	—	24,949	24,949
Put option liabilities	1,792	—	—	1,792
CEB	—	—	9,192	9,192
Other non-current liabilities	5	—	40	45
	2,016	**36**	**96,919**	**98,971**

As at 31 December 2019

	Financial liabilities measured at FVTPL	Derivative designated as hedges	Financial liabilities measured at amortised cost	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	—	53,059	53,059
Other payables	—	—	17,491	17,491
Financial liabilities at FVTPL	43	—	—	43
Derivative financial instruments	—	99	—	99
Interest-bearing borrowings	—	—	26,685	26,685
Put option liabilities	55	—	—	55
CEB	—	—	7,005	7,005
Other non-current liabilities	—	—	61	61
Lease liabilities	—	—	2,575	2,575
	98	**99**	**106,876**	**107,073**

As at 30 June 2020

	Financial liabilities measured at FVTPL	Derivative designated as hedges	Financial liabilities measured at amortised cost	Total
	RMB'M		RMB'M	RMB'M
Trade and bills payables	—	—	49,171	49,171
Other payables	—	—	20,272	20,272
Financial liabilities at FVTPL	18	—	—	18
Derivative financial instruments	—	164	—	164
Interest-bearing borrowings	—	—	37,470	37,470
Put option liabilities	55	—	—	55
CEB	—	—	7,232	7,232
Other non-current liabilities	—	—	82	82
Lease liabilities	—	—	2,846	2,846
	73	**164**	**117,073**	**117,310**

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The management estimates the carrying amount financial instruments carried at amortised cost approximately its fair value.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other deposits with limited use, 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.

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 Marketing Co, Limited, which was designated at FVTOCI, 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 believes 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 FVTOCI are determined with reference to their respective latest available transaction prices.

(b) 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 financial assets at FVTPL 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.

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 was assessed to be insignificant.

Below is a summary of significant unobservable inputs (level 3 inputs of fair value measurement) to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017, 2018 and 2019 and 30 June 2020:

Type	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted investment at FVTOCI	Valuation multiples	Average P/E multiple of peers	2017: Nil 2018:15.61-15.92 2019:16.92-17.27 2020: 24.03-24.52	1% increase (decrease) in multiple would result in increase (decrease) in fair value by

Type	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
				2017: RMBNil 2018:RMB12,615,000 (RMB12,615,000) 2019:RMB12,429,000 (RMB12,429,000) 2020:RMB11,121,000 (RMB11,121,000)
		Discount for lack of marketability	2017: Nil 2018:14%-16% 2019:9%-11% 2020: 9%-11%	1% increase (decrease) in risk-free interest rate would result in decrease (increase) in fair value by 2017:RMBNil 2018: RMB14,841,000 (RMB14,841,000) 2019: RMB13,810,000 (RMB13,810,000) 2020:RMB12,356,000 (RMB12,356,000)
Put option liabilities	Monte Carlo Simulation	Risk-free interest rate	2017: 0.34%-2.34% 2018:0.47%-1.47%	1% increase (decrease) in risk-free interest rate would result in decrease (increase) in fair value by 2017:RMB780,000 (RMB343,000) 0.5% increase (decrease) in risk-free interest rate would result in decrease (increase) in fair value by 2018:RMB285,000 (RMB288,000)
		Median volatility of comparable companies	2017:10.40%-12.40% 2018:14.14%-16.14%	1% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by 2017:RMB351,000 (RMB991,000) 2018: RMB7,113,000 (RMB7,991,000)
		Weighted average cost of capital (WACC)	2017: Nil 2018:12.11%-14.11%	1% increase (decrease) in WACC would result in decrease (increase) in fair value by 2017: RMBNil 2018: RMB9,131,000 (RMB9,868,000)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2017

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
AFS financial assets	27	—	—	27
Derivative financial instruments	—	446	46	492
	27	**446**	**46**	**519**

As at 31 December 2018

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	20	—	1,380	1,400
Bills receivables	—	—	14,301	14,301
Financial assets at FVTPL	—	2,084	19	2,103
Derivative financial instruments	—	97	95	192
	20	**2,181**	**15,795**	**17,996**

As at 31 December 2019

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	22	—	1,374	1,396
Bills receivables	—	—	13,951	13,951
Financial assets at FVTPL	—	578	25	603
Derivative financial instruments	—	19	77	96
	22	**597**	**15,427**	**16,046**

As at 30 June 2020

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	19	—	1,251	1,270
Bills receivables	—	—	13,177	13,177
Financial assets at FVTPL	—	2,439	34	2,473
Derivative financial instruments	—	66	63	129
	19	**2,505**	**14,525**	**17,049**

Liabilities measured at fair value

As at 31 December 2017

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Derivative financial instruments	—	272	—	272
Put option liabilities	—	862	55	917
Contingent considerations	—	—	5	5
	—	**1,134**	**60**	**1,194**

As at 31 December 2018

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Financial liabilities at FVTPL	—	219	—	219
Derivative financial instruments	—	36	—	36
Put option liabilities	—	1,588	204	1,792
Contingent considerations	—	—	5	5
	—	**1,843**	**209**	**2,052**

As at 31 December 2019

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Financial liabilities at FVTPL	—	43	—	43
Derivative financial instruments	—	99	—	99
Put option liabilities	—	—	55	55
	—	**142**	**55**	**197**

As at 30 June 2020

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Financial liabilities at FVTPL	—	18	—	18
Derivative financial instruments	—	164	—	164
Put option liabilities	—	—	55	55
	—	**182**	**55**	**237**

The key input for the put option granted to the non-controlling interest shareholders of Gooday Logistics is the corporate bond rate of Gooday Logistics; which can be observed in the market; as a result, the Company determined the fair vale measurement is a second-level fair value measurement.

During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, CEB, 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.

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 and borrowing by the Group's other than the units' functional currencies (i.e., RMB or Hong Kong dollar).

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar, Japan dollars and Euro 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.

	2017		2018		2019		2020	
	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax
	%	RMB'M	%	RMB'M	%	RMB'M	%	RMB'M
If RMB strengthens against the United States dollar	5	687	5	719	5	563	5	802
If RMB weakens against the United States dollar	(5)	(687)	(5)	(719)	(5)	(563)	(5)	(802)
If RMB strengthens against the Japan dollar	5	(13)	5	12	5	17	5	20
If RMB weakens against the Japan dollar	(5)	13	(5)	(12)	(5)	(17)	(5)	(20)
If RMB strengthens against the Euro	5	(19)	5	(33)	5	381	5	304
If RMB weakens against the Euro	(5)	19	(5)	33	(5)	(381)	(5)	(304)

Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, and financial assets included in prepayments, deposits and other receivables 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, 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.

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, deposits and other receivables 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 2017, 2018 and 2019 and 30 June 2020, 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 26 and 27 to the Historical Financial Information.

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.

As at 31 December 2017

	On demand or no fixed terms of repayment	Within one year	Over one year	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	43,062	—	43,062
Other payables	12,993	—	—	12,993
Derivative financial instruments	—	23	249	272
Interest-bearing borrowings	—	17,028	16,129	33,157
Put option liabilities	—	—	917	917
CEB	—	—	6,211	6,211
Other non-current liabilities	—	—	45	45
	12,993	**60,113**	**23,551**	**96,657**

As at 31 December 2018

	On demand or no fixed terms of repayment	Within one year	Over one year	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	47,937	—	47,937
Other payables	14,801	—	—	14,801
Financial liabilities at FVTPL	—	219	—	219
Derivative financial instruments	—	36	—	36
Interest-bearing borrowings	—	9,314	15,635	24,949
Put option liabilities	—	—	1,792	1,792
CEB	—	—	9,192	9,192
Other non-current liabilities	—	—	45	45
	14,801	**57,506**	**26,664**	**98,971**

As at 31 December 2019

	On demand or no fixed terms of repayment	Within one year	Over one year	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	53,059	—	53,059
Other payables	17,491	—	—	17,491
Financial liabilities at FVTPL	—	43	—	43
Derivative financial instruments	—	99	—	99
Interest-bearing borrowings	—	13,315	13,370	26,685
Put option liabilities	—	—	55	55
CEB	—	—	7,005	7,005
Other non-current liabilities	—	—	61	61
Lease liabilities	—	595	1,980	2,575
	17,491	**67,111**	**22,471**	**107,073**

As at 30 June 2020

	On demand or no fixed terms of repayment	Within one year	Over one year	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Trade and bills payables	—	49,171	—	49,171
Other payables	20,272	—	—	20,272
Interest-bearing borrowings	—	22,697	14,773	37,470
Financial liabilities at FVTPL	—	18	—	18
Derivative financial instruments	—	164	—	164
Put option liabilities	—	—	55	55
CEB	—	—	7,232	7,232
Other non-current liabilities	—	—	82	82
Lease liabilities	—	631	2,215	2,846
	20,272	**72,681**	**24,357**	**117,310**

48. DEFINED BENEFIT OBLIGATIONS

The Group sponsors a funded defined benefit plan for qualifying employees of its subsidiaries in the United States and Japan. The defined benefit plan is administered by a separate fund that is legally separated from the entity. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

The defined benefit plan requires contributions from employees. Contributions are in the following two forms; one is based on the number of years of service and the other one is based on a fixed percentage of salary of the employees. Employees can also make discretionary contributions to the plan.

The plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk — The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk — The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

	As at 31 December									As at 30 June		
	2017			2018			2019			2020		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Defined pension benefit (Note (a))	87	569	656	89	457	546	84	578	662	66	581	647
Termination benefits	—	114	114	—	230	230	—	324	324	—	315	315
Provision for work-related injury compensation	—	267	267	—	248	248	—	220	220	—	224	224
Total	87	950	1,037	89	935	1,024	84	1,122	1,206	66	1,120	1,186

Note:

(a) *Defined pension benefit*

The Group's major defined benefit plans are in Japan and the United States. The plans are either contributory final salary pension plans or contributory career average pay plans or non-contributory guaranteed return defined contribution plans.

Summary of the (net assets)/net liabilities of the defined pension obligations are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Haier Asia Co., Ltd. pension plans	(4)	(2)	(34)	(34)
Roper Corporation pension plans	145	118	138	154
Haier U.S. Appliances Solutions, Inc. post retirement plan	384	326	310	290
Haier U.S. Appliances Solutions, Inc. pension plans	107	83	73	69
Total net liabilities of the defined pension obligations at United States and Japan	632	525	487	479
Others	24	21	175	168
	656	546	662	647

The summary net liabilities of the defined pension obligations at United States and Japan are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Presents value of defined benefit obligation	1,165	1,052	1,039	1,019
Fair value of plan assets	(533)	(527)	(552)	(540)
	632	525	487	479

The major amounts recognised in the consolidated statement of financial position and the movements in the net defined pension benefit over the Track Record Period are as follows:

(1) Haier Asia Co., Ltd pension plan

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Discount rates	0.50%	0.50%	0.50%	0.50%
Compensation increases	2.00%	2.00%	2.00%	2.00%

Movements in the present value of the defined benefit obligations during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	314	303	324	334
Current service cost	10	9	9	—
Interest cost	1	1	1	—
Exchange realignment on foreign plans	(8)	20	11	10
Benefits paid	(14)	(9)	(11)	—
As at 31 December/30 June	**303**	**324**	**334**	**344**

Movements in the fair value of the plan assets during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	300	307	326	368
Interest income	1	1	6	—
Remeasurement (gains)/losses:				
Return on plan assets (excluding amounts included in net interest expense)	13	(9)	16	—
Contributions from the employer	16	15	15	—
Exchange realignment on foreign plans	(9)	21	13	10
Benefits paid	(14)	(9)	(8)	—
As at 31 December/30 June	**307**	**326**	**368**	**378**

The (net asset)/net liabilities of the defined benefit obligations are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	14	(4)	(2)	(34)
Components of defined benefit cost recognised in profit or loss	10	9	4	—
Components of defined benefit cost recognised in other comprehensive income	(13)	9	(16)	—
Other reconciling items	(15)	(16)	(20)	—
As at 31 December/30 June	**(4)**	**(2)**	**(34)**	**(34)**

(2) Roper Corporation pension plan

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Discount rates	3.58%	4.30%	3.27%	3.27%

Movements in the present value of the defined benefit obligations during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	147	145	118	138
Current service cost	6	6	5	19
Interest cost	5	5	2	4
Prior service cost	4	9	—	—
Remeasurement (gains)/losses:				
Actuarial gains and losses	—	(44)	18	—
Exchange realignment on foreign plans	(8)	6	2	2
Benefits paid	(9)	(9)	(7)	(9)
As at 31 December/30 June	**145**	**118**	**138**	**154**

The net liability of the defined benefit obligations are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	147	145	118	138
Components of defined benefit cost recognised in profit or loss	15	20	7	11
Components of defined benefit cost recognised in other comprehensive income	—	(44)	18	12
Other reconciling items	(17)	(3)	(5)	(7)
As at 31 December/30 June	**145**	**118**	**138**	**154**

(3) Haier U.S. Appliance Solutions, Inc. post retirement plan

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Discount rates	3.75%	4.13%	3.06%	3.06%
Compensation increases	3.75%	N/A	N/A	N/A

Movements in the present value of the defined benefit obligations during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	385	384	326	310
Current service cost	5	—	—	—
Prior service cost	18	—	—	—
Interest cost	13	11	9	5
Remeasurement (gains)/losses:				
Actuarial gains and losses	—	(55)	(1)	—
Exchange realignment on foreign plans	(23)	16	5	4
Benefits paid	(14)	(30)	(29)	(29)
As at 31 December/30 June	**384**	**326**	**310**	**290**

The net liability of the defined benefit obligations are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	385	384	326	310
Components of defined benefit cost recognised in profit or loss	36	11	9	5
Components of defined benefit cost recognised in other comprehensive income	—	(55)	(1)	—
Other reconciling items	(37)	(14)	(24)	(25)
As at 31 December/30 June	**384**	**326**	**310**	**290**

(4) Haier U.S. Appliance Solutions, Inc. pension plan

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Discount rates	3.35%	4.00%	2.96%	2.96%
Compensation increases	3.75%	N/A	N/A	N/A

Movements in the present value of the defined benefit obligations during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	344	333	284	257
Current service cost	13	—	—	12
Interest cost	10	10	10	7
Others	(3)	—	—	—
Remeasurement (gains)/losses:				
Actuarial gains and losses	18	(15)	11	—
Exchange realignment on foreign plans	(20)	14	4	4
Benefits paid	(29)	(58)	(52)	(49)
As at 31 December/30 June	**333**	**284**	**257**	**231**

Movements in the fair value of the plan assets during the Track Record Period were as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	8	226	201	184
Current service cost	—	—	—	8
Remeasurement (gains)/losses:				
Return on plan assets (excluding amounts included in net interest expense)	—	(2)	7	—
Contributions from the employer	254	24	26	16
Exchange realignment on foreign plans	(7)	10	3	3
Benefits paid	(29)	(57)	(53)	(49)
As at 31 December/30 June	**226**	**201**	**184**	**162**

The net liabilities of the defined benefit obligations are as follows:

	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January	336	107	83	73
Components of defined benefit cost recognised in profit or loss	20	10	10	11
Components of defined benefit cost recognised in other comprehensive income	18	(13)	4	—
Other reconciling items	(267)	(21)	(24)	(15)
As at 31 December/30 June	**107**	**83**	**73**	**69**

49. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

50. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'M	RMB'M	RMB'M	RMB'M
Contracted, but not provided for：				
Property, plant and equipment	**2,685**	**3,152**	**2,053**	**2,658**

(b) Operating lease commitments

The Group leased certain properties under operating lease arrangements. Leases for properties were with terms of 12 months or less.

At 31 December 2017 and 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2018
	RMB'M	RMB'M
Within one year	1,032	1,439
In the second to fifth years, inclusive	1,262	2,014
After five years	466	450
	2,760	**3,903**

51. RESERVE OF THE COMPANY

	Contributed surplus	Capital redemption reserve	Share option reserve	Awarded Share reserve	Retained profits	Other comprehensive income	Convertible and exchangeable bonds reserves	Total reserve
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2017	2,002	59	(1)	1,390	2,258	(11)	—	5,697
Total comprehensive income for the year	—	—	—	—	1,431	(32)	—	1,399
Transfer to awarded share Reserve	—	—	—	47	(47)	—	—	—
Transfer of awarded share reserve upon the expiry of awarded shares	(1)	—	1	—	—	—	—	—
Others	(15)	272	—	—	—	—	—	257
Dividend payment	—	—	—	—	(1,512)	—	—	(1,512)
As at 31 December 2017	1,986	331	—	1,437	2,130	(43)	—	5,841
Effect of adoption of IFRS 9 and IFRS 15	—	—	—	—	(16)	15	—	(1)
As at 1 January 2018 (restated)	1,986	331	—	1,437	2,114	(28)	—	5,840
Total comprehensive income for the year	—	—	—	—	2,457	36	—	2,493
Issue of shares	1,862	—	—	—	—	—	—	1,862
Transfer to awarded share reserve	—	—	—	246	(246)	—	—	—
Others	—	3	—	—	—	—	473	476
Dividend payment	—	—	—	—	(2,085)	—	—	(2,085)
As at 31 December 2018 and 1 January 2019	3,848	334	—	1,683	2,240	8	473	8,586
Total comprehensive income for the year	—	—	—	—	3,670	3	—	3,673
Issue of shares	2,890	—	—	—	—	—	(473)	2,417
Transfer to awarded share reserve	—	—	—	367	(367)	—	—	—
Others	—	(36)	—	—	—	—	—	(36)
Dividend payment	—	—	—	—	(2,235)	—	—	(2,235)
As at 31 December 2019 and 1 January 2020	6,738	298	—	2,050	3,308	11	—	12,405
Total comprehensive income for the period	—	—	—	—	390	(7)	—	383
Dividend payable	—	—	—	—	(2,467)	—	—	(2,467)
As at 30 June 2020	**6,738**	**298**	**—**	**2,050**	**1,231**	**4**	**—**	**10,321**

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.

52. EVENTS AFTER THE REPORTING PERIOD

(a) Since the outbreak of pneumonia epidemic caused by COVID-19 at home and abroad in early 2020, the Company's prevention and control of pneumonia epidemic is continuing globally and various measures have been taken to mitigate the impact of the epidemic on the Company's production and operation. The epidemic has brought uncertainty to the production and operation and may affect the Company's operation and financial condition. The Company will continue to assess and actively respond to the impact of the epidemic on its financial condition and operating results.

(b) According to the resolution of the 7th meeting of the 10th session of the Board of Directors of the Company held on 28 April 2020, the profit for the year is proposed to be distributed on the basis of the total number of shares on the registration date when the plan is implemented in the future, the Company will declare cash dividend of RMB3.75 (including taxes) for every 10 shares to all shareholders.

(c) On 17 July 2020, the Group issued an ultra-short-term financing bonds at a principal amount of approximately RMB3 billion which is unsecured, bears a fixed interest rate of 1.45% per annum in within 180 days from the issue date at its principal amount of approximately RMB3 billion.

The ultra-short-term financing bonds have been approved by National Association of Financial Market Institutional Investors and registered in Shanghai Clearing House.

(d) According to the resolution of the 9th meeting of the 10th session of the Board of Directors of the Company held on 29 July 2020, the Company intends to dispose 54.50% shares of Haier COSMO IoT Ecosystem Technology Co., Ltd. ("**Haier COSMO**"), which held by the Company with corresponding to the registered capital of approximately RMB749 million, to 青島海爾生態投資有限公司 (unofficially translated as "**Qingdao Haier Ecological Investment Co., Ltd**.") at a consideration of approximately RMB4.06 billion. After the disposal, the Company will respectively hold 10.74% and 8.01% of the shares in Haier COSMO directly and indirectly, in total of 18.75% of the shares in Haier COSMO through the Company's controlling subsidiaries. Haier COSMO's financial results, assets, liabilities and cash flows would no longer be consolidated into the Group's consolidated financial statements from that date.

During the Track Record Period, Haier COSMO contribute RMB726 million, RMB7,988 million, RMB14,012 million and RMB7,949 million revenue for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 respectively.

During the Track Record Period, Haier COSMO contribute RMB297 million, RMB393 million, RMB250 million and RMB120 million net profits for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 respectively.

During the Track Record Period, the net assets of Haier COSMO is RMB2,158 million, RMB2,594 million, RMB3,327 million and RMB4,447 million as at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

(e) On 28 August 2020, the Group issued 2nd ultra-short-term financing bonds at a principal amount of RMB2.5 billion which is unsecured, bears a fixed interest rate of 1.71% per annum in within 180 days from the issue date.

The Company has no other significant event after the reporting period that needs to be disclosed.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies comprising the Group in respect of any period subsequent to 30 June 2020.

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE DIRECTORS OF HAIER SMART HOME CO., LTD.

Introduction

We have reviewed the condensed consolidated financial statements of Haier Smart Home Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages II-3 to II-39, which comprise the condensed consolidated statement of financial position as of 30 September 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for nine-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "*Interim Financial Reporting*" ("**IAS 34**") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other Matter

The comparative condensed consolidated statement of profit of loss and other comprehensive income, statement of changes in equity and statement of cash flows for nine-month period ended 30 September 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 16 November 2020

I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated statements of profit or loss and other comprehensive income

	Notes	Three months ended 30 September 2020 RMB'M (unaudited)	Three months ended 30 September 2019 RMB'M (unaudited)	Nine months ended 30 September 2020 RMB'M (unaudited)	Nine months ended 30 September 2019 RMB'M (unaudited)
CONTINUING OPERATIONS					
REVENUE	4	58,680	50,207	154,403	147,481
Cost of sales		(42,419)	(36,035)	(111,915)	(105,009)
Gross profit		16,261	14,172	42,488	42,472
Other gains or losses	4	2,683	377	3,371	1,781
Selling and distribution expenses		(8,835)	(8,067)	(23,362)	(23,006)
Administrative expenses		(4,751)	(4,377)	(12,836)	(11,790)
Finance costs	6	(320)	(439)	(1,029)	(1,290)
Share of profits and losses of associates		429	345	1,108	888
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	5	5,467	2,011	9,740	9,055
Income tax expenses	7	(1,060)	(253)	(1,721)	(1,262)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		4,407	1,758	8,019	7,793
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation	8	—	3,163	—	3,313
PROFIT FOR THE PERIOD		4,407	4,921	8,019	11,106
OTHER COMPREHENSIVE (LOSS) /INCOME					
Items that may be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive (loss)/ income of associates		(219)	52	(195)	71
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		11	(11)	(73)	(36)
Exchange differences on translating foreign operations		(1,254)	637	(1,332)	878
		(1,462)	678	(1,600)	913
Items that will not be reclassified to profit or loss in subsequent periods:					
Changes arising from re-measurement of defined benefit plans		(3)	—	(3)	—
Change in fair value of equity investments designated at fair value through other comprehensive income (“**FVTOCI**”), net of tax		—	(7)	(123)	(36)
		(3)	(7)	(126)	(36)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX		(1,465)	671	(1,726)	877
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,942	5,592	6,293	11,983

	Notes	Three months ended 30 September 2020 RMB'M (unaudited)	Three months ended 30 September 2019 RMB'M (unaudited)	Nine months ended 30 September 2020 RMB'M (unaudited)	Nine months ended 30 September 2019 RMB'M (unaudited)
Profit for the period attributable to owners of the Company					
— from continuing operations		3,520	1,104	6,301	6,121
— from discontinued operations		—	1,450	—	1,491
		3,520	2,554	6,301	7,612
Profit for the period attributable to non-controlling interests					
— from continuing operations		887	654	1,718	1,672
— from discontinued operations		—	1,713	—	1,822
		887	2,367	1,718	3,494
		4,407	4,921	8,019	11,106
Total comprehensive income attributable to:					
Owners of the Company		2,076	3,178	4,637	8,470
Non-controlling interests		866	2,414	1,656	3,513
		2,942	5,592	6,293	11,983
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY					
From continuing and discontinued operations					
— Basic (RMB per share)	10	0.53	0.40	0.96	1.20
— Diluted (RMB per share)	10	0.52	0.36	0.94	1.12
From continuing operations					
— Basic (RMB per share)	10	0.53	0.17	0.96	0.96
— Diluted (RMB per share)	10	0.52	0.14	0.94	0.90

Condensed consolidated statement of financial position

	Notes	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	24,222	23,919
Investment properties		30	29
Right-of-use assets	11	4,010	3,802
Goodwill	12	23,344	23,352
Other intangible assets	14	9,199	9,640
Interests in associates		21,240	20,461
Equity investments designated at FVTOCI		2,653	1,396
Financial assets measured at fair value through profit or loss (**"FVTPL"**)		—	295
Financial assets measured at amortised cost		321	332
Derivative financial instruments		63	77
Long-term prepayments		889	1,423
Deferred tax assets		1,972	1,579
Other non-current assets		703	581
Total non-current assets		88,646	86,886
CURRENT ASSETS			
Inventories	15	26,868	28,229
Trade and bills receivables	16	31,617	24,967
Contract assets		328	423
Prepayments, deposits and other receivables		6,103	6,441
Financial assets measured at FVTPL		2,039	308
Financial assets measured at amortised cost		545	3,981
Derivative financial instruments		67	19
Pledged deposits		638	1,211
Other deposit with limited use		4	5
Cash and cash equivalents		43,330	34,963
		111,539	100,547
Assets and disposal group held for sale	17	21	21
Total current assets		111,560	100,568

	Notes	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
CURRENT LIABILITIES			
Trade and bills payables	18	52,585	53,059
Other payables and accruals		21,608	19,726
Contract liabilities		5,074	5,583
Interest-bearing borrowings	19	13,887	13,315
Lease liabilities		653	595
Tax payable		1,979	1,278
Bonds	20	5,500	—
Provisions		1,867	1,992
Derivative financial instruments		185	99
Financial liabilities measured at FVTPL		—	43
Total current liabilities		103,338	95,690
NET CURRENT ASSETS		8,222	4,878
TOTAL ASSETS LESS CURRENT LIABILITIES		96,868	91,764
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	19	14,786	13,370
Lease liabilities		2,095	1,980
Convertible and exchangeable bonds	21	7,002	7,005
Deferred income		384	628
Deferred tax liabilities		1,564	1,154
Provisions for pensions and similar obligations		1,160	1,122
Provisions		1,359	1,399
Put option liabilities		55	55
Other non-current liabilities		85	61
Total non-current liabilities		28,490	26,774
Net assets		**68,378**	**64,990**
EQUITY			
Share capital	22	6,580	6,580
Reserves		43,860	41,307
Equity attributable to owners of the Company		50,440	47,887
Non-controlling interests		17,938	17,103
Total equity		**68,378**	**64,990**

Condensed consolidated statement of changes in equity

	Attributable to owners of the Company														
		Reserves													
	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds	Convertible and exchangeable bonds reserve	Retained profits	Exchange differences on translation of financial statements reserve	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2020 (audited)	6,580	3,637	60	4	(29)	18	2,654	431	32,469	1,265	798	41,307	47,887	17,103	64,990
Profit for the period	—	—	—	—	—	—	—	—	6,301	—	—	6,301	6,301	1,718	8,019
Other comprehensive (loss)/income for the period															
— Share of other comprehensive loss of associates	—	—	—	—	—	(190)	—	—	—	—	—	(190)	(190)	(5)	(195)
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax	—	—	—	(84)	—	—	—	—	—	—	—	(84)	(84)	11	(73)
— Exchange differences on translating foreign operations	—	—	—	—	—	—	—	—	—	(1,331)	—	(1,331)	(1,331)	(1)	(1,332)
— Changes arising from re-measurement of defined benefit plans	—	—	(3)	—	—	—	—	—	—	—	—	(3)	(3)	—	(3)
— Change in fair value of equity investments designated at FVTOCI, net of tax	—	—	—	—	(56)	—	—	—	—	—	—	(56)	(56)	(67)	(123)
Total comprehensive (loss)/income for the period	—	—	(3)	(84)	(56)	(190)	—	—	6,301	(1,331)	—	4,637	4,637	1,656	6,293
Dividend payments	—	—	—	—	—	—	—	—	(2,467)	—	—	(2,467)	(2,467)	—	(2,467)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(692)	(692)
Capital injection of non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	950	950
Disposal of subsidiaries	—	—	—	—	—	2	—	—	—	12	(27)	(13)	(13)	(1,225)	(1,238)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	406	—	—	—	—	—	—	—	9	—	415	415	136	551
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	10	10
Other changes	—	—	—	—	—	—	—	—	(19)	—	—	(19)	(19)	—	(19)
As at 30 September 2020 (unaudited)	**6,580**	**4,043**	**57**	**(80)**	**(85)**	**(170)**	**2,654**	**431**	**36,284**	**(45)**	**771**	**43,860**	**50,440**	**17,938**	**68,378**

	Attributable to owners of the Company														
		Reserves													
	Issued equity	Capital reserve	Remeasurement of defined benefit plans reserve	Cash flow hedges reserve	FVTOCI reserve	Equity method investments reserve	Reserve funds	Convertible and exchangeable bonds reserve	Retained profits	Exchange differences on translation of financial statements reserve	Other reserves	Total reserves	Total	Non-controlling interests	Total equity
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2019 (audited)	6,369	1,603	70	40	(26)	(66)	2,287	904	26,911	755	848	33,326	39,695	16,052	55,747
Profit for the period	—	—	—	—	—	—	—	—	7,612	—	—	7,612	7,612	3,494	11,106
Other comprehensive (loss)/income for the period															
— Share of other comprehensive loss of associates	—	—	—	—	—	71	—	—	—	—	—	71	71	—	71
— Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax	—	—	—	(36)	—	—	—	—	—	—	—	(36)	(36)	—	(36)
— Exchange differences on translating foreign operations	—	—	—	—	—	—	—	—	—	839	—	839	839	39	878
— Change in fair value of equity investments designated at FVTOCI, net of tax	—	—	—	—	(16)	—	—	—	—	—	—	(16)	(16)	(20)	(36)
Total comprehensive (loss)/income for the period	—	—	—	(36)	(16)	71	—	—	7,612	839	—	8,470	8,470	3,513	11,983
Dividend payments	—	—	—	—	—	—	—	—	(2,235)	—	—	(2,235)	(2,235)	—	(2,235)
Dividend paid to non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	(545)	(545)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,904)	(1,904)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	(817)	—	—	—	—	—	—	—	—	—	(817)	(817)	(776)	(1,593)
Acquisition from non-controlling interests	—	4	—	—	—	—	—	—	—	—	—	4	4	(152)	(148)
Deemed disposal of associates	—	—	—	—	—	—	—	—	—	—	(89)	(89)	(89)	—	(89)
Other changes	—	—	—	—	—	—	—	—	(12)	—	—	(12)	(12)	—	(12)
As at 30 September 2019 (unaudited)	**6,369**	**790**	**70**	**4**	**(42)**	**5**	**2,287**	**904**	**32,276**	**1,594**	**759**	**38,647**	**45,016**	**16,188**	**61,204**

Condensed consolidated statement of cash flows

	Nine months ended 30 September	
	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)
Net cash generated from operating activities	5,711	8,476
Net cash flows used in investing activities	(2,695)	(8,978)
Net cash flows generated from/(used in) financing activities	5,751	(1,249)
Net increase/(decrease) in cash and cash equivalents	8,767	(1,751)
Cash and cash equivalents at beginning of the period	34,963	36,561
Effect of foreign exchange rate changes, net	(400)	283
Cash and cash equivalents at end of the period	**43,330**	**35,093**
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non-pledged cash and bank balances	24,098	21,464
Time deposits	19,232	13,629
Cash and cash equivalents as stated in the statement of financial position	**43,330**	**35,093**

II. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting *Standard 34 (“**IAS 34**”) “Interim Financial Reporting*” issued by the International Accounting Standards Board as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair value, as appropriate.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company. All values are rounded to the nearest million (’M) (RMB’M) except otherwise indicated.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

Information reported to the directors, being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

For segment reporting, these individual operating segments have been aggregated into a single reportable segment. For management purposes, the Group is organised into business units based on their products and services.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

(a) Smart Home Business in China

(i) Household Food Solutions

- the domestic refrigerator business segment manufactures and sells refrigerator within Mainland China ("**Refrigerators/Freezers**");
- the domestic kitchen appliances business segment manufactures and sells kitchen appliances within Mainland China ("**Kitchen Appliances**");

(ii) Household Air Solutions

- the domestic air conditioner business segment manufactures and sells air conditioner within Mainland China ("**Air-conditioners**");

(iii) Household Clothing Solutions

- the domestic washing machines business segments manufactures and sells washing machines within Mainland China ("**Laundry Appliances**");

(iv) Household Water Solutions

- the domestic water appliances business segments manufactures and sells water appliances within Mainland China ("**Water Appliances**");

(b) Smart Home Business in Overseas

- the overseas home appliances and smart home business segments manufacture and sells home appliances and smart home appliances worldwide other than Mainland China ("**Smart Home Business Overseas**"); and

(c) Other Business

- the others comprise business less than quantitative thresholds ("**Other Business**"). Such Other Business includes, among other things, parts and components, small home appliances and distribution services. The parts and components business primarily involves procurement, manufacturing and sales of ancillary parts and components for home appliances, and manufacturing and sales of moulds. Small home appliances business primarily involves design, outsourced manufacturing and sales of various small home appliances of our brands, to supplement our smart home solutions business. Distribution services business primarily involves distribution of televisions, consumer electronic products and others for Haier Group and other third parties, leveraging the Group's extensive sales network.

Upon the completion of the Asset Swap as detailed in Note 8 to the condensed consolidated financial statement, the Bingji (Shanghai) Enterprise Management Co., Ltd. ("**Bingji**") and its subsidiaries (collectively referred to as the "**Bingji Group**") is regarded as an associate, an operating segment regarding the logistics business was classified as discontinued. The segment information reported on the next pages does not include any amounts for these discontinued operations.

(a) All assets are allocated to operating segments other than unallocated corporate assets (mainly comprising certain of goodwill, interests in associates and cash and cash equivalents); and

(b) All liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising of interests-bearing borrowings, convertible and exchangeable bonds).

Inter-segment sales represent the goods and services provided between segments. Segment result has been derived after elimination of inter-segment cost changed between segments.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

For the nine months ended 30 September 2020 (unaudited)

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	21,701	1,840	17,384	15,414	6,778	72,928	18,358	154,403
Inter-segment revenue	2,730	99	3,097	2,621	252	702	50,108	59,609
Total	24,431	1,939	20,481	18,035	7,030	73,630	68,466	214,012
Reconciliation:								
Inter-segment eliminations								(59,609)
Total								**154,403**
Segments results	1,815	33	37	1,232	779	2,555	223	6,674
Reconciliation:								
Elimination of inter-segment results								52
								6,726
Corporate and other unallocated income and gains or losses								3,153
Corporate and other unallocated expenses								(232)
Finance costs								(1,015)
Share of profits and losses of associates								1,108
Profit before taxation								**9,740**

For the nine months ended 30 September 2019 (unaudited)

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment revenue								
Segment revenue from external customers	22,136	1,685	16,999	15,288	6,771	69,235	15,367	147,481
Inter-segment revenue	1,730	234	2,398	1,866	84	49	44,297	50,658
Total	23,866	1,919	19,397	17,154	6,855	69,284	59,664	198,139
Reconciliation:								
Inter-segment eliminations								(50,658)
Total								**147,481**
Segments results	2,224	59	835	1,510	756	2,328	373	8,085
Reconciliation:								
Elimination of inter-segment results								28
								8,113
Corporate and other unallocated income and gains or losses								1,572
Corporate and other unallocated expenses								(228)
Finance costs								(1,290)
Share of profits and losses of associates								888
Profit before taxation								**9,055**

As at 30 September 2020 (unaudited)

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	14,126	1,623	17,785	10,464	4,067	51,791	44,153	144,009
Reconciliation:								
Elimination of segment assets								(42,423)
Goodwill								23,344
Interests in associates								21,240
Equity investments designated at FVTOCI								2,653
Deferred tax assets								1,972
Financial assets measured at FVTPL								2,039
Financial assets measured at amortised cost								545
Derivative financial instruments								67
Pledged deposit								638
Other deposits with limited use								4
Cash and cash equivalents								43,330
Other receivables								2,468
Assets and disposal group held for sale								21
Other non-current financial assets								299
Total assets								**200,206**
Segment liabilities	36,206	1,443	10,771	7,593	3,939	28,145	45,522	133,619
Reconciliation:								
Elimination of segment liabilities								(42,522)
Tax payable								1,979
Other payable								1,248
Derivative financial instruments								185
Interest-bearing borrowings								28,673
Deferred tax liabilities								1,564
Convertible and exchangeable bonds								7,002
Other non-current liabilities								25
Put option liabilities								55
Total liabilities								**131,828**

As at 31 December 2019 (audited)

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Segment assets	10,183	1,601	16,081	9,675	3,322	45,754	48,932	135,548
Reconciliation:								
Elimination of segment assets								(38,980)
Goodwill								23,352
Interests in associates								20,461
Equity investments designated at FVTOCI								1,396
Deferred tax assets								1,579
Financial assets measured at FVTPL								308
Financial assets measured at amortised cost								3,981
Derivative financial instruments								19
Pledged deposit								1,211
Other deposits with limited use								5
Cash and cash equivalents								34,963
Other receivables								2,988
Assets and disposal group held for sale								21
Other non-current financial assets								602
Total assets								**187,454**
Segment liabilities	30,598	1,468	8,590	7,447	4,135	23,786	48,312	124,336
Reconciliation:								
Elimination of segment liabilities								(39,098)
Tax payable								1,278
Other payable								892
Derivative financial instruments								99
Financial liabilities at FVTPL								43
Interest-bearing borrowings								26,685
Deferred tax liabilities								1,154
Convertible and exchangeable bonds								7,005
Other non-current liabilities								15
Put option liabilities								55
Total liabilities								**122,464**

For the nine months ended 30 September 2020 (unaudited)

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Home Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	851	83	673	581	453	717	—	3,358
Provision for obsolete and slow-moving inventories, net	48	—	12	67	27	117	241	512
Impairment of trade and bills receivable, net	—	—	25	—	3	87	1	116
Impairment of prepayments, deposits and other receivables and other assets, net	132	8	17	35	24	—	—	216
(Gain)/loss on disposal of non-current assets, net	(5)	—	(1)	—	4	(63)	11	(54)
Depreciation and amortisation	312	67	237	311	130	2,444	363	3,864

For the nine months ended 30 September 2019 (unaudited)

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers	Kitchen Appliances	Air-conditioners	Laundry Appliances	Water Home Appliances	Smart Home Business Overseas	Other Business	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Other segment information:								
Product warranty provisions	917	91	759	490	451	718	—	3,426
Provision for obsolete and slow-moving inventories, net	68	3	12	56	15	6	45	205
(Reversal)/impairment of trade and bills receivable, net	(9)	2	7	(3)	3	63	(36)	27
Impairment of prepayments, deposits and other receivables and other assets, net	—	—	—	37	16	—	—	53
Gain on disposal of non-current assets, net	(13)	—	(2)	—	(4)	(34)	(9)	(62)
Depreciation and amortisation	252	22	173	150	67	2,234	195	3,093

Geographical information

(a) Revenue from external customers

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Mainland China	31,061	26,203	79,786	76,764
Other country/regions	27,619	24,004	74,617	70,717
	58,680	**50,207**	**154,403**	**147,481**

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

(b) Non-current assets

	As at 30 September	As at 31 December
	2020	2019
	RMB'M (unaudited)	RMB'M (audited)
Mainland China	14,694	14,237
Other country/regions	24,743	25,566
	39,437	39,803
Interests in associates	21,240	20,461
Goodwill	23,344	23,352
Equity investments designated at FVTOCI	2,653	1,396
Financial assets measured at FVTPL	—	295
Deferred tax assets	1,972	1,579
	88,646	**86,886**

The non-current asset information above is based on the locations of the assets and excludes interests in associates, goodwill, equity investments designated at FVTOCI, financial assets measured at FVTPL and deferred tax assets.

4. REVENUE, OTHER GAINS OR LOSSES

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

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Sale of goods	58,641	50,144	154,177	147,291
Rendering of services	39	63	226	190
	58,680	**50,207**	**154,403**	**147,481**

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Sale of goods				
— Point in time	58,641	50,144	154,177	147,291
Rendering of services				
— Point in time	1	5	59	50
— Over time	38	58	167	140
	58,680	**50,207**	**154,403**	**147,481**

The Group has no revenue contract that has an original expected duration more than one year, thus management applied practical expedient under IFRS 15 and are not disclosing the aggregate amount of the transaction price allocated to the performance obligation that are unsatisfied or partially satisfied as of the end of the reporting period.

Information about the Group's performance obligations under IFRS 15 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 or at point in time as services are rendered or when the customer obtains control of the distinct services and payment is generally due within 30 to 90 days from customers. Service contracts are for periods of one year or less, or are billed based on the time incurred.

An analysis of other gains or loss from continuing operation is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Treasury and investment income:				
Interest income from				
Bank	134	142	346	385
Wealth management products	25	17	73	78
Other	4	4	12	12
Cash discount income	38	43	104	128
Dividend income from Equity investments designated at FVTOCI	—	1	15	19
	201	207	550	622
Compensation received from Suppliers	10	101	28	353

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Gain/(loss) on disposal of				
Non-current assets, net	(43)	(65)	(54)	(62)
Financial assets/liabilities measured at FVTPL, net	25	44	40	143
Subsidiaries	2,267	(5)	2,267	(4)
Government grants (Note (a))	399	184	924	632
Rental income from investment properties	4	—	6	5
Net fair value gain on financial assets/liabilities at FVTPL	38	(43)	7	14
Net foreign exchange losses	(248)	(152)	(465)	(38)
Sundry income	30	106	68	116
	2,683	**377**	**3,371**	**1,781**

Note:

(a) Various government grants have been received 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.

5. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax from continuing operations has been arrived at after charging/(crediting):

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Cost of inventories sold	42,319	36,079	111,301	104,740
Provision for obsolete and slow-moving inventories, net (Note(a))	100	(45)	512	205
Cost of services	—	1	102	64
	42,419	**36,035**	**111,915**	**105,009**
Depreciation of property, plant and equipment	965	701	2,645	2,147
Depreciation of investment properties	1	—	2	1
Depreciation of right-of-use assets	143	303	508	700
Amortisation of other intangible assets	233	183	699	529
Amortisation of other non-current assets	—	2	10	8
Discontinued operation impact on depreciation and amortisation	—	—	—	(292)
	1,342	**1,189**	**3,864**	**3,093**
Impairment of trade and bills receivables, net (Note(b))	15	75	116	27
Impairment of prepayments, deposits and other receivables and long term prepayments, net (Note(b))	11	43	216	53
	26	**118**	**332**	**80**
Research and development costs	2,067	1,676	5,007	4,427
Product warranty provisions	1,383	1,602	3,358	3,426
Foreign exchange differences, net	248	152	465	38
Loss on disposal/write-off of non-current assets, net	43	65	54	62

Notes:

(a) *The net provision for obsolete and slow-moving inventories for the periods is included in "Cost of sales" in the condensed consolidated statement of profit or loss.*

(b) *Included in "Administrative expenses" in the condensed consolidated statement of profit or loss.*

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2020	**2019**	**2020**	**2019**
	RMB'M (unaudited)	**RMB'M (unaudited)**	**RMB'M (unaudited)**	**RMB'M (unaudited)**
Interest on borrowings	186	291	647	880
Interest on bond	14	—	14	—
Interest on convertible and exchangeable bonds	45	69	134	203
Interest on lease liabilities	31	24	93	71
Other finance costs	44	55	141	136
	320	**439**	**1,029**	**1,290**

7. INCOME TAX EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2020	**2019**	**2020**	**2019**
	RMB'M (unaudited)	**RMB'M (unaudited)**	**RMB'M (unaudited)**	**RMB'M (unaudited)**
Current tax:				
Charge for the period	1,272	76	1,705	1,203
Deferred tax	(212)	177	16	59
Total tax charge for the period from continuing operations	**1,060**	**253**	**1,721**	**1,262**
Current tax:				
Charge for the period	—	—	—	60
Deferred tax	—	665	—	652
Total tax charge for the period from a discontinuing operation	**—**	**665**	**—**	**712**

Under the Law of the Mainland China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Mainland China subsidiaries is 25% for the three and nine months ended 30 September 2020 and 2019.

Taxation, arising in other jurisdictions in calculated at the rates prevailing in the relevant jurisdictions.

The revenue related to sales to overseas are subject to relevant tax at corresponding jurisdictions, if any.

8. DISCONTINUED OPERATION

The condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the period from 1 January to 25 July 2019, include the results, changes in equity and cash flows of all companies then comprising the Group Qingdao Haishi Water Equipment Co., Ltd., ("**Qingdao Haishi**") and Qingdao Gooday Health Industry Development Co., Ltd ("**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 period from 1 January to 25 July 2019, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period.

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 Group, 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 at a consideration of approximately RMB1,074 million to be satisfied by Guanmei by way of transfer of 55% of the equity interest in 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.

On 26 July 2019, the Group completed the Asset Swap and the Bingji Group has since become an associate to the Group and its business is classified as a discontinued operation.

On 9 September 2019, the Company acquired 100% equity interest in Gooday Health at a cash consideration of RMB34 million (the "**Acquisition**"), which has been fully paid during the year ended 31 December 2019. Gooday Health was an indirect wholly-owned subsidiary of Haier Group and is currently principally engaged in manufacturing water treatment appliances. Pursuant to the Acquisition, the Company became an indirect holding company of Gooday Health.

The results of the Bingji Group for the period from 1 January to 25 July 2019 are presented below:

	Period from 1 January 2019 to 25 July 2019
	RMB'M (unaudited)
Revenue	4,907
Cost and expenses	(4,710)
Profit from the discontinued operation	197
Gain recognised on the remeasurement of fair value of the discontinued operation	3,191
Gain recognised on disposal of the discontinued operation	637
Profit before tax from the discontinued operation	4,025
Income tax:	
Related to pre-tax profit	(47)
Related to remeasurement of fair value	(665)
Profit for the period from discontinued operation	3,313
Attributable to:	
Owners of the Company	1,491
Non-controlling interests	1,822
	3,313

The net cash flows incurred by the Bingji Group for the period from 1 January to 25 July 2019 are as follows:

	Period from 1 January 2019 to 25 July 2019
	RMB'M (unaudited)
Operating activities	(161)
Investing activities	20
Financing activities	(283)
Net cash outflow	(424)
Earning per share:	
—Basic, from discontinued operations (RMB per share)	0.23
—Diluted, from discontinued operations (RMB per share)	0.23

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	Period from 1 January 2019 to 25 July 2019 (unaudited)
Profit attributable to ordinary equity holders of the Company from the discontinued operation (RMB million)	1,491
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	6,368,431,378
Effect of dilutive potential ordinary shares:	
Convertible bond	207,816,836
Weighted average number of ordinary shares used in the diluted earnings per share calculation	6,567,248,214

9. DIVIDENDS

	Nine months ended 30 September	
	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)
Dividend declared	2,467	2,235
Dividend paid during the period	2,467	2,235

	Nine months ended 30 September	
	2020	2019
	RMB (unaudited)	RMB (unaudited)
Dividend per share	0.375	0.351

10. 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 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue.

The calculation of the diluted earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the interest and effect of the convertible and exchangeable bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the three and nine months ended 30 September 2020 and 2019, 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:

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Earnings				
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation:				
From continuing operations	3,520	1,104	6,301	6,121
From a discontinued operation	—	1,450	—	1,491
	3,520	2,554	6,301	7,612
Profit for the period attributable to owners of the Company	3,520	2,554	6,301	7,612
Less:				
Profit for the period from discontinued operations	—	(1,450)	—	(1,491)
Earnings for the purpose of basic earnings per share from continuing operation	3,520	1,104	6,301	6,121
Effect of dilutive potential ordinary shares:				
Interest on convertible and exchangeable bonds, net of tax	44	66	133	192
Profit for the period attributable to convertible and exchangeable bonds holders	(139)	(244)	(255)	(410)
Earnings for the purpose of diluted earnings per share from continuing operations	3,425	926	6,179	5,903
Number of shares				
Weighted average number of ordinary share for the purpose of calculating basic earnings per share	6,579,566,627	6,368,431,378	6,579,566,627	6,368,431,378
Effect of dilutive potential shares:				
Convertibles bonds	—	210,065,116	—	207,816,836
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	6,579,566,627	6,578,496,494	6,579,566,627	6,576,248,214

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period, the Group disposed of certain plant and machinery with an aggregate carrying amount of approximately RMB216 million (31 December 2019: RMB467 million). In addition, during the period, the Group paid approximately RMB4,299 million (31 December 2019: RMB6,357 million) for purchased of property, plant and equipment.

During the period, the Group recognized right-of-use assets of approximately RMB913 million (31 December 2019: RMB1,813 million) and lease liabilities of approximately RMB686 million (31 December 2019: RMB1,469 million).

12. GOODWILL

	2020	2019
	RMB'M (unaudited)	RMB'M (audited)
Cost:		
As at 1 January	23,352	21,239
Acquisition of subsidiaries	464	2,061
Disposal of subsidiaries	—	(285)
Exchange realignment	(472)	337
As at 30 September/31 December	23,344	23,352
Net carrying amount	23,344	23,352

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing:

Water Appliances segment:

- Qingdao Strauss Water Equipment Co., Ltd.;

Smart Home Business Overseas segment:

- GE Appliances;
- GREENoneTEC Solarindustrie GmbH. ("**GoT**");
- Haier New Zealand Investment Holding Company Limited ("**HNZ**"); and
- Candy S.p.A ("**Candy**")

Other Business segment:

- Guangdong Heron Intelligent Technology Co., Ltd. ("**Heron**")
- Qingdao Gooday Lejia IOT Technology Co., Ltd. ("**Lejia IOT**")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Qingdao Strauss Water Equipment Co., Ltd.	83	83
GE Appliances (Note)	20,230	20,725
GoT	3	3
HNZ (Note)	486	509
Candy (Note)	2,078	2,032
Heron	16	—
Lejia IOT	448	—
Net carrying amount	23,344	23,352

Note: The recoverable amounts of GE Appliances, HNZ and Candy have been determined by using cash flow projections based on financial budgets approved by senior management.

Assumptions were used in the value-in-use or fair value less cost of disposal calculation of the above cash-generating units as at 31 December 2019 and 30 September 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill. The annual growth rates of each CGUs are based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value-in-use calculations related to the estimation of cash flows include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2019 and the nine months ended 30 September 2020, the management of the Group determines that there is no impairment on goodwill.

13. RELATED PARTY TRANSACTIONS

(a) During the three and nine months ended 30 September 2020 and 2019, in addition to the transactions detailed elsewhere in the condensed consolidated financial statement, the Group had the following material transactions with the Group's related parties (and their affiliates):

		Three months ended 30 September		Nine months ended 30 September	
		2020	2019	2020	2019
Relationship	Nature of transactions	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)	RMB'M (unaudited)
Associates	Sale of goods and services	196	246	622	668
	Logistics service fees	—	—	—	23
	Purchase of goods and services	4,330	3,973	11,485	11,890
	Interest income	40	30	111	71
	Interest expenses	30	18	82	42
Haier	Sale of goods and services	940	853	1,943	1,902
Affiliates	Logistics service fees	—	—	—	51
(Note)	Purchase of goods and services	5,647	6,202	14,591	14,776
	Other service fee expenses	42	11	131	102

The above transactions were conducted in accordance with the terms and conditions mutually agreed by the parties involved.

Note: Haier Affiliates include Haier Group's associates and subsidiaries and its respective associates.

(b) Compensation of key management personnel (including the directors, chief executive and supervisors of the Company) of the Group

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Short term employee benefits	1,296	1,534	4,452	4,715
Post-employment benefits	48	93	168	231
Equity-settled Restricted Share Award Scheme expense	16,150	—	16,150	46,068
Total compensation paid to key management personnel	17,494	1,627	20,770	51,014

14. OTHER INTANGIBLE ASSETS

	Proprietary technology	Patents and licences	Trademarks	Software & Others	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
As at 1 January 2019 (audited)	1,050	3,654	1,252	1,423	7,379
Additions	150	140	—	911	1,201
Acquisition of subsidiaries	—	6	1,451	335	1,792
Disposal of subsidiaries	—	—	—	(56)	(56)
Disposals	—	—	—	(14)	(14)
Amortisation provided for the year	(164)	(112)	—	(476)	(752)
Exchange realignment	5	72	19	(6)	90
As at 31 December 2019 and 1 January 2020 (audited)	1,041	3,760	2,722	2,117	9,640
Additions	87	27	—	220	334
Acquisition of subsidiaries	—	—	—	46	46
Disposal of subsidiaries	—	—	—	(20)	(20)
Disposals	—	—	—	(2)	(2)
Amortisation provided for the period	(126)	(97)	—	(476)	(699)
Exchange realignment	(21)	(84)	(5)	10	(100)
As at 30 September 2020 (unaudited)	981	3,606	2,717	1,895	9,199

The carrying amounts of trademarks allocated to each of cash generating units of the Group is as follows:

	As at 30 September	As at 31 December
	2020	2019
	RMB'M (unaudited)	RMB'M (audited)
GE Appliances	647	663
HNZ	590	612
Candy	1,480	1,447
Net carrying amount	2,717	2,722

The trademark held represented the exclusive right to use of registered trademarks, including Fisher & Paykel, DCS and ELBA for HNZ business. GE Appliances operates under several key brands, including General Electric series (all product lines), Monogram (refrigerator and cooking), and Hotpoint (laundry and cooking), etc. Candy business operates under several key brands, including Candy (mainly oriented to the low-to-mid-end kitchen and bathroom appliances) and Hoover (mainly oriented to the mid-to-high-end kitchen and bathroom appliances and the floor care appliances).

15. INVENTORIES

	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
Raw material	2,414	2,953
Work in progress	326	408
Finished goods	24,128	24,868
	26,868	28,229

16. TRADE AND BILLS RECEIVABLES

	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
Trade receivables	17,113	11,461
Allowance for expected credit loss	(445)	(445)
Trade receivables, net	16,668	11,016
Bills receivables	14,963	13,966
Allowance for expected credit loss	(14)	(15)
Bills receivables, net	14,949	13,951
Total	31,617	24,967

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 ranges 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 allowance for expected credit loss, is as follows:

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
1 to 3 months	14,740	9,247
3 months to 1 year	1,530	1,276
1 to 2 years	195	266
2 to 3 years	75	93
Over 3 years	128	134
	16,668	11,016

As at 30 September 2020, certain of the Group's bills receivable of approximately RMB12,731 million (31 December 2019: RMB12,706 million) were pledged to secure certain of the Group's bills payable (Note 18) respectively.

As at 30 September 2020, certain of the Group's trade receivables of approximately RMB1,730 million (31 December 2019: RMB396 million) were pledged respectively.

17. ASSET AND DISPOSAL GROUP HELD FOR SALE

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Assets	21	21

Note:

During the year ended 31 December 2019, Qingdao Haier Information Plastic & Rubber Manufacture Co., Ltd. and Qingdao Household Appliance Technological Equipment Institute signed a demolition compensation agreement, with the fair value of approximately RMB5 million and RMB16 million respectively, with the local government with regards to certain land use rights with the local government. The land use right has been classified as a disposal group held for sale and are presented separately in the condensed consolidated statement of financial position.

18. TRADE AND BILLS PAYABLES

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Trade payables	34,509	33,751
Bills payables	18,076	19,308
	52,585	53,059

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Within 1 year	51,959	52,492
1 to 2 years	244	169
2 to 3 years	94	156
Over 3 years	288	242
	52,585	53,059

The trade and bills payables are non-interest-bearing and are normally settled on credit terms ranging from 30 to 180 days.

As at 30 September 2020, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to approximately RMB627 million (31 December 2019: RMB1,204 million) and the Group's bills receivable amounting to RMB12,731 million (31 December 2019: RMB12,706 million).

19. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
Current		
Bank loans — unsecured	8,162	5,286
Bank loans — secured	5,725	8,029
	13,887	13,315
Non-current		
Bank loans — unsecured	14,777	8,878
Bank loans — secured	9	4,492
	14,786	13,370
	28,673	26,685
Unsecured	22,939	14,164
Secured	5,734	12,521
	28,673	26,685
Analysed into:		
Loans repayable:		
Within one year or on demand	13,887	13,315
In the second year	3,848	6,599
In the third to fifth years, inclusive	10,891	6,723
Beyond five years	47	48
	28,673	26,685

	As at 30 September 2020 RMB'M (unaudited)	As at 31 December 2019 RMB'M (audited)
Effective interest rate		
Current		
Bank loans — unsecured	0.55% to 11.50%	0.45% to 11.95%
Bank loans — secured	0.50% to 3.50%	0.17% to 4.62%
Non-current		
Bank loans — unsecured	0.85% to 10.00%	0.80% to 3.61%
Bank loans — secured	2.50%	0.52% to 3.60%

Certain of the Group's loans are guaranteed by:

(i) Haier Group, the controlling shareholder of the Company, approximately RMB5,555 million (31 December 2019: RMB12,175 million).

Certain of the Group's loans are secured by:

(i) mortgages over the Group's land and buildings, which had an aggregate carrying amount of approximately RMB56 million (31 December 2019: RMB55 million); and

(ii) pledge of the Group's trade and bills receivables totalling approximately RMB125 million (31 December 2019: RMB212 million).

20. BONDS

On 17 July 2020, the Group issued an ultra-short-term financing bonds at a principal amount of approximately RMB3,000 million which is unsecured, bearing a fixed interest rate of 1.45% per annum.

On 28 August 2020, the Group issued an ultra-short-term financing bonds at a principal amount of approximately RMB2,500 million which is unsecured, bearing a fixed interest rate of 1.71% per annum.

Both Bonds will mature within one year. The ultra-short-term financing bonds have been approved by National Association of Financial Market Institutional Investors and registered in Shanghai Clearing House.

21. CONVERTIBLE AND EXCHANGEABLE BONDS

On 21 November 2017, Harvest International Company, a wholly owned subsidiary of the Company, issued a principal amount of HK$8,000 million exchangeable bonds ("**EB**"). The EB matures at the five anniversaries of the issue date with zero coupon. In case of redemption or early redemption, the issuer will pay an amount representing gross yield of 1% per annum.

On 18 December 2018, the Company issued an approximately RMB3,000 million convertible corporate bonds. The convertible bond issued was denominated in RMB and has a maturity of 6 years. The convertible corporate bond is convertible into ordinary shares of the Group at a conversion price of RMB14.55 per share. The holders have the option to convert between the date after 6 months of issue and date of maturity. The coupon rate is 0.2% in the first year, 0.5% in the second year, and 1.0% in the third year, 1.5% in the fourth year, 1.8% in the fifth year, and 2.0% in the sixth year.

At initial recognition, the equity component of the convertible corporate bond was separated from the liability component. The equity element is presented in equity heading "Convertible and exchangeable bonds reserve". The early redemption option is considered as closely related to the host debt. The effective interest rate of the liability component is 4.68%.

On 16 December 2019, the Company early redeemed certain portion of the convertible corporate bond at approximately RMB9 million from the bondholders. Since the closing price of the shares in 15 of the 30 consecutive trading days were not less than 120% of the conversion price. The conditions of early redemption have been satisfied. The remaining portion of the convertible corporate bond has been converted by the bondholders.

The fair value of the CEB on the issuance date were recognised into as follows:

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Liability component	6,300	6,300
Equity component	431	431
	6,731	**6,731**

The movement of the liability component of CEB is as follows:

	2020	2019
	RMB'M (unaudited)	RMB'M (audited)
As at 1 January	7,005	9,192
Interest expense	134	274
Exercise of CEB	—	(2,605)
Redemption of CEB	—	(9)
Exchange realignment	(137)	153
As at 30 September/31 December	**7,002**	**7,005**

22. SHARE CAPITAL

The movements of the Company's issued share capital during the period are as follows:

	Number of shares	Share capital
	'M	RMB'M
As at 1 January 2019 (audited) and 30 September 2019 (unaudited)	6,369	6,369
Converted convertible bonds to shares (Note a)	211	211
As at 31 December 2019 (audited), 1 January 2020 (audited) and 30 September 2020 (unaudited)	**6,580**	**6,580**

Notes:

a) Upon conversion of convertible corporate bonds in December 2019, a total of 211,149,927 A shares were converted. For conversion details, please refer to Note 21 to the condensed consolidated financial statements.

b) All shares issued are at par value at RMB1.

23. DISPOSAL OF A SUBSIDIARY

On 29 September 2020, the Group disposed 54.50% shares of its subsidiary, Haier COSMO IoT Ecosystem Technology Co., Ltd. The net assets of Haier COSMO IoT Ecosystem Technology Co., Ltd. at the date of disposal were as follows:

	RMB'M
Net assets disposed of:	
Property, plant and equipment	702
Right-of-use assets	42
Other intangible assets	20
Interests in associates	204
Equity investments designated at FVTOCI	9
Financial assets measured at amortised cost	926
Deferred tax assets	12
Other non-current assets	81
Inventories	1,542
Trade and bill receivables	3,542
Prepayments, deposits and other receivables	2,083
Cash and cash equivalents	2,820
Trade and bills payables	(4,259)
Other payables and accruals	(460)
Contract liabilities	(1,082)
Interest-bearing borrowings	(1,208)
Lease liabilities	(23)
Tax payables	(30)
Deferred tax liabilities	(8)
Provisions for pensions and similar obligations	(3)
Deferred income	(227)
Exchange reserve	12
Release of equity reserve	2
Release of statutory reserve	(27)
Non-controlling interest	(1,225)
Net assets disposed of	3,445
Gain recognised on disposal of subsidiary, net	2,267
	5,712

Satisfied by:

	RMB'M
Cash	4,060
Equity investments designated at FVTOCI	1,397
Interests in associates	255
	5,712

An analysis of the net cash and cash equivalents receivable in respect of the disposal of a subsidiary is as follows:

	RMB'M
Cash consideration received	4,060
Cash and cash equivalents disposed	(2,820)
Net cash and cash equivalents receivable in respect of the disposal of a subsidiary	1,240

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The management estimate the carrying amount financial instruments carried at amortised cost approximately its fair value.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other deposits with limited use, 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 at the end of the reporting period.

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 Marketing Co, Limited, which was designated at FVTOCI, 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 condensed 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 FVTOCI are determined with reference to their respective latest available transaction prices.

(b) 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 at FVTPL 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.

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 was assessed to be insignificant.

Below is a summary of significant unobservable inputs (level 3 inputs of fair value measurement) to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 September 2020 and 31 December 2019:

Type	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted investment at FVTOCI	Valuation multiples	Average P/E multiple of peers	30 September 2020 :24.03 - 24.52 31 December 2019 :16.92-17.27	1% increase (decrease) in multiple would result in increase (decrease) in fair value by 30 September 2020: RMB11,121,000 (RMB11,121,000) 31 December 2019: RMB12,429,000 (RMB12,429,000)
		Discount for lack of marketability	30 September 2020 : 9%-11% 31 December 2019 : 9%-11%	1% increase (decrease) in risk-free interest rate would result in increase (decrease) in fair value by 30 September 2020: RMB12,356,000 (RMB12,356,000) 31 December 2019: RMB13,810,000 (RMB13,810,000)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 30 September 2020 (unaudited)

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	19	1,397	1,237	2,653
Bills receivables	—	—	14,949	14,949
Financial assets at FVTPL	4	1,955	80	2,039
Derivative financial instruments	—	130	—	130
	23	**3,482**	**16,266**	**19,771**

As at 31 December 2019 (audited)

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Equity investments designated at FVTOCI	22	—	1,374	1,396
Bills receivables	—	—	13,951	13,951
Financial assets at FVTPL	—	578	25	603
Derivative financial instruments	—	19	77	96
	22	**597**	**15,427**	**16,046**

Liabilities measured at fair value

As at 30 September 2020 (unaudited)

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Derivative financial instruments	—	185	—	185
Put option liabilities	—	—	55	55
	—	**185**	**55**	**240**

As at 31 December 2019 (audited)

	Level 1	Level 2	Level 3	Total
	RMB'M	RMB'M	RMB'M	RMB'M
Financial liabilities at FVTPL	—	43	—	43
Derivative financial instruments	—	99	—	99
Put option liabilities	—	—	55	55
	—	**142**	**55**	**197**

During the nine months ended 30 September 2020 and year ended 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

25. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

26. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	As at 30 September 2020	As at 31 December 2019
	RMB'M (unaudited)	RMB'M (audited)
Contracted, but not provided for :		
Property, plant and equipment	2,423	2,053

27. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of pneumonia epidemic caused by COVID-19 at home and abroad in early 2020, the Company's prevention and control of pneumonia epidemic is continuing globally and various measures have been taken to mitigate the impact of the epidemic on the Company's production and operation. The epidemic has brought uncertainty to the production and operation and may affect the Company's operation and financial condition. The Company will continue to assess and actively respond to the impact of the epidemic on its financial condition and operating results.

The Company has no other significant event after the reporting period that needs to be disclosed.

The information set out below does not form part of the Accountants' Report received from the Company's Reporting Accountant, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included for information purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" to this Listing Document and the Accountants' Report set out in Appendix I to this Listing Document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to owners of the Company is prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the Privatisation and Introduction on the consolidated net tangible assets of the Group attributable to owners of Company as at 30 June 2020 if the Privatisation and Introduction had taken place on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to owners of the Company is prepared for illustrative purpose only, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 or at any future dates following the Privatisation and the Introduction.

The unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to owners of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 as shown in the Accountants' Report as set out in Appendix I to the Listing Document on the same date as this announcement and adjusted as described below.

Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020	Effect of the Privatisation and Introduction	Effect of the Scheme Shares payable	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company
RMB' Million (Note 1)	RMB' Million (Note 2)	RMB' Million (Note 3)	RMB' Million
14,606	15,565	(2,725)	27,446

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 is extracted from the Accountants Report set out in Appendix I to the Listing Document, and is based on the audited consolidated net assets of the Group as at 30 June 2020 of RMB66,508 million adjusted for intangible assets including goodwill and other intangible assets as at 30 June 2020 of RMB33,725 million and non-controlling interests of RMB18,177 million.

(2) The adjustment represents the decrease in non-controlling interest in HEG upon the completion of the Privatisation and Introduction, and a corresponding increase in equity attributable to the owner of the Company, net of listing and privatisation expenses of approximately RMB279 million.

(3) The adjustment represents upon the completion of the Privatisation and the Scheme becoming unconditional and effective, the payment of approximately HK$2,984 million (equivalent to approximately RMB2,725 million based on the exchange rate of HK$1.00 to RMB0.9134) is calculated based on the total number of Scheme Share of 1,530,174,884 at HK$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at the 30 June 2020.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED HSH GROUP

The following is an illustrative and unaudited pro forma consolidated statements of financial position and pro forma consolidated statements of profit or loss and other comprehensive income of the Enlarged HSH Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Privatisation and the Introduction as if it had taken place on 30 June 2020 for the pro forma consolidated statements of financial position and as if it had taken place on 1 January 2019 for the pro forma consolidated statements of profit or loss and comprehensive income. It has been prepared on the basis of the notes set out below and in accordance with the accounting policies adopted by the Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial results of the Enlarged HSH Group had the Privatisation and the Introduction been completed as at 1 January 2019 or 30 June 2020 or any future date.

(a) Unaudited pro forma consolidated statement of financial position of the Enlarged HSH Group

	The Group as at 30 June 2020	Pro Forma adjustment		The Enlarged HSH Group as at 30 June 2020
	RMB' Million Note 1	RMB' Million Note 2	RMB' Million Note 3	RMB' Million
Non-current assets				
Property, plant and equipment	24,684			24,684
Investment properties	31			31
Right-of-use assets	4,135			4,135
Goodwill	24,141			24,141
Other intangible assets	9,584			9,584
Interests in associates	20,935			20,935
Equity investments designated at fair value through other comprehensive income	1,270			1,270
Financial assets measured at fair value through profit or loss	73			73
Financial assets measured at amortised cost	338			338
Derivative financial instruments	63			63
Long-term prepayments	887			887
Deferred tax assets	1,432			1,432
Other non-current assets	787			787
Total non-current assets	88,360			88,360
Current assets				
Inventories	25,282			25,282
Trade and bills receivables	30,177			30,177
Contract assets	471			471
Prepayments, deposits and other receivables	6,263			6,263
Financial assets measured at fair value through profit or loss	2,400			2,400
Financial assets measured at amortised cost	890			890
Derivative financial instruments	66			66
Pledged deposits	1,005			1,005
Other deposit with limited use	86			86
Cash and cash equivalents	43,022			43,022
	109,662			109,662
Assets and disposal group held for sale	21			21
Total current assets	109,683			109,683

	The Group as at 30 June 2020	Pro Forma adjustment		The Enlarged HSH Group as at 30 June 2020
	RMB' Million Note 1	RMB' Million Note 2	RMB' Million Note 3	RMB' Million
Current liabilities				
Trade and bills payables	49,171			49,171
Other payables and accruals	22,532	279	2,725	25,536
Contract liabilities	4,757			4,757
Interest-bearing borrowings	22,697			22,697
Lease liabilities	631			631
Tax payable	999			999
Provisions	1,822			1,822
Derivative financial instruments	164			164
Financial liabilities measured at fair value through profit or loss	18			18
Total current liabilities	102,791			105,795
Net current assets	6,892			3,888
Total assets less current liabilities	95,252			92,248
Non-current liabilities				
Interest-bearing borrowings	14,773			14,773
Lease liabilities	2,215			2,215
Convertible and exchangeable bonds	7,232			7,232
Deferred income	642			642
Deferred tax liabilities	1,213			1,213
Provisions for pensions and similar obligations	1,120			1,120
Provisions	1,412			1,412
Put option liabilities	55			55
Other non-current liabilities	82			82
Total non-current liabilities	28,744			28,744
Net assets	66,508			63,504
EQUITY				
Share capital	6,580	2,448		9,028
Reserves	41,751	13,117	(2,725)	52,143
Equity attributable to owners of the Company	48,331			61,171
Non-controlling interests	18,177	(15,844)		2,333
Total equity	66,508			63,504

(b) Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged HSH Group

	The Group for the year ended 31 December 2019	Pro Forma adjustment	The Enlarged HSH Group for the year ended 31 December 2019
	RMB' Million Note 1	RMB' Million Note 2	RMB' Million
CONTINUING OPERATION			
Revenue	198,006		198,006
Cost of sales	(139,393)		(139,393)
Gross profit	58,613		58,613
Other gains or losses	3,324		3,324
Selling and distribution expenses	(33,843)		(33,843)
Administrative expenses	(17,165)	(22)	(17,187)
Finance costs	(1,732)		(1,732)
Share of profits and losses of associates	1,409		1,409
Profit before tax from continuing operations	10,606		10,584
Income tax expenses	(1,584)		(1,584)
Profit for the year from continuing operations	9,022		9,000
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	3,313		3,313
PROFIT FOR THE YEAR	12,335		12,313
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent year:			
Share of other comprehensive income of associates	103		103
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax	(21)		(21)
Exchange differences on translating foreign operations	500		500
	582		582
Items that will not be reclassified to profit or loss in subsequent year:			
Changes arising from re-measurement of defined benefit plans	(10)		(10)
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	(3)		(3)
	(13)		(13)
Other comprehensive income for the year, net of tax	569		569
Total comprehensive income for the year	12,904		12,882

	The Group for the year ended 31 December 2019	Pro Forma adjustment	The Enlarged HSH Group for the year ended 31 December 2019
	RMB' Million Note 1	RMB' Million Note 2	RMB' Million
Profit attributable to:			
Owners of the Company	8,206	3,890	12,096
Non-controlling interests	4,129	(3,912)	217
	12,335		12,313
Total comprehensive income attributable to:			
Owners of the Company	8,751	3,931	12,682
Non-controlling interests	4,153	(3,953)	200
	12,904		12,882
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
From continuing and discontinued operations			*(Note 4)*
— Basic (RMB per share)	1.29		1.37
From continuing operations			
— Basic (RMB per share)	1.05		1.00

(c) Notes to unaudited pro forma financial information of the Enlarged HSH Group

1. These amounts are extracted from the audited consolidated statement of financial position of the Group as at 30 June 2020 and the audited consolidated statement of profit or loss and comprehensive income of the Group for the year ended 31 December 2019 complied in accordance with International Financial Reporting Standards.

2. The adjustment represents the issuance of the Company H shares to Scheme Shareholders pursuant to the Scheme as at 30 June 2020, and a corresponding decrease in non-controlling interests' share of net assets as at 30 June 2020 and profit for the year ended 31 December 2019 attributable to the HEG after deduction of the related expenses of approximately RMB279 million, which approximately RMB22 million will charge to profit or loss.

3. The adjustment represents upon the completion of the Privatisation and the Scheme becoming unconditional and effective, the payment of approximately HK$2,984 million (equivalent to approximately RMB2,725 million based on the exchange rate of HK$1.00 to RMB0.9134) is calculated based on the total number of Scheme Share of 1,530,174,884 at HK$1.95 per Scheme Share payable in cash by HEG to the Scheme Shareholders whose names appear on the register of members of HEG at 30 June 2020 .

4. The basic earnings per share attributable to ordinary equity holders of Enlarged HSH Group from continuing and discontinued operations is based on the total number of the Group issued equity shares and the Scheme Shares on the Group's consolidated financial position as at 31 December 2019 and the profit attributable to owners of the Company of the Group's consolidated financial performance for the year ended 31 December 2019. Without the effect of the one-off listing and privatisation expenses of approximately RMB22 million, the unaudited pro-forma Enlarged Group EPS will be approximately RMB1.01 per share.

5. No adjustment has been made to reflect any trading results or other transactions of the Group which were entered into subsequent to 31 December 2019.

C. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Listing Document, in connection with the unaudited pro forma financial information.

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Haier Smart Home Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Haier Smart Home Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2020 and the unaudited pro forma consolidated statement of financial position of the Enlarged HSH Group as at 30 June 2020 and unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019, and the related notes as set out in pages III-1 to III-6 of Appendix III to the Company's listing document dated 16 November 2020 (the "**Listing Document**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages III-1 to III-6 in Appendix III to the Listing document.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the listing by way of introduction (the "**Introduction**") and by privatisation of Haier Electronics Group Co., Ltd. (the "**Privatisation**") on the Group's adjusted consolidated net tangible assets as at 30 June 2020, the Group's consolidated financial position as at 30 June 2020 and the Group's consolidated financial performance for the year ended 31 December 2019 as if the Privatisation and the Introduction had taken place at 30 June 2020, 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the Group's audited consolidated net tangible assets, financial position and financial performance has been extracted by the directors of the Company from the Group's financial statements for the six months ended 30 June 2020 and for the year ended 31 December 2019, on which an accountants' report set out in Appendix I to Listing Document has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "*Code of Ethics for Professional Accountants*" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Listing Document is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020, 31 December 2019 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 16 November 2020

PRC TAXATION

Taxation on Dividends

Individual Investors

According to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "**IIT Law**") issued by the NPC Standing Committee, amended on 31 August 2018 and came into effect on 1 January 2019, and the Regulations for the Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》) (State Council Order No.707) amended on 18 December 2018 and came into effect on 1 January 2019, dividends paid by Chinese companies to individual investors shall generally be subject to individual income tax at a rate of 20%. For non-resident individual investors, a 20% individual income tax shall be deducted from any dividend from a Chinese company unless there is special exemption approved by the tax department of the State Council or special deduction permitted by applicable tax treaty. In practise, the withholding rate on non-resident individuals' dividends may be lower than 20% in certain circumstances, as described in "Risk Factors – Investors will be subject to PRC taxation on dividends and on gains on sale or other disposition of their H Shares ".

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the State Administration of Taxation (the "**SAT**") on 21 August 2006 and came into effect on 8 December 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a PRC company, but such tax shall not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC resident company, then the amount of such shall not exceed 5% of the total dividends payable by the PRC resident company. Meanwhile, according to the Fifth Protocol of the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》) signed by the SAT on 7 July 2019 and cane into effect on 6 December 2019, such tax preference shall not apply to any arrangement or transactions made for the primary purpose of gaining such tax benefit. The implementation of the dividend clauses of tax treaties shall be subject to the Notice of the State Administration of Taxation on Issues concerning the Implementation of Dividend Clauses in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81) and other PRC laws and regulations relating to tax.

Enterprise Investors

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) ("**EIT Law**") amended and came into effect on 29 December 2018, and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) amended and came into effect on 23 April 2019, a non-resident enterprise is generally subject to a 10% enterprise income tax (the "**EIT**") on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-resident enterprise does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premises in the PRC. The aforesaid income tax must be withheld at source, with the payer of the income being the withholding agent. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation.

Furthermore, the Notice of the SAT on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by PRC Resident Enterprises to H-share holders Which are Overseas Non-resident Enterprises (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No.897) issued and came into effect on 6 November 2008, further clarified that a PRC resident enterprise shall withhold EIT at a rate of 10% on dividends paid to H-share holders that are overseas non-resident enterprises. In the event that a non-PRC resident enterprise shareholder who is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, by itself or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 and came into effect on 8 December 2006, the withholding tax rate 5% applies to dividends paid by a PRC resident company to a Hong Kong company if such Hong Kong company directly holds at least 25% of the equity interests in the PRC resident company, otherwise the 10% withholding tax rate applies. Meanwhile, according to the Fifth Protocol of the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》) signed by the SAT on 7 July 2019 and cane into effect on 6 December 2019, such tax preference shall not apply to any arrangement or transactions made for the primary purpose of gaining such tax benefit. The implementation of the dividend clauses of tax treaties shall be subject to the Notice of the State Administration of Taxation on Issues concerning the Implementation of Dividend Clauses in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81) and other PRC laws and regulations relating to tax.

Taxation Treaties

Investors who are non-PRC residents and reside in countries which have signed treaties on the avoidance of double taxation with China may be entitled to preferential tax rate on dividends received by such investors from the PRC company. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau Special Administrative Region, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

Taxation on Gains from Share Transfer

Individual Investors

According to the IIT Law and its implementation rules, gains on the transfer of equity interests in PRC resident enterprises are subject to income tax at a rate of 20%, unless such tax is reduced or exempted under relevant double taxation treaties. Under the Circular of the MOF and SAT on Declaring that Individual Income Tax Continues to Be Exempted over Individual Income Tax from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No.61) issued by the MOF and SAT on 20 March 1998, from 1 January 1997, gains of individuals from the transfer of shares of listed companies continue to be exempted from individual income tax. According to the latest amendment to the IIT Law and its implementation rules, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on 31 December 2009, the MOF, SAT and China Securities Regulatory Commission (the "**CSRC**") jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Moratorium Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No.167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for shares of certain specified companies (as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No.70) over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation issued by the MOF, SAT and CSRC on 10 November 2010). As of the Latest Practicable Date, the aforesaid provisions have not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges such as the Hong Kong Stock Exchange. In practise, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

According to the EIT Law and its implementation rules, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premise. Such income tax for non-resident enterprises is deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced pursuant to applicable treaties or agreements on avoidance of double taxation.

Taxation Policy of Shanghai-Hong Kong Stock Connect

According to the Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No.81) jointly issued by the MOF, the SAT and the CSRC on 31 October 2014 and the Announcement of the MOF, the SAT, and the CSRC on the Continued

Implementation of the Individual Income Tax Policies on the Interconnection Mechanisms for Transactions in the Shanghai and Hong Kong Stock Markets and for Transactions in the Shenzhen and Hong Kong Stock Markets (《財政部、稅務總局、證監會關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的通知》) (Cai Shui [2019] No.93) issued and came into effect on 4 December 2019, income tax on income derived by Mainland China individual investors shall: (i) temporarily be exempt from individual income tax for the period from 5 December 2019 to 31 December 2022, when deriving income on price difference from transfer of shares listed on the HKSE; and (ii) be subject to withholding tax at a rate of 20% by H-share companies, when deriving income from share dividend from investment in shares listed on the HKSE. Individual investors, who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under China Securities Depository and Clearing Company Limited (the "**CSDCC**") for tax credit. Dividends derived by mainland securities investment funds through investment into shares listed on the HKSE via the Shanghai-Hong Kong Stock Connect are subject to individual income tax pursuant to provisions above; for Mainland China corporate investors, income tax shall be subject to EIT pursuant to the law, when Mainland China corporate investors derive income on price difference from transfer of shares listed on the HKSE or from share dividend from their investment in shares listed on the HKSE. Such income shall be included in their total income. In particular, EIT will be exempted according to law for dividend and bonus income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend and bonus income obtained by mainland enterprise incomes, the H-share companies will not withhold dividend and bonus income tax for mainland enterprise incomes. The tax payable shall be declared and paid by the enterprises themselves.

Mainland China investors who deal with, inherit, and are bestowed upon with shares listed on the HKSE via the Shanghai-Hong Kong Stock Interconnection are subject to stamp duties in accordance with current taxation requirements in Hong Kong. CSDCC and Hong Kong Securities Clearing Company Ltd. (the "**HKSCC**") are authorised to levy stamp duties above on behalf of each other.

PRC Stamp Duty

According to the Provisional Regulations of the PRC on Stamp Tax (《中華人民共和國印花稅暫行條例》) amended on 8 January 2011 and the Implementation Rules for the Provisional Regulations Concerning Stamp Duty amended and coming into effect on 8 January 2011, the PRC stamp duty is applicable to documents which have legal binding effect in the PRC and are governed by the PRC laws. Therefore, the PRC stamp duty does not apply to acquisitions or dispositions of H shares outside the PRC.

Estate Duty

The PRC currently has not imposed any estate duty.

MAJOR TAXATION OF THE COMPANY IN THE PRC

Income tax

According to the EIT Law, enterprises and institutions founded in China shall pay an enterprise income tax at a rate of 25%.

Value-Added Tax

According to the Interim Regulations of the PRC on Value-added Tax(《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on 13 December 1993 and last revised on 19 November 2017 and the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the MOF on 25 December 1993 and last amended on 28 October 2011, enterprises and individuals that engaging in sale of goods, services, lease of tangible movables or importation of goods are subject to a VAT. Unless otherwise provided, the tax rate is generally 17% for taxpayers selling or importing goods.

According to the Circular of the MOF and the SAT on Adjusting Value-added Tax Rate (《財政部、稅務總局關於調整增值稅稅率的通知》) which was promulgated by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, the tax rates for the taxable sales or goods import activity, which were subject to the tax rates of 17% and 11% respectively, were adjusted to 16% and 10% respectively.

According to the Circular on Policies in Relation to the Deepening of Value-added Tax Reforms (《關於深化增值稅改革有關政策的公告》) which was jointly promulgated by the MOF, the SAT and the General Administration of Customs on 20 March 2019, the tax rate of 16% and 10% originally applicable to general VAT taxpayers' VAT taxable sales or goods import shall be adjusted to 13% and 9%, respectively.

FOREIGN EXCHANGE CONTROL OF THE PRC

The lawful currency of the PRC is Renminbi, which is still subject to foreign exchange control and is not freely exchangeable. The SAFE, under the authorisation of the People's Bank of China (the "**PBOC**"), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The principal regulations governing foreign currency exchange in China are Regulations for Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Control Regulations**") which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was subsequently amended on 14 January 1997 and 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa [1996] No.210) which was promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterparts is obtained.

According to the Announcement on Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》 issued by the PBOC on 21 July 2005, the PRC began to implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the interbank foreign exchange market on each trading day after the closing of the market, and will fix the central parity for the transaction of such foreign currency against Renminbi on the following trading day.

Since 4 January 2006, the PBOC improved the method of generating the central parity for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the interbank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the interbank foreign exchange market.

The Foreign Exchange Control Regulations, which became effective on 5 August 2008, have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and grant extensive authority to the SAFE to strengthen its supervisory and administrative ability.

According to the relevant State rules and regulations, all of the foreign exchange revenue of the PRC enterprises from the current account transactions may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Foreign exchange income from loans granted by overseas entities or from the issuance of bonds and shares is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of the SAFE, effect exchange and payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders' meeting approving the distribution of profits, effect exchange and payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

The Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo

Fa [2014] No.50), which was issued and became effective on 23 October 2014, has cancelled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No.54) issued by the SAFE on 26 December 2014, a domestic issuer shall, within 15 business days from completion of its initial public offering overseas, register the overseas listing with the SAFE's local branch at the place of its incorporation. The proceeds from an overseas listing of a domestic issuer may be remitted to a domestic account or deposited overseas, and the use of the proceeds shall be consistent with the content of the Prospectus and other disclosure documents.

Pursuant to the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No.16) issued by the SAFE on 9 June 2016, discretionary settlement of foreign exchange capital income can be settled at the banks based on the actual operating needs of the domestic companies. The proportion of discretionary settlement of foreign exchange capital income for domestic companies is temporarily set at 100%. The SAFE may timely adjust the above proportion based on international balance of payments.

HONG KONG TAXATION

Taxation on Dividends

No tax is payable in Hong Kong in respect of dividends paid by our Company.

Profits Tax

Hong Kong profits tax will not be payable by any Shareholders (other than Shareholders carrying on a trade, profession or business in Hong Kong and holding the Shares for trading purposes) on any capital gains made on the sale or other disposal of the Shares. Shareholders should take advice from their own professional advisors as to their particular tax position.

Stamp Duty

Hong Kong stamp duty will be charged on the sale and purchase of Shares at the current rate of 0.2% of the consideration for, or (if greater) the value of, the Shares being sold or purchased, whether or not the sale or purchase is on or off the Hong Kong Stock Exchange. The Shareholder selling the Shares and the purchaser will each be liable for one-half of the amount of Hong Kong stamp duty payable upon such transfer. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of Shares.

Estate Duty

Hong Kong estate duty was abolished effective from 11 February 2006. No Hong Kong estate duty is payable by Shareholders in relation to the Shares owned by them upon death.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) revised and took effect on 11 March 2018 (hereinafter referred to as "Constitution") and is composed of the laws, administrative regulations, local regulations, separate rules, rules and regulations of departments of the State Council, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Judicial decisions do not constitute binding precedents, although they may be used for the purpose of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) which was revised and took effect on 15 March 2015 (hereinafter referred to as "Legislation Law"), the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required by to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The State Council is the highest administrative authority of the PRC, and enacts administrative regulations under the Constitution and laws. The people's congresses of provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the Constitution, laws or administrative regulations.

The ministries, commissions of the State Council, the 'PBOC, the National Audit Office and institutions with administrative functions supervisory committee the State Council may formulate rules and regulations within the power of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people's congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the Constitution, laws, and administrative regulations and the rules of the provinces and the autonomous regions.

The people's congresses of autonomous areas may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, the regulations and rules which made by autonomous regions shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptations shall be made to the specific provisions on national autonomous areas in the constitutions, national region autonomy law and other relevant laws and administrative regulations.

The people's governments of provinces, autonomous regions and municipalities directly under the central government and cities divided into districts and autonomous regions may formulate rules, in accordance with laws, administrative regulations and relevant local regulations. The people's governments of cities divided into districts and autonomous regions may only formulate local rules in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local government regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution is basis of the PRC legal system and has supreme legal authority, and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts and autonomous prefecture within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any local regulations and administrative regulations that contravene the Constitution, laws and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law.

The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congress of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution, the authority of the interpretation of laws shall be vested to the Standing Committee of the NPC. According to the Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, all laws or legal provisions that need to be further defined or supplemented shall be interpreted by the Standing Committee of the NPC or regulated in decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme

People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the central government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the central government.

THE PRC JUDICIAL SYSTEM

Under the Constitution and the Law of the PRC of Organisation of the People's Courts (《中華人民共和國人民法院組織法》) which took effect on 1 January 2019, the judicial system in PRC is composed of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts may be organised into civil, criminal, and economic tribunals. The intermediate people's courts may be organised into divisions similar to those of the primary people's courts, and can set up other tribunals when necessary. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial body of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts at same or lower levels.

The people's courts adopt a "second instance as final" appellate system in the trail of the cases. A party may appeal against a judgement or ruling of a local people's court to the people's court at the next higher level in accordance with the legal procedures. The people's procuratorates may appeal to the people's court in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorates within the stipulated period, the judgement and ruling of the first instance by the local people's courts shall be final and legally binding. Judgements and rulings of the second instance of the intermediate people's courts, the higher people's courts and Supreme People's Court and the Judgements and rulings of the first instance of the Supreme People's Court shall be the final Judgements and rulings. If, however the Supreme People's Court, or a People's Court at a higher level, or the president of a People's Court finds an error in a judgement, the case may then be retried according to the judicial supervision procedures. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) which was adopted on 9 April 1991 and last amended on 27 June 2017 and became effective on 1 July 2017 (hereinafter referred to as "PRC Civil Procedure Law"), sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or performance of the contract, the object of the action or locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgement , order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. If a person fails to satisfy a judgement made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgement. A party seeking to enforce a judgement or order of a people's court against a party who is not located within the PRC or does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgement or order. In the case of an application or request for recognition and enforcement of a legally effective judgement or order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognise the validity of the judgement or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognise and enforce it.

THE PRC COMPANY LAW, THE SPECIAL REGULATIONS OF THE STATE COUNCIL ON THE OVERSEAS OFFERING AND LISTING OF SHARES BY JOINT STOCK LIMITED COMPANIES, AND THE MANDATORY PROVISIONS FOR ARTICLES OF ASSOCIATION OF COMPANIES TO BE LISTED OVERSEAS

The PRC Company Law (《中華人民共和國公司法》) which was promulgated on 29 December 1993 by the Standing Committee of the NPC, last amended and came into effect on 26 October 2018 regulates the organisation and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors.

The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (hereinafter referred to "Special Regulations") were promulgated by the State Council, and took effect on 4 August 1994. The Special Regulations are formulated according to the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas(《到境外上市公司章程必備條款》)(hereinafter referred to "Mandatory Provisions") which were jointly promulgated by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in "Appendix VI—Summary of the Articles of Association").

Main provisions in PRC Company Law, Special Regulations and Mandatory Provisions are summarised as follows:

General

A joint-stock limited liability company (hereinafter referred to as "company") is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

The company may invest in other enterprises. However, the Company shall not become a capital contributor that shall bear the joint liabilities for the debts of the enterprise it invests in, unless it is otherwise provided for by any law. A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of our company's assets and liabilities and the establishment of internal management organs.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For a company incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. It shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority. The promoters shall convene an inaugural meeting within thirty (30) days after the issued shares have been fully paid up, and shall fifteen (15) days before the meeting notify all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draught articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting. Within thirty (30) days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business licence has been issued.

Where after the incorporation of a company, a promoter fails to pay in full the subscription moneys in accordance with the provisions of the company's articles of association, he shall pay them in full; and the other promoters shall bear joint and several liability. Where it is discovered that the actual evaluation of the non-currency property used as capital contributions for the incorporation of the company is obviously less than the evaluation prescribed by the company' articles of association, the promoters making such contributions shall make up the difference; and the other promoters shall bear joint and several liability.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value, except for the property that is not allowed to be used as capital contributions, as is provided for by laws or administrative regulations.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws. Non-current property used for capital contributions shall be evaluated and verified, and shall not be overvalued or undervalued. Where laws or administrative regulations provide otherwise, those provisions shall prevail.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong Special Administrative Region, Macau Special

Administrative Region, the Region of Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares which take the form of registered shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The shares shall be issued in compliance with the principles of fairness and impartiality. The shares of the same class must carry the same rights. Shares shall be issued on the same conditions and at the same price. All units and individuals shall pay the same price for each of the share they subscribe for. The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

Shares issued by a company with limited liability may be either registered shares or bearer shares. The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the benchmark date determined by the company for distribution of dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the PRC Securities Law (《中華人民共和國證券法》) which was revised on 28 December 2019, and took effect on 1 March 2020 (hereinafter referred to as "Securities Law") provides that the company shall satisfy the following criteria: (i) have a sound organisational structure with satisfactory operating record; (ii) have the capability of sustainable operation; (iii) have been issued with an unqualified opinion audit report by the auditor for the company's financial accounting documents in the latest three years; (iv) the issuer and its controlling shareholder(s), actual controlling party do not have criminal record during the past three years for corruption, bribery, encroachment of assets, misappropriation of assets or disruption of socialist market economy order; and (v) other conditions required by the securities administration department of the State Council as approved by the State Council. Offering of new shares by listed companies shall satisfy the criteria stipulated by the securities regulatory authorities of the State Council; detailed administrative measures shall be formulated by the securities regulatory authorities of the State Council. Public offering shall be registered pursuant to the law with the securities regulatory authority of the State Council or the authorities empowered by the State Council. After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law: (i) the company shall prepare a balance sheet and an inventory of the assets; (ii) the reduction of registered capital must be approved by shareholders in general meeting; (iii) the company shall inform its creditors of the reduction in registered capital within ten (10) days and publish an announcement of the reduction in the newspaper within thirty (30) days after the resolution approving the reduction has been passed; (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; The creditors shall, within thirty (30) days from the date they receive the written notice, or within forty five (45) days from the date the announcement is made in the case of those who have not received such written notice, have the right to claim full repayment of their debts or provision of a corresponding guarantee from the company; and (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not repurchase its own shares other than for the purpose of: (i) reducing the registered capital of the company; or (ii) merging with another company holding shares of this company; or (iii) granting the shares for employee share ownership plans or as share incentives; or (iv) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; (v) applying the shares for the conversion of the corporate bonds issued by a listed company and convertible into shares; (vi) maintaining the corporate value and protecting the shareholders' interests of a listed company as necessary. Repurchase of its own shares by a company under the circumstances specified in Subparagraph (i), (ii) of the preceding paragraph shall be subject to resolution adopted by the shareholders' general meeting; repurchase of its own shares by a company under the circumstances specified in Subparagraph (iii), (v) or (vi) shall be subject to a resolution at a board meeting attended by more than two-thirds of the directors in accordance with the provisions of the articles of association or the authorisation of a general meeting.

Where a company repurchases the shares of the Company pursuant to subparagraph (i) of the first paragraph, such shares shall be cancelled within 10 days from the date of repurchases; where the shares are repurchased pursuant to subparagraphs (ii), (iv), such shares shall be transferred or cancelled within six months; and where the shares are repurchased pursuant to Subparagraphs (iii), (v), (vi), the aggregate number of the Company's shares held by a company shall not exceed 10% of the total issued shares of the Company, and shall be transferred or cancelled within three years.

A company shall not accept its own shares as the subject matter of a mortgage.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations. Registered shares shall be transferred by means of endorsement by shareholders or by such other means as provided for by laws or administrative regulations; and after such transfer, the company shall register the names or titles and domiciles of the transferees in its roster of shareholders. No registration of modification to the roster of shareholders as stipulated by the preceding paragraph shall be made within the period of 30 days prior to the convening of a meeting of the shareholders' general meeting or within the period of 5 days prior to the date of record on which the company decides to distribute dividends. Transfer of bearer shares shall become effective immediately after a shareholder delivers such share certificates to a transferee.

Shares held by the promoters of a company shall not be transferred within one year from the date the company is incorporated. Directors, supervisors and senior managers of a company shall declare to the company the numbers of the company's shares held by them and the changes of the shares they hold, and the number of the company's shares annually transferred by each of them during their term of office shall not exceed 25% of the total number of the company's shares held by them respectively; The company's shares held by the persons mentioned above shall not be transferred within six months after they leave office. The company's articles of association may stipulate other restrictive provisions on the transfer of the company's shares held by the directors, supervisors and senior managers of the company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of a company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include: (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held; (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company; (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company; (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or articles of association, the shareholders may lodge an action in the people's court; (v) to receive dividends and other distributions in respect of the number of shares held; (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

General Meetings

The general meeting is the organ of authority of a company, which exercises its powers in accordance with the PRC Company Law.

The general meeting exercises the following principal powers: (i) to decide on the company's operational policies and investment plans; (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors; (iii) to consider and approve reports of the board of directors; (iv) to consider and approve reports of the supervisory committee; (v) to consider and approve the company's proposed annual financial budget and financial accounts; (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses; (vii) to decide on any increase or reduction in the company's registered capital; (viii) to decide on the issue of bonds by the company; (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters; (x) to amend the articles of association of the company; and (xi) other functions specified in the articles of association of the company.

A general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months after the occurrence of any of the following circumstances: (i) when the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association; (ii) when the losses of the company which are not made up reach one-third of the company's total paid up share capital; (iii) upon a request by shareholder(s) that individually or collectively holding 10% or more of the shares; (iv) when deemed necessary by the board of directors; (v) when the supervisory committee proposes convening it; or (vi) other matters required by the company's articles of association.

The general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. If the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice-chairman. If the vice-chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety (90) days consecutively may unilaterally convene and preside over such meeting.

Notice of the general meeting shall be given to all shareholders twenty (20) days before the meeting. Notice of the extraordinary shareholders' general meeting shall be given to all shareholders fifteen (15) days before the meeting. Shareholders present at a general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets forth the scope of exercising the voting rights.

Board of Directors

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of the company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten (10) days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers: (i) to convene the shareholders' general meeting and report on its work to the shareholders; (ii) to implement the resolution of the shareholders' general meeting; (iii) to decide on the company's business plans and investment plans; (iv) to formulate the company's proposed annual financial budget and final accounts; (v) to formulate the company's proposals for profit distribution and for recovery of losses; (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds; (vii) to prepare plans for the merger, division, dissolution or change of the form of the company; (viii) to decide on the company's internal management structure; (ix) to appoint or dismiss the company's general manager, and based on the president's recommendation, to appoint or dismiss deputy general manager and financial officers of the company and to decide on their remuneration; (x) to formulate the company's basic management system; and (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers: (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and (ii) to cheque on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman of the board of directors. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in "Appendix VI—Summary of Articles of Association") contain further elaborations of such duties.

Directors shall be liable for the resolutions adopted by the board of directors. Where a resolution of the board violates laws, administrative regulations, or the company's articles of association, and thus causes serious losses to the company, the directors participating in the adoption of such a resolution shall be liable for compensation to the company. However, where a director is proved to have expressed his objection to such a resolution when it was put to the vote and his objection was recorded in the minutes of the meeting, he may be exempted from such liability.

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum. The supervisory committee is made up of shareholders' representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows: (i) to examine the company's financials; (ii) to supervise the directors and senior management in their performance of duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution; (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act; (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings, to convene and preside over shareholders' meetings; (v) to propose any motions to shareholders' general meetings; (vi) to commence any action against any directors or senior management; and (vii) other powers specified in the company's articles of association. The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company. Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. Expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. According to the PRC Company Law, resolutions of the supervisory committee require the approval of more than half of all supervisors, and pursuant to the Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong (《關於到香港上市公司對公司章程作補充修改的意見的函》) (Zheng Jian Hai Han [1995] No. 1) promulgated by the CSRC on 3 April 1995, resolutions of the supervisory committee require the approval of more than two-thirds of all supervisors.

The supervisory committee shall have one chairman and may have one vice-chairman. Both shall be elected by more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over the meeting of the supervisory committee; where the chairman of the supervisory committee cannot perform the functions or fails to do so, the vice-chairman shall convene and preside over the meeting of the supervisory committee; and where the vice-chairman cannot perform the functions or fails to do so, a supervisor jointly elected by half or more of the supervisors shall convene and preside over the meeting of the supervisory committee.

Managers and Other Senior Management

"Senior management" refers to the manager, vice manager, person in charge of finance, and the secretary of the board of directors of a listed company as well as any other person as stipulated in the articles of association. A company shall have a manager who shall be appointed or removed by the board of directors.

The manager is accountable to the board of directors and may exercise the following powers: (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors; (ii) arrange for the implementation of the company's annual business and investment plans; (iii) formulate plans for the establishment of the company's internal management structure; (iv) formulate the basic administration system of the company; (v) formulate the company's internal rules; (vi) recommend the appointment and dismissal of deputy managers and person in charge of finance and appoint or dismiss other senior management (other than those required to be appointed or dismissed by the board of directors); (vii) attend board meetings as a non-voting attendant; and (viii) other powers conferred by the board of directors or the company's articles of association.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in “Appendix VI—Summary of Articles of Association”.

Duties of Directors, Supervisors and Senior Officers

None of the following persons shall serve as a director, supervisor, or senior management of a company: (i) a person who has no or limited capacity for civil conduct; (ii) a person who was sentenced to criminal punishment for embezzlement, bribery, seizure of property or misappropriation of property or for sabotage of the socialist market economic order, where less than five years have elapsed after the expiration of the period of execution; or a person who was deprived of his political rights for the commission of a crime, where less than five years have elapsed after the expiration of the period of execution; (iii) a person who, being a director or the head or manager of a company or enterprise that went into bankruptcy and liquidation, was personally liable for the bankruptcy of the said company or enterprise, where less than three years have elapsed from the date liquidation of the company or enterprise is completed; (iv) a person who, being the legal representative of a company or an enterprise, the business licence of which was revoked for violation of law and which was ordered to close down, was personally liable for the above, where less than three years have elapsed from the date the business licence of the company or enterprise is revoked; and (v) a person who fails to liquidate a relatively large amount of personal debts when they are due.

A director, supervisor and senior management of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company’s properties. Directors and senior management are prohibited from: (i) misappropriation of company funds; (ii) deposit of company funds into accounts under their own name or the name of other individuals; (iii) loaning company funds to others or providing guarantees in favour of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders’ general meeting or board of directors; (iv) entering contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders’ general meeting or board of directors; (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders’ general meeting; (vi) accepting for their own benefit commissions from other parties dealing with the company; (vii) unauthorised divulgence of confidential information of the company; or (viii) other acts in violation of their duty of loyalty to the company.

A director, supervisor and senior officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior management who contravenes any law, regulation or the company’s articles of association in the performance of his duties which results in any loss to our company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior management of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Where the attendance of a director, supervisor, or senior management is requested by the shareholders' general meeting, such director, supervisor, or other senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve and discretionary common reserve, the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes: (i) to make up the company's losses other than the capital common reserve; (ii) to expand the business operations of the company; and (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders. If the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and cheque other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

Appointment or dismissal of auditors in charge of the auditing business of a company shall be subject to decision by the shareholders' general meeting or the meeting of the board of directors in accordance with the provisions of the company's articles of association. Where the shareholders' general meeting or meeting of the board of directors of a company votes on the dismissal of an accounting firm, it shall allow the accountants to state their opinions. A company shall provide authentic and complete accounting vouchers, accounting books, financial and accounting reports and other accounting data to the accountants it appoints, and shall not refuse to do so, or conceal the facts or make false reports about them. The period of appointment of the accountants starts from the date when the first annual shareholders meeting ends to the date when the next annual shareholders meeting ends.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting.

Distribution of Profits

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve has been drawn. According to the Special Regulations, the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. According to the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies' approval department authorised by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

Under the PRC Company Law, a company shall be dissolved in any of the following events: (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred; (ii) the shareholders in general meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of its merger or demerger; (iv) the company is subject to the revocation of business licence, a closure order or elimination in accordance with laws; or (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within fifteen (15) days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days (10) after its establishment, and issue a public notice in the newspapers within sixty (60) days. A creditor shall lodge his claim with the liquidation committee within thirty (30) days after receiving notification or within forty five (45) days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period: (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets; (ii) to notify creditors or issue public notices; (iii) to deal with and settle any outstanding business of relevant company; (iv) to pay any tax overdue; (v) to settle the company's claims and liabilities; (vi) to handle the surplus assets of the company after its debts have been paid off; and (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and social insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix VI—Summary of Articles of Association").

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within ten (10) days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within thirty (30) days. The creditors may, within thirty (30) thirty days as of the receipt of the notice or within forty five (45) days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten (10) days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within thirty (30) days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities firms, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee of the State Council and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorisations.

The Securities Law took effect on 1 July 1999 and was last amended on 28 December 2019. This is the first securities law in the PRC, and it is divided into 14 chapters and 226 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities firms and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 224 of the Securities Law provides that a domestic enterprises issuing securities overseas directly or indirectly or listing their securities overseas shall comply with the relevant provisions of the State Council. Article 225 of the Securities Law provides that for subscription and trading of shares of domestic companies using foreign currencies, detailed measures shall be stipulated by the State Council separately. Currently, the issue and trading of foreign issued shares (including H Shares) are still governed by the rules and regulations promulgated by the State Council and the CSRC.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within fifteen months after approval is obtained from the CSRC.

Termination of Listing

The following revisions were made in the Securities Law:

Where listed securities fall under the delisting circumstances stipulated by the stock exchange, the stock exchange shall terminate its listing and trading in accordance with the business rules.

Where the stock exchange decides on delisting of securities, it shall promptly announce and file records with the securities regulatory authority of the State Council.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (hereinafter referred to as "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and the latest version was amended on 1 September 2017 and came into effect on 1 January 2018. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and those in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its rules or the Hong Kong International Arbitration Centre ("HKIAC") in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for Enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and

Enforcement of Foreign Arbitral Awards (hereinafter referred to as "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

OVERSEAS DIRECT INVESTMENT REGULATIONS

According to the Provisions for Overseas Investment Management (《境外投資管理辦法》) (MOFCOM Order 2014 No. 3) promulgated by the MOFCOM and took effect on 6 October 2014, and the Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) (Hui Fa [2009] No. 30) issued by the SAFE and took effect on 1 August 2009, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments. Further, according to the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13) issued by the SAFE, which came into effect on 1 June 2015, the administrative approval for foreign exchange registration approval under overseas direct investment by SAFE has been cancelled, and the banks are entitled to review and carry out foreign exchange registration under overseas direct investment directly.

According to the Management Measures on Overseas Investment of Enterprise (《企業境外投資管理辦法》) (NDRC Order No. 11) promulgated by the NDRC and took effect on 1 March 2018, the investing activities of PRC enterprises such as acquiring overseas ownerships, controlling rights, operating and management rights and other relevant interests by way of investing assets and interests or providing financing and guarantees to control its overseas enterprises, either directly or indirectly, are required to obtain approval or lodge filing with NDRC in accordance with the relevant conditions of the overseas investment projects.

MATERIAL DIFFERENCES BETWEEN CERTAIN ASPECTS OF PRC COMPANY LAW AND HONG KONG COMPANY LAW

As a joint stock limited company incorporated in the PRC, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law. Set out below is a summary of certain material differences between Hong Kong company law and the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation to the Company upon its incorporation, and the company will acquire an independent corporate existence henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law does not provide for authorised share capital. The Company's registered capital is the amount of its issued share capital. Any increase in the Company's registered capital must be approved by our general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, applications for listing and trading of securities shall comply with the listing criteria stipulated in the listing rules of the stock exchange. The listing criteria stipulated in the listing rules of the stock exchange shall include requirements on the years of operation, financial status, minimum public offering ratio and corporate governance, creditworthiness records etc. of the issuer. The Companies Ordinance does not prescribe any minimum capital requirement for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no over-valuation or undervaluation of the assets. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Generally, domestic shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau SAR and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If the H shares are eligible securities under the Southbound Trading Link, they may also be subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares held by them in that company, and the shares they held in that company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set out other restrictive requirements on the transfer of a company's shares held by its directors, supervisors and senior management.

There are no restrictions on shareholdings and transfers of shares under Hong Kong law apart from (i) the restriction on the Company to issue additional Shares within six months, and (ii) 12-month lockup on Controlling Shareholder's disposal of Shares, after the Listing.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than twenty (20) days before the meeting, whereas notice of an extraordinary general meeting must be given not less than fifteen (15) days before the meeting. If a company issues bearer shares, notice of a shareholder's general meeting must be given at least thirty (30) days prior to the meeting.

For a company incorporated in Hong Kong, the minimum period of notice of a general meeting is 14 days. Further, where a meeting involves consideration of a resolution requiring special notice, the company must also give its shareholders notice of the resolution at least 14 days before the meeting. The notice period for the annual shareholders' general meeting is 21 days.

Quorum for Shareholders' Meetings

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting.

Under Hong Kong law, the quorum for a shareholders' meeting is two members, unless the articles of association of a company specifies otherwise or the company has only one member, in which case the quorum is one.

Voting at Shareholders' Meetings

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our Shareholders present in person or by proxy at a shareholders' meeting except in cases such as proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes casted by shareholders present in person, or by proxy, at a general meeting.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate requirements relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in "Appendix VI—Summary of Articles of Association".

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

We have incorporated provisions to protect the rights of class shares into the Articles of Association in a similar way as required by the laws of Hong Kong in accordance with the Hong Kong Listing Rules and Mandatory Provisions. The Articles of Association define the holders of overseas listed shares and domestic shares as shareholders of different classes of shares. The special procedure for voting by class shareholders is not applicable in the following circumstances: (1) after approval by a special resolution in shareholders' general meeting, the Company issue domestic shares and overseas listed foreign shares separately or at the same time at an interval of 12 months, and the proposed number of domestic shares and overseas listed foreign shares to be issued respectively will not exceed 20% of the outstanding issued shares of such class; and (2) the plans to issue domestic shares and overseas listed foreign shares upon establishment of the Company are completed within 15 months from the date of approval by the securities regulatory authority of the State Council.

Derivative Action by Minority Shareholders

Under Hong Kong company law, a shareholder may, with the leave of the Court, start a derivative action on behalf of a company for any misconduct committed by its directors against the company. For example, leave may be granted where the directors control a majority of votes at a general meeting, and could thereby prevent the company from suing the directors in its own name.

Pursuant to the PRC Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or its articles of association, resulting in losses to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates as such, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceedings may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions further provide us with certain remedies against the Directors, Supervisors and senior management who breach their duties to the Company. In addition, as a condition to the listing of overseas listed foreign shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking to observe the articles of association in favour of the company. This allows minority Shareholders to take action against our Directors and Supervisors in default.

Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong.

The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a people's court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority Shareholder protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling Shareholder may not exercise its voting rights in a manner prejudicial to the interests of other Shareholders, may not relieve a Director or Supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other Shareholders.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and indemnification in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and director's interests in the subject matters to be discussed and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care.

Under the Special Regulations, directors, supervisors, managers and other members of senior management of the company shall honestly and diligently perform their duties for the company.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting.

According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the CAS, have its financial statements prepared and audited in accordance with international or the country or region where the company is listed accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the CAS.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the general meetings and financial and accounting reports. Under the article of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the Hong Kong law, dividends once declared by the board of directors will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years.

The Mandatory Provisions require that the relevant company shall appoint a receiving agent for shareholders who hold overseas listed foreign shares, and the receiving agent shall receive on behalf of such holders of shares dividends declared and other monies owed by the company in respect of its overseas listed foreign shares.

Corporate Reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance.

Pursuant to the PRC Company Law, merger, division, dissolution or changes to the form of a joint stock limited liability company shall be approved by shareholders representing over two-thirds of voting rights at the general meeting.

Special Withdrawal

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Mandatory Provisions provides that disputes between a holder of H shares and the Company, a holder of H shares and directors, supervisors, managers and other members of senior management of the Company or a holder of H shares and a holder of domestic listed shares, arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the HKIAC or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau SAR and Taiwan.

Remedies of a Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages.

The Hong Kong Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder, when needed.

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than thirty days (extendable to sixty days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within thirty days before the date of convening a general meeting or within five days before the base date of distribution of dividends.

As required by the Mandatory Provisions, share transfers shall not be registered within thirty (30) days before the date of convening a general meeting or within five (5) days before the base date of distribution of dividends.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN THE HONG KONG LISTING RULES, SHANGHAI STOCK EXCHANGE LISTING RULES AND THE LISTING RULES OF FRANKFURT STOCK EXCHANGE SECURITIES

As our A Shares and D Shares are listed on the Shanghai Stock Exchange and the Frankfurt Stock Exchange, respectively, we are also subject to the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities. Set out below is a summary of certain differences between the Hong Kong Listing Rules, Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities:

Periodic financial reporting

There are material differences in financial reporting standards and practises regarding, for examples, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

Classification and disclosure requirements for notifiable transactions

The method of classification of notifiable transactions under the Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities.

Connected transactions

The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions under the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities, as well as the respective exemptions are different.

Disclosure of inside information

The scope, timing and method of disclosure of inside information are different between the Hong Kong Listing Rules, the Shanghai Stock Exchange Listing Rules and the Listing Rules of Frankfurt Stock Exchange Securities.

This appendix contains a summary of the main provisions of the Articles of Association adopted by the Company on 1 September 2020, which will take effect from the date of listing of H shares on the Hong Kong Stock Exchange. The main purpose of this appendix is to give potential investors an overview of the Company's Articles of Association, and it may not contain all the information that is important for potential investors.

Business Scope

The business scope of the Company shall be: researching, developing and manufacturing electric appliance, electronic products, machinery products, communication devices and relevant accessories, industrial automation controlling equipment, computer software and hardware and accessory equipment; technical advisory services for home appliance and electronic products; import and export business (conduct operations in accordance with the approved scope of Ministry of Foreign Economic Relations and Trade); digital technology, intelligent technology and software technology; technology development, technology consultation, technology transfer, technology service (including industrial Internet and household electrical appliances product); data processing; application software development and service; development and application research of advanced control and optimised technology; retail and wholesale; domestic commerce (except for the commodities forbidden by the State); mineral water manufacturing, catering, tourism services (only operated by the branches); enterprise management service and consultation, information technology service; (the approval of relevant authorities shall be obtained before the start of operation if such approval shall be obtained for certain project).

Shares

Shares and Registered Capital

The shares of the Company shall take the form of stock.

The Company shall maintain ordinary shares at all times. According to the necessity of the Company, the shares issued by the Company are all ordinary shares. Subject to the approval of the department authorised by the State Council, the Company may set up other kinds of shares.

The issuance of shares by the Company shall adhere to the principles of openness, fairness and impartialness, and each share in the same category shall carry the same rights. Class shareholders of the Company shall rank *pari passu* over any distribution by way of dividend or any other forms of distribution.

For the same type of shares issued in the same offering, the issue terms and price shall be identical; each share subscribed by any units or individuals shall be paid at the same price.

All shares issued by the Company, including A Share, D Share and H Share, are all par value stock with par value per share of RMB1.

Subject to the approval by the securities regulatory authority of the State Council, the Company may issue shares to domestic investors and overseas investors.

With the plan for issuing overseas-listed foreign shares and domestic shares by the Company examined and approved by the securities regulatory authority of the State Council, the Board of Directors of the Company may arrange for the implementation of such plan by means of separate issuances.

Where the Company issues overseas-listed foreign shares and domestic shares separately within the total number of shares specified in the issuance plan, every such issue shall be fully subscribed for in one time. Where it is impossible for every such issue to be fully subscribed for in one time due to special circumstances, the shares may be issued in several stages, subject to the examination and approval of the securities regulatory authority of the State Council.

Increase/Decrease and Repurchase of Shares

The Company may, upon resolution by a shareholders' general meeting, adopt the following methods to increase its capital in accordance with its business and development needs and pursuant to the provisions of laws and regulations:

(I) public offering of shares;

(II) private offering of shares;

(III) distribution of new shares to the existing shareholders;

(IV) private placement of new shares to the existing shareholders;

(V) conversion of the reserves to additional capital;

(VI) conversion of the issued convertible corporate bonds to shares;

(VII) any other method stipulated by laws and administrative regulations and examined and approved by the CSRC and other relevant regulatory authorities.

After having been examined and approved in accordance with the Articles of Association, the Company's increase of its capital by issuing new shares shall be handled in accordance with the procedures provided for in relevant State laws and administrative regulations and listing rules of the place where the securities of the Company are listed.

The Company may, under any of the following circumstances, buy back its issued shares pursuant to the provisions of laws, administrative regulations, departmental rules, listing rules of the place where the securities of the Company are listed, the Articles of Association and approval by relevant competent authorities of the State:

(I) reduction of its registered capital;

(II) merger with other company which holds the shares of the Company;

(III) the shares are to be used for employee share ownership plans or equity incentives;

(IV) a shareholder who objects to the resolution on the Company's merger or division passed by the shareholders' general meeting requests that the Company buy back his/her/its shares;

(V) the shares are to be used to convert corporate bonds issued by the Company that can be converted to shares;

(VI) it is necessary for the Company to maintain corporate value and shareholders' interests;

(VII) any other circumstance permitted by laws and administrative regulations.

Except for the aforesaid circumstances, the Company shall not trade in its shares.

Transfer of Shares

Unless otherwise provided by laws, regulations and listing rules of the place where the securities of the Company are listed, the shares of the Company may be transferred according to law without any lien attached.

The Company does not accept its own shares as the collateral of pledge.

The shares of the Company held by a promoter shall not be transferred within 1 year from the date of the establishment of the Company. Shares issued prior to the public offering of shares by the Company shall not be transferred within 1 year from the day on which the shares of the Company are listed and traded on the stock exchange.

The directors, supervisors and senior management of the Company shall report to the Company their shareholdings in the Company and the changes thereof and shall not transfer in a given year during their terms of office more than 25% of the total number of shares of the Company which they hold; the shares of the Company held by them shall not be transferred within 1 year from the date when the shares of the Company are listed and traded on the stock exchange. Any of the aforesaid persons shall not transfer the shares of the Company held by him/her within half a year from his/her termination of the office. If the directors, supervisors and senior management of the Company hold no more than 1,000 shares, the above restriction of transfer percentage shall be inapplicable and their shares can be transferred at one time.

Where the directors, supervisors and senior management of the Company or shareholders who hold 5% or more of the Company's shares sell the shares or other equity securities held by them in the Company within 6 months after buying the same or buy shares or equity securities within six months after selling the same, the proceeds thereof shall belong to the Company, and the Board of Directors of the Company shall forfeit such proceeds. However, in case a securities company holds 5% or more of the Company's shares due to purchase of remaining shares under an underwriting arrangement, its sale of such shares shall not be subject to the 6-month limitation. Where the Board of Directors of the Company does not act in accordance with the provision of the above paragraph, the shareholders shall have the right to require the Board of Directors to take action within 30 days. Where the Board of Directors fails to take such action within the aforesaid period, the shareholders shall be entitled to file proceedings at the people's court directly in their own names for the interests of the Company.

Financial Assistance for the Acquisition of the Shares of the Company

The Company or its subsidiaries shall not, at any time and in any manner, provide any financial assistance to purchasers or prospective purchasers of the shares of the Company. The aforesaid purchasers of shares of the Company shall include persons who directly or indirectly assume relevant obligations as a result of purchasing shares of the Company.

The Company or its subsidiaries shall not, at any time and in any manner, provide any financial assistance to the above obligators in order to reduce or discharge their obligations. Financial assistance shall include (but not limited to): (1) gift; (2) guarantee (including the assumption of liability or provision of property by the guarantor in order to secure the performance of the obligation by the obligator), indemnity (excluding, however, indemnity arising from the Company's own default) and release or waiver of rights; (3) provision of a loan or execution of an agreement under which the obligations of the Company are to be fulfilled prior to the obligations of other parties to such agreement, or a change in the parties to such loan or agreement or the assignment of rights under such loan or agreement etc.; (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when such assistance would lead to a material reduction in the Company's net assets.

The aforesaid restriction shall not apply to the following circumstances:

(I) where the financial assistance given by the Company is genuinely for the benefits of the Company and the main purpose of such financial assistance is not to purchase shares of the Company, or the financial assistance is an incidental part of a general plan of the Company;

(II) distribution of the Company's properties as dividends pursuant to the law;

(III) distribution of dividends in the form of shares;

(IV) reduction of registered capital, buy-back of shares and shareholding structuring etc., in accordance with the Articles of Association;

(V) provision of a loan by the Company within its business scope and in the ordinary course of its business (provided that it does not lead to a reduction in the net assets of the Company or that if it constitutes a reduction, the financial assistance was paid out of the Company's distributable profits);

(VI) provision of money by the Company for an employee stock ownership plan (provided that it does not lead to a reduction in the net assets of the Company or that if it constitutes a reduction, the financial assistance was paid out of the Company's distributable profits).

Shares and Register of Shareholders

The Company's shares shall be in registered form.

In addition to the particulars provided for in the *Company Law of the People's Republic of China*, the shares of the Company shall clearly state other particulars that are required to be specified by the stock exchange on which the shares of the Company are listed.

The share certificates shall be signed by the chairman of the Board of Directors. Where the signatures of other senior management staff of the Company are required by the stock exchange on which the securities of the Company are listed, the share certificates shall also be signed by such other senior management staff. The share certificates shall become effective after the Company's seal is affixed thereto or printed thereon. The shares shall only be sealed with the Company's seal with the authorisation of the Board of Directors. The signature of the chairman or other relevant senior management of the Company may also be reproduced on the certificate in form of printing. Under the circumstances that the shares of the Company are issued and traded in the paperless form, the provisions stipulated by the securities regulatory authority and the stock exchange of the place where the securities of the Company are listed shall apply.

The Company shall keep a register of shareholders, in which the following particulars shall be recorded:

(I) the name, address (domicile), occupation or nature of each shareholder;

(II) the category and quantity of shares held by each shareholder;

(III) the amount paid or payable for the shares held by each shareholder;

(IV) the share certificate numbers of the shares held by each shareholder;

(V) the date on which each shareholder is registered as a shareholder;

(VI) the date on which each shareholder ceases to be a shareholder.

Shareholders and Shareholders' General Meeting

Shareholders

The Company's shareholders are persons who lawfully hold shares of the Company and whose names are entered in the register of shareholders. Shareholders shall enjoy the rights and undertake obligations in accordance with the class of shares held thereby. Holders of the same class of shares shall enjoy the same rights and bear the same obligations.

The Company shall not exercise any right to freeze or otherwise damage the rights attached to any shares directly or indirectly held by any person only on the ground that the said person fails to disclose his/her equity to the Company.

When the Company convenes a shareholders' general meeting, distributes dividends, conducts liquidation or performs other activities that require determining the identity of the shareholders, the Board of Directors or the convener of the shareholders' general meeting shall determine the date of record, and shareholders registered in the register after market closing on the date of record shall be shareholders who enjoy the relevant rights and interests.

The holders of convertible corporate bonds do not have shareholders' rights and obligations until their convertible corporate bonds are converted into shares.

The shareholders of ordinary shares of the Company shall be entitled to the following rights:

(I) obtaining dividends and any other form of profit distribution based on the number of shares held by them;

(II) requiring, convening, chairing, attending or appointing a proxy to attend a shareholders' general meeting pursuant to the law and exercising the corresponding voting rights;

(III) supervising the Company's business operations, proposing recommendations or raising questions;

(IV) transferring, donating or pledging shares held by them pursuant to laws, administrative regulations and provisions of the securities regulatory authority of the place where the securities of the Company are listed and the Articles of Association;

(V) obtaining related information in accordance with provisions prescribed by laws and the Articles of Association, including:

1. obtaining the copies of the Article of Association after paying relevant costs;

2. reviewing and copying the following documents after paying reasonable costs:

(1) materials about their holdings of the shares and the register of the shareholders;

(2) personal information on the directors, supervisors, manager and other senior management staff of the Company, including:

(a) current and previous names and aliases;

(b) main address (domicile);

(c) nationality;

(d) full-time and all part-time occupations and titles;

(e) identification documents and their numbers;

(3) the latest audited financial statements, annual reports and interim reports of the Company;

(4) the total amount of share capital and the shareholding structure of the Company; reports showing the total par value, quantity, maximum and minimum prices paid in respect of each class of shares repurchased by the Company since the end of the last fiscal year and the aggregate amount of cost incurred by the Company for this purpose (by domestic shares and foreign shares);

(5) copy of the latest annual report filed with the market regulation authority or other competent authorities of China;

(6) special resolutions passed at shareholders' general meetings and/or Board meetings;

(7) counterfoils of corporate bonds, and minutes of shareholders' meetings. The Company shall keep at its Hong Kong address the documents set out in items (i) to (vii) above (other than item (ii)) as per the requirements of Hong Kong Listing Rules for free reference by the public and holders of overseas-listed foreign shares.

(VI) upon termination or liquidation of the Company, participating in the distribution of the Company's residual assets based on their shareholding;

(VII) a shareholder who objects to the resolution on merger or division of the Company passed by a shareholders' general meeting may request the Company to acquire his/her/its shares;

(VIII) any other rights stipulated by laws, administrative regulations, departmental rules or the Articles of Association.

Where the contents of a resolution of shareholders' general meeting or the Board of Directors violate any law or administrative regulation, shareholders are entitled to petition to the people's court to declare the resolution invalid.

Where the convening procedures or voting method of a shareholders' general meeting or a Board meeting violate any laws, administrative regulations or the Articles of Association, or the contents of a resolution violate the Articles of Association, a shareholder shall have the right to apply to the people's court for revocation within 60 days from passing of such resolution.

Where the directors or senior management staff violate the provisions of laws, administrative regulations or the Articles of Association during the performance of their duties and cause losses to the Company, the shareholders severally or jointly holding 1% or more of the Company's shares for a period of 180 consecutive days or longer are entitled to request the Board of Supervisors to file a lawsuit with the people's court in writing; where the Board of Supervisors violates the provisions of laws, administrative regulations or the Articles of Association in the performance of their duties and cause losses to the Company, shareholders may request the Board of Directors to file a lawsuit with the people's court in writing.

Upon receipt of shareholders' written request stipulated in the preceding paragraph, if the Board of Supervisors or the Board of Directors refuses to file a lawsuit or does not file a lawsuit within 30 days from receipt of such request, or in the event of emergency where the interest of the Company will suffer irreparable damages if lawsuit is not filed immediately, the shareholders stipulated in the preceding paragraph shall have the right to file a lawsuit directly with the people's court in their own name for the interest of the Company.

Where any director or senior management staff violates the provisions of laws, administrative regulations or the Articles of Association and causes damages to shareholders, the shareholders may file a lawsuit with the people's court.

The shareholders of the Company's ordinary shares shall undertake the following obligations:

(I) complying with laws, administrative regulations and the Articles of Association;

(II) making payment for shares subscribed for according to the quantity of shares subscribed for and the manners of subscription;

(III) not withdrawing the investment, except for circumstances stipulated by laws and regulations;

(IV) not abusing shareholder's rights to harm the interests of the Company or other shareholders; not abusing the independent legal person status of the Company and shareholders' limited liability to harm the interests of the Company's creditors. Shareholders of the Company who abuse shareholders' rights and cause damages to the Company and other shareholders shall be liable for compensation pursuant to the law. Shareholders who abuse the independent legal person status of the Company and shareholders' limited liability to evade debts and severely infringe upon interests of the Company's creditors shall assume joint and several liabilities for the Company's debts.

(V) other obligations for the shareholders prescribed by laws, administrative regulations and the requirements of the Articles of Association.

Shareholders shall not be liable for any further contribution to share capital other than on the conditions agreed to by the subscribers of the relevant shares at the time of subscription.

General Rules for the Shareholder's General Meeting

The shareholders' general meeting is the organ of authority of the Company, and shall exercise following functions and powers pursuant to the law:

(I) to determine the Company's operating principles and investment plans;

(II) to elect and replace directors and supervisors who are not employee representatives, and to decide on the remuneration matters of the relevant directors and supervisors;

(III) to deliberate and approve reports of the Board of Directors;

(IV) to deliberate and approve reports of the Board of Supervisors;

(V) to deliberate and approve the Company's annual financial budget plan and final account plan;

(VI) to deliberate and approve the Company's profit distribution plan and plan for covering losses;

(VII) to make resolutions on increase or decrease of registered capital of the Company;

(VIII) to make resolutions on issuance of stocks, convertible corporate bonds and corporate bonds;

(IX) to make resolutions on the merger, division, dissolution, liquidation or change of the Company's corporate form;

(X) to amend the Articles of Association and deliberate proposals put forward by shareholders who represent 3% or more of the Company's voting shares;

(XI) to make resolutions on employment and dismissal of the accounting firm that conducts regular statutory audits of the Company's financial reports;

(XII) to deliberate and approve the following guarantees:

1. any guarantee provided under the situation where the total amount of external guarantees provided by the Company and its controlling subsidiaries exceeds 50% of the latest audited net assets of the Company;

2. subject to accumulative calculation principles, guarantee whose amount for a period of any 12 consecutive months exceeds 30% of the latest audited total assets of the Company;

3. guarantee offered to persons whose gearing ratio has exceeded 70%;

4. a single guarantee with an amount exceeding 10% of the latest audited net assets of the Company;

5. subject to accumulative calculation principles, guarantee whose amount for a period of any 12 consecutive months exceeds 50% of the latest audited net assets of the Company;

6. guarantees provided to shareholders, de facto controllers and their related parties.

7. other guarantees that shall be submitted to the shareholders' general meeting for approval according to the relevant provisions of the stock exchange and the Articles of Association.

(XIII) to deliberate matters regarding the purchase or sale of material assets by the Company that within one year exceed 30% of the latest audited total assets of the Company;

(XIV) to deliberate, approve and alter matters regarding the use of raised funds;

(XV) to deliberate share incentive plans;

(XVI) to deliberate related party transactions that are required to be reviewed by shareholders' general meetings according to law;

(XVII) to deliberate charitable and relief donations with annual accumulative amount being more than RMB50 million;

(XVIII) to deliberate any other matter to be decided on by the shareholders' general meeting as stipulated by laws, administrative regulations, departmental rules, the listing rules of the place where the securities are listed or the Articles of Association.

Convening of Shareholders' General Meeting

Independent directors are entitled to propose to the Board of Directors on convening of an extraordinary general meeting. Where independent directors propose to convene an extraordinary general meeting, the Board of Directors shall, pursuant to the provisions of laws, administrative regulations and the Articles of Association, issue a written reply on whether or not to approve the convening of the extraordinary general meeting within 10 days upon the receipt of the proposal. Where the Board of Directors agrees to convene the extraordinary general meeting, a notice on convening of the extraordinary general meeting shall be issued within 5 days from such decision; where the Board of Directors does not agree to convene the extraordinary general meeting, reasons shall be specified and announcements shall be made.

The Board of Supervisors is entitled to propose to the Board of Directors to convene an extraordinary general meeting and such proposal shall be made in writing to the Board of Directors. The Board of Directors shall, in accordance with laws, administrative regulations and the Articles of

Association, reply in writing on whether or not to agree on the convening of the extraordinary general meeting within 10 days upon the receipt of the proposal. When the Board of Directors agrees to convene the extraordinary general meeting, a notice on convening of the extraordinary general meeting shall be issued within 5 days from such decision, and the changes made to the original proposal in the notice shall be approved by the Board of Supervisors.

When the Board of Directors disagrees to convene the extraordinary general meeting, or fails to reply within 10 days upon the receipt of the proposal, the Board of Directors shall be deemed as not being able to perform or not to perform its duty to convene a shareholders' general meeting, and the Board of Supervisors may convene and preside over such meeting on its own.

Shareholders requesting the convening of an extraordinary general meeting or a class shareholders' meeting shall proceed in accordance with the procedures set forth below:

(1) Two or more shareholders who hold, in aggregate, 10% or more of the shares carrying the right to vote at the proposed meeting may sign one or several written requisitions of the same format and contents, requesting the Board of Directors to convene an extraordinary general meeting or a class shareholders' meeting. The agenda of the proposed meeting shall be stated therein. The Board of Directors shall convene the extraordinary general meeting or a class shareholders' meeting responsively after receipt of the aforesaid written requisition(s). The number of the aforesaid shares shall be calculated as of the date on which the requisition(s) is/are made.

(2) Where the Board of Directors gives consent for convening of an extraordinary general meeting, a notice on convening of the extraordinary general meeting or the class shareholders' meeting shall be issued within 5 days from such decision, and the changes made to the original proposal in the notice shall be approved by relevant shareholders.

(3) Where the Board of Directors does not give consent for convening of an extraordinary general meeting or does not issue a feedback within 10 days upon the receipt of the requisition(s), the shareholders holding 10% or more of the Company's shares separately or in aggregate shall have the right to propose to the Board of Supervisors on convening of an extraordinary general meeting and such proposal shall be made to the Board of Supervisors in writing.

Where the Board of Supervisors gives consent for convening an extraordinary general meeting, a notice on convening of the extraordinary general meeting shall be issued within 5 days upon the receipt of the requisition(s) and the changes made to the original proposal in the notice shall be approved by relevant shareholders.

Where the Board of Supervisors fails to issue a notice of a shareholders' general meeting within the stipulated period, the Board of Supervisors shall be deemed as not convening and chairing the shareholders' general meeting, and the shareholders who hold 10% or more of the Company's shares individually or jointly for 90 or more consecutive days may proceed to convene and chair a shareholders' general meeting on their own initiative.

The procedures of convening such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' general meetings are to be convened by the Board of Directors.

If the shareholders' general meeting is held by the shareholders on their own due to the failure of the Board of Directors or Board of Supervisors to convene the meeting according to the above requirements, all reasonable costs of the meeting incurred shall be borne by the Company, which shall be deducted from the sums owed by the Company to the negligent directors and supervisors.

If the shareholders' general meeting is convened by the Board of Supervisors or shareholders on their own, a written notice shall be issued to the Board of Directors, and such meeting shall be filed with CSRC Qingdao Branch and the stock exchange of the place where the securities of the Company are listed.

Prior to the announcement of the resolutions passed by the shareholders' general meeting, the shareholding percentage of the shareholders who convene the meeting shall not be less than 10%. The shareholders who convene the meeting shall submit the relevant supporting materials to the CSRC Qingdao Branch and the stock exchange of the place where the securities of the Company are listed at the time of the issuance of notice of the shareholders' general meeting as well as of the announcement of the resolutions passed by such meeting.

Where the Board of Supervisors or the shareholders convene a shareholders' general meeting on their own, the Board of Directors and the secretary of the Board of Directors shall cooperate. The Board of Directors shall provide the register of shareholders as of the date of share recording.

Where the Board of Supervisors convenes a shareholders' general meeting on its own, the necessary expenses incurred thereof shall be borne by the Company, which shall be deducted from the sums owed by the Company to the negligent directors.

Proposal and Notification of Shareholders' General Meeting

When the Company decides to convene a shareholders' general meeting, the Board of Directors, the Board of Supervisors and shareholders severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company.

The shareholders severally or jointly holding 3% or more of the shares of the Company may raise interim proposals and submit them in writing to the convener 10 days prior to the convening of the shareholders' general meeting. The convener shall, within 2 days after the receipt of such proposals, issue a supplemental notice of the shareholders' general meeting and announce the contents of the interim proposals.

Except as prescribed in the preceding paragraph, the convener, after issuing the notice and announcement of shareholders' general meeting, shall neither revise the proposals stated in the notice of shareholders' general meetings nor add new proposals.

When the Company decides to convene an annual general meeting, it shall issue a written notice 20 business days prior to the meeting; and when the Company decides to convene an extraordinary general meeting, it shall issue a written notice 15 days or 10 business days (whichever is longer) prior to the meeting, informing all registered shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting. When the Company calculates the time limits, the date on which such meeting is convened shall not be calculated.

The notice of a shareholders' general meeting shall be delivered to the shareholders (whether or not entitled to vote thereat) by personal delivery or postage paid mail to the recipient's address shown in the register of shareholders. For holders of domestic shares, the notice of a shareholders' general meeting may also be given by announcement.

The announcement referred to in the preceding paragraph shall be published on the website of the stock exchange and the media complying with requirements of the securities regulatory authority of the State Council. Once the announcement is made, all holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

For foreign shareholders, the Company may notify them in an appropriate manner in accordance with the relevant provisions of the place where the Company's overseas shares are listed.

At shareholders' general meetings, matters not specified in the notice shall not be decided on.

Attendance at and Votes and Resolutions of Shareholders' General Meeting

All shareholders in the register as at the date of record or their proxies shall have the right to attend a shareholders' general meeting and exercise voting rights pursuant to relevant laws, regulations and the Articles of Association.

Shareholders may attend the shareholders' general meeting in person or appoint a proxy to attend the meeting and exercise their voting rights on their behalf. Any shareholder entitled to attend and vote at a shareholders' general meeting shall have the right to appoint one or more persons (who need not be a shareholder or shareholders) as his/her/its proxy to attend and vote on his/her/its behalf.

When the Company convenes a shareholders' general meeting, all directors, supervisors and the secretary of the Board of Directors shall attend the meeting, while the manager and other senior management staff shall be present at the meeting.

Shareholders (including their proxies) shall exercise voting rights based on the number of shares with voting rights held by them, and each share shall have one vote.

When a shareholders' general meeting deliberates significant matters which have an impact on the interests of small and medium investors, the votes of small and medium investors shall be calculated separately where it is technically feasible. The separate voting results shall be disclosed publicly in a timely manner.

The shares of the Company held by the Company itself shall have no voting right and shall not be included in the total number of shares with voting rights of the shareholders who are present at the shareholders' general meeting.

Pursuant to laws, administrative regulations, departmental rules, listing rules of the place where the securities of the Company are listed and the Articles of Association, the Board of Directors, independent directors, shareholders holding 1% or more of the shares with voting rights, or investor protection institutions established according to laws, administrative regulations or provisions of the securities regulatory authority of the State Council may, as solicitors, personally or authorise a securities company or securities service agency to publicly request the listed company's shareholders to authorise them to attend the shareholders' general meeting and exercise the shareholders' rights such as right of making motions and voting right on their behalf.

In soliciting the shareholders' rights according to the provisions in the preceding paragraph, the solicitors shall disclose the solicitation documents and the listed company shall provide cooperation. In the case of solicitation of voting rights of shareholders, sufficient disclosure of information such as specific voting intent shall be made to the shareholders whose voting rights are solicited. Solicitation of voting rights of shareholders in the form of compensation or disguised compensation is prohibited. The Company and the convener of the shareholders' general meeting shall not set restrictions on minimum shareholding percentage for solicitation of voting rights.

Resolutions made at a shareholders' general meeting shall be divided into ordinary resolutions and special resolutions.

Ordinary resolutions of the shareholders' general meeting shall be passed by more than half of the voting rights represented by shareholders (including their proxies) present at the meeting.

Special resolutions of the shareholder's general meeting shall be passed by more than two-thirds of the voting rights represented by shareholders (including their proxies) present at the meeting.

The following proposals shall be resolved by an ordinary resolution at a shareholders' general meeting:

(I) work reports of the Board of Directors and the Board of Supervisors;

(II) profit distribution plan and plan for covering losses formulated by the Board of Directors;

(III) appointment and dismissal of members of the Board of Directors and the Board of Supervisors, and their remunerations and the method of payment thereof;

(IV) the annual budget and final accounts, balance sheet, profit statement and other financial statements of the Company;

(V) the Company's annual report;

(VI) all other proposals not resolved by special resolutions as provided for in laws, administrative regulations, listing rules of the place where the securities of the Company are listed or the Articles of Association.

The following proposals shall be resolved by a special resolution at a shareholders' general meeting:

(I) increase or reduction in the registered capital of the Company, and issuance of any class of shares, warrants or other similar securities;

(II) issuance of corporate bonds;

(III) division, merger, dissolution and liquidation of the Company;

(IV) amendment to the Articles of Association;

(V) the amount of purchase or disposal of material assets or providing guarantee in one year exceeds 30% of the latest audited total assets of the Company;

(VI) share incentive plans;

(VII) adjustment or amendment of profit distribution policy stipulated in the Articles of Association;

(VIII) other matters which are resolved in shareholders' general meeting by ordinary resolution as being material to the Company and required to be passed by special resolution. Any other matters to be approved by a special resolution as required by the laws, administrative regulations, listing rules of the place where the securities of the Company are listed and other regulatory provisions or the Articles of Association, or considered to have a substantial impact on the Company and to require approval by a special resolution by the shareholders' general meeting in an ordinary resolution.

In the event the matters of related party transactions are discussed at a shareholders' general meeting, related shareholders shall refrain from voting upon such related party transactions, and the number of shares with voting rights held by such shareholders shall not be calculated in the total number of shares with voting rights present at such meeting. The Company shall announce the resolutions of the shareholders' general meetings in accordance with the relevant requirements of the stock exchange on which the shares of the Company are listed. The announcement of the resolution of such general meeting shall fully disclose the votes of the non-related shareholders.

Special Voting Procedures for Shareholders of Different Categories

Shareholders who hold different categories of shares shall be shareholders of different categories.

Shareholders of different categories shall enjoy rights and assume obligations in accordance with laws, administrative regulations, the Articles of Association and provisions of securities regulatory authorities of the place where the securities of the Company are listed.

If the Company intends to change or abrogate the rights of shareholders of different categories, it may do so only after such change or abrogation has been approved by way of a special resolution of the shareholders' general meeting and by a separate shareholders' meeting convened by the affected shareholders of different categories.

The rights of shareholders of a certain category shall be deemed to have been changed or abrogated in the following conditions:

(I) an increase or decrease in the number of shares of such category or an increase or decrease in the number of shares of a category having voting rights, distribution rights or other privileges equal or superior to those of the shares of such category;

(II) a change of all or part of the shares of such category into shares of another category, a conversion of all or part of the shares of another category into shares of such category or the grant of the right to such change;

(III) a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such category;

(IV) a reduction or removal of a dividend preference or property distribution preference during liquidation of the Company attached to shares of such category;

(V) an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, pre-emptive rights or rights to acquire securities of the Company attached to shares of such category;

(VI) a removal or reduction of rights to receive amounts payable by the Company in a specified currency attached to shares of such category;

(VII) a creation of a new category of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that category;

(VIII) an imposition of restrictions or additional restrictions on the transfer or ownership of shares of such category;

(IX) an issuance of rights to subscribe for or convert into shares of such category or another category;

(X) an increase in the rights and privileges of shares of another category;

(XI) a restructuring plan of the Company which will cause shareholders of different categories to bear liability to different extents during the restructuring;

(XII) an amendment or abrogation of the provisions regarding the voting of shareholders of different categories of the Articles of Association.

Shareholders of the affected category, whether or not having the right to vote at shareholders' general meeting, shall have the right to vote at meetings of shareholders of different categories in respect of matters referred to in Items (II) to (VIII) or (XI) to (XII) above, provided that interested shareholders shall not have the right to vote at meetings of shareholders of different categories.

For the purposes of the preceding paragraph, the term "interested shareholders" shall have the following meanings:

(I) if the Company has made a buy-back offer to all shareholders in the same proportion or has bought back its own shares through open transactions on a securities exchange in accordance with Article 35 hereof, the controlling shareholders as defined in Article 83 hereof shall be "the interested shareholders";

(II) if the Company has bought back its own shares by an agreement outside a securities exchange in accordance with Article 35 hereof, shareholders in relation to such agreement shall be "the interested shareholders";

(III) under a restructuring plan of the Company, shareholders who will bear liability in a proportion smaller than that of the liability borne by other shareholders of the same category, or shareholders who have an interest in a restructuring plan of the Company that is different from the interest in such restructuring plan of other shareholders of the same category shall be "the interested shareholders".

Directors and Board of Directors

Directors

Directors shall be elected or replaced at a shareholders' general meeting and the tenure shall be 3 years. Upon expiry of tenure of a director, the director may be re-elected.

Prior to expiry of tenure of a director, a shareholders' general meeting shall not remove the director without a reason. The chairman and the vice chairman (or vice chairmen) of the Board of Directors shall be elected and removed by more than half of all the directors. The chairman and the vice chairman (or vice chairmen) of the Board shall serve a term of 3 years and may serve consecutive terms if re-elected upon the expiration of their terms. Subject to compliance with the relevant provisions of laws and administrative regulations, the shareholders' general meetings may remove any director whose tenure has not expired by ordinary resolutions (without prejudice to any claim which might be put forward in accordance with any contract).

The independent directors have the same tenure as other directors, provided that the consecutive reappointment of the independent directors shall not exceed 6 years.

The shortest period during which a notice shall be sent to the Company with respect to a proposal to elect a person as the director and the shortest period during which such person shall send a notice to the Company indicating that he/she intends to accept the election shall be at least 7 days. The period for the delivery of the aforesaid notices shall begin to calculate after the Company sends the meeting notice regarding the election and end no later than 7 days (or earlier) before the date of holding the meeting.

The tenure of a director shall be from the date of appointment to the expiry of tenure of the current Board of Directors. Where re-election is not promptly carried out upon expiry of the tenure of a director, prior to appointment of a new director, the original director shall continue to carry out director duties pursuant to the provisions of laws, administrative regulations, departmental rules and the Articles of Association.

The manager or any other senior management staff may hold the position of director concurrently, however the total number of directors who hold the position of manager or any other senior management staff concurrently and directors who are employee representatives shall not exceed half of the total number of directors of the Company.

Directors shall comply with laws, administrative regulations, listing rules of the place where the securities of the Company are listed and the Articles of Association and undertake the following fiduciary obligations towards the Company:

(I) not to make use of official powers to accept bribes or other illegal income or to encroach upon the Company's assets;

(II) not to misappropriate the funds of the Company;

(III) not to deposit the assets or funds of the Company into an account opened in his/her own name or the name of another individual;

(IV) not to violate the provisions of the Articles of Association in using the Company's funds to provide a loan or using the Company's assets to provide guarantee to others without the consent of a shareholders' general meeting or the Board of Directors;

(V) not to enter into a contract or transaction with the Company which violates the provisions of the Articles of Association or without the consent of a shareholders' general meeting;

(VI) not to make use of official powers to seek business opportunities which rightfully belong to the Company for himself/herself or others without the consent of a shareholders' general meeting, or to engage in the same type of businesses as the Company on his/her own or for others;

(VII) not to pocket commissions of transactions with the Company;

(VIII) not to disclose the secrets of the Company without authorisation;

(IX) not to make use of their relationships to compromise the interests of the Company;

(X) any other fiduciary obligations stipulated by laws, administrative regulations, departmental rules, listing rules of the place where the securities of the Company are listed and the Articles of Association.

Income derived by a director from violation of the provisions of the Articles of Association shall belong to the Company; where the Company suffers losses thereto, the director shall be liable for compensation. Directors shall comply with laws, administrative regulations, listing rules of the place where the securities of the Company are listed and the Articles of Association and shall undertake the following diligent obligations towards the Company:

(I) exercising the rights accorded by the Company prudently, seriously and diligently to ensure that the commercial activities of the Company comply with laws and administrative regulations of the State and the requirements of various economic policies of the State and the commercial activities shall not exceed the scope of business stipulated in the business licence;

(II) treating all shareholders equally;

(III) getting a timely grasp of the status of the Company's business operation and management;

(IV) signing written confirmation opinions for the Company's securities issuance documents and regular reports, and ensuring the timely and fair disclosure of information by the

Company and the truthfulness, accuracy and integrity of such information. If any director cannot guarantee or has any objection to the truthfulness, accuracy and integrity of the securities issuance documents and regular reports, he/she shall state opinions and reasons in the written confirmation opinions and the Company shall disclose such opinions and reasons. If the Company does not make such disclosure, the director may directly apply for making such disclosure;

(V) providing the relevant information and materials to the Board of Supervisors truthfully and not hindering the exercise of official powers by the Board of Supervisors or the supervisors;

(VI) any other diligent obligations stipulated by laws, administrative regulations, departmental rules, listing rules of the place where the securities of the Company are listed and the Articles of Association.

Unless the related director has disclosed to the Board in accordance with the aforesaid requirements and the Board has approved the matter at a meeting at which such director was not taken into the quorum and had abstained from voting, the Company shall have the right to cancel such contract, transaction or arrangement, unless the counterparty is a bona fide third party.

When the Board of Directors deliberates on a particular related party transaction, the interested director or related director shall abstain from voting on any resolution of the Board meeting and shall not be counted into the quorum thereof, while he/she shall be included in the number of directors attending the meeting.

Subject to the PRC applicable laws, administrative regulations and the Hong Kong Listing Rules, the Company has financing or borrowing rights, include (but not limit to) the rights to issue corporate bonds and to mortgage or pledge all or part of the property of the Company. The Articles of Association do not contain any specific provision on the manner in which Directors may exercise the borrowing rights (other than provisions that empower the Directors to make recommendations at the board level on the issuance of bonds by the Company).

Board of Directors

The Company shall establish a Board of Directors which is accountable to the shareholders' general meeting.

The Board of Directors shall comprise nine directors, of whom three shall be independent directors. There shall be one chairman and one or two vice chairmen.

The Board of Directors shall exercise the following powers and functions:

(I) convening the shareholders' general meeting and submitting work reports to the shareholders' general meeting;

(II) implementing resolutions of the shareholders' general meeting;

(III) determining the Company's business plans and investment schemes;

(IV) formulating the Company's annual budgets and final accounts;

(V) formulating the Company's profit distribution plan and plan for covering losses;

(VI) formulating the Company's plans for increase or reduction of registered capital, issuance of bonds or other securities and listing plan;

(VII) formulating the Company's plans for significant acquisition, merger and acquisition, division, dissolution and change of corporate form;

(VIII) determining the matters relating to the acquisition of shares of the Company due to the circumstances specified in Items (III), (V) and (VI) of Article 34 of the Articles of Association;

(IX) determining, within the scope of authorisation granted by the shareholders' general meeting, the Company's external investments, acquisition and sale of assets, mortgage of assets, external guarantees, entrusted wealth management, related party transactions, etc.;

(X) determining establishment of the Company's internal management organisations;

(XI) appointment or dismissal of the Company's manager and secretary and the secretary of the Board of Directors; appointment or dismissal of the senior management staff such as the Company's deputy manager or chief finance officer based on nomination by the manager, and determining their remunerations and incentives and penalties;

(XII) formulating the Company's basic management rules;

(XIII) formulating plans for amendment of the Articles of Association;

(XIV) managing information disclosure by the Company;

(XV) proposing to the shareholders' general meeting on the appointment or replacement of accounting firm which provides audit services to the Company;

(XVI) listening to the Company manager's work reports and inspecting the manager's work performance;

(XVII) determining the Company's charitable and relief donations with the annual accumulative amount being no more than RMB50 million (inclusive);

(XVIII) any other functions and powers accorded by laws, administrative regulations, departmental rules and the listing rules of the place where the securities of the Company are listed or the Articles of Association and granted by the shareholders' general meeting.

Resolutions by the Board of Directors on matters referred to in the preceding paragraph may be passed by the affirmative vote of more than half of the directors with the exception of resolutions on matters referred to in Items (VI), (VII), (VIII) and (XIII), which shall require the affirmative vote of more than two-thirds of the directors.

The chairman and vice chairmen shall be served by the directors of the Company and elected and dismissed by a simple majority of all directors.

The chairman of the Board of Directors shall exercise the following powers and functions:

(I) presiding over shareholders' general meetings, and convening and presiding over Board meetings;

(II) supervising and inspecting implementation of resolutions of the Board of Directors;

(III) signing corporate stocks, corporate bonds and other valuable securities;

(IV) signing important documents of the Board of Directors and other documents that are required to be signed by the legal representative of the Company;

(V) exercising the legal representative's powers and functions;

(VI) in cases of an emergency of force majeure such as catastrophic natural disasters, exercising special powers to deal with the Company's affairs in compliance with the law and the interests of the Company, and reporting to the Board of Directors and the shareholders' general meeting of the Company afterwards;

(VII) exercising any other power and function granted by the Board of Directors.

The notification method for convening of an interim Board meeting shall be phone call, email or fax. A notice shall be given to all the directors in two days before the meeting is held, except for the interim Board meetings held under special or urgent circumstances.

The quorum of a Board meeting shall be a simple majority of the directors. The resolution proposed by the Board of Directors shall be passed by a simple majority of all the directors, unless otherwise stated in the Articles of Association.

Each director has one vote when voting for Board resolutions.

When the negative votes and the affirmative votes are the same, the chairman has one more vote.

A director who is related to an enterprise involved in a Board resolution shall abstain from voting for the Board resolution and shall not represent another director in exercise of voting rights. The Board meeting may be held with the quorum of a simple majority of unrelated directors and resolutions to be passed at the Board meeting shall be passed by simple majority of votes of unrelated directors. Where the number of unrelated directors present at the Board meeting is less than 3, the matter shall be submitted to the shareholders' general meeting for deliberation.

Directors shall attend Board meetings personally; where a director is unable to attend a Board meeting for some reason, he/she may entrust another director in writing to attend the meeting on his/her behalf. The proxy form shall state the name of the proxy, the matters to be represented, the scope of authorisation and the validity period, and the entrusting party shall sign or affix seal thereto. The director who attends the meeting on his/her behalf shall exercise the director's rights within the scope of authorisation. Where a director does not attend a Board meeting and does not appoint a proxy to attend on his/her behalf, he/she shall be deemed to forfeit his/her voting rights at the said meeting.

The Board of Directors shall keep minutes on resolutions of the meetings on the agenda items, which shall be signed by the directors who are present at the meeting.

The minutes of the Board meeting shall be kept as the files of the Company for a period of not less than 10 years.

Special Committees of the Board

The Board of Directors of the Company shall establish special committees such as strategy committee, audit committee, nomination committee and remuneration and evaluation committee according to the relevant resolutions of the shareholder's general meeting. All members of special committees shall comprise directors. Independent directors shall be the majority in the audit committee, nomination committee and remuneration and evaluation committee, and shall serve as conveners. The audit committee shall consist of at least three non-executive directors, and at least one independent director shall be accounting professional or have proper expertise in accounting or related financial management as stipulated by the Hong Kong Listing Rules.

The main responsibilities of the strategy committee are to study and advise on the Company's long-term development strategy, major investment decisions and plan of returns to shareholders and to fulfil other responsibilities as stipulated by the laws and regulations, listing rules of the place where the securities of the Company are listed and rules of procedure for the strategy committee of the Company.

The main responsibilities of the audit committee are to:

(I) propose engagement or replacement of the external audit institutions;

(II) supervise the Company's internal audit system and its implementation;

(III) coordinate the communication between the internal audit and external audit;

(IV) review the Company's financial information and its disclosure;

(V) review the Company's internal control system;

(VI) formulate annual or interim profit distribution plan; and

(VII) fulfil other responsibilities as stipulated by the laws and regulations, listing rules of the place where the securities of the Company are listed and rules of procedure for the audit committee of the Company.

The main responsibilities of the nomination committee are to:

(I) study and advise on criteria and procedures for selecting directors and manager;

(II) conduct extensive search on qualified candidates for directors and manager;

(III) review and advise on candidates for directors and manager; and

(IV) fulfil other responsibilities as stipulated by the laws and regulations, listing rules of the place where the securities of the Company are listed and rules of procedure for the nomination committee of the Company.

The main responsibilities of the remuneration and evaluation committee are to:

(I) study criteria for performance review for directors and manager and conduct and advise on performance review;

(II) study and review remuneration policy and system for directors and senior management staff; and

(III) fulfil other responsibilities as stipulated by the laws and regulations, listing rules of the place where the securities of the Company are listed and rules of procedure for the remuneration and evaluation committee of the Company.

Secretary of the Board of Directors

The Board of Directors shall appoint a secretary of the Board of Directors. The secretary of the Board of Directors shall be a senior management staff of the Company, who is accountable to the Company and the Board of Directors and acts as the designated contact person between the Company and the relevant stock exchanges and securities regulatory authorities.

The secretary of the Board of Directors shall have necessary expertise and experience and be appointed by the Board of Directors.

The provisions of Article 159 hereof on inappropriate candidates for directors shall apply to the secretary of the Board of Directors.

The main responsibilities of the secretary of the Board of Directors are as follows:

(I) being responsible for release of the Company's information, coordinating the information disclosure of the Company, organising the establishment of management systems for information disclosure of the Company, and urging the Company and the relevant persons with information disclosure obligations to observe relevant information disclosure regulations; and to ensure that the Company prepares and submits according to law the documents and reports required by competent authorities;

(II) being responsible for investor relationship management, coordinating information communications between the Company and the securities regulatory authority, investors, securities service agencies and public media;

(III) organising and preparing the Board meetings and the shareholders' general meetings, attending the shareholders' general meetings, the Board meetings, the meetings of the Board of Supervisors and the meetings of senior management staff, and keeping and signing the minutes of the Board meetings; and guarantying that the Company has complete organisational documents and records;

(IV) being responsible for confidentiality with respect to information disclosure of the Company, and reporting to the securities regulatory authorities and stock exchange of the place where the securities of the Company are listed and making disclosure in a timely manner whenever any non-published material information is leaked;

(V) paying close attention to media coverage, ascertaining whether the coverage is true or not and urging the Board of Directors to respond to the inquiries of the securities regulatory authorities and stock exchange of the place where the securities of the Company are listed in a timely manner;

(VI) organising trainings for directors, supervisors and senior management staff of the Company on relevant laws, administrative regulations, listing rules of the place where the securities of the Company are listed and relevant regulations, and helping them to have a clear grasp of their respective responsibilities with respect to information disclosure;

(VII) whenever the secretary of the Board of Directors becomes aware that any of directors, supervisors and senior management staff has violated laws, administrative regulations, departmental rules, other regulatory documents, listing rules of the stock exchange of the place where the securities of the Company are listed, other regulations and the Articles of Association or that the Company makes or is likely to make any decision in violation of relevant regulations, reminding the relevant person and promptly reporting to the stock exchange of the place where the securities of the Company are listed;

(VIII) being responsible for equity management affairs, preserving the documents evidencing the holdings of the Company's share by the Company's directors, supervisors, senior management staff, controlling shareholder and their directors, supervisors and senior management staff and being responsible for disclosing any changes in the shareholdings of directors, supervisors, senior management staff of the Company; and guarantying that the Company's register of shareholders is properly established and that persons entitled to relevant records and documents of the Company obtain such records and documents in a timely manner;

(IX) other duties prescribed in the *Company Law of the People's Republic of China* or required by the securities regulatory authorities and stock exchange of the place where the securities of the Company are listed.

Managers and Other Senior Management Staff

The Company shall have one manager to be appointed or dismissed by the Board of Directors. Chairman shall not serve as manager in principle.

The Company shall have several deputy managers to be appointed or dismissed by the Board of Directors.

The Company's manager, deputy manager, chief finance officer and the secretary of the Board of Directors shall be the Company's senior management staff.

Persons who hold administrative positions other than director and supervisor in the units of the Company's controlling shareholder and de facto controllers shall not serve as the Company's senior management staff.

The term of office of the manager shall be 3 years and the manager may be reappointed upon the expiration of his/her term.

The manager shall be accountable to the Board of Directors and shall exercise the following powers and functions:

(I) presiding over production and operation management of the Company, organising implementation of Board resolutions and reporting to the Board of Directors on his/her work;

(II) organising the implementation of the Company's annual business plans and investment plans;

(III) formulating plans for establishment of internal management organisations of the Company;

(IV) formulating basic management rules of the Company;

(V) formulating specific rules and regulations of the Company;

(VI) proposing to the Board of Directors on appointment or dismissal of the Company's deputy manager, chief finance officer and other senior management staff recognised by the CSRC;

(VII) determining the appointment or dismissal of management personnel other than those whose appointment or dismissal is decided by the Board of Directors;

(VIII) determining wages, benefits, rewards and punishments for the employees of the Company and determining the appointment and dismissal of the employees of the Company;

(IX) proposing the convening of interim Board meetings;

(X) determining charitable and relief donations with annual accumulative amount being no more than RMB50 million (inclusive) and single amount being no more than RMB10 million (inclusive);

(XI) any other power and function granted by the Articles of Association or the Board of Directors.

The manager shall attend the Board meetings, but he/she has no voting rights at the Board meetings if he/she is not a director.

Supervisors and Board of Supervisors

Supervisor

Directors, the manager and other senior management staff shall not serve as supervisors concurrently.

Supervisors shall comply with laws, administrative regulations and the Articles of Association and bear fiduciary obligations and diligent obligations towards the Company; supervisors shall not make use of their powers and functions to accept bribes or other illegal income and shall not encroach upon the properties of the Company.

The term of office of supervisors shall be 3 years. Supervisors served by shareholders shall be elected or replaced by the shareholders' general meeting. Supervisors served by employees shall be democratically elected or replaced by the employees of the Company. A supervisor may be re-appointed upon the expiration of his/her term of office.

Where a re-election is not promptly carried out upon expiry of the term of office of a supervisor or the resignation of a supervisor during his/her term of office will render the number of supervisors to fall below the minimum quorum, the original supervisor shall continue to perform supervisor's duties pursuant to the provisions of laws, administrative regulations and the Articles of Association prior to appointment of his/her replacement.

Board of Supervisors

The Company shall establish a Board of Supervisors. The Board of Supervisors shall comprise 3 supervisors and shall have a chairman. The appointment and dismissal of the chairman and deputy chairman of the Board of Supervisors shall be passed by the votes of more than two-thirds of the members of the Board of Supervisors. The chairman of the Board of Supervisors shall convene and preside over meetings of the Board of Supervisors; where the chairman of the Board of Supervisors is unable or fails to perform his/her duties, the deputy chairman of the Board of Supervisors shall convene and preside over the meetings of the Board of Supervisors; where the deputy chairman of the Board of Supervisors is unable or fails to perform his/her duties, a supervisor elected by a simple majority of the supervisors shall convene and preside over the meetings of the Board of Supervisors. The Board of Supervisors shall include shareholder representatives and an appropriate percentage of employee representatives, and the ratio of employee representatives shall not be less than one-third. The employee representatives in the Board of Supervisors shall be elected by the employees of the Company through the employee representatives' assembly, employees' assembly or any other democratic form.

The Board of Supervisors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers:

(I) examining the securities issuance documents and regular reports of the Company prepared by the Board of Directors and issuing written examination opinions. Supervisors shall sign the relevant written confirmation opinions, and ensure the timely and fair disclosure of information by the Company and the truthfulness, accuracy and integrity of such information.. If any supervisor cannot guarantee or has any objection to the truthfulness, accuracy and integrity of the securities issuance documents and regular reports, he/she shall state opinions and reasons in the written confirmation opinions and the Company shall disclose such opinions and reasons. If the Company does not make such disclosure, the supervisor may directly apply for making such disclosure.

(II) inspecting the financial position of the Company;

(III) supervising performance of duties of the Company by directors and senior management staff, and proposing the termination of appointment of directors and senior management staff who have violated laws, administrative regulations, the Articles of Association or resolutions of the shareholders' general meeting;

(IV) where a director or senior management staff has acted against the interests of the Company, requiring the director or senior management staff to make correction and reporting to the shareholders' general meeting or the competent state authorities if necessary;

(V) proposing the convening of an extraordinary general meeting, convening and presiding over the shareholders' general meetings where the Board of Directors does not perform the duties stipulated by the *Company Law* on convening and presiding over the shareholders' general meeting;

(VI) making proposals to the shareholders' general meeting;

(VII) filing a lawsuit against a director or senior management staff;

(VIII) verifying financial information such as financial reports, business reports, profit distribution plans, etc. that the Board of Directors intents to submit to the shareholders' general meeting and, if in doubt, a registered accountant or practicing auditor shall be appointed in the name of the Company to assist in reviewing such information. The reasonable expenses incurred by the Board of Supervisors in the employment of professionals such as lawyers, registered accountants, practicing auditors, etc. in the exercise of its functions and powers shall be borne by the Company.

Qualifications and Obligations of Directors, Supervisors, Manager and Other Senior Management Staff

The following persons shall not serve as the directors, supervisors, manager or other senior management staff of the Company:

(I) a person without civil capacity or a person with limited capacity for civil conduct;

(II) a person who was convicted for criminal offence for corruption, bribery, encroachment of property, misappropriation of assets or disruption of the order of socialist market economy and a 5-year period has not elapsed since completion of execution of the judgement, or who has been stripped of his/her political rights as result of committing a criminal offence and a 5-year period has not elapsed since completion of execution of the judgement;

(III) a person who has been adjudicated for violating provisions of relevant securities regulations by a competent organisation, and has been involved in a fraudulent or dishonest conduct, and less than five years have elapsed since the date of the adjudication;

(IV) a person who was a director or the plant manager or manager of a bankrupt and liquidated company or enterprise and who was personally accountable for the bankruptcy of the said company or enterprise, and a 3-year period has not elapsed since completion of bankruptcy liquidation of the said company or enterprise;

(V) a person who was the legal representative of a company or an enterprise whose business licence was revoked or which was ordered to be closed down due to violation of law, and who was personally accountable for the revocation of business licence or closure of the company or enterprise, and a 3-year period has not elapsed since revocation of business licence of the said company or enterprise;

(VI) a person who has a relatively large amount of due and outstanding debt;

(VII) a person who has been banned by the CSRC from the securities market and the ban period has not expired;

(VIII) any other person stipulated by laws, administrative regulations or departmental rules.

In the case of the election, appointment or employment of directors, supervisors, the manager or other senior management staff which violates the above provisions, the election, appointment or employment shall be null and void. Where a director falls under the circumstances above during his/her term of office, the Company shall terminate his/her appointment.

The directors, supervisors, manager and other senior management staff of the Company must, in the performance of their duties, abide by the principles of honesty and credibility and shall not place themselves in a position where there is a conflict between their personal interests and their duties assumed. This principle shall include (but not limited to) the fulfilment of the following obligations:

(I) to act honestly in the best interests of the Company;

(II) to exercise powers within the scope of his/her functions and powers and not to act beyond such powers;

(III) to personally exercise the discretion invested in him/her, not to allow himself/herself to be manipulated by another person and, not to delegate the exercise of his/her discretion to another party unless permitted by laws and administrative regulations or with the consent of the shareholders' general meeting that has been informed;

(IV) to be impartial to shareholders of the same category and of different categories;

(V) not to conclude a contract or enter into a transaction or arrangement with the Company except as otherwise provided in the Articles of Association or with the consent of the shareholders' general meeting that has been informed;

(VI) not to use the Company's assets for his/her own benefit in any way without the consent of the shareholders' general meeting that has been informed;

(VII) not to make use of official powers to accept bribes or other illegal income, and not to encroach upon the Company's assets in any way, including (but not limited to) any opportunities that are favourable to the Company;

(VIII) not to accept commissions in connection with the Company's transactions without the consent of the shareholders' general meeting that has been informed;

(IX) to abide by the Articles of Association, perform his/her duties faithfully, protect the interests of the Company and not to seek personal gain with his/her position, functions and powers in the Company;

(X) not to compete with the Company in any way without the consent of the shareholders' general meeting that has been informed;

(XI) not to misappropriate the funds of the Company or lend them to others, not to deposit the Company's assets in accounts opened in his/her own or in another's name, not to use the Company's assets as security for the debts of the Company's shareholders or other individuals;

(XII) not to disclose confidential information relating to the Company that was acquired by him/her during his/her term of office without the consent of the shareholders' general meeting that has been informed, and not to use such information except in the interests of the Company; however, such information may be disclosed to the court or other competent government authorities if:

1. provided by law;
2. required in the public interest;
3. required in the own interest of such director, supervisor, manager or other senior management staff.

Financial Accounting System, Profit Distribution and Audit

Financial Accounting System

The Company shall formulate its financial accounting system pursuant to the provisions of laws, administrative regulations and the relevant State authorities.

The Company shall prepare the interim financial reports of the Company within 60 days from the end of the first 6 months of each fiscal year and prepare the annual financial reports of the Company within 120 days from the end of each fiscal year, which reports shall be subject to legal examination and verification.

The financial statements of the Company shall be prepared not only in accordance with China's accounting standards, laws and regulations, but also in accordance with international accounting standards or the accounting standards of the place(s) outside the People's Republic of China where shares of the Company are listed. If there are major differences in the financial statements prepared in accordance with these two sets of accounting standards, such differences shall be stated in notes appended to such financial statements. For purposes of the Company's distribution of after-tax profits in a given fiscal year, the smaller amount of after-tax profits shown in the above-mentioned two kinds of financial statements shall prevail.

Interim results or financial information published or disclosed by the Company shall be prepared in accordance with China's accounting standards, laws and regulations as well as international accounting standards or the accounting standards of the place(s) outside the People's Republic of China where shares of the Company are listed.

Except for statutory accounts books, the Company shall not establish additional accounts books. The Company's assets shall not be deposited in any account opened in the name of any individual.

Profit Distribution

The profits after income tax paid by the Company shall be distributed in the following order:

(I) making up the Company's losses in the previous year;

(II) drawing 10% to the Company's statutory reserve;

(III) draw discretionary reserve;

(IV) pay dividends to shareholders.

When the Company's statutory reserve attains above 50% of the registered capital of the Company, the Company may cease to make such withdrawal. After withdrawing the statutory reserve, the shareholders' general meeting may decide on whether to draw discretionary reserve. The Company shall not distribute profits to shareholders before making up the Company's losses and drawing the statutory reserve.

Where the Company's statutory reserve is inadequate to make up losses in previous years, the Company shall, prior to withdrawing the statutory reserve pursuant to the provisions of the preceding paragraph, use the profits of the current year to make up the losses.

Upon resolution by the shareholders' general meeting, the Company may, after withdrawing the statutory reserve from the profits after tax, withdraw any discretionary reserve from the profits after tax.

Where the shareholders' general meeting violates the provisions of the preceding paragraph in distributing profits to shareholders prior to the Company's making up for the losses and withdrawing statutory reserve, the shareholders shall return the profits which are distributed in violation of the provisions to the Company.

The Company's reserves shall be used for making up for the losses of the Company, expanding the Company's manufacturing and business operations or being converted to the Company's additional capital. However, the capital reserve shall not be used to make up for the losses of the Company. Where the statutory reserve is converted to capital, the remaining reserve shall not be less than 25% of the Company's registered capital prior to the conversion.

The capital reserve of the Company shall include the following funds:

(I) the premiums obtained from the issue of shares in excess of the par value;

(II) other revenue required by the State Council's department in charge of finance to be included in the capital reserve.

Upon passing of a resolution on profit distribution plan of the Company by the shareholders' general meeting, the Board of Directors of the Company shall complete the distribution of dividends (or shares) within 2 months after the convening of the shareholders' general meeting.

The Company shall implement an active profit distribution method:

(I) The profit distribution of the listed company shall be focused on providing reasonable investment returns to investors. Profit distribution may be carried out in form of cash dividends or stock dividends or by interim cash profit distribution. Profit distribution policy shall maintain consistency and stability. In case that the conditions for both cash dividends and stock dividends are satisfied, cash dividends shall prevail.

(II) The Company's profit distribution policy (including plan of returns to shareholders, annual profit distribution plan and interim cash distribution plan etc.) shall be formulated by the Board of Directors based on the business development and business performance of the Company and submitted to the shareholders' general meeting for examination and approval.

(III) Where the Company made profit in the previous fiscal year but the Board of Directors has not made a plan for cash profit distribution, it shall disclose the reasons for not making cash dividends distribution and the use of funds undistributed but retained in the Company in periodical reports. Independent directors shall issue independent opinions thereon. When a shareholders' general meeting is held for examination thereon, the Board of Directors shall make statements to the shareholders' general meeting. If the Company does not make cash profit distribution in the recent three consecutive years, it may not conduct the issuance of new shares or convertible corporate bonds to the public or placement of shares to existing shareholders.

(IV) Where the profit distribution policy of the Company provided in the Articles of Association needs to be amended according to the production and operating conditions or the need for an investment plan or a long-term development, the Board of Directors of the Company shall put forward a proposal for amendment to profit distribution policy based on actual conditions, listen to the opinions of independent directors actively and fully, meanwhile, communicate and exchange views with small and medium-sized shareholders through various channels and seek for the opinions and requests of small and medium-sized shareholders. Such amendment to profit distribution policy shall be approved by the shareholders' general meeting through a special resolution. The amended profit distribution policy shall take the protection of shareholders' interests as the starting point and shall not violate the relevant stipulations of the CSRC and the stock exchange.

(V) Where a shareholder illegally occupies the funds of the listed company, the listed company shall deduct the cash dividends to be distributed to such shareholder accordingly to recover the funds such shareholder occupies.

(VI) The Company shall regulate the flow of funds with its related parties and safeguard the investors' interests to the maximum extent and formulate relevant policies in accordance with the provisions of relevant State laws, regulations and regulatory documents. Once the Board of Directors of the Company finds that the controlling shareholder occupies the funds of the Company in violation of the relevant laws, regulations, regulatory documents or the Articles of Association, the Board of Directors of the Company shall apply for a judicial freeze immediately and shall have the right to freeze the shares in the Company held by the controlling shareholder according to the relevant judicial decisions or judgements until the occupation of funds of the Company is rectified. In case that the controlling shareholder encroaches on the Company's assets and it cannot pay off in cash, the Company has the right to encash the equity so as to have the occupied assets repaid according to the relevant laws, regulations and regulatory documents.

The payment of stock dividends, cash dividends and other payables by the Company to shareholders shall be announced in RMB. Dividends on domestic shares shall be paid in RMB; dividends in foreign shares shall be paid in foreign currency. The dividends paid by the Company to the holders of foreign shares shall be paid in the currency of the place where the foreign shares are listed.

Where stock dividends, cash dividends or other payments paid in foreign currencies, the applicable rate of exchange shall be average exchange rate of the medium rates of converting Renminbi into foreign currencies as quoted by The People's Bank of China for a week immediately prior to the announcement of dividend and payment decision on other payables.

The Company shall appoint collecting agents for holders of overseas-listed foreign shares. Collecting agents shall receive dividends distributed by and other sums payable on overseas-listed foreign shares by the Company on behalf of relevant shareholders.

The collecting agents appointed by the Company shall meet the requirements of the laws of the place(s) or the relevant regulations of the securities exchange(s) where the shares are listed.

The collecting agents appointed by the Company for holders of H Shares shall be the trust companies registered under the *Trustee Ordinance* of Hong Kong.

The Company's power to cease sending dividend warrants to a holder of H Shares by post shall not be exercised until such dividend warrants had been so left uncashed on two consecutive occasions. The Company may also, however, exercise such power where such dividend warrants are sent back due to the initial failure of service to the address.

As for exercise of the power of issuing warrants to any unregistered holder, the Company shall not issue any new warrants to replace the lost warrants unless it does believe (without any reasonable doubt) the original warrants are truly destroyed.

Provided that the applicable laws and regulations are observed, the Company is entitled to sell the shares of those un-contactable holders of H Shares in a manner the Board of Directors deems fit, subject to the following terms:

(I) dividends have been distributed for the relevant shares for at least three times in 12 years, but are not claimed in the said period; and

(II) upon expiry of the 12-year period, the Company publishes an announcement on one or more newspapers of the place where the shares of the Company are listed, stating its intention to dispose of the shares, and notifies the stock exchange where such shares are listed.

Provided that the relevant PRC laws and regulations are observed, the Company may exercise the right to seize dividends not claimed, but the said right shall not be exercised before expiry of the applicable validity period.

Monies paid for any shares before dunning shall have interests, but the holders of shares are not entitled to dividends announced later for the said monies.

Internal Audit

The Company shall implement internal audit system and employ full-time audit personnel to carry out internal audit and supervision on the Company's financial revenue and expenditure and economic activities.

The internal audit system of the Company and the duties of audit personnel shall be implemented upon approval by the Board of Directors. The person in charge of audit shall be accountable and report to the Board of Directors.

Appointment of Accounting Firm

The Company shall appoint an independent accounting firm that complies with relevant State regulations and regulatory provisions of the place where the securities of the Company are listed to audit its accounting statements, verify its net assets and provide other relevant advisory services. The term of employment of an accounting firm employed by the Company shall be between the end of the annual general meeting of the Company and the end of the next annual general meeting and the term of employment may be renewable upon expiry of the term of employment.

Appointment of an accounting firm that conducts regular statutory audits of the Company's financial reports by the Company shall be decided by its shareholders' general meeting and the Board of Directors shall not appoint an accounting firm prior to the decision by the shareholders' general meeting.

An accounting firm employed by the Company shall have the following rights:

(I) the right to the access to the accounts books, records or vouchers of the Company and the right to require directors, the manager or other senior management staff of the Company to provide the relevant information and explanations;

(II) the right to require the Company to take all reasonable measures to obtain from its subsidiaries the information and explanations necessary for the accounting firm to perform its duties;

(III) the right to attend shareholders' general meeting, to receive a notice or other information concerning any meetings which shareholders have a right to receive, and to be heard at any shareholders' general meetings on any matter which relates to it as the accounting firm of the Company.

The shareholders' general meeting may, by means of an ordinary resolution, dismiss such accounting firm prior to the expiration of its term of employment, notwithstanding the terms in the contract between the accounting firm and the Company, but without prejudice to such accounting firm's right, if any, to claim damages from the Company in respect of such dismissal.

The remuneration or method of determining the remuneration of an accounting firm shall be decided upon by the shareholders' general meeting. The remuneration of an accounting firm employed by the Board of Directors shall be determined by the Board of Directors.

The Company shall undertake that the accounting vouchers, accounts books, financial accounting reports and any other accounting materials that it provides to the accounting firm are true and complete and it shall not refuse to provide information or conceal information or provide false information.

The employment, dismissal or refusal of the renewal of the employment of an accounting firm that conducts regular statutory audits of the Company's financial reports shall be decided upon by the shareholders' general meeting and reported to the relevant securities authorities for the record (if applicable).

Notices and Announcements

A notice of the Company shall be sent by the following means:

(I) by personal delivery;

(II) by mail;

(III) by announcement;

(IV) by other means approved by the relevant regulatory authority of the place where the securities of the Company are listed or specified in the Articles of Association.

In respect of the way in which the Company provides or sends corporate communications to holders of H Shares in accordance with the Hong Kong Listing Rules, on the basis of complying with the laws, regulations, listing rules of the place where the securities of the Company are listed and the Articles of Association, the Company may provide or send corporate communications to holders of H Shares through the websites designated by the Company and Hong Kong Stock Exchange or by electronic means.

The corporate communications referred to in the preceding paragraph refer to any document issued or to be issued by the Company for reference or action by any holders of H Shares or other persons required by the Hong Kong Listing Rules, including but not limited to:

(I) annual reports of the Company (including reports of the Board, annual accounts of the Company, audit reports and summary financial reports, if applicable);

(II) interim reports and interim summary reports of the Company (if applicable);

(III) meeting notices

(IV) listing documents;

(V) circulars; and

(VI) proxy forms (as specified in the listing rules of the stock exchange on which the securities of the Company are listed).

Where a notice is served by announcement in the exercise of the powers prescribed in the Articles of Association, such an announcement shall be published in accordance with the methods prescribed in the Hong Kong Listing Rules.

If the listing rules of the place where the securities of the Company are listed stipulate that the Company sends, posts, distributes, announces or otherwise provides relevant documents of the Company in English and Chinese, if the Company has made appropriate arrangement to confirm whether the shareholders hope to receive only the English version or the Chinese version, the Company may (as per the intent stated by the shareholders) send only the English version or the Chinese version to the related shareholders within the range allowed by the applicable laws and regulations and pursuant to the applicable laws and regulations.

Where a notice is sent by personal delivery and the addressee signs (or affixes seal) on the acknowledge receipt, the date of signature by the addressee shall be the date of service; where a notice is sent by mail, the date of service shall be the 3rd working day after being posted at the post office; where a notice is sent by telephone, the date of service shall be the date of completion of such telephone call; where a notice is served by email, the date of service shall be the date when the email is sent out; and where a notice is served by means of announcement, the date of service shall be the date on which the first announcement is published.

Where a notice of meeting is not delivered to persons who have the right to receive the notice or such persons do not receive the notice of meeting due to accidental omission, the meeting and the resolutions passed by the meeting shall not be rendered invalid as a result thereof.

Merger, Division, Increase and Decrease of Capital, Dissolution and Liquidation

Merger, Division, Increase and Decrease of Capital

The Company may conduct merger or division according to law. The plan for merger or division of the Company shall be prepared by the Board of Directors. After such plan has been adopted in accordance with the procedures stipulated in the Articles of Association, relevant examination and approval procedures shall be carried out according to law. Shareholders who oppose to the plan of merger or division of the Company shall be entitled to require the Company or the shareholders who agree to the plan to purchase their shares at a fair price. The resolutions approving the merger or division of the Company shall be compiled into a special document and made available for inspection by shareholders.

A merger may be in the form of merger by absorption or merger by establishment of a new company. In the case of merger by absorption, the company being absorbed shall be dissolved. Merger by establishment of a new company shall refer to the establishment of a new company as a result of merger of two or more companies and dissolution of the parties being merged.

In the event of merger, the parties to the merger shall enter into a merger agreement and prepare balance sheet and asset list. The Company shall notify its creditors within 10 days from the date on which the merger resolution is adopted and make an announcement on the *Shanghai Securities News* and another newspaper designated by the CSRC within 30 days. Creditors may require the Company to repay the debts or to provide the corresponding guarantee within 30 days from receipt of notification or within 45 days from the date of announcement if they do not receive notification.

In the event of division, the parties to the division shall enter into a division agreement and the Company shall prepare balance sheet and asset list. The Company shall notify its creditors within 10 days from the date on which the division resolution is adopted and make an announcement on the *Shanghai Securities News* and another newspaper designated by the CSRC within 30 days.

Where the merger or division of the Company involves changes in its registered particulars, such changes shall be filed with competent company registration authorities pursuant to the law. Where the Company is dissolved, it shall cancel its registration pursuant to the law. Where a new company is incorporated, its incorporation shall be registered pursuant to the law.

Dissolution and Liquidation

The Company shall be dissolved and liquidated according to law in any of the following circumstances:

(I) upon expiry of term of business stipulated in the Articles of Association or occurrence of any other circumstances of dissolution stipulated in the Articles of Association;

(II) the shareholders' general meeting has resolved on dissolution of the Company;

(III) merger or division of the Company entails dissolution;

(IV) the Company is declared bankrupt according to law as it is unable to repay its debts upon maturity;

(V) the Company's business licence is cancelled pursuant to the law, or the Company is ordered to be closed down or revoked pursuant to the law;

(VI) the Company has serious difficulties in its business operation and its subsistence will cause serious damages to the interests of its shareholders. The Company is unable to resolve such difficulties through any other means, the shareholders holding 10% or more of the voting rights of the Company may apply to the competent people's court for dissolution of the Company.

Under the circumstances set out in Item (I) above, the Company may continue to exist through amendment of the Articles of Association.

The amendment to the Articles of Association pursuant to the preceding paragraph shall be passed by shareholders who hold two-thirds of the voting rights present at the shareholders' general meeting.

If the Company is dissolved pursuant to Item (I) and Item (II) above, it shall establish a liquidation committee and commence liquidation within 15 days from occurrence of the cause of dissolution. The liquidation committee shall comprise persons determined by the ordinary resolution of shareholders' general meeting. Where the liquidation committee is not established within the stipulated period, the creditors may apply to the people's court to designate the relevant persons to form a liquidation committee to commence liquidation.

If the Company is dissolved pursuant to Item (IV) above, the People's court shall, according to the relevant laws and regulations, organise shareholders, relevant institutions and professionals to establish liquidation team and carry out liquidation.

If the Company is dissolved pursuant to Item (V) above, the relevant regulatory authority shall organise shareholders, relevant institutions and professionals to establish liquidation team and carry out liquidation.

During the liquidation period, the liquidation team shall exercise the following functions and duties:

(I) to ascertain the Company's assets and separately prepare balance sheet and asset list;

(II) to notify creditors by sending notice or by making announcement;

(III) to deal with and settle the Company's outstanding business deals in relation to the liquidation;

(IV) to settle outstanding taxes and taxes incurred during the process of liquidation;

(V) to ascertain all claims and debts;

(VI) to dispose of the remaining assets of the Company after the repayment of debts;

(VII) to represent the Company in any civil proceedings.

Where the Board of Directors proposes to liquidate the Company (due to causes other than where the Company has declared that it is insolvent), it shall declare in the notice of the shareholders' general meeting to be convened for such purpose that after making full inquiry into the affairs of the Company, the Board of Directors is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution at the shareholders' general meeting for the liquidation, all functions and powers of its Board of Directors of the Company shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report at the shareholders' general meeting on completion of the liquidation.

The liquidation committee shall notify the creditors within 10 days from the date of its establishment and make an announcement on the *Shanghai Securities News* and another newspaper designated by the CSRC within 60 days. The creditors shall declare their creditor's rights to the liquidation committee within 30 days from receipt of notification or within 45 days from the date of announcement if they do not receive notification.

Creditors declaring creditor's rights shall state the relevant information of the creditor's rights and provide evidentiary materials. The liquidation committee shall register the creditor's rights.

During the period for declaration of creditor's rights, the liquidation committee shall not make repayment to creditors.

Having thoroughly examined the assets of the Company and prepared the balance sheet and asset list, the liquidation committee shall formulate a liquidation plan and submit it to the shareholders' general meeting or the people's court for confirmation.

The asset of the Company shall be used respectively for payment of liquidation expenses, employees' wages, social security expenditures, statutory compensations, tax in arrears and the Company's debts; the residual properties thereafter shall be distributed in accordance with the shareholding percentages of the shareholders. During the liquidation period, the Company continues to exist but it shall not engage in business activities unrelated to liquidation. The Company's asset shall not be distributed to shareholders before making repayment pursuant to the provisions of the preceding sentence.

Upon thorough examination of the Company's asset and preparation of the balance sheet and asset list, where the liquidation committee discovers that the Company's assets are insufficient to pay its debts in full, it shall apply to the people's court for declaration of bankruptcy pursuant to the law. Upon declaration of the Company's bankruptcy pursuant to the ruling of the people's court, the liquidation committee shall hand over the liquidation matters to the people's court.

Upon completion of liquidation, the liquidation committee shall prepare liquidation report, as well as revenue and expenditure statement and financial account books in respect of the liquidation period and, after verification by an accountant registered in China and submit the same to the shareholders' general meeting or the people's court for confirmation. Within 30 days from the date of confirmation of the above-mentioned documents by the relevant authorities in charge, the liquidation committee shall submit the aforesaid documents to company registration authorities and apply for deregistration and make an announcement on termination of the Company.

Amendments to the Articles of Association

According to the regulations of laws, administrative regulations the Articles of Association, the Company may amend the Articles of Association.

Under any of the following circumstances, the Company may amend the Articles of Association:

(I) upon revision of the *Company Law* or the relevant laws, administrative regulations and listing rules of the place where the securities of the Company are listed, the provisions in the Articles of Association contradict the stipulations of the revised laws, administrative regulations, and listing rules of the place where the securities of the Company are listed;

(II) the Company's situation has changed and is inconsistent with the items recorded in the Articles of Association;

(III) the shareholders' general meeting has decided on making amendments to the Articles of Association.

Where any amendment to the Articles of Association resolved by the shareholders' general meeting is subject to review and approval of competent authorities, the amendment shall be submitted to the competent authorities for approval; where company registration matters are involved, change registration formalities shall be filed pursuant to the law.

Settlement of Disputes

The Company shall settle disputes following the rules below:

(I) In the event of any dispute or claim between a holder of overseas-listed foreign shares and the Company, between a holder of overseas-listed foreign shares and a director, supervisor, manager or other senior management staff, and between a holder of overseas-listed foreign shares and a holder of domestic shares arising from rights and obligations specified in these Articles of Association, the contract concluded pursuant to Article 180 and Article 181 of the Articles of Association, *Company Law* and other relevant laws and administrative regulations and relating to the affairs of the Company, the parties concerned shall submit the said dispute or claim for arbitration.

The aforesaid dispute or claim submitted for arbitration shall be the entire dispute or claim; all the persons who complain for the same reason or who are required to participate in the settlement of the dispute or claim shall accept the arbitration award if they are the Company or its shareholders, directors, supervisors, the manager, or other senior management staff.

Disputes in respect of who is the shareholder and those in relation to our register of shareholders need not be resolved by arbitration.

(II) A claimant may elect for arbitration to be carried out at either the China International Economic or Trade Arbitration Commission in accordance with its rules in Qingdao or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must carry out arbitration in the arbitration tunnel elected by the claimant.

If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party may apply for a hearing to take place in Shenzhen, China, in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

(III) Settlement of disputes or claims set out in (I) by way of arbitration shall be governed by PRC laws save as otherwise specified by laws and administrative regulations.

(IV) The award of an arbitration tribunal shall be final and conclusive and binding on all parties.

(V) The said arbitration agreement is reached between the directors, supervisors, or senior management staff and the Company, which represents itself and each shareholder.

(VI) Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearing in open session and to publish its award.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

The predecessor entity of our Company, Qingdao Qindao Haier Co., Ltd. (青島琴島海爾股份有限公司) was incorporated as a joint stock limited company with a registered capital of RMB102,483,000 in the PRC on 28 April 1989. Our Company has established a principal place of business in Hong Kong at Unit 3513, 35/F, The Centre, 99 Queen's Road Central, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 8 September 2020. Ms. SUEN Pui Chun Hannah has been appointed as the Company's authorised representative for the acceptance of service of process in Hong Kong. As our Company is incorporated in the PRC, its corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of the Articles of Association of the Company is set out in Appendix VI to this document. A summary of certain relevant aspects of the laws and regulations of the mainland China and Hong Kong is set out in Appendix V to this document.

B. Changes in Share Capital

The predecessor entity of our Company, Qingdao Qindao Haier Co., Ltd. (青島琴島海爾股份有限公司) was incorporated as a joint stock limited company with a registered capital of RMB102,483,000, which has been fully paid up, in the PRC on 28 April 1989. The following sets out the changes of our share capital since the date of our incorporation:

(a) On 8 November 1993, our registered capital was increased to RMB170,000,000;

(b) On 4 April 1994, our registered capital was increased to RMB221,000,000;

(c) On 31 May 1996, our registered capital was increased to RMB272,110,000;

(d) On 31 July 1996, our registered capital was increased to RMB326,532,000;

(e) On 21 November 1997, our registered capital was increased to RMB421,748,031;

(f) On 6 September 1999, our registered capital was increased to RMB470,589,084;

(g) On 26 June 2000, our registered capital was increased to RMB564,706,902;

(h) On 17 January 2001, our registered capital was increased to RMB664,706,902;

(i) On 26 June 2001, our registered capital was increased to RMB797,648,282;

(j) On 13 July 2004, our registered capital was increased to RMB1,196,472,423;

(k) On 8 May 2007, our registered capital was increased to RMB1,338,518,770;

(l) On 10 December 2010, our registered capital was increased to RMB1,339,961,770;

(m) On 18 July 2011, our registered capital was increased to RMB2,679,923,540;

(n) On 18 November 2011, our registered capital was increased to RMB2,685,127,540;

(o) On 26 December 2012, our registered capital was increased to RMB2,695,909,540;

(p) On 3 December 2013, our registered capital was increased to RMB2,720,835,940;

(q) On 27 June 2014, our registered capital was increased to RMB2,726,936,940;

(r) On 17 July 2014, our registered capital was increased to RMB3,029,929,934;

(s) On 14 November 2014, our registered capital was increased to RMB3,045,935,134;

(t) On 18 March 2015, our registered capital was increased to RMB3,046,125,134;

(u) On 17 July 2015, our registered capital was increased to RMB6,123,154,268;

(v) On 24 February 2016, our registered capital was decreased to RMB6,105,103,927;

(w) On 12 July 2016, our registered capital was decreased to RMB6,097,630,727;

(x) On 19 July 2017, our registered capital was decreased to RMB6,097,402,727;

(y) On 24 October 2018, our registered capital was increased to RMB6,362,402,727;

(z) On 30 November 2018, our registered capital was increased to RMB6,368,416,700;

(aa) On 16 December 2019, our registered capital was increased to RMB6,579,566,627.

For details of changes in our share capital, please see "History and Corporate Structure" of this document.

Upon completion of the Introduction and Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), our Company's registered capital will be increased to approximately RMB9,027,846,441, comprising 6,308,552,654 A Shares, 271,013,973 D Shares and 2,448,279,814 H Shares fully paid up or credited as fully paid up, representing approximately 69.88%, 3.00% and 27.12% of our registered capital, respectively.

Save as aforesaid, there has been no alteration in our Company's share capital since our Company's establishment.

C. The Shareholders' General Meeting of the Company Held on 1 September 2020

(a) subject to satisfaction of various conditions in relation to the Introduction and the Privatisation, the issue by our Company of the H Shares of nominal value of RMB1.00 each (i) as consideration for the cancellation of the Scheme Shares; and (ii) under the HSH Convertible Bonds, including those shares to be issued pursuant to the customary adjustments under the HSH Convertible Bonds Terms and Conditions;

(b) authorisation of the Board and its authorised persons to handle all matters relating to, among other things, the Introduction, the Privatisation, and the issue and Listing of the H Shares; and

(c) subject to the completion of the Introduction and the Privatisation, the Articles of Association effective on the Listing Date has been adopted, and the Board has been authorised to amend the Articles of Association in accordance with relevant laws and regulations and upon the request from the Stock Exchange and relevant PRC regulatory authorities.

D. Change in Share Capital of Our Company's Principal Entities

Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us waiver from strict compliance with paragraph 26 of Part A of Appendix 1 to the Listing Rules in relation to the disclosure of information relating to the changes to the share capital of any member of our Group. For details, please see the section headed "Waivers from Strict Compliance with the Listing Rules — Disclosure Requirements with respect to Changes in Share Capital and Substantial Shareholders".

The following alteration in the registered capital of our Company's Principal Entities has taken place within the two years preceding the date of this document:

1. HEG is a company listed on the Hong Kong Exchange before completion of the Privatisation. Therefore, shares of HEG have been traded publicly during the two years preceding the date of this document.

2. On 17 August 2020, Qingdao Haier Air-Conditioner Electronics Co., Ltd. increased its share capital from RMB956,000,000 to RMB957,638,861.55 due to capital injection by Haier Group. Before the capital injection, Qingdao Haier Air-Conditioner Electronics Co., Ltd. is wholly-owned by the Company. Upon completion of the capital injection, the Company holds 99.83% and Haier Group holds 0.17% of the share capital of Qingdao Haier Air-Conditioner Electronics Co., Ltd.

3. On 23 December 2019, the share capital of Qingdao Haier Smart Kitchen Appliances Co., Ltd. increased from RMB90 million to RMB180 million due to capital injection by Qingdao Haier Dishwasher Co., Ltd. (青島海爾洗碗機有限公司), a wholly-owned subsidiary of our Company.

4. On 31 December 2019, Hefei Haier Washing Machine Co., Ltd. increased its share capital from RMB92 million to approximately RMB92.05 million due to capital injection by Haier Group. Before the capital injection, Qingdao Haier Zhixin Hone Appliance Co., Ltd. (青島海爾智信家用電器有限公司) holds 80% shares and Qingdao Haier Washing Machine Co., Ltd. (青島海爾洗衣機有限公司) holds 20% shares of Hefei Haier Washing Machine Co., Ltd. Upon completion of the capital injection, Haier Group holds 0.0502% shares, Qingdao Haier Zhixin Hone Appliance Co., Ltd. holds 79.9598% shares and Qingdao Haier Washing Machine Co., Ltd. holds 19.99% shares of Hefei Haier Washing Machine Co., Ltd.

5. On 28 September 2018, Haier Europe Appliance Holding B.V., a wholly-owned subsidiary of the Company, entered in to a share purchase agreement with the then existing shareholders of Candy S.P.A. to acquire 30%, 30% and 40% of the equity interests of Candy S.P.A. from Mr. Beppe Fumagalli, Mr. Aldo Fumagalli and Albe Finanziaria S.r.l. The transaction has been completed on 4 January 2019. Upon completion of the acquisition, Candy S.P.A. is indirectly owned by the Company as to 100% of its share capital. For details, see the section headed "History and Corporate Structure — Major Acquisitions and Disposal — Acquisition of Candy".

Save as disclosed above, there has been no other alteration in the share capital of any of Principal Entities of our Company within the two years immediately preceding the date of this document.

E. Repurchase of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this document concerning the repurchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by the Board on 9 November 2020, a proposal to grant our Directors a general mandate to repurchase our securities on the Stock Exchange (the "**Repurchase Mandate**") will be submitted to the first Shareholders' meeting after Listing for consideration, authorising our Directors to exercise all powers of our Company to repurchase H Shares on the Stock Exchange, with a total amount up to 10% of the total number of H Shares in issue at the date of the Shareholders resolution granting the repurchase mandate, with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), and (ii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting. The amount of H Shares to be repurchased pursuant to the Repurchase Mandate within one year from the date of Shareholders' approval is expected to be not less than HKD1 billion.

(ii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iii) Status of Repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed.

(iv) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(v) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vi) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase H Shares in the market. Such repurchases will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Material Contracts

Our Company has entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this document which are or may be material:

(a) an equity transfer agreement entered into between our Company (as seller) and Haier Ecological Investment (as buyer) on 30 July 2020, pursuant to which our Company agreed to transfer 54.50% of its equity interests in COSMO to Haier Ecological Investment at a consideration of RMB4.06 billion;

(b) the Non-competition Undertaking; and

(c) the sponsors' agreement entered into between our Company and the Joint Sponsors on 15 November 2020 in relation to the Introduction, pursuant to which the Company provided, among other things, customary representations and warranties in favor of the Joint Sponsors.

B. Our Intellectual Property Rights

(a) ***Trademarks — registered***

As of the Latest Practicable Date, our Group has registered or has been authorised to use the following trademarks which we consider to be or may be material to our business:

No.	Registered Owner	Trademark	Registration number	Category and merchandise	Place of registration
1	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	15652530	Category 11	PRC
2	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	15650480	Category 7	PRC
3	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	15651392	Category 9	PRC
4	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔	4534802	Category 7	PRC
5	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔	4534804	Category 9	PRC
6	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔	4534786	Category 11	PRC
7	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	4534747	Category 7	PRC
8	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	4534751	Category 11	PRC
9	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15650475	Category 7	PRC
10 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15650774	Category 8	PRC
11 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15651365	Category 9	PRC

No.	Registered Owner	Trademark	Registration number	Category and merchandise	Place of registration
12 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15651619	Category 10	PRC
13 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15652508	Category 11	PRC
14 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		15652685	Category 12	PRC
15 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	1227229	Category 7	PRC
16 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	1376955	Category 7	PRC
17 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	1391499	Category 11	PRC
18 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier 海尔	856251	Category 11	PRC
19 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔	727239	Category 7	PRC
20 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	727240	Category 7	PRC
21 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier 海尔	852665	Category 7	PRC
22 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	752875	Category 11	PRC
23 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔	1054315	Category 11	PRC
24 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier	1054494	Category 11	PRC
25 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		1041505	Category 7	PRC
26 . . .	Qingdao Haishang Zhicai Management Consulting Co., Ltd.		1060249	Category 11	PRC
27 . . .	Haier Group	Casarte	6129342	Category 7	PRC
28 . . .	Haier Group	Casarte	6129343	Category 9	PRC
29 . . .	Haier Group	Casarte	6129390	Category 11	PRC

No.	Registered Owner	Trademark	Registration number	Category and merchandise	Place of registration
30 . . .	Haier Group	卡萨帝	6252259	Category 9	PRC
31 . . .	Haier Group	卡萨帝	6252260	Category 11	PRC
32 . . .	Haier Group	卡萨帝	6256810	Category 7	PRC
33 . . .	The Company	衣联	32622197	Category 3	PRC
34 . . .	The Company	衣联	32628137	Category 7	PRC
35 . . .	The Company	衣联	32633320	Category 20	PRC
36 . . .	The Company	衣联	32619208	Category 40	PRC
37 . . .	The Company	食联	32618796	Category 7	PRC
38 . . .	The Company	食联	32625284	Category 20	PRC
39 . . .	The Company	食联	32619197	Category 11	PRC
40 . . .	Qingdao Haier Technology Co., Ltd	优家	28054407	Category 15	PRC
41 . . .	Qingdao Haier Technology Co., Ltd	优家	28058939	Category 18	PRC
42 . . .	Qingdao Haier Technology Co., Ltd	优家	28062437	Category 9	PRC
43 . . .	Qingdao Haier Technology Co., Ltd	优家	28062445	Category 12	PRC
44 . . .	Qingdao Haier Technology Co., Ltd	U	28068286	Category 9	PRC
45 . . .	Qingdao Haier Technology Co., Ltd	U	28070659	Category 8	PRC
46 . . .	Qingdao Haier Technology Co., Ltd	U	28071968	Category 7	PRC
47 . . .	Qingdao Haier Technology Co., Ltd	U	28073561	Category 12	PRC
48 . . .	Qingdao Haier Technology Co., Ltd	优家	28075064	Category 7	PRC
49 . . .	Qingdao Haier Technology Co., Ltd	U	28076629	Category 15	PRC
50 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30290699	Category 7	PRC
51 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30296050	Category 42	PRC

No.	Registered Owner	Trademark	Registration number	Category and merchandise	Place of registration
52 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30299111	Category 9	PRC
53 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30303936	Category 35	PRC
54 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30308221	Category 38	PRC
55 . . .	Qingdao Haier Technology Co., Ltd	UHOMEOS	30308223	Category 35	PRC
56 . . .	Qingdao Haier Technology Co., Ltd		34181662	Category 9	PRC
57 . . .	Qingdao Haier Technology Co., Ltd	烤圈	15627243	Category 9	PRC
58 . . .	Qingdao Haier Technology Co., Ltd	Beatoven 焙多芬	15627310	Category 9	PRC
59 . . .	Qingdao Haier Technology Co., Ltd	COOQUAN	15627373	Category 42	PRC
60 . . .	Qingdao Haier Technology Co., Ltd	烤圈	15627322	Category 11	PRC
61 . . .	Qingdao Haier Technology Co., Ltd	COOQUAN	15627334	Category 11	PRC
62 . . .	Qingdao Haier Technology Co., Ltd	焙多芬	15627238	Category 9	PRC
63 . . .	Qingdao Haier Technology Co., Ltd	烤圈	15627380	Category 42	PRC
64 . . .	Qingdao Haier Technology Co., Ltd	焙多芬	15627307	Category 11	PRC
65 . . .	Qingdao Haier Technology Co., Ltd	焙多芬	15627391	Category 42	PRC
66 . . .	Qingdao Haier Technology Co., Ltd	智慧生活 SMART LIFE	14891936	Category 7	PRC
67 . . .	Qingdao Haier Technology Co., Ltd		14890744	Category 11	PRC
68 . . .	Qingdao Haier Technology Co., Ltd		14889871	Category 9	PRC
69 . . .	Qingdao Haier Technology Co., Ltd		14889408	Category 7	PRC
70 . . .	Qingdao Haier Technology Co., Ltd	优家	14889624	Category 7	PRC
71 . . .	Qingdao Haier Technology Co., Ltd	优家	14890586	Category 9	PRC
72 . . .	Qingdao Haier Technology Co., Ltd		40243851	Category 7	PRC
73 . . .	Qingdao Haier Technology Co., Ltd	优家	40242037	Category 7	PRC
74 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21075700	Category 9	PRC
75 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21076363	Category 11	PRC
76 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21076708	Category 37	PRC

No.	Registered Owner	Trademark	Registration number	Category and merchandise	Place of registration
77 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21077301	Category 38	PRC
78 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21077355	Category 39	PRC
79 . . .	Qingdao Haier Special Freezer Co., Ltd.	酒知道	21077563	Category 42	PRC
80 . . .	Qingdao Economic & Technology Development Zone Haier Water Heater Co., Ltd.	GREENBOOST	35284731	Category 11	PRC
81 . . .	Qingdao Haidayuan Procurement Service Co., Ltd	海达源	17946364	Category 42	PRC
82 . . .	Qingdao Haidayuan Procurement Service Co., Ltd	海达源	17946210	Category 35	PRC
83 . . .	Qingdao Haidayuan Procurement Service Co., Ltd	海达源	17946274	Category 38	PRC
84 . . .	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	空气云	No. 42192710	Category 37	PRC
85 . . .	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	智慧空气云	No. 42205895	Category 37	PRC

(b) ***Trademarks — applied***

As of the Latest Practicable Date, our Group has applied for registration of the following trademarks which we consider to be or may be material to our business:

No.	Applicant	Trademark	Registration number	Category and merchandise	Place of registration	Date of application
1	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	Haier Smart Home	305235994	3,7,9, 10,11, 16,20,21, 35,37, 39,42	Hong Kong	31 March 2020
2	Qingdao Haishang Zhicai Management Consulting Co., Ltd.	海尔智家	305236001	3,7,9, 10,11, 16,20,21, 35,37, 39,42	Hong Kong	31 March 2020

(b) ***Patents***

As of 30 June 2020, our Group have applied for more than 57,000 patents worldwide in 28 countries and regions, including more than 34,000 invention patents and nearly 11,000 overseas invention patents. As of the Latest Practicable Date, our Group owns the following patents which we consider to be or may be material to our business:

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
1.	Fault analysis method and system of electrical equipment	2012100411048	Invention	Haier Group and Haier Technology	2015-06-10	2032-02-22
2.	WIFI network module configuration method	2012101525544	Invention	Haier Group and Haier Technology	2016-04-13	2032-05-16
3.	Home appliance monitoring system	2012102491367	Invention	Haier Group and Haier Technology	2016-12-21	2032-07-18
4.	PLC-based IoT home appliance interconnection system	2012102882303	Invention	Haier Group and Haier Technology	2016-12-21	2032-08-14
5.	A PLC-based home appliance communication terminal system	2012103034871	Invention	Haier Group and Haier Technology	2015-08-26	2032-08-23
6.	Data encryption transmission methods, devices, gateways in a centralised network	2014106588731	Invention	Haier Technology and Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	2019-03-22	2034-11-18
7.	Methods of serial communication and interface circuits	2005100803203	Invention	Haier Group and Haier Technology	2010-09-08	2025-07-01
8.	A multi-board communication method and system	2014107888574	Invention	Haier Technology	2019-06-04	2034-12-19
9.	Method and device of controlling household electrical equipment via short messages	2005100803190	Invention	Haier Group, Haier Technology and Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	2010-01-27	2025-07-01
10.	An electrical remote control system	2006101279224	Invention	Haier Group and Haier Technology	2012-05-30	2026-09-01

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
11.	A network fault feedback system of home appliances	200710000685X	Invention	Haier Group and Haier Technology	2010-05-26	2027-01-16
12.	A home gateway applied in digital home system	200610170413X	Invention	Haier Group and Haier Technology	2012-07-11	2026-12-27
13.	Control method and control device supporting multi-screen system property display	2014101618069	Invention	Qingdao Haier Intelligent Home Appliance Technology Co., Ltd. and Haier Group	2019-02-01	2034-04-21
14.	A control method and device of smart IoT appliances and smart IoT appliances	2015105402994	Invention	Haier Technology	2018-08-21	2035-08-28
15.	An air-conditioning fault detection device, methods and systems	2014102792908	Invention	Haier Technology and Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	2018-04-17	2034-06-20
16.	An automatic upgrade method of wifi module software for intelligent household electrical appliance	2013107387858	Invention	Haier Group and Haier Technology	2018-04-17	2033-12-30
17.	Smart gas stove and its control method	2013104456095	Invention	Haier Group and Haier Technology	2017-06-30	2033-09-26
18.	Water heater and its control method	2013103867540	Invention	Haier Group and Haier Technology	2018-03-09	2033-08-27
19.	A communication interface and communication method of network household appliances	2006100900782	Invention	Haier Group and Haier Technology	2011-07-27	2026-06-26
20.	A method for address assignment of gas water heater	2009102107676	Invention	Haier Group and Haier Technology	2014-04-23	2029-11-09

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
21.	A method for wireless networking and communication in a home network	2005100769842	Invention	Haier Group and Haier Technology	2009-07-08	2025-06-13
22.	An intelligent household appliance monitoring system and methods	2011102962500	Invention	Haier Group, Haier Technology and Qingdao Power Supply Company of Shandong Electric Power Group Corp.	2015-10-28	2031-09-28
23.	A voice reminder system for dishwashers	2012101906283	Invention	Haier Group and Haier Technology	2017-02-08	2032-06-11
24.	Access to the wireless router method, related equipment and systems	2013101779460	Invention	Haier Group and Haier Technology	2018-11-27	2033-05-14
25.	A multi-device communication method based on the same channel and its communication system	2013102295489	Invention	Haier Group and Haier Technology	2018-07-20	2033-06-09
26.	A chassis heat exchange tube fastening structure, water tank and heat pump water heater	2012100495804	Invention	Haier Group and Haier Water Heater Co., Ltd.	2017-02-08	2032-02-29
27.	A control method of gas water heater adapted to different elevations	2013103931481	Invention	Haier Group and Haier Water Heater Co., Ltd.	2019-12-10	2033-09-02
28.	Electric storage water heater able to judge the voltage peak and valley value for heating and its methods	2014101806848	Invention	Haier Water Heater Co., Ltd.	2019-02-05	2034-04-30
29.	Method of reserved heating for water heater with reservation mode	2014105493414	Invention	Haier Water Heater Co., Ltd.	2019-05-28	2034-10-16

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
30.	A water heater with a baffle plate	2013100681997	Invention	Haier Water Heater Co., Ltd. and Haier Group	2019-03-19	2033-03-04
31.	An electric auxiliary heating solar water heater temperature controller module and a solar water heater	2014102281279	Invention	Haier Water Heater Co., Ltd.	2017-07-04	2034-05-27
32.	An enamel liner for water heater and manufacturing methods	2006101674878	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-01-13	2026-12-28
33.	Gas distribution device for blue flame gas water heater	2006101674897	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-05-26	2026-12-28
34.	Storage-type electricity guard water heaters	2006101704303	Invention	Haier Group and Haier Water Heater Co., Ltd.	2009-12-09	2026-12-28
35.	Electricity guard water pipe	2006101704318	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-05-26	2026-12-28
36.	Heat exchange device for blue flame gas water heater	2006101453907	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-12-29	2026-11-28
37.	Burner for blue flame gas water heater	2006101453911	Invention	Haier Group and Haier Water Heater Co., Ltd.	2011-06-22	2026-11-28
38.	Gas nozzle of the blue flame gas water heater and the ejector device with a nozzle	2006101453926	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-05-12	2026-11-28
39.	Sectional air supply blue flame gas water heater	2006101501525	Invention	Haier Group and Haier Water Heater Co., Ltd.	2010-05-26	2026-10-30
40.	CO purifier and gas water heater equipped with the CO purifier	2013104827076	Invention	Haier Group and Haier Water Heater Co., Ltd.	2018-11-23	2033-10-16
41.	Methods and devices for swinging control of indoor air conditioners	2015109815252	Invention	Hefei Haier Air Conditioning Co., Ltd.	2019-05-31	2035-12-22

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
42.	Anti-cold wind control method and system of air-conditioner indoor unit	2014100740646	Invention	Hefei Haier Air Conditioning Co., Ltd.	2018-03-20	2034-03-03
43.	Outdoor unit of air conditioner	2011103265689	Invention	Hefei Haier Air Conditioning Co., Ltd., Haier Group and Qingdao Haier Air Conditioner General Co., Ltd.	2014-06-11	2031-10-24
44.	Motor bracket and air conditioner outdoor unit with the motor bracket	2011103401043	Invention	Hefei Haier Air Conditioning Co., Ltd., Haier Group and Qingdao Haier Air Conditioner General Co., Ltd.	2013-09-25	2031-11-01
45.	A motor installation method	2011103057099	Invention	Hefei Haier Air Conditioning Co., Ltd., Haier Group and Qingdao Haier Air Conditioner General Co., Ltd.	2013-08-07	2031-10-11
46.	Air conditioner and a method for removing formaldehyde	2011102057829	Invention	Hefei Haier Air Conditioning Co., Ltd.	2014-04-30	2031-07-21
47.	A defrosting method for an air-conditioning system	2013103833703	Invention	Haier Group, Qingdao Haier Air Conditioner General Co., Ltd., Hefei Haier Air Conditioning Co., Ltd., Chongqing Haier Air Conditioner Co., Ltd.	2017-03-22	2033-08-28
48.	A self-balancing portable washing machine	2012100481981	Invention	Hefei Haier Washing Machinery Co., Ltd.	2017-01-25	2032-02-29
49.	Detection and control device and method for bucket bumping of washing machine	2013105331561	Invention	Hefei Haier Washing Machinery Co., Ltd.	2018-10-12	2033-10-31
50.	A method for indicating different washing state with different sounds and lamps and the washing machine	2009101625983	Invention	Hefei Haier Washing Machinery Co., Ltd.	2014-01-08	2029-08-04

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
51.	Negative pressure heat pump dryer	2009101698630	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2015-07-29	2029-09-07
52.	A thread filtering device of a wave wheel washing machine and the thread filtering method	2009103053989	Invention	Hefei Haier Washing Machinery Co., Ltd.	2014-01-08	2029-08-07
53.	A method for automatically adjusting laundry parameters and the related washing machine	200910306978X	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2014-11-05	2029-09-14
54.	Direct-driven clutch device	2009102106781	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2015-04-08	2029-11-05
55.	A washing machine and the cleaning method with flexible particles to clean the inner and outer buckets of a washing machine	2010101605484	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2014-12-10	2030-04-30
56.	A roller washing machine with a drawer under an outer cylinder	2010102533924	Invention	Haier Group, Qingdao Haier Roller Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2015-07-01	2030-08-11
57.	Washing machine bucket and washing machine	2010101752074	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2015-07-01	2030-05-17

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
58.	Methods and devices for controlling the pulsator washing machine and the dissolution of washing powder	2010101774213	Invention	Haier Group, Qingdao Haier Washing Machine Co., Ltd. and Hefei Haier Washing Machinery Co., Ltd.	2015-09-23	2030-05-19
59.	A touch control method	201010598303X	Invention	Hefei Haier Washing Machinery Co., Ltd.	2016-12-07	2030-12-21
60.	A washing machine and control methods	2015110296355	Invention	Chongqing Haier Drum Washing Machine Co., Ltd.	2019-11-01	2035-12-31
61.	An air conditioner and a circuit with low standby power consumption	2014102664562	Invention	Qingdao Haier Air Conditioner General Co., Ltd. and Qingdao Haier (Jiaozhou) Air Conditioner Co., Ltd.	2017-10-13	2034-06-16
62.	An air conditioner and a circuit with low standby power consumption	201410266451X	Invention	Qingdao Haier Air Conditioner General Co., Ltd. and Qingdao Haier (Jiaozhou) Air Conditioner Co., Ltd.	2017-09-05	2034-06-16
63.	Refrigerating methods for low-temperature ambient air conditioners	2013100878416	Invention	Qingdao Haier (Jiaozhou) Air Conditioner Co., Ltd.	2015-04-01	2033-03-19
64.	Predictive control system and method for the capacity of multi-link variable frequency air conditioners	2008101470672	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2013-08-14	2028-08-14
65.	A system and method for regulating the energy of magnetic levitation compressor	2010105786402	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2014-03-12	2030-12-08
66.	Magnetic levitation multi-head central air conditioning load distribution system and methods	2010105786474	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2013-10-30	2030-12-08

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
67.	Control device of multi-connected central air conditioning system and its control method	201010576222X	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2014-04-09	2030-11-24
68.	Air conditioning wireless control method and air conditioning wireless network system	2012100494394	Invention	Qingdao Haier Air-Condition Electronic Co., Ltd. and Haier Group	2014-08-06	2032-02-29
69.	Built-in air-conditioned indoor unit	201210231858X	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2017-12-26	2032-07-05
70.	A method to automatically adjust the operation time of air conditioner as per the step tariff	2012102417814	Invention	Qingdao Haier Air-Condition Electronic Co., Ltd. and Haier Group	2017-08-22	2032-07-12
71.	A startup control method of DC variable frequency air conditioning compressor	2012104688844	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2015-09-02	2032-11-19
72.	Communication method and device of the controller of the multi-connected air-conditioning unit	2013100996554	Invention	Qingdao Haier Air-Condition Electronic Co., Ltd. and Haier Group	2015-07-29	2033-03-26
73.	An air conditioning system with refrigerant supercooling, defrosting and heating functions and its control method	2013102478136	Invention	Qingdao Haier Air-Condition Electronic Co., Ltd. and Haier Group	2016-12-28	2033-06-20
74.	A wireless networking method and device for air conditioner	2015102754949	Invention	Qingdao Haier Air-Condition Electronic Co., Ltd.	2019-07-05	2035-05-26

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
75.	A wireless networking method for air-conditioner	2013105428637	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2018-05-04	2033-11-05
76.	Intelligent regulation method of air conditioning temperature and humidity and the air conditioner	2013107195947	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2017-08-22	2033-12-23
77.	A communication method of internal and external units of wireless multi-connected air conditioner and the air conditioning system	2013107393539	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2018-05-25	2033-12-27
78.	A method for balancing multi-connection air conditioning pipeline and multi-connection air conditioning	2014100492720	Invention	Haier Group and Qingdao Haier Air-Condition Electronic Co., Ltd.	2018-08-14	2034-02-12
79.	Air supply method of air conditioner	2013100873056	Invention	Haier Group, Chongqing Haier Air Conditioner Co., Ltd. and Qingdao Haier Air Conditioner General Co., Ltd.	2015-09-02	2033-03-19
80.	A control method for air conditioner	2015101385754	Invention	Wuhan Haier Electric Appliance Co., Ltd.	2017-11-07	2035-03-27
81.	A control method for air conditioner operating in sleep mode	2015101397484	Invention	Wuhan Haier Electric Appliance Co., Ltd.	2017-07-07	2035-03-27
82.	A wall-mounted air conditioner	2015102226416	Invention	Wuhan Haier Electric Appliance Co., Ltd.	2018-07-13	2035-04-30
83.	A control method for air conditioning operation	2014102878985	Invention	Qingdao Haier Air Conditioner General Co., Ltd. and Wuhan Haier Electric Appliance Co., Ltd.	2018-03-20	2034-06-25
84.	Dry burning-resistant double-ring combustion system	2007101457616	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2011-10-26	2027-09-05

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
85.	Stoves and intelligent control methods	2011100815028	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2014-01-01	2031-04-01
86.	Concealed-type air curtain range hood	2011103278392	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2016-08-10	2031-10-25
87.	An oil groove and the related range hood	2013101568987	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2017-05-03	2033-04-28
88.	A light wave disinfection and sterilisation chamber, disinfection cabinet, oven and control method	2014102396126	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2019-05-28	2034-05-30
89.	A gas stove and its transient combustion dry burning-resistant device	201510283212X	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2019-03-12	2035-05-28
90.	A gas stove and its light-emitting device	2016109670402	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-01-24	2036-10-28
91.	A non-clean range hood	2017103440168	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-07-07	2037-05-16
92.	An integrated oven display and the integrated oven with the display	2017104330409	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2019-12-10	2037-06-09
93.	Range hood and its oil discharge structure	201711051426X	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2019-08-30	2037-11-01
94.	Range hood and its oil discharge structure	2017110514382	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2019-08-30	2037-11-01
95.	A control method for dry burning-resistant gas stove and the gas stove	2018101001531	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-07-07	2038-02-01
96.	Dry burning-resistant stoves	2018101574270	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-06-02	2038-02-24
97.	Control method for dry burning-resistant stoves	2018101575042	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-06-02	2038-02-24

No.	Name of patent	Patent number/Application number	Type of application	Patent owner	Date of grant	Duration of patent right
98.	Dry burning-resistant stoves and control methods	2018105320023	Invention	Qingdao Haier Smart Kitchen Appliances Co., Ltd.	2020-03-20	2038-05-29

(c) ***Software Copyrights***

As of the Latest Practicable Date, our Group have registered the following software copyrights which we consider to be material to our business:

No.	Registration number	Software name	Copyright owner	Date of registration
1	2015SR278752	Haier Six-Door Refrigerator Main Control Software V4.0	Haier Technology	2015-12-24
2	2015SR259003	Haier Ultra-Low Temperature Cabinet Control Display Software V1.0	Haier Technology	2015-12-14
3	2015SR263569	Haier Air-Cooled Refrigerator Main Control Software V1.0	Haier Technology	2015-12-16
4	2015SR261842	Haier Wine Cabinet Control Display Software	Haier Technology	2015-12-15
5	2015SR279914	Haier Inverter Air Conditioner Outdoor Controller Software V1.0	Haier Technology	2015-12-25
6	2015SR259040	Haier Fixed Frequency Wall-Mounted Air Conditioner Indoor Controller Software V2.0	Haier Technology	2015-12-14
7	2015SR259445	Haier Fixed Frequency Cabinet Air Conditioner Indoor Controller Software V1.0	Haier Technology	2015-12-14
8	2015SR259442	Haier Window Air Conditioner Controller Software V1.0	Haier Technology	2015-12-14
9	2015SR258987	Haier Commercial Duct Air Conditioner Indoor Controller Software V4.0	Haier Technology	2015-12-14
10	2015SR258999	Haier Inverter Wall-Mounted Air Conditioner Indoor Controller Software V1.0	Haier Technology	2015-12-14
11	2015SR261296	Haier Inverter Cabinet Air Conditioner Indoor Controller Software V1.0	Haier Technology	2015-12-15
12	2015SR259577	Haier Commercial Embedded Air Conditioner Indoor Controller Software V1.0	Haier Technology	2015-12-14
13	2015SR281061	Haier Stop-Upon-Clean Series Washing Machine Control Software V3.0	Haier Technology	2015-12-26
14	2015SR261768	Haier Dryer Main Control Software V3.0	Haier Technology	2015-12-15
15	2015SR259457	Haier TQG100 Series Drum Washing Machine Control Software V3.0	Haier Technology	2015-12-14
16	2015SR259454	Haier Double Tub Pulsator Washing Machine Control Software V3.5	Haier Technology	2015-12-14
17	2015SR282379	Haier Heating Stove Software V1.0	Haier Technology	2015-12-26
18	2015SR261788	Haier Electric Water Heater Main Control Software V2.0	Haier Technology	2015-12-15

No.	Registration number	Software name	Copyright owner	Date of registration
19	2015SR261771	Haier Dishwasher Master Control Software V1.0	Haier Technology	2015-12-15
20	2015SR259032	Haier Range Hood Screen Control Software V1.0	Haier Technology	2015-12-14
21	2015SR259446	Haier Washing Machine APP Software V3.3	Haier Technology	2015-12-14
22	2015SR259575	Haier Healthy Kitchen APP Software V2.0	Haier Technology	2015-12-14
23	2015SR259026	Haier Electric Water Heater APP Software V1.2	Haier Technology	2015-12-14
24	2015SR259019	Haier Home Air Conditioner Communication Module Software V1.0	Haier Technology	2015-12-14
25	2015SR259439	Haier General Communication Module Software V1.2	Haier Technology	2015-12-14
26	2015SR261839	Haier Data Behavior Statistics Android Version Software V2.0.05	Haier Technology	2015-12-15
27	2015SR258994	Haier Smart Home Appliances Access Control Android Version Software V3.0.01	Haier Technology	2015-12-14
28	2015SR259011	Smart Home Appliance Access Control IOS Version Software V3.0.01	Haier Technology	2015-12-14
29	2015SR259453	Smart Home Appliance Access and Control Gateway Version Software V1.0	Haier Technology	2015-12-14
30	2017SR058025	Haier Refrigerator Wifi Module Software V1.0	Haier Technology	2017-02-27
31	2017SR058467	Haier Integrated Solar Software V1.0	Haier Technology	2017-02-27
32	2017SR058702	Haier HTML5 Container Software V1.0	Haier Technology	2017-02-27
33	2017SR058474	Haier VDN Component Software V1.0	Haier Technology	2017-02-27
34	2017SR058464	Haier French Multi-Door Refrigerator Control Software V1.0	Haier Technology	2017-02-27
35	2017SR085888	Haier Base Plate Automated Test Software V1.03	Haier Technology	2017-03-21
36	2017SR267588	Haier Air-Cooled Refrigerator Main Control Software V2.1	Haier Technology	2017-06-15
37	2017SR267758	Haier Air-Cooled Refrigerator Main Control Software V2.2	Haier Technology	2017-06-15
38	2017SR267612	Haier Home Air Conditioner Communication Module Software V2.1	Haier Technology	2017-06-15
39	2017SR269074	Haier Freezer Master Control Software V1.1	Haier Technology	2017-06-15
40	2017SR267602	Haier Freezer Master Control Software V1.2	Haier Technology	2017-06-15
41	2017SR269389	Haier Freezer Master Control Software V1.3	Haier Technology	2017-06-15
42	2017SR268686	Haier Freezer Master Control Software V1.4	Haier Technology	2017-06-15
43	2017SR268678	Haier Range Hood Screen Control Board Software V1.1	Haier Technology	2017-06-15
44	2017SR269066	Haier Range Hood Screen Control Board Software V1.2	Haier Technology	2017-06-15

No.	Registration number	Software name	Copyright owner	Date of registration
45	2017SR269399	Haier Range Hood Screen Control Board Software V1.3	Haier Technology	2017-06-15
46	2017SR269412	Haier Commercial Air Conditioning Indoor Controller Software V1.1	Haier Technology	2017-06-15
47	2017SR269404	Haier Commercial Air Conditioning Indoor Controller Software V1.2	Haier Technology	2017-06-15
48	2017SR269427	Haier Commercial Air Conditioning Indoor Controller Software V1.3	Haier Technology	2017-06-15
49	2017SR164701	Haier Network Appliance Control Software V2.0	Haier Technology	2017-05-08
50	2017SR045826	Haier Module Business Resource Platform V1.0	Qingdao Haidayuan	2017-02-16
51	2017SR101300	Haier Wall-Mounted Air Conditioner Controller Software V1.0	Hefei Air Conditioner	2017-04-01
52	2017SR100139	Haier Cabinet Air Conditioner Controller Software V1.0	Hefei Air Conditioner	2017-04-01
53	2018SR384675	Multi-Online Unit Control Software of Qingdao Haier Air-Conditioner Electronics Co., Ltd. V12.0	Haier Air-Conditioner Electronics	2018-05-25
54	2015SR000580	Multi-Online Control Software of Qingdao Haier Air-Conditioner Electronics Co., Ltd. V5.3	Haier Air-Conditioner Electronics	2015-01-04

(d) ***Domain Name***

As of the Latest Practicable Date, our Group has registered the following domain names which we consider to be or may be material to our business:

No.	Domain name	Acquisition mode	Date of registration	Expiry date	Owner
1	haierac.cn	Registration	2005-10-31	2024-10-31	Haier Air-Conditioner Electronics
2	coldol.com	Registration	2014-04-24	2022-04-24	Haier Special Refrigerator
3	jiuzhidao.com	Registration	2011-12-02	2023-12-02	Haier Special Refrigerator
4	beaconke.com	Registration	2015-08-06	2021-08-06	Haier Special Refrigerator
5	haieruplus.com	Registration	2015-08-26	2020-08-26	Haier Technology
6	haieruplus.com.cn	Registration	2017-05-10	2021-05-10	Haier Technology
7	haieruplus.net	Registration	2017-05-10	2021-05-10	Haier Technology
8	haigeek.com	Registration	2014-06-19	2021-06-19	Haier Technology
9	uhome.app	Registration	2018-05-05	2021-05-05	Haier Technology
10	uhomedata.app	Registration	2018-05-08	2021-05-08	Haier Technology
11	uhomeos.app	Registration	2018-05-10	2021-05-10	Haier Technology
12	uplus.app	Registration	2018-05-05	2021-05-05	Haier Technology
13	youjia.app	Registration	2018-05-04	2021-05-04	Haier Technology
14	uhome.haier.cn	Registration	2017-05-27	2021-05-27	Haier Technology
15	uhome.haier.com	Registration	2017-05-27	2021-05-27	Haier Technology
16	uhome.haier.net	Registration	2017-05-27	2021-05-27	Haier Technology
17	haiertech.com	Registration	2011-10-08	2020-10-31	Haier Technology
18	haiersmarthomes.com	Registration	2020-05-06	2021-05-06	Haier Technology
19	hf-haier-ac.net.cn	Registration	2017-11-12	2022-11-12	Hefei Air Conditioner

No.	Domain name	Acquisition mode	Date of registration	Expiry date	Owner
20	zhiqubox.com	Registration	2018-04-18	2021-04-18	Haier Special Refrigerator
21	zhiqubox.cn	Registration	2018-04-18	2021-04-18	Haier Special Refrigerator
22	zhitigui.net	Registration	2018-01-02	2022-01-02	Haier Special Refrigerator
23	zhitigui.cn	Registration	2018-01-02	2022-01-02	Haier Special Refrigerator
24	zhiquhezi.com	Registration	2018-12-11	2021-12-11	Haier Special Refrigerator
25	zhiquhezi.cn	Registration	2018-12-11	2021-12-11	Haier Special Refrigerator
26	dongyinshangcheng.cn	Registration	2018-12-29	2022-12-29	Haier Special Refrigerator
27	haiercool.com	Registration	2014-05-18	2021-05-19	Haier Special Refrigerator
28	uhaiqu.com	Registration	2018-04-28	2023-04-28	Qingdao Water Heater
29	uhaiqu.cn	Registration	2018-04-28	2023-04-28	Qingdao Water Heater
30	uhaiqu.com.cn	Registration	2018-04-28	2023-04-28	Qingdao Water Heater
31	goday.com.cn	Registration	2010-07-30	2021-07-30	Chongqing Goodaymart
32	goodday.net.cn	Registration	2010-07-30	2021-07-30	Chongqing Goodaymart
33	gooddaymart.cn	Registration	2010-07-30	2021-07-30	Chongqing Goodaymart
34	gooddaymart.com.cn	Registration	2010-07-30	2021-07-30	Chongqing Goodaymart
35	gooddaymart.cn	Registration	2009-02-19	2021-02-19	Chongqing Goodaymart
36	gooddaymart.org	Registration	2009-02-19	2021-02-19	Chongqing Goodaymart
37	goday.org	Registration	2012-10-29	2020-10-29	Chongqing Goodaymart
38	goodday.org	Registration	2012-10-29	2020-10-29	Chongqing Goodaymart
39	gooddaymart.org	Registration	2012-10-29	2020-10-29	Chongqing Goodaymart
40	gooddaymart.com	Registration	2009-02-19	2021-08-21	Chongqing Goodaymart
41	gooddaymart.net	Registration	2009-02-19	2021-08-21	Chongqing Goodaymart
42	rrsmll.com	Registration	2012-11-23	2020-11-23	Chongqing Goodaymart
43	ririshun.net	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
44	gooday.com	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
45	ririshun.com	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
46	goodaymart.com	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
47	gooday.net	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
48	goodaymart.net	Registration	2014-08-20	2021-08-20	Chongqing Goodaymart
49	jshcash.com	Registration	2018-04-04	2024-04-04	Chongqing Goodaymart
50	h-scf.com	Registration	2019-06-28	2022-06-28	Chongqing Goodaymart
51	eplusplatform.com	Registration	2018-06-12	2023-06-12	Haier Air-Conditioner Electronics

3. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

A. Directors and Supervisors

(a) ***Disclosure of Interest***

Immediately following completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), the interests and short positions of each of our Directors, Supervisors and General Manager in Shares, underlying shares and debentures or our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors) will be as follows:

(i) Interest in our Company

Name	Position	Class of Shares to be held after the Introduction and the Privatisation	Number of Shares to be held after the Introduction and the Privatisation	Nature of interest	Approximate percentage of shareholding interests immediately prior to the Introduction and the Privatisation	Approximate percentage of shareholding interests immediately following completion of the Introduction and the Privatisation
Mr. LIANG Haishan (梁海山)	Chairman of the Board and executive Director	A Shares	14,923,047	Beneficial owner	0.2268%	0.1653%
Ms. TAN Lixia (譚麗霞)	Vice Chairwoman of the Board and	A Shares	8,535,920	Beneficial owner	0.1297%	0.0946%
	Non-executive Director	H Shares	368,851	Beneficial owner	N/A	0.0041%
Mr. LI Huagang (李華剛)	Executive Director and	A Shares	694,607	Beneficial owner	0.0106%	0.0077%
	General Manager	H Shares	812,145	Beneficial owner	N/A	0.0090%
Mr. WANG Peihua (王培華)	Chairman of the Board of Supervisors	A Shares	161,067	Beneficial owner	0.0024%	0.0018%
Mr. MING Guoqing (明國慶)	Supervisor	A Shares	105,511	Beneficial owner	0.0016%	0.0012%

(ii) Interest in our Associated Corporations

Name	Position in our Group	Name of Associated Corporations	Percentage Shareholding in our Associated Corporations
Mr. LIANG Haishan (梁海山)	Chairman of the Board and executive Director	Haier Electrical Appliances (Thailand) Company Limited	0.000008%
		P.T. Haier Electrical Appliances Indonesia	0.00002%
		P.T. Haier Sales Indonesia	0.0088%
		Haier Pakistan (Private) Limited	0.0167%
		HNR Company (Private) Limited	0.0002%
		Haier Russia Trading Company LLC	0.1%

Name	Position in our Group	Name of Associated Corporations	Percentage Shareholding in our Associated Corporations
Ms. TAN Lixia (譚麗霞)	Vice Chairwoman of the Board and Non-executive Director	Qingdao Haier Biomedical Co., Ltd. (青島海爾生物醫療股份有限公司)	1.6971%
		Haier Electrical Appliances (Thailand) Company Limited	0.000008%

(b) ***Particulars of Service Contracts***

Each of the Directors has entered into a service contract with our Company on 30 July 2020. The principal particulars of these service agreements are (a) for a term of three years commencing from the Listing Date; and (b) are subject to termination in accordance with the irrespective terms. The service agreements may be renewed in accordance with the Articles of Association of the Company and the applicable laws, rules or regulations.

Each of the Directors and Supervisors has entered into a contract pursuant to Rule 19A.54 and Rule 19A.55 of the Listing Rules with our Company which provides for, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with our Company.

Save as disclosed above, none of the Directors or Supervisors of our Company has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

(c) ***Directors' and Supervisors' Remuneration***

For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by our Company to the Directors were approximately RMB18.2 million, RMB40.6 million, RMB44.9 million and RMB2.4 million, respectively. For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by our Company to the Supervisors were approximately RMB0.7 million, RMB1.4 million, RMB1.4 million and RMB0.1 million, respectively. Save as disclosed under Note 14 to the Accountant's Report set out in Appendix I to this document, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

Under the current arrangements, the Directors and Supervisors of our Company will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending 31 December 2020, which is expected to amount to approximately RMB46.4 million in total.

B. Substantial Shareholders

(a) ***Interest in the Shares of our Company***

So far as our Directors are aware, immediately following the completion of the Introduction and the Privatisation (assuming all HSH Exchangeable Bonds have been converted into HSH Convertible Bonds pursuant to the EB-to-CB Proposal, and no shares have been issued pursuant to the conversion of the HSH Convertible Bonds into new H Shares of our Company), the following persons will have an interest or a short position in our Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Class of Shares to be held	Number of Shares	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in the total share capital of the Company
Haier Group *Notes 1 to 4*	A Share	2,576,559,148	Beneficial owner Interest in controlled corporation Interest through voting rights entrustment arrangement	40.84%	28.54%
	H Share	538,560,000	Interest in controlled corporation	22.00%	5.97%
	D Share	57,142,857	Interest in controlled corporation	21.08%	0.63%
Haier International Appliances *Notes 1 and 2*	A Share	1,258,684,824	Beneficial owner	19.95%	13.94%
HCH (HK) *Note 3*	H Share	538,560,000	Beneficial owner	22.00%	5.97%
Haier International Co., Limited *Note 4*	D Share	57,142,857	Beneficial owner	21.08%	0.63%
Other D class Shareholders *Note 5*					

Notes:

1. *As of the Latest Practicable Date, Haier Group holds directly 1,072,610,764 A Shares. In addition, Haier Group indirectly owns or controls (i) 1,258,684,824 A Shares through Haier International Appliances, one of its subsidiaries, (ii) 172,252,560 A Shares through Qingdao Haier Venture & Investment Information Co., Ltd., one of its subsidiaries and (iii) 73,011,000 A Shares through Qingdao Haichuangzhi Management Consulting Enterprise (Limited Partnership), a party acting in concert with Haier Group.*

2. *As of the Latest Practicable Date, Haier Group holds 51.20% of the issued shares in Haier International Appliances, and is also entitled to exercise the remaining 48.80% voting rights in Haier International Appliances through an irrevocable voting rights entrustment arrangement..*

3. *Upon completion of the Introduction and the Privatisation, HCH (HK) will hold 538,560,000 H Shares, representing approximately 5.97% of the Company's voting rights. As of the Latest Practicable Date, Haier Group controls 100% voting rights in HCH (HK), thus is deemed to be interested in the 538,560,000 H Shares held by HCH (HK).*

4. *Haier International Co., Limited is a wholly-owned subsidiary of Haier Group. Therefore, Haier Group is deemed to be interested in the 57,142,857 D Shares (representing approximately 0.63% of the Company's voting rights) held by Haier International Co., Limited.*

5. *To the best knowledge of our Company after due and reasonable inquiry, as of the Latest Practicable Date, Silk Road Fund Co., Ltd. holds 55,000,000 D Shares, representing approximately 20.29% of the total number of D Shares; Industrial and Commercial Bank of*

China - Financial Planning Agent will hold 26,390,504 D Shares, representing approximately 9.74% of the total number of D Shares; China Investment Corporation holds 24,000,000 D Shares, representing approximately 8.86% of the total number of D Shares; Shougang Holding Trade (Hong Kong) Limited will hold 23,800,000 D Shares, representing approximately 8.78% of the total number of D Shares; Rechi Precision Co. Ltd. will hold 19,047,619 D Shares, representing approximately 7.03% of the total number of D Shares.

(b) ***Interest in our Company's Subsidiaries***

So far as the Directors are aware, apart from our Company, immediately following completion of the Introduction (and assuming the Over-allotment Option is not exercised), the following persons (other than the Directors or chief executive of the Company) will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group (excluding our Group):

Member of our Group	Person with 10% or more interest	Approximate percentage of the interest in the member of our Group
Dalian Haier Precision Products Co., Ltd. (大連海爾精密製品有限公司)	Qingdao Haier Special Plastics Research and Development Co., Ltd. (青島海爾特種塑料研製開發有限公司)	10%
Dalian Free Trade Zone Haier Refrigerator Trading Co., Ltd. (大連保税區海爾電冰箱貿易有限公司)	Haier Group	10%
Dalian Haier Air Conditioner Co., Ltd. (大連海爾空調器有限公司)	Haier Group	10%
Dalian Haier Refrigerator Co., Ltd. (大連海爾電冰箱有限公司)	Haier Group	10%
Wuhan Haier Electric Freezer Co., Ltd. (武漢海爾電冰櫃有限公司)	Haier Group	12.71%
Qingdao Haier (Jiaozhou) Air Conditioner Co., Ltd. (青島海爾(膠州) 空調器有限公司)	CDB Development Fund Co., Ltd. (國開發展基金有限公司)	16.00%
Hefei Haier Plastic Co., Ltd. (合肥海爾塑膠有限公司)	Haier Group	17.81%
Qingdao Haier Electronic Plastic Co., Ltd. (青島海爾電子塑膠有限公司)	Haier Group	20.00%
Qingdao Jijiayun Intelligent Technology Co., Ltd. (青島極家雲智慧科技有限公司)	Qingdao Haichuang Jijia Information Technology Partnership (Limited Partnership) (青島海創極家信息科技合夥企業) (有限合夥)	20.00%
Qingdao Haigao Design & Manufacturing Co., Ltd. (青島海高設計製造有限公司)	Japan GK Design Co., Ltd. (日本株式會社GK設計機構)	25.00%
Shanghai Haier Medical Technology Co., Ltd. (上海海爾醫療科技有限公司)	Shiji Changhe Technology Group Co., Ltd. (世紀長河科技集團有限公司)	10%
Qingdao Yunshangyuyi IoT Technology Co., Ltd. (青島雲裳羽衣物聯科技有限公司)	Qingdao Yunshang IoT Zhong Chuang Enterprise Management Center (Limited Partnership) 青島雲裳物聯眾創企業管理中心 (有限合夥)	30%

Member of our Group	Person with 10% or more interest	Approximate percentage of the interest in the member of our Group
Haiyu (Shanghai) Intelligent Technology Co., Ltd. (海寓(上海) 智能科技有限公司)	Qingdao Ruoyu Venture Capital Center (Limited Partnership) 青島若寓創業投資中心 (有限合夥)	30%
Guangdong Heilong Intelligent Technology Co., Ltd. (廣東黑龍智能科技有限公司)	Tianjin Haichuangke Enterprise Management Consulting Partnership (Limited Partnership) (天津海創客企業管理諮詢合夥企業) (有限合夥)	15.00%
	Shanxi Heilong Technology Co., Ltd. (山西黑龍科技有限公司)	10.26%
Qingdao Weixi Intelligent Technology Co., Ltd. (青島衛璽智能科技有限公司)	Qingdao Pinwei Intelligent Technology Partnership (Limited Partnership) (青島品衛智能科技合夥企業)（有限合夥）	11.42%
Qingdao Haier Saifu Smart Family Venture Capital Center (青島海爾賽富智慧家庭創業投資中心)	Technology Innovation Fund Management Center of the Ministry of Science and Technology for Small and medium-sized Technology Enterprises (科技部科技型中小企業技術創新基金管理中心)	25.00%
Shanghai Youyue Information Technology Co., Ltd. (上海優悦信息科技有限公司)	Shanghai Green Union Software Co., Ltd. (上海綠聯軟件股份有限公司)	30%
Wuhan Haier Electric Co., Ltd. (武漢海爾電器股份有限公司)	Wuhan Commerce Group Co., Ltd. (武漢商貿集團有限公司)	27.88%
Guizhou Haier Electric Co., Ltd. (貴州海爾電器有限公司)	Guizhou Aerospace Fenghua Precision Equipment Co., Ltd. (貴州航天風華精密設備有限公司)	41.00%
Beijing Lingwei Technology Co., Ltd. (北京零微科技有限公司)	YU Shuquan (於書權)	41.00%
Beijing Lingli Technology Co., Ltd. (北京零立科技有限公司)	Beijing Zhongquan Enterprise Management Co., Ltd. (北京中權企業管理有限公司)	45.00%
Beijing Haier Guangke Digital Technology Co., Ltd. (北京海爾廣科數字技術有限公司)	Academy of Broadcasting Science of NRTA (國家廣播電視總局廣播電視科學研究院)	45.00%
Wuhan Haier Energy Power Co., Ltd. (武漢海爾能源動力有限公司)	Qingdao Haier Energy Power Co., Ltd. (青島海爾能源動力有限公司)	25.00%
Qingdao Hairui Clean Electronics Co., Ltd. (青島海瑞潔淨電子有限公司)	Qingdao Feizhou Information Management Co., Ltd. (青島飛舟信息管理有限公司)	39.00%
	GAO Jingliang (高景良)	10.00%
Beijing Yishu Technology Co., Ltd. (北京一數科技有限公司)	Beijing Chucheng Investment Management Co., Ltd. (北京初成投資管理有限公司)	12.20%
Konan Electrics Co., Ltd.	Hanil Electric Co., Ltd.	15.50%
	Konan Seiko Co., Ltd.	34.50%
Haier Pakistan (Private) Limited	Shah Khalid	22.50%
	MJAVED AFRIDI	22.50%

Member of our Group	Person with 10% or more interest	Approximate percentage of the interest in the member of our Group
Middle East Air Conditioning Co., LTD	Zamil Industrial Investment Company	51%
Haier and AlJabr Saudi Electronics Trading Company	Al Jabr Home Appliances CO	49%
HOOVER LIMITED	Pension Protection Fund	33%
Foshan Shunde Haier Electric Co., Ltd. (佛山市順德海爾電器有限公司)	Foshan Shunde Rongtu Investment Holdings Co., Ltd. (佛山市順德區容圖投資控股有限公司)	40%
Qingdao Shuilian Ecological Technology Co., Ltd. (青島水聯生態科技有限公司)	Qingdao Shuizhidao Consulting Service Co., Ltd. (青島水之道諮詢服務有限公司)	20%
Qingdao Haishi Water Equipment Co., Ltd. (青島海施水設備有限公司)	Strauss Water LTD.	49%
Qingdao Haier Lehuo Water Purification Technology Co., Ltd. (青島海爾樂活淨水科技有限公司)	Qingdao Hairunxin Management Consulting Enterprise (Limited Partnership) (青島海潤鑫管理諮詢企業) (有限合夥)	10%
Qingdao Ririshun Lejia IoT Technology Co., Ltd. (青島日日順樂家物聯科技有限公司)	Qingdao Lejia Station Logistics Co., Ltd. (青島樂家驛站物流有限公司)	13.73%
Qingdao Hailejia IoT Technology Co., Ltd. (青島海樂家物聯科技有限公司)	Qingdao Radio and Television Feishi Media Co., Ltd. (青島廣電飛視傳媒有限公司)	30%
	Qingdao Zhisheng Ruihe Internet Technology Enterprise (Limited Partnership) (青島至勝瑞合互聯網科技企業)（有限合夥）	14%
Chongqing Ririshun Lejia HVAC Equipment Co., Ltd. (重慶日日順樂家暖通設備有限公司)	Sichuan Huahai HVAC Equipment Co., Ltd. (四川華海暖通設備有限公司)	49%
Ririshun Lejia HVAC Technology (Shanghai) Co., Ltd. (日日順樂家暖通科技（上海）有限公司)	Shanghai Ronggang Industrial Co., Ltd. (上海榮港實業有限公司)	49%
Shenyang Ririshun Lexiangjia IoT Technology Co., Ltd. (瀋陽日日順樂享家物聯科技有限公司)	JIANG Chengling (蔣成玲)	48.80%
Qingdao Ririshun Lexin Cloud Technology Co., Ltd. (青島日日順樂信雲科技有限公司)	Pingdu City Construction Investment Development Co., Ltd. (平度市城市建設投資開發有限公司)	20.45%
Yantai Ririshun Electric Co., Ltd. (煙台日日順電器有限公司)	Yantai Runhong Industry and Trade Co., Ltd. (煙台潤弘工貿有限公司)	19.00%
Hefei Ririshun Electric Co., Ltd. (合肥日日順電器有限公司)	Hefei Xinbiaobing Electrical Appliance Co., Ltd. (合肥新標炳電器有限公司)	49.00%
Jiangsu Subei Ririshun Electric Co., Ltd. (江蘇蘇北日日順電器有限公司)	Huaian Renzhi Enterprise Management Service Co., Ltd. (淮安仁智企業管理服務有限公司)	49.00%
Shanxi Ririshun Electric Co., Ltd. (山西日日順電器有限公司)	Taiyuan Shengshidadi Trading Co., Ltd. (太原市盛世大地商貿有限公司)	49.00%

Member of our Group	Person with 10% or more interest	Approximate percentage of the interest in the member of our Group
Wuhan Ririshun Electric Co., Ltd. (武漢日日順電器有限公司)	Wuhan Hailong Electric Co., Ltd. (武漢海龍電器有限公司)	49.00%
Fujian Ririshun Electric Co., Ltd. (福建日日順電器有限公司)	Rongda Logistics (Fujian) Co., Ltd. (融達物流（福建）有限公司)	28.98%
Wenzhou Ririshun Electric Co., Ltd. (溫州日日順電器有限公司)	Wenzhou Wanhao HVAC Equipment Engineering Co., Ltd. (溫州萬豪暖通設備工程有限公司)	49.00%
Wodi Home Design Consulting (Shanghai) Co., Ltd. (沃棣家居設計諮詢（上海）有限公司)	Yihua Life Technology Co., Ltd. (宜華生活科技股份有限公司)	25%
GREENoneTEC Solarindustrie GmbH	RK Projektentwicklungs- & Beteiligungs GmbH	49.00%

C. Personal Guarantees

Save as disclosed in this document, as of the Latest Practicable Date, our Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

D. Related Party Transactions

During the two years preceding the date of this document, we have engaged in the material related party transactions as described in Note 14 — Related Party Transactions to the Accountant's Report set out in Appendix I to this document.

E. Disclaimers

Save as disclosed in this document:

(a) none of the Directors, Supervisors or chief executive of our Company has any interests and short positions in our Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or is deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once the H Shares of our Company are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;

(b) none of the Directors or Supervisors nor any of the parties listed in the paragraph headed "— Qualification of Experts" of this Appendix is interested in our Company's promotion, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to our Company, or are proposed to be acquired or disposed of by or leased to our Company;

(c) none of the Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange; save as disclosed in this document, none of the Directors or Supervisors of our Company nor any of the parties listed in paragraph headed "Qualification of Experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;

(d) none of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix: (i) is interested legally or beneficially in any of the Shares of our Company or any shares in any of its subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities of our Company; and

(e) none of the Directors or Supervisors or the respective close associates or any Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

4. SHARE AWARD SCHEMES

A. Summary

The following is a summary of the principal terms of the two existing share award schemes of our Company as approved by the Board on 28 April 2016 (the "**2016 Share Award Scheme**"), 27 February 2017 (the "**2017 Share Award Scheme**"), 24 April 2018 (the "**2018 Share Award Scheme**") and 29 April 2019 (the "**2019 Share Award Scheme**", together with the 2016 Share Award Scheme, 2017 Share Award Scheme and 2018 Share Award Scheme, the "**Share Award Schemes**"), respectively. The awards granted or to be granted under the Share Award Schemes (the "**Share Awards**") form part of the remuneration packages for the employees of our Company. The terms of the Share Award Schemes are similar to each other, and the Share Award Schemes have been operating in accordance with their terms.

The terms of the Share Award Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as the Share Award Schemes will not involve the grant of options by us to subscribe for our Shares.

B. Purposes and Objectives

The purposes of the Share Award Schemes are as follows:

(a) to incentivise our employees by rewarding them with opportunities to obtain ownership interest in our Company for its continual development;

(b) to promote the competitive environment within our Company;

(c) to enhance the remuneration policies for our employees and recognise their contributions to our Company; and

(d) to attract suitable and high calibre personnel for our long-term and short-term development.

C. Who may join

Selected Participants are selected in accordance with the relevant laws, regulations, rules and requirements of the Company Law of the PRC, Securities Law of the PRC, Guidelines on the Pilot Programme of Employee Stock Ownership Plans of Listed Companies (《關於上市公司實施員工持股計劃試點的指導意見》) and the relevant provisions of the Articles of Association.

Participants selected to join the Share Award Schemes (the "**Selected Participants**") are core key personnel who have an important role in our overall performance and mid- and long-term development, consisting of the Directors (excluding Independent Non-executive Directors), Supervisors, senior management and our employees.

The selection of the Selected Participants shall go through the following procedures:

(a) the Independent Non-executive Directors and the Board of Supervisors of our Company shall each review the proposal for the grant of Share Awards (the "**Share Award Proposal**") prepared by the Remuneration and Assessment Committee under the Board and formulate their opinions on:

  (i) whether the Share Award Proposal is beneficial to the continuing development of our Company,

  (ii) whether the Share Award Proposal is detrimental to the interests of our Company and the Shareholders, and

  (iii) whether our Company has forced the employees to participate in the Share Award Schemes in consideration for our Company to reduce the cash portion of the salary to the employees in their remuneration package;

(b) the Board shall approve the key terms of the Share Award Proposal, and published the Share Award Proposal immediately thereafter;

(c) our Company shall then convene the employee congress and solicit employees' views on the Share Award Proposal;

(d) our Company shall engage PRC lawyers to opine on the legality of the Share Award Proposal.

Under the Share Award Schemes other than the 2016 Share Award Scheme, the Board has authorised the Share Award Management Committee (as defined below) to independently determine and adjust the list of Selected Participants and the allocation of Shares under the Share Award Schemes based on employee changes and assessment results.

Details of Share Award Schemes, including the Selected Participants of the 2018 Share Award Scheme and the 2019 Share Award Scheme who are Directors, Supervisors, senior management and/or connected persons of our Group are set out in the table in "— 4. SHARE AWARD SCHEMES — J. Details of the Share Awards under the Share Award Schemes" below.

D. Source of Funding and Shares

The Share Award Schemes are funded by the internal incentive funds established by our Company, including RMB247.9 million for the 2016 Share Award Scheme, RMB266.1 million for the 2017 Share Award Scheme, RMB271.3 million for the 2018 Share Award Scheme and RMB273 million for the 2019 Share Award Scheme. The Shares under the Share Award Schemes shall be purchased from secondary markets. The Share Award Schemes are also entitled to subscribe the Shares to be issued under non-public issuance or placings of the Company from time to time on a fair basis.

E. Duration, Lock-up and Termination

(I) Duration

The duration of each Share Award Scheme shall not exceed 60 months for the 2016 Share Award Scheme and 2017 Share Award Scheme and 36 months for the 2018 Share Award Scheme and 2019 Share Award Scheme (the "**Duration**"), commencing from the time when our Company announces the registration of the underlying Shares to the Share Award Schemes. Upon expiry of the Duration, the Share Award Schemes shall be terminated, subject to any extension as may be approved by the Board.

The expiry dates of the 2016 Share Award Scheme, the 2017 Share Award Scheme, the 2018 Share Award Scheme and the 2019 Share Award Scheme are 29 November 2021, 28 March 2022, 22 May 2021 and 16 July 2022, respectively, subject to any extension as may be approved by the Board.

(II) Lock-up Period

The underlying Shares, after acquired from the secondary market or through rights issue, shall be subject to a lock-up period (the "**Lock-up Period**") for 12 months commencing from the time when our Company announces the registration of the last portion of acquired Shares according to the Share Award Schemes.

(III) Termination

(a) each of the Share Award Schemes shall terminate automatically upon expiry of their respective Duration, subject to any extension as may be approved by the Board;

(b) each of the Share Award Schemes may terminate if, after expiry of their respective Lock-up Period, all assets under such Share Award Scheme are converted into monetary funds;

(c) each of the Share Award Schemes shall terminate when all underlying Shares held under such Share Award Scheme are sold and the assets thereof are liquidated and allocated in accordance with the terms of such Share Award Scheme, and upon approval by the Share Award Management Committee (as defined below) and reporting to the Board; and

(d) The Share Award Schemes shall terminate if the Board so decides due to serious operational difficulties or other major issues faced by our Company.

F. Administration

A management committee (the "**Share Award Management Committee**") comprising five members shall be established to supervise and administer the Share Award Schemes, which is be elected by a congress of the Selected Participants. Details regarding the administration of the Share Award Schemes and the roles of relevant parties are set out below:

(I) Congress of Selected Participants

(a) The following matters shall be considered by convening a congress of Selected Participants:

(i) Election, removal, and replacement of members of the Share Award Management Committee;

(ii) Review of major substantive adjustments to the Share Award Schemes;

(iii) Exercise of other power granted to the congress of Selected Participants in accordance with laws or regulations or as prescribed by the CSRC;

(b) Congresses of the Selected Participants are convened by the Share Award Management Committee and chaired by the chairman of the Share Award Management Committee. Where the chairman of the Share Award Management Committee is not available to carry out his/her duties, he/she shall appoint another member of the Share Award Management Committee to chair the congress;

(c) To convene a congress of Selected Participants, the Share Award Management Committee shall serve a written notice to all Selected Participants by hand, post, fax, e-mail or other means three days in advance.

(d) Voting procedures at the congress of Selected Participants are as follows:

(i) each Selected Participant enjoys one vote;

(ii) congresses can be convened in the form of on-site meetings and other means of communication;

(iii) resolutions shall be passed by the Selected Participants (or their proxies) holding more than half of the effective voting rights present at the congress; and

(e) The resolutions of the congress of Selected Participants will be submitted to the Board and Shareholders' meetings for consideration if so required by the Articles of Association.

(II) Share Award Management Committee

Members of the Share Award Management Committee shall be elected by the congress of Selected Participants, where each Selected Participant has one vote on the appointment. Where there are changes to the composition of the Share Award Management Committee, new members shall be elected by the congress of Selected Participants. A chairman shall be elected among the members of the Share Award Management Committee by a simple majority vote within the Share Award Management Committee.

The Share Award Management Committee performs the following duties:

(a) convening congresses of the Selected Participants;

(b) supervising the daily management of Share Award Schemes on behalf of all Selected Participants;

(c) exercising Shareholders' rights on behalf of all Selected Participants or authorising the Asset Manager (as defined below) to exercise such rights;

(d) reviewing, determining and adjusting the qualifications, scope and quota of the Selected Participants based on the Share Award Schemes;

(e) formulating and revising the administrative measures for the Share Award Schemes;

(f) determining the rights and interests (proportion) of the Selected Participants based on the assessment results;

(g) determining the financing method and capital of the Share Award Schemes and other matters relating to the financing of the Share Award Schemes;

(h) deciding on the allocation of assets under the Share Award Schemes; and

(i) other powers and duties authorised by the congress of Selected Participants.

The chairman of the Share Award Management Committee performs the following duties:

(a) chairing and convening congresses of the Selected Participants and chairing meetings of the Share Award Management Committee;

(b) supervising and monitoring the implementation of resolutions passed by the congress of Selected Participants and the Share Award Management Committee; and

(c) other powers and duties authorised by the Share Award Management Committee.

Meetings of the Share Award Management Committee may be convened on an as-needed basis, as called by the chairman of the Share Award Management Committee. A notice of the meeting shall be served to all members of the Share Award Management Committee by mail, telephone, fax and other means two days before the meeting.

Meetings of the Share Award Management Committee shall be held only if more than half of the members are present. Each member enjoys one vote to the resolutions, and resolutions shall be passed by members (or their proxies) holding more than half of the effective voting rights present at the meetings.

Members of the Share Award Management Committee shall attend the meetings in person. If any member of the Share Award Management Committee is unavailable to attend for some reason, they may entrust in writing other members as proxies to attend on his/her behalf.

(III) Management and administration

The Share Award Schemes shall be entrusted to third-party management, and the specific management organisation (the "**Asset Manager**") shall be selected by the Share Award Management Committee. The Asset Manager must meet the requirements of laws and regulations on asset management qualifications, establish specific asset management plans for the Share Award Schemes, and acquire and hold Shares of our Company as permitted by laws and regulations.

The key terms of administration of the Share Award Schemes are set out below:

(a) The Share Award Management Committee shall oversee the daily management of the Share Award Schemes and exercise Shareholders' rights on behalf of the Selected Participants or authorises the Asset Manager to exercise such rights.

(b) The asset composition of the Share Award Schemes shall be as follows:

   (i) Shares of our Company;

   (ii) Cash deposits and accrued interest; and

   (iii) Other assets not vested with ascertained targets due to various reasons such as employee turnover, failure of Selected Participants to meet assessment standards, etc.

   Assets under the each Share Award Scheme are independent of each other and independent of the assets of our Company and the Asset Manager. Our Company, the Asset Manager and our creditors shall have no right to freeze, seize and pledge or impose other disposals on the assets under the Share Award Schemes.

(c) Disposal of assets under the Share Award Schemes

   (i) Unless otherwise stipulated by laws, regulations, rules and management rules, or approved by the congress of Selected Participants, the Shares Awards under the Share Award Schemes granted to the Selected Participants shall not be transferred, pledged, or otherwise disposed of by similar means. Selected Participants may not request a distribution of the assets under the Share Award Schemes;

   (ii) Prior to the expiration of the Durations and after the expiration of the respective Lock-up Periods, the Asset Manager shall sell the underlying Shares under the Share Award Schemes or determine the vesting of the relevant Shares in accordance with the written authorisation of the Share Award Management Committee;

   (iii) Upon expiry of the respective Lock-up Periods, if all assets under the Share Award Schemes are converted into monetary funds, the Share Award Management Committee shall decide whether to allocate the assets. If so decided, the Share Award Management Committee shall authorise the Asset Manager to allocate the assets in accordance with the number of Share Awards held by the Selected Participants. If all subject Shares held under the Share Award Schemes are sold and the assets under the Share Award Schemes are liquidated and allocated in accordance with the provisions of the preceding paragraph, the Share Award Schemes shall be terminated upon the approval of the Share Award Management Committee and it shall be reported to the Board for record;

(iv) if the Durations expire and are not extended, the Share Award Management Committee or the Asset Manager as authorised by the Share Award Management Committee shall liquidate the assets under the Share Award Schemes and distribute the cash or Shares in accordance with the number of Share Awards held by the Selected Participant.

Under the Share Awards Schemes and according to the asset management agreements, the Asset Manager shall have the following roles and responsibilities:

(a) to manage assets under the Share Award Schemes;

(b) with the authorisation of the principal, to exercise part of Shareholders' rights on behalf of Selected Participants ;

(c) the Asset Manager, upon the application by the Share Award Management Committee, is responsible for procuring the vesting pursuant to the Share Award Schemes; and

(d) under and subject to the terms of the Share Award Schemes, the Asset Manager can independently manage and utilise the assets held under the Share Award Schemes.

In relation to the acquisition of Shares of our Company pursuant to the Share Award Schemes, the Asset Manager shall have the full discretion to acquire Shares of our Company, subject to the restrictions as set out in the terms of the Share Award Schemes. In particular, the total number of Shares held under the existing share award schemes of our Company adopted from time to time shall not, in aggregate, exceed 10% of total issued share capital of our Company, and the total number of Shares that may be obtained by any single Selected Participant under share award schemes of our Company adopted from time to time shall not, in aggregate, exceed 1% of the total issued share capital of our Company from time to time;

The Asset Manager shall also consult the Board Secretary of our Company on whether Shares are in the trading sensitive period before it purchases or sells any Shares.

A trustee bank has been appointed to assist with the administration of the Share Award Schemes (the "**Trustee**"). The Trustee holds the Shares underlying the Share Awards pursuant to the Share Award Schemes on trust for the grantees through its wholly-owned Share Award holding entities.

G. Vesting

Upon expiry of the respective Lock-up periods and within the respective Durations, on condition that the Vesting Conditions (as defined below) are satisfied, the Share Award Management Committee shall apply to perform any one of the followings:

(a) our Company, on behalf of the Share Award Management Committee, to apply to the Asset Manager, the SSE and the registration and settlement company to vest the Shares of our Company to the individual accounts of the Selected Participants;

(b) to procure the Asset Manager to sell Shares of our Company acquired pursuant to the Share Award Schemes and advance the proceeds to the Selected Participants; or

(c) to procure the Asset Manager to continue to hold the Shares of our Company on behalf of the Selected Participants.

The Share Awards granted under the Share Award Schemes shall be generally subject to a two-year period (the "**Vesting Period**") to assess the fulfilment of the vesting conditions (the "**Vesting Conditions**"). The Vesting Conditions were specifically designed by the Board for each tranche of the Share Awards granted to a particular Selected Participant. All Vesting Conditions contain in general objective criteria, for example, with reference to certain objective key performance indicators, such as growth rate of net profits of our Company. Within the respective Durations, the Share Award Management Committee are entitled to prolong or shorten the assessment period and adjust the proportions of Share Awards to vest with certain Selected Participants under the Share Award Schemes.

For each of the Share Award Schemes, upon expiry of the respective Lock-up Periods, the Share Awards shall vest with the Selected Participants in two tranches, while the specific time and proportion of Shares to be vested shall be determined by the Share Award Management Committee based on review of the performance of each Selected Participants. In particular, if the Share Award Management Committee has decided that the performance of a Selected Participants in the respective tranche(s) of assessment period had fully fulfilled his or her assessment standards, then:

(i) 40% of the Share Awards originally granted to such Selected Participant shall be vested at the end of the first year of the two-year assessment period (Tranche One); and/or

(ii) 60% of the Share Awards originally granted to such Selected Participant shall be vested at the end of the second year of the two-year assessment period (Tranche Two).

Within the Durations, dividends accrued under the Share Award Schemes belong to the Share Award Schemes, and shall be first be utilised to pay the related management fees charged by the Asset Manager and the Trustee. For Shares not vested with ascertained targets due to various reasons such as employee resignation and failure of Selected Participants to meet all or part of the assessment standards, the Share Award Management Committee shall decide to vest the unvested Shares with our Company, or to incentivise other employees with higher contribution.

H. Financial, Accounting and Tax Treatments

The financial, accounting and tax treatments of the Share Award Schemes shall be implemented in accordance with the relevant financial system, accounting standards and tax system regulations.

I. Alteration of the Selected Participants and Termination

(I) Change of control, merger and split of our Company

The Share Award Schemes will not be affected if, for any reason, alteration to our Company's conditions happens, such as change of control, merger and split.

(II) Addition of Selected Participants

The Board authorises the Share Award Management Committee to add new Selected Participants under the Share Award Schemes except under the 2016 Share Award Scheme.

(III) Failure to meet the assessment standards

As illustrated above, performance of Selected Participants shall be evaluated during the respective Vesting Periods. In the event that any Selected Participant fails to meet the assessment standards under the Vesting Conditions, the Shares underlying the relevant Share Awards shall be handled by the Share Award Management Committee.

(IV) Change of office, resignation or death of the Selected Participants

(a) Change of position

(i) if a Selected Participant's position has changed, but he/she is still a Director (except an Independent Non-executive Director), Supervisor, senior management or core technology (business) personnel of our Company, or is appointed by our Company to its subsidiaries, the number of Share Awards of such Selected Participant holds may be adjusted accordingly, but shall not be increased in principle.

(ii) if the change of position is due to a Selected Participant's incompetence, failure to meet the assessment standards, violation of the laws and professional ethics, disclosure of corporate secrets, dereliction of duty or malfeasance and other behaviours that damage our interests or reputation, the Share Awards held by such Selected Participant shall be handled by the Share Award Management Committee.

(b) Resignation

Except for resignations due to reaching the retirement age, for any other reasons of resignation, the Share Awards held by a resigned Selected Participant shall be handled by the Share Award Management Committee.

(c) Retirement

If a Selected Participant retires due to reaching the retirement age specified by the State or our Company:

(i) If the Selected Participant meets the performance assessment standards under the respective Vesting Conditions in the year of his/her departure and such Selected Participant agrees to our Company's prohibition on competition, the Share Awards held by such Selected Participant shall not be affected; if the time of retirement is in the respective Lock-up Period or in the first Vesting Period, all Share Awards held by such Selected Participant shall be vested during the first vesting period.

(ii) If the Selected Participant fails to meet the performance assessment standard under the respective Vesting Conditions in the year of his/her departure, the Share Awards held by the resigned Selected Participant shall be handled by the Share Award Management Committee.

(d) Loss of working ability

If a Selected Participant loses his/her working ability due to injury caused under duty, the Share Awards held by such Selected Participant shall not be affected.

(e) Death

If a Selected Participant dies, the Share Awards held by such Selected Participant shall not be affected, and the relevant rights and interests will be passed to his/her legal heirs. If the death occurs during the Lock-up Period or the first Vesting Period, all Share Awards held by such Selected Participant shall be vested to his/her legal heirs during the first Vesting Period.

J. Details of the Share Awards under the Share Award Schemes

The 2016 Share Award Scheme and the 2017 Share Award Scheme

As of the Latest Practicable Date, most of the underlying Shares pursuant to the 2016 Share Award Scheme and the 2017 Share Award Scheme have been granted and vested to the Selected Participants. 1,783,038 Shares and 1,854,568 Shares are yet to be granted pursuant to the 2016 Share Award Scheme and the 2017 Share Award Scheme, respectively.

The 2018 Share Award Scheme and the 2019 Share Award Scheme

As of the Latest Practicable Date, (i) 635 Selected Participants have been granted the Share Awards pursuant to each of the 2018 Share Award Scheme and 2019 Share Award Scheme, among which 18 are our Directors, Supervisors, senior management and connected persons; (ii) the aggregate number of outstanding Shares underlying the granted but unvested Share Awards pursuant to the 2018 Share Award Scheme and 2019 Share Award Scheme is 16,824,476 Shares, representing approximately 0.26% of the total issued share capital of our Company immediately prior to the completion of the Introduction. All Shares Awards are granted and/or vested with the Selected Participants at nil consideration.

Details of the Share Awards granted pursuant to the 2018 Share Award Scheme and 2019 Share Award Scheme to our Directors, Supervisors, senior management and other connected persons[1], which are outstanding, are set out below:

Name	Position in our Group	Number of outstanding Shares granted but unvested under the Share Awards Schemes as of the Latest Practicable Date	Approximate percentage of shareholding immediately before the completion of the Introduction	Grant Date	Vesting Period (subject to other conditions in the 2018 Share Award Scheme and 2019 Share Award Scheme	Consideration paid by Selected Participant for the granting or vesting of the Share Awards
LIANG Haishan (梁海山)	Chairman of the Board and Executive Director	672,828	0.0102%	*As to the 2018 Share Award Scheme:* 24 April 2018; *As to the 2019 Share Award Scheme:* 29 April 2019	*As to the 2018 Share Award Scheme:* approximately 65% of the Share Awards had been vested as of the Latest Practicable Date; approximately 35% of the Share Awards will be subject to performance-based conditions and will vest (if any, fully or partially) within 36 months from 23 May 2019 *As to the 2019 Share Award Scheme:* approximately 32% of the Share Awards had been vested as of the Latest Practicable Date; approximately 68% of the Share Awards will be subject to performance-based conditions and will vest (if any, fully or partially) within 36 months from 17 July 2020	Nil
TAN Lixia (譚麗霞)	Vice Chairwoman of the Board and Non-executive Director	605,545	0.0092%			
LI Huagang (李華剛)	Executive Director and General Manager	63,216	0.0010%			
GONG Wei (宮偉)	Vice General Manager and Chief Financial Officer	80,222	0.0012%			
MING Guozhen (明國珍)	Vice General Manager and Board Secretary	53,235	0.0008%			
WANG Peihua (王培華)	Chairman of the Board of Supervisors	24,954	0.0004%			
MING Guoqing (明國慶)	Supervisor	16,847	0.0003%			
FAN Hua (樊華)	Connected person	29,575	0.0004%			
LIU Wei (劉偉)	Connected person	13,900	0.0002%			
LI Gang (李剛)	Connected person	13,309	0.0002%			
WANG Youning (王友寧)	Connected person	35,490	0.0005%			
WANG Ye (王曄)	Connected person	67,283	0.0010%			
BAI Zeyuan (白澤遠)	Connected person	33,715	0.0005%			
YANG Guang (楊光)	Connected person	7,919	0.0001%			
CHEN Lucheng (陳錄城)	Connected person	109,057	0.0017%			
SUN Jiacheng (孫佳程)	Connected person	29,575	0.0004%			
WANG Rongmei (王榮梅)	Connected person	7,690	0.0001%			
LI Chunliang (李春亮)	Connected person	8,651	0.0001%			

1 The other connected persons mainly include directors and supervisors of our subsidiaries which constitute our connected person by virtue of Chapter 14A of the Listing Rules.

As of the Latest Practicable Date, the Remuneration and Assessment Committee and the Board do not intend to grant further Share Awards to the Selected Participants under the Share Award Schemes.

As of the Latest Practicable Date, all Shares of our Company currently held by the Asset Manager for the Share Award Schemes were awarded to the Selected Participants, so no Shares of our Company are currently held by the Asset Manager in excess of those Shares of our Company actually required to satisfy the awards thereunder.

5. OTHER INFORMATION

A. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon the Group.

B. Litigation

As at the Latest Practicable Date, our Group is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

C. Joint Sponsors

The Joint Sponsors have made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the H Shares of the Company. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

As regards to the independence of each of the Joint Sponsors:

(a) China International Capital Corporation Hong Kong Securities Limited is not considered as an independent sponsor under Rule 3A.07 of the Listing Rules, as (i) it is a wholly owned subsidiary of China International Capital Corporation Limited ("**CICC**"), which is approximately 9.12% owned by Haier Group as of 30 June 2020; and (ii) Ms. Tan Lixia, the Vice Chairwoman of the Board and a Non-executive Director of the Company, currently serves as a non-executive director of CICC.

(b) J.P. Morgan Securities (Far East) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Pursuant to the engagement letter entered into between the Company and each of the Joint Sponsors, the Company agreed to pay US$500,000 to each of the Joint Sponsors to act as the sponsors to our Company in the Introduction.

D. Compliance Advisor

Our Company have appointed Anglo Chinese Corporate Finance, Limited as its compliance advisor in compliance with Rule 3A.19 of the Listing Rules.

E. Preliminary Expenses

Our Company has not incurred any preliminary expenses as of the Latest Practicable Date.

F. Promoters

The promoters of the Company are:

No.	Names of the promoters
1	Qingdao Refrigerator General Factory (青島電冰箱總廠)
2	Qingdao Second Light Industry Association (青島市二輕聯社)
3	Shenyang Northeast Jincheng Electronic Industry and Trade Company (沈陽東北金城電子工貿公司)
4	Shandong Jimo County Chengguan Riveting Welding Factory (山東即墨縣城關鉚焊廠)
5	Qingdao University Science and Technology Education Development Company (青島大學科技教育開發公司)
6	Shandong Weifang Electronic Injection Molding General Factory (山東濰坊電子注塑總廠)

Save as disclosed in this Listing Document, within two years immediately preceding the date of this Listing Document, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the Introduction and the related transactions described in this Listing Document.

G. Qualification of Experts

The qualifications of the experts are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licenced to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
J.P. Morgan Securities (Far East) Limited	Licenced to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
King & Wood Mallesons	PRC legal advisors
Euromonitor International (Shanghai) Co., Ltd.	Independent industry consultants

H. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer are effected on the H Share register of members of the Company, including in circumstances where such transaction is effected on the Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is a total of HK$2.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see "Appendix IV — Taxation and Foreign Exchange" in this document.

I. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position since 30 June 2020.

J. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

K. Bilingual listing document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

L. Miscellaneous

Save as disclosed in this document,

(a) within the two years preceding the date of this document, our Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(b) no Share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;

(c) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) our Company has no outstanding convertible debt securities or debentures;

(e) within the two years immediately preceding the date of this document, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;

(f) there is no arrangement under which future dividends are waived or agreed to be waived;

(g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and

(h) none of the equity and debt securities of our Company, if any, is listed or dealt within any other stock exchange nor is any listing or permission to deal in other stock exchanges being or proposed to be sought.

M. Agency Fees or Commissions Paid or Payable

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

N. Consents

Each of the experts as referred to in the paragraph headed "Qualification of Experts" in this Appendix has given, and has not withdrawn their written consents to the issue of this document with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 27/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Articles of Association;

(b) the Accountant's Report prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this document;

(c) the review report on the unaudited condensed consolidated financial statements for the three and nine months ended 30 September 2020 from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II of this Listing Document.

(d) the report on the unaudited pro forma financial information from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix III to this document;

(e) the audited consolidated financial statements of our Group for three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020;

(f) the PRC legal opinions issued by King & Wood Mallesons, the Company's PRC legal advisor in respect of our general matters and property interests;

(g) the market research report prepared by Euromonitor International (Shanghai) Co., Ltd.;

(h) the material contracts referred to in the paragraph headed "Statutory and General Information — 2. Further Information about our Business — A. Summary of Material Contracts" in Appendix VII to this document;

(i) the written consents referred to in the paragraph headed "Statutory and General Information — 5. Other Information — N. Consents" in Appendix VII to this document;

(j) the service contracts referred to in the paragraph headed "Statutory and General Information — 3. Further Information about our Directors, Supervisors and Substantial Shareholders — A. Directors and Supervisors" in Appendix VII to this document; and

(k) the Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof;

(l) the SSE Listing Rules, together with an unofficial English translation; and

(m) the Exchange Rules for the Frankfurter Wertpapierbörse (FWB) (listing rules of the Frankfurt Stock Exchange);

(n) the China Europe International Exchange AG's General Terms and Conditions for CEINEX D-Share Market; and

(o) the Share Award Schemes.

HAIER ELECTRONICS GROUP CO., LTD.
海爾電器集團有限公司*
(Incorporated in Bermuda with Limited Liability)
(Stock Code: 1169)

OPERATIONAL UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

This is an announcement issued by Haier Electronics Group Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") and is being released for information purpose and pursuant to the Inside Information Provisions (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) and Rule 13.09(2)(a) of the Listing Rules.

On or about 29 October 2020, the Company's controlling shareholder, Haier Smart Home Co., Ltd. (海爾智家股份有限公司) ("**Haier Smart Home**"), a company listed on the Shanghai Stock Exchange ("**SSE**") (under stock code: 600690.SH) in the People's Republic of China (''**PRC**"), released its financial results for the third quarter ended 30 September 2020 ("**Haier Smart Home Results Announcement**"). Pursuant to the relevant rules of the SSE, Haier Smart Home shall file the quarterly and annual reports, including quarterly and annual financial information and certain operating statistics, respectively, with the SSE.

As at the date of this announcement, Haier Smart Home, the controlling shareholder of the Company, is beneficially interested in approximately 45.68% of the issued and outstanding share capital of the Company.

* *For identification purposes only*

The following are the operational updates of the Group which reflect certain operating statistics for the nine months ended 30 September 2020:

	For the nine months ended 30 September		
	2020	**2019**	**Changes in %**
	RMB million (Unaudited)	**RMB million (Unaudited)**	
Group's revenue (before intersegment elimination)			
Washing machine business	**17,561**	16,523	6.3%
Water heater and water purifier business	**6,321**	6,014	5.1%
Channel services business	**49,961**	48,848	2.3%
Group's consolidated revenue	**56,916**	55,450	2.6%
Adjusted operating profit (as defined below)	**2,566**	3,000	–14.5%
Group's net profit#	**2,791**	6,262	–55.4%
Profit attributable to owners of the Company#	**2,655**	6,111	–56.6%

\# *The comparative figures in 2019 included the one-off non-cash disposal gain of approximately RMB3.16 billion from the asset swap transaction.*

Adjusted operating profit is used as a non-IFRS measure to evaluate the Group's results of operations. It is 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.

During the reporting period, the revenue of the Company for the first three quarters was RMB56.92 billion, representing a year-on-year increase of 2.6%. Earlier this year, the offline home appliance market was significantly impacted from COVID-19, which led to a decrease in the Group's revenue of 22.4% year-on-year in the first quarter. However, our revenue recovered significantly in the second quarter and achieved a growth of 12.7%. In the third quarter, the Group continued the recovery trend starting from the second quarter and recorded a revenue of RMB21.84 billion, representing a year-on-year increase of 18.1%, of which the revenue from the washing machine business, water heater and water purifier business and channel services business increased by 18.7%, 16.0% and 16.4% respectively.

The revenue growth of the washing machine business in the third quarter was mainly derived from growth of both channels and brand mix shift. On the channel end, the online channel recorded an accelerated growth over 25%, and the offline channel achieved nearly a 5% growth, demonstrating a steady recovery after the pandemic. On the brand aspect, Casarte, our high-end product, continued to increase its market share through product premiumization, Air Wash service upgrades, million-gemini and other marketing campaign, with its growth rate exceeding 18%.

The revenue growth of the water heater and water purifier business mainly came from brand mix optimization and channel expansion. In the water heater sector, resources are introduced to multi-brands and the overall growth increased through rich product portfolio. In the third quarter, the revenue growth of Casarte water heater and Leader water heater had exceeded 100% and reached about 18% respectively. At the same time, we broadened the channel network of building materials and home furnishing market, actively cooperated with designers and home furnishing companies, and succeeded in securing more home furnishing customers through one-stop smart water solution for the whole house flexible marketing strategies. At the channel end, while the water heater and water purifier business maintained a rapid online growth, the offline channel also recorded a stable growth of over 10%.

The revenue growth of the channel business was mainly derived from both e-commerce channel and specialty stores channel. The revenue of the e-commerce sector recorded a growth rate of over 30% in the third quarter, which was mainly attributed to the benefits of the rich content marketing and continuous increase in the proportion of mid-to-high-end products. The revenue of specialty stores channel sector also recorded double digit growth in the third quarter. The growth was mainly derived from the facts that the Group constantly promoted the transformation and upgrading of the smart home experience store and increased consumer preference for packaged and scenario-based services through establishing a smart home scenario model; at the same time, in the lower-tier markets, the competitiveness of stores in township showed significant improvement through the measures of comprehensive coverage of unified warehousing and logistics, and digital transformation.

During the period, the Group's main product lines showed a stable market share growth in retail sales. According to the China Market Monitor data, as of the end of September, the washing machine business continued to maintain its leading market position for online and offline retail sales, where the online market share increased to 39.4%, representing an increase of 4.6 percentage points year-on-year, and the offline market share increased to 39.9%, representing an increase of 3.8 percentage points year-on-year. The water heaters business also maintained a rapid growth in market share, leading the market with its online share increasing to 26.4%, which represents an increase of 2.8 percentage points year-on-year, and its offline market share increased by 3.6 percentage points to 23.8%. The online market share of water purifier business increased to 13.2%, representing an increase of 0.8 percentage point year-on-year, and the offline market share increased by 3.6 percentage points to 10.2%.

During the reporting period, the Company's adjusted operating profit in the first three quarters was RMB2.57 billion. The adjusted operating profit in the third quarter was RMB1.35 billion, representing a year-on-year increase of 18.1%. Despite the impact of COVID-19, the increased proportion of online sales, the intensified competition and the decreasing of average industry price compared with the same period of last year, the Group has managed to achieve a rapid growth in operating profit in the third quarter by adopting a series of cost reduction and efficiency-gain measures. Firstly, we managed to restore the accelerated sales growth of mid-to-high-end products. With the rapid growth of Casarte products and the increase in the proportion of offline channel revenue, the product mix in the third quarter improved significantly. At the same time, on the procurement end, the Group continued to optimise the supplier selection system to maintain product quality and price competitiveness. On the manufacturing side, the Group continued to improve its manufacturing efficiency through measures such as optimising production region layout, promoting smart factory projects, and streamlining product portfolio. As a result, the manufacturing efficiency continued to improve and had effectively improved the overall gross profit margin. On the expenses side, in the third quarter, the Group began to focus on process reconstruction as well as digitalized transformation of marketing activities and user management, so as to achieve organisational efficiency, effective sales and management expense optimisation, and have propelled our operating profit margins to resume to the same level of the same period last year.

The Haier Smart Home Results Announcement prepared by Haier Smart Home is accessible at SSE's website: http://www.sse.com.cn and Haier Smart Home's company website: http://www.haier.net.

The shareholders and potential investors of the Company should note that (i) the financial results disclosed in the Haier Smart Home Results Announcement are unaudited; and (ii) the financial results of Haier Smart Home and its consolidated subsidiaries, including those contained in the Haier Smart Home Results Announcement, have been prepared in accordance with PRC generally accepted accounting principles ("**PRC GAAP**"). The Company adopts the International Financial Reporting Standards to prepare and present the Company's financial results and related financial information.

BASIS OF PREPARATION

The operational update as referred to in this announcement was prepared based on the unaudited consolidated management accounts of the Group for the nine months ended 30 September 2020, which has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2019.

TAKEOVERS CODE IMPLICATIONS

References are made to (i) the joint announcement (the "**Rule 3.5 Announcement**") issued by Haier Smart Home and the Company on 31 July 2020, (ii) the joint announcement issued by HSH and HEG on 28 August 2020 regarding, amongst others, the results of the meeting of the Bondholders and consent solicitation in relation to the EB-to-CB Proposal, (iii) the joint announcement issued by HSH and HEG on 1 September 2020 regarding, amongst others, (a) the fulfilment of Pre-Conditions to the Privatisation Proposal in relation to approval by Independent HSH Shareholders, HSH A Shareholders and HSH D Shareholders, (b) the results of the meeting of HSH Shareholders, HSH A Shareholders and HSH D Shareholders in relation to the said consent solicitation and (c) the extension of time for despatch of the Scheme Document from 4 September 2020 to 30 November 2020, (iv) the joint announcement issued by HSH and HEG on 12 October 2020 regarding the monthly update on the Privatisation Proposal and (v) the other announcements issued by HSH or HEG on various dates relating to the Privatisation Proposal. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Rule 3.5 Announcement.

This announcement is made after the commencement of the offer period (as defined under the Takeovers Code) in respect of the Privatisation Proposal. Pursuant to Rule 10 of the Takeovers Code, the Group's unaudited net profit and unaudited profit attributable to owners of the Company for the nine months ended 30 September 2020 constitute a profit forecast (the "**Profit Estimate**") and would need to be reported on by each of the financial adviser and auditors or accountants of the Company in accordance with Rule 10.1 and Rule 10.2 of the Takeovers Code.

The Profit Estimate has been reported on by Ernst & Young ("**EY**"), the auditor of the Company, and UBS AG (acting through its Hong Kong Branch) ("**UBS**"), the financial adviser to the Company. EY has reported that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Directors as set out in this announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2019. EY has conducted their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 ''Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness'' and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' issued by the Hong Kong Institute of Certified Public Accountants.

UBS has discussed with the Directors the bases of preparation of the Profit Estimate and is satisfied that the Profit Estimate, for which the Directors are solely responsible, has been made by the Directors with due care and consideration.

The comfort letters issued by UBS and EY have been lodged with the Executive and the text of which are set out in the appendices to this announcement.

Each of UBS and EY has given and has not withdrawn their consent to the issue of this announcement with the inclusion of its letter and references to use its name in the form and context in which they appear in this announcement.

The information disclosed in this announcement is prepared by the management of the Company based on the Company's internal information which has not been confirmed or reviewed by the auditors of the Company, and may differ from figures to be disclosed in the audited or unaudited consolidated financial statements to be published by the Company on an annual or semi-annual basis as applicable. Therefore, such information is provided to shareholders and potential investors as interim information for reference only. Shareholders and potential investors of the Company's securities are advised not to rely unduly on such information, to consult their own professional advisers in this regard and exercise caution in dealing in the Company's securities.

The Profit Estimate has been reported on in accordance with Rule 10 of the Takeovers Code. Shareholders and potential investors of the Company should exercise caution when dealing in shares or other securities of the Company and should exercise caution in placing reliance on the Profit Estimate in assessing the merits and demerits of the Privatisation Proposal. Persons who are in doubt as to the action they should take should consult their professional advisers.

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

Hong Kong, 29 October 2020

This announcement is for information purpose and does not constitute an offer or an invitation to acquire or dispose of any securities or investment advice in any jurisdiction.

This announcement may contain or refer to forward-looking statements. All statements other than statements of historical fact included, or refer to, in this announcement may involve, without limitation, a number of risks, uncertainties or other factors beyond the Company's control, which may cause material differences in actual results, performance or other expectations. These factors include, but are not limited to, general economic conditions, competition, new ventures, government regulations, interest rates, future terrorist acts, influenza, insurance, risks and/or factors detailed in the annual report of the Company for the year ended 31 December 2019, and other risks relating to our industry and business.

No statement in this announcement is intended to be a profit forecast under the Rules Governing the Listing of Securities on the Stock Exchange and no statement in this announcement should be interpreted to mean that earnings per share of the Company for the current or future financial years would necessarily match or exceed the historical published earnings per share of the Company.

As at the date of this announcement, the executive Directors are Mr. Zhou Yun Jie (Chairman), Mr. Xie Ju Zhi and Mr. Li Hua Gang; the non-executive Directors are Mr. Liang Hai Shan and Mr. Yang Guang; the independent non-executive Directors are Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma.

The Directors jointly and severally accept full responsibility for accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

APPENDIX I — COMFORT LETTER ISSUED BY ERNST & YOUNG

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

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香港中環添美道 1 號
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29 October 2020

The Board of Directors
Haier Electronics Group Co., Ltd.
Unit 3513
35/F., The Center
99 Queen's Road Central
Hong Kong

Dear Sirs,

Haier Electronics Group Co., Ltd. ("the Company") and its subsidiaries (the "Group")

Profit estimate for the nine months ended 30 September 2020

We refer to the estimate of the Group's unaudited net profit and unaudited profit attributable to owners the Company for the nine months ended 30 September 2020 (the "**Profit Estimate**") set forth in the announcement of the Company dated 29 October 2020 (the "**Announcement**") in relation to the Operational Update of the Group for the Third Quarter ended 30 September 2020. The Profit Estimate is required to be reported on under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission.

Directors' responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated results of the Group for the nine months ended 30 September 2020 as shown in the management accounts of the Group for the nine months ended 30 September 2020.

The Company's directors are solely responsible for the Profit Estimate.

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

APPENDIX I — COMFORT LETTER ISSUED BY ERNST & YOUNG

Reporting accountants' responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2019.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II — COMFORT LETTER ISSUED BY UBS AG HONG KONG BRANCH

UBS

UBS AG
Hong Kong Branch
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Central, Hong Kong
Tel. +852-2971-8888
www.ubs.com

29 October 2020

The Board of Directors
Haier Electronics Group Co., Ltd.
Unit 3513, 35/F., The Center, 99 Queen's Road Central, Hong Kong

Dear Sirs,

We refer to the unaudited Group (as defined below)'s net profit and unaudited profit attributable to owners of Haier Electronics Group Co., Ltd. (the "Company", together with its subsidiaries, the "**Group**") for the nine months ended 30 September 2020 (the "**Profit Estimate**") set forth in the announcement of the Company dated 29 October 2020 (the "**Announcement**") in relation to the Operational Update of the Group for the Third Quarter ended 30 September 2020. The Profit Estimate is regarded as a profit forecast under the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

The Profit Estimate has been prepared by the directors of the Company (the "**Directors**") based on the unaudited consolidated results of the Group for the nine months ended 30 September 2020 as shown in the management accounts of the Group for the nine months ended 30 September 2020, which has not been confirmed, audited or reviewed by the auditors of the Company and may differ from figures to be disclosed in the audited or unaudited consolidated financial statements to be published by the Company on an annual or semi-annual basis as applicable.

This letter is issued in compliance with the requirement under Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. We have reviewed and discussed with you, the senior management and the auditor of the Company the bases upon which the Profit Estimate was prepared. We have also considered the letter on the Profit Estimate dated 29 October 2020 issued by Ernst & Young, the auditor of the Company, to you, the text of which is set out in the Appendix I to the Announcement, which stated that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Directors as set out in the Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2019.

We have not independently verified the computations leading to the Profit Estimate. We have assumed that all information, materials and representations provided to us by the Company were true,

APPENDIX II — COMFORT LETTER ISSUED BY UBS AG HONG KONG BRANCH

accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Announcement and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, whether express or implied, is made by us on the accuracy, truth or completeness of such information, materials or representations. Accordingly, we accept no responsibility, whether expressly or implicitly, on the Profit Estimate as set out in the Announcement.

On the basis of the foregoing and on the basis that the Directors are satisfied that there are no further matters that should be brought to our attention, in our view, the Profit Estimate, for which you as the Directors are solely responsible, have been made and approved by the Directors with due care and consideration.

Yours faithfully,
For and on behalf of
UBS AG Hong Kong Branch

John LEE	**Jun LUO**
Managing Director	Managing Director


HSH’s Proposal for the Privatisation of HEG involving
H-share Issuance and Listing by Introduction
——Investor Presentation
Haier
November 2020

Disclaimer

Reference is made to (i) the joint announcement published by Haier Smart Home Co. Ltd. ("**HSH**") and Haier Electronics Group Co., Ltd. ("**HEG**") dated 31 July 2020 pursuant to Rule 3.5 of the Takeovers Code (the "**Joint Announcement**") and (ii) the scheme document published by HSH and HEG dated 16 November 2020, each in relation to the proposed privatisation of HEG by HSH by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (as amended). This presentation (the "**Presentation**") contains a brief summary of the Privatisation Proposal as outlined in further detail in the Joint Announcement and the Scheme Document. Shareholders and other investors of HSH and HEG are advised to read the Joint Announcement and the Scheme Document in its entirety for further information relating to the Privatisation Proposal. The Joint Announcement and the Scheme Document are available on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, and the websites of HSH and HEG. Unless otherwise provided specifically, the terms used herein shall have the same meanings as those defined in the Scheme Document.*

This Presentation is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of HSH or HEG, nor is it an invitation or offer to or a solicitation of any offer to acquire, purchase or subscribe for securities of HSH or HEG in any jurisdiction in which such invitation, offer, solicitation or sale would be unlawful absent the filing of a registration statement or the availability of an applicable exemption from registration or other waiver. This Presentation is not for release, publication or distribution in or into any other jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

WARNINGS: The implementation of the Privatisation Proposal (including the effectiveness of the Scheme), is subject to the satisfaction or waiver (as applicable) of the Conditions, and therefore the Privatisation Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors of HSH and HEG should therefore exercise caution when dealing in the securities of HSH and HEG. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors or other professional advisers.

*The Privatisation Proposal relates to the shares of Chinese or Bermuda companies and is proposed to be made by a scheme of arrangement provided for under the laws of Bermuda. The Privatisation Proposal is subject to the disclosure requirements and practices applicable in Hong Kong, PRC and Bermuda, which differ from the disclosure and other requirements of the U.S. securities laws and the securities laws of the member states of the European Economic Area ("**Relevant States**" and each a "**Relevant State**"). Financial information included in the relevant documentation will have been prepared in accordance with accounting standards applicable in PRC or Hong Kong that may not be comparable to accounting principles generally accepted in the United States and the Relevant States.*

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities and Exchange Act of 1934, as amended, and the tender offer rules of the Relevant States. Accordingly, the Privatisation Proposal is subject to the disclosure requirements and practices applicable in Bermuda and Hong Kong to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules and the Relevant States' tender offer rules.

The receipt of cash and/or HSH H Shares pursuant to the Privatisation Proposal by a Relevant State holder or a US holder or of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme may be a taxable transaction under tax laws applicable in a Relevant State, or for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of the Privatisation Proposal applicable to him.

Disclaimer(Cont'd)

It may be difficult for US holders of Scheme Shares or holders of Scheme Shares in the Relevant States to enforce their rights and claims arising out of the US federal securities laws and the Relevant States' securities laws, since HSH and HEG are located in a country other than the United States and the Relevant States, and some or all of their officers and directors may be residents of a country other than the United States and the Relevant States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Holders of Scheme Shares in the Relevant States may not be able to sue a non-Relevant State company or its officers or directors in a non-Relevant State court for violations of the Relevant States' securities laws. Further, it may be difficult to compel a non-US and non-Relevant State company and its affiliates to subject themselves to a US court's or a Relevant State's court's judgement.

Notice to US investors: *This Presentation is not an offer of securities for sale nor a solicitation of an offer to buy securities in the United States. The HSH H Shares, which will be issued in connection with the Privatisation Proposal, if made, have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") or under the securities law of any state, district or other jurisdiction of the United States, or any other jurisdiction, and no regulatory approval or clearance in respect of the HSH H Shares has been, or will be, applied for in any jurisdiction other than Hong Kong, PRC or Bermuda. The HSH H Shares may not be offered or sold in the United States absent registration under the U.S. Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. It is expected that the HSH H Shares will be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof. HSH does not intend to make any public offering of securities in the United States.*

Under applicable U.S. securities laws, HEG Shareholders (whether or not U.S. Persons (as defined in Regulation S under the U.S. Securities Act)) who are or will be "affiliates" of HSH or HEG prior to, or of HSH after, the Scheme Effective Date will be subject to certain transfer restrictions relating to the HSH H Shares received in connection with the Scheme.

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Disclaimer (Cont'd)

All statements, other than statements of historical facts included in this Presentation, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as "seek", "expect", "envisage", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "may" and "might". These statements reflect HSH's or HEG's (as the case may be) current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties.

Accordingly, actual results may differ materially from those described in such forward-looking statements as a result of a number of factors, including, without limitation, (a) the satisfaction of the Conditions to the Privatisation Proposal and the Scheme; (b) any changes in the regulatory regime and significant policies for the PRC electronic appliances industry, or any changes in the regulatory policies of the relevant government authorities of the PRC; (c) any changes in the effects of competition on the market demand and sale price of the products manufactured by HSH and HEG; and (d) any changes in political, economic, legal and social conditions in the PRC and other countries in which HSH and/or HEG operates. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. HEG Shareholders and investors should not place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to HSH or HEG or persons acting on behalf of either of them are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included herein are made only as of the date of the particular statement. Subject to the requirements of the applicable laws, rules and regulations, including the Takeovers Code, neither HSH nor HEG undertake any obligation to update publicly or revise any forward-looking statements contained in this Presentation.

The pro forma financial information contained in this Presentation are taken from the unaudited pro forma consolidated income statement of the HSH Group for the year ended 31 December 2019 as set out in Annex 2 of the Joint Announcement and which has been prepared in accordance with Rule 4.29 of the Listing Rules on the basis as if completion of the Privatisation Proposal had taken place on 1 January 2019, a total of 2,448,279,814 new HSH H Shares had been issued on that date and a total sum of HK$2,984 million had been paid by HEG as the Cash Payment, and on the assumptions set out therein. unaudited pro forma financial information in Annex 2 of the Joint Announcement (the compilation of which has been reported on by the auditors of HSH) is prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, net tangible assets per share, financial results or cash flows of the resulting HSH Group had the Privatisation Proposal been completed as at the respective dates stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information included elsewhere in the Joint Announcement.

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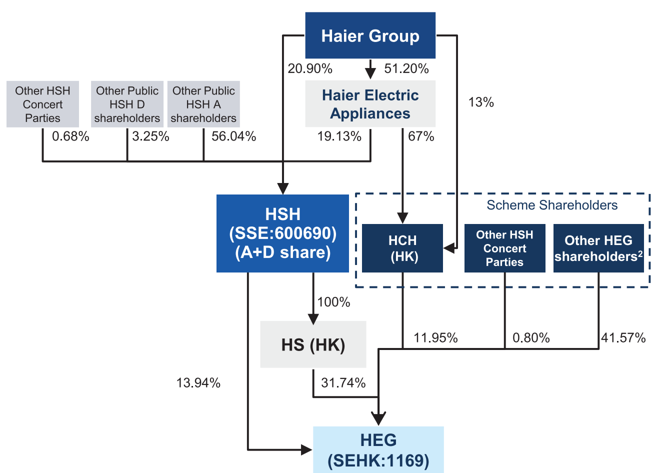
Haier

Chapter I: Transaction Summary

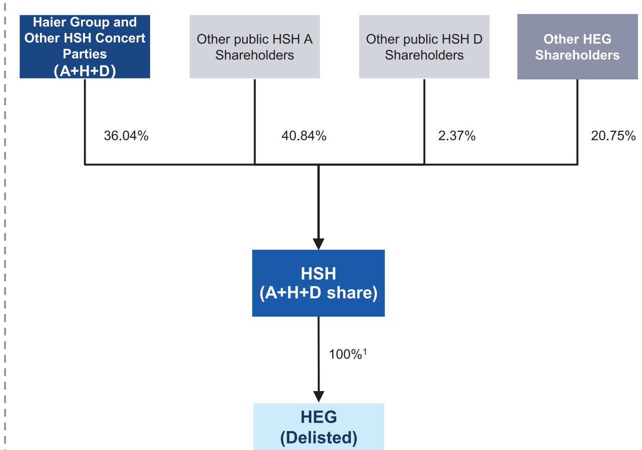
Transaction Summary

- Haier Smart Home Co., Ltd. ("HSH") is proposing to put forward a proposal for the privatisation of Haier Electronics Group Co., Ltd. ("HEG") by way of a scheme of arrangement. Scheme Shareholders are HEG Shareholders other than HSH and any of its wholly-owned subsidiaries. Scheme Shareholders include HCH (HK), an indirect subsidiary of Haier Group, and Other HSH Concert Parties
- Upon the Scheme becoming effective, HEG will become a wholly-owned subsidiary of HSH[1] and its shares will be delisted from the Hong Kong Stock Exchange; HSH H Shares will then be listed on the Main Board of the Hong Kong Stock Exchange by way of a listing by introduction[3]; the Scheme Shareholders will become HSH H Shareholders

Before:



After[4]:



Note 1: Assuming that the EB-to-CB Proposal becomes unconditional and effective and all outstanding HSH Exchangeable Bonds become HSH Convertible Bonds
Note 2: Other HEG Shareholders include the HEG Trustee and certain directors of HEG
Note 3: There is no fund raising for listing by introduction
Note 4: Assuming none of the HSH Exchangeable Bonds are exercised prior to the Scheme Record Date

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Key Terms of the Transaction

Offeror	• HSH, ticker: SSE: 600690 and 690D.DF
Offeree	• HEG, ticker: SEHK: 1169
Transaction Structure	• By way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (as amended)
Scheme Shareholders will receive	• New HSH H Shares: 1.60 new HSH H Shares for every Scheme Share cancelled under the Scheme • Cash Payment to be made by HEG only if the Scheme becomes effective: HK$1.95 for every Scheme Share cancelled under the Scheme
Valuation and Implied Premium	• The theoretical total value for each Scheme Share cancelled = 1.60 Share Exchange Ratio * the mid-point of the valuation range estimated by the Valuation Adviser of HK$22.55 per HSH H Share[1] + Cash Payment of HK$1.95 for every Scheme Share cancelled, which represents premium as follows:

	Last Trading Day	Average closing price of 30/60 trading days up to and including the Last Trading Day	
		30-day	60-day
Premium	41.64%	54.91%	65.11%

Note 1: HSH H Share Valuation is the mid-point of the valuation range estimated by the Valuation Adviser issued at November 16 2020

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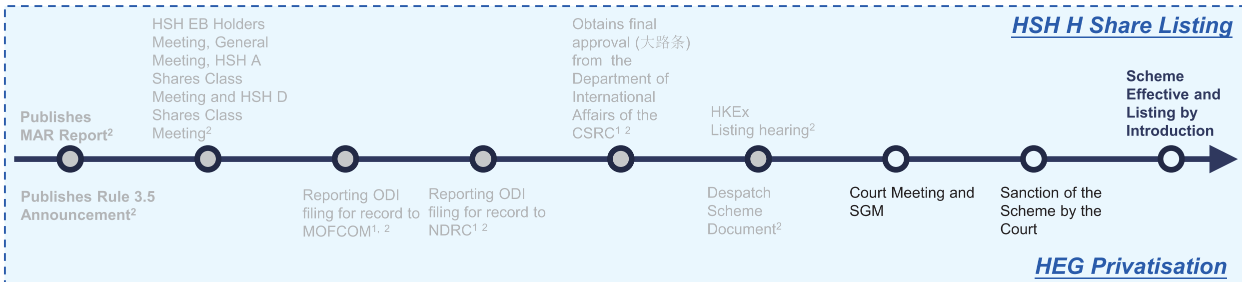
Milestones and Approval Process



- **HEG Shareholders' Approval:**
  - **Court Meeting:** (1) the approval of the Scheme (by way of poll) by a majority in number of Scheme Shareholders representing not less than 3/4 in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. (2) (i) the approval of the Scheme (by way of poll) by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Scheme Shares that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Scheme Shares held by all the Disinterested Scheme Shareholders
  - **Special General Meeting:** not less than 3/4 of the votes cast by the HEG Shareholders present and voting, in person or by proxy, at the SGM to approve, among other things, (i) the reduction of the issued share capital of HEG by the cancellation of the Scheme Shares, (ii) immediately thereafter, the increase of the issued share capital of HEG to the amount prior to the cancellation of the Scheme Shares by the issuance to HSH such number of new HEG Shares as is equal to the number of Scheme Shares cancelled, credited as fully paid at par, and (iii) the cancellation of an amount equivalent to the Cash Payment for the Scheme Shares cancelled, upon the Scheme becoming effective, standing in the share premium and other applicable accounts in the reserves of HEG which constitutes a reduction in the issued share capital of HEG under the Companies Act

Note 1 Overseas Development Institute (ODI), National Development and Reform Commission (NDRC), Ministry of commerce of the People's Republic of China (MOFCOM); China Securities Regulatory Commission (CSRC)
Note 2: Items marked in gray indicated completed items

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Haier

Chapter II Overview of Haier Smart Home Co. Ltd. (“HSH”)

Haier

Section I HSH Overview

Staying True to Entrepreneurship in a Changing World

Global Major Home Appliance Leader

No. 1 Globally and in China

***Fortune* Global 500**
2018-2020

14.7%
2019 global major home appliances market share by retail volume[1]

23.2%
2019 China major home appliances market share by retail volume[1]

IoT Pioneer

Interconnected Home Appliances
Individual Appliance

Scenarios & Ecosystem
Smart Home Solutions Based on Diversified Consumption Scenarios

Top 100 Most Valuable Global Brand
BrandZ
2019-2020
The One-and-only IoT Brand in the List

Long-term Sustainability Originated from Timely Strategic Adjustment[2]

Source: All financial figures in the full investor presentation material are based on IFRS standards, and China refers to People's Republic of China (excluding Hong Kong, Macao and Taiwan) unless otherwise specified
Note 1: Euromonitor 2020. Note 2: Revenue and profit attributable to the owners of the listed company in 1993 to 2014 are unadjusted figures under the PRC GAAP standards and those in 2015 to 2019 are under the IFRS standards. As the profit attributable to shareholders of the listed company in 1993 to 2006 are not disclosed, the data are shown as profit. The data are extracted from the Company's annual reports. As the Company had multiple M&As, investors are advised to take such factor into consideration in YoY comparison

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Global Brand Portfolio and Operating Platform

R&D

Seamless integration with **Haier Open Partnership Ecosystem ("HOPE")** [1] online

10+N	**57,000+**
R&D Centres	No. of Patents Applied

Manufacturing

Pioneering the user-centric **"mass customisation"** model and **strengthening localized manufacturing and intra-continental operations**

109	**15**
Production Centres	Interconnected Factories

Distribution

Strong retail presence & **accelerated online-offline integration**

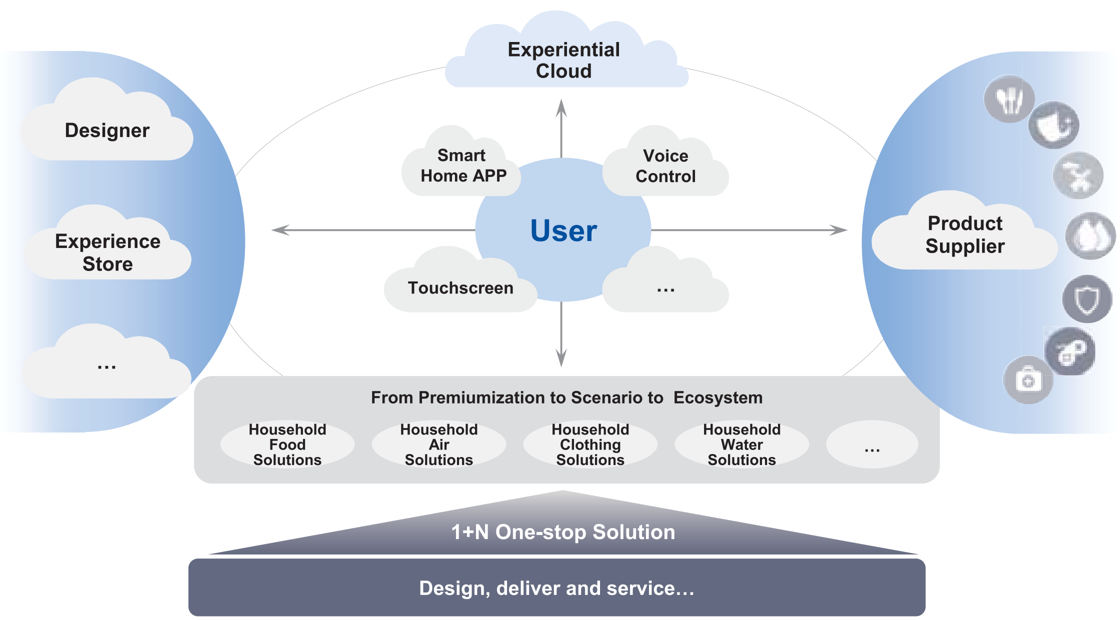
108	**~130,000**
Sales Centres	Point of Sales Overseas

Source: HSH's information. As of June 30, 2020
Note 1: Haier Open Partnership Ecosystem, a network platform where Haier and global partners share innovation requests and ideas and develop solutions, aimed at building a professional network of individual and a interactive community of global innovation through knowledge and resource sharing

Haier Smart Home Experiential Cloud Platform

Connecting Billions of Families and Building One Ecosystem Together

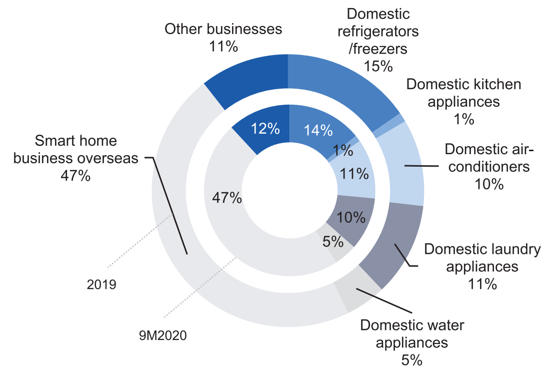
- Capitalising on digital infrastructure of the Haier Smart Home Experiential Cloud Platform and extensive access to users, through deeply integrated online and offline channels, HSH consolidates resources from various product suppliers, designers, experience stores and other business partners, and provides users with more comprehensive products and services for different scenarios, centring on HSH's own interconnected home appliances. HSH aims to design, build and service a home for users



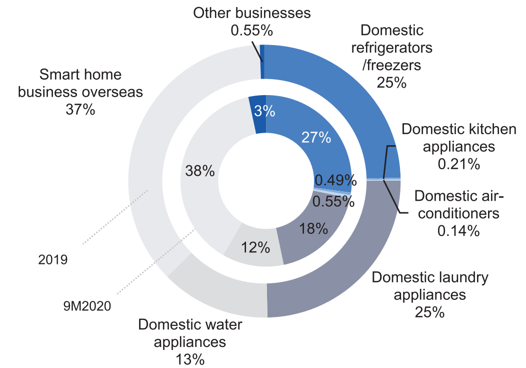
Business Segments with Leading Positions

Revenue and Profit Breakdown[1]

2019 & 9M2020 Segment Revenue



2019 & 9M2020 Segment Operating Profit



Leading Positions[2]

	Refrigeration Appliances[3]		Major Kitchen Appliances		Laundry Appliances[4]		Air-conditioners		Water Heaters	
World	1	21.7%	2	8.0%	1	20.3%	3	11.3%	1	18.8%

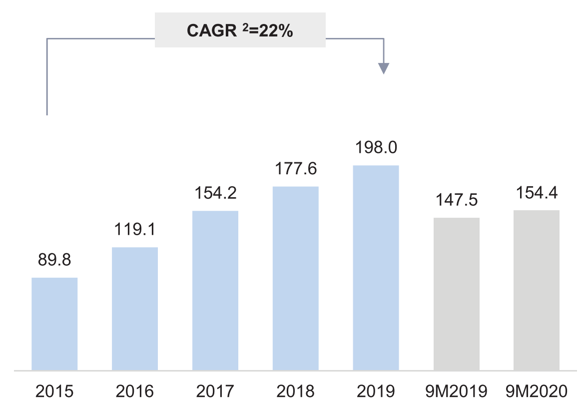
◇ Ranking by Retail Volume in 2019 % Market Share by Retail Volume in 2019

Note 1: Calculated based on audited financial figures for FY2019 and unaudited financial figures for FY9M2020. Segment revenue has been consolidated and offset, but segment operating profit has not been consolidated and offset
Note 2: Euromonitor 2020
Note 3: Including built-in and non-built-in refrigerators, fridge freezers and freezers
Note 4: Including built-in and non-built-in fully automatic dryers, semi/fully automatic washing machines and washer dryers

Strong Revenue and Profit Growth

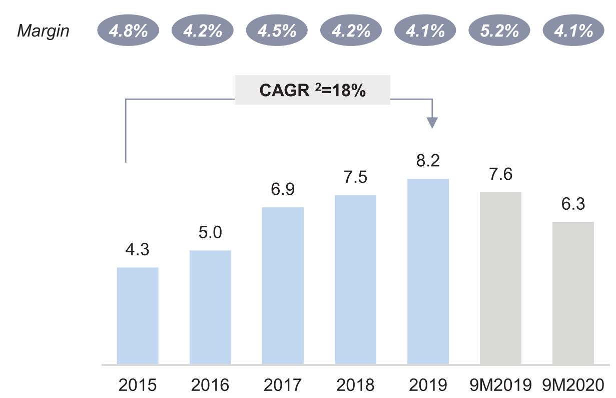
Revenue[1]

(RMB bn)



Profit Attributable to Owners of HSH[1]

(RMB bn)

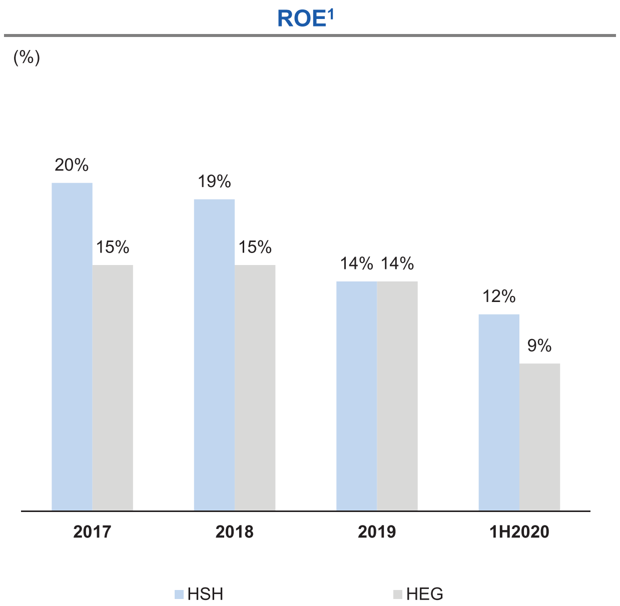


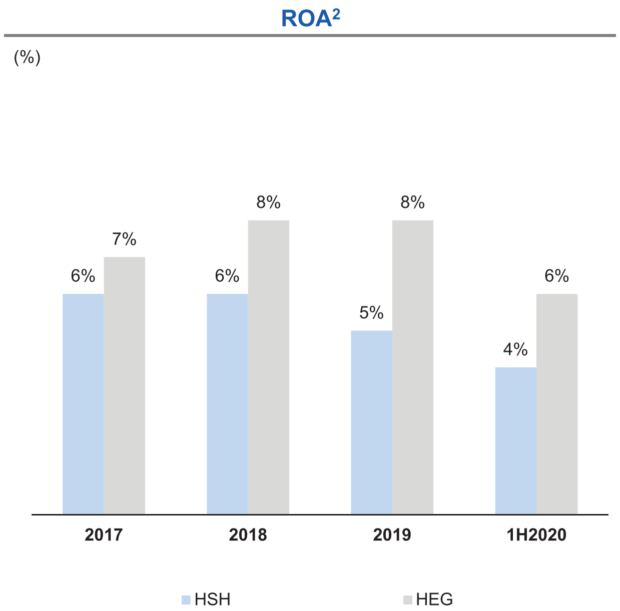
- YoY revenue growth of 15.2% and 11.5% in 2018 and 2019

- Profit attributable to owners of HSH continues to grow, with YoY growth of 7.8% and 9.6% in 2018 and 2019

Note 1: Based on audited financial statements of HSH in 2015-2019 which were prepared according to IFRS and audited by HLB Hodgson Impey Cheng Limited ("**HLB**"), HSH's reporting accountants , and unaudited financial figures of HSH in Jan-Sept 2019 and Jan-Sept 2020
Note 2: CAGR refers to the compound annual growth rate of revenue and profit attributable to owners HSH in 2015-2019, respectively

Solid Return on Equity





- HSH's ROE is slightly higher than that of HEG and its ROA is slightly lower than that of HEG due to a higher leverage ratio

Note 1: Calculated based on audited financial figures of HSH and HEG for FY2016-2019 and Jan-June 2020. ROE is calculated by dividing profit for the year/period attributable to owners of the Company from continuing operations by the closing balance of equity attributable to owners of the Company, and multiplied by two for the six months ended 30 June 2020.
Note 2: Calculated based on audited financial figures of HSH and HEG for FY2016-2019 and Jan-June 2020. ROA is calculated by dividing profit for the year/period from continuing operations by the closing balance of total assets, and multiplied by two for the six months ended 30 June 2020.

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Strategic Investment for the Future

Overseas Investment[1]

Localized Operations

Overseas Capex RMB10.1bn 2017-2019、1H2020

M&A

Overseas M&A RMB5.7bn 2017-2019、1H2020

Revenue Growth & Market Share Expansion[2]

14.8%

CAGR of overseas revenue 2017-2019

48%

Overseas revenue as % of total revenue 2019

Committing to localized operations and global collaboration

Consumption Upgrade[2]

R&D expenditure RMB19.8bn 2017-2019、1H2020

Premium Market Leader

Casarte enjoys a dominant position in China's high-end home appliance market[3]

36%

CAGR of Casarte's revenue 2017-2019[1]

Seizing the opportunities in a well-penetrated market

Supply Chain Management[1]

Production

Investment in factory construction and upgrade in China RMB8.9bn 2017-2019、1H2020

Smart Manufacturing[4]

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Interconnected Factories

Delivering outstanding user experience with zero distance and enhanced efficiency

Note 1: HSH's information. Figures derived from management accounts. Acquired FPA with RMB1.9bn in 2018 and acquired Candy with RMB3.8bn in 2019
Note 2: Calculated based on audited financial figures of HSH for FY2017-2019、1H2020
Note 3: CMM 2020. Data in 1H2020
Note 4: HSH's information. As of June 30, 2020

Mitigating COVID-19 Impact through Digital Transformation

- ☑ Prioritize workplace health and safety
- ☑ Successful domestic pandemic containment practices introduced overseas
- ☑ Effective global supply chain response

	Phase 1 Work Resumption	Phase 2 Digital Transformation	Phase 3 Post Pandemic Recovery
Pandemic Development	• Major demand and supply disturbances	• Significant macroeconomic pressure	
Actions	**Domestic Markets** • Adopt containment measures and ensure the safety of employees • Adjust business operations and set up specific plans for resumption of work • Establish the health and safety management system and implement emergency plans **Overseas Markets** • Drawing on mitigation experience and material support from China, take precautionary measures ahead of others	**Domestic Markets** • **Supply chain:** Customer-to-Manufacturer model to promote best sellers • **Channel:** Further support e-commerce and commercial channels • **Marketing:** increase presence on streaming platforms including Haier Smart Home App **Overseas Markets** • **Supply chain:** Strengthen infrastructure • **Marketing:** Accelerate digital transformation, and promote health related home appliances	• Capture growth opportunities with stronger fundamentals in post pandemic era • Accelerate digital transformation to improve multi-dimensional operation efficiency • Devote resources to the development of products with health concepts
Results	**Domestic Markets** • Fully resumed business operations since the end of March 2020. Offline sales channels generally resumed operation by April 2020 **Overseas Markets** • Fully resumed business operations by June 2020, except that in India and Italy. Offline sales channels generally resumed operation by June 2020	**Domestic Markets** • Online and offline refrigerators, washing machines, air-conditioners, water heaters and kitchen appliances continued to occupy the leading position in terms of retail volume in 1H2020[1] **Overseas Markets** • Pioneer in utilizing short-video and live streaming	• …

Note 1: CMM 2020

Overview of HSH's Q3 Results

Overview of the Q3 results of HSH[1]

HSH is committed to the strategy of IoT smart home ecosystem brand. By leveraging its advantages in full-suite appliances, high-end brands and global platform, it is well-positioned to sustain its leadership in the global market. The YoY growth rates of its revenue, gross profit, and profit attributable to owners of HSH in 2020Q3 were 16.9%, 14.7%, and 37.8%, respectively, demonstrating the substantial improvement in its financial performances in Q3

(RMBmm)	FY2019 9M	FY2020 9M	YoY change	FY2019 Q3	FY2020 Q3	YoY change
Revenue	**147,481**	**154,403**	***4.7%***	**50,207**	**58,680**	***16.9%***
China	62,879	63,117	*0.4%*			
Overseas	69,235	72,928	*5.3%*			
Other	15,367	18,358	*19.5%*			
Gross Profit	**42,472**	**42,488**	***0.0%***	**14,172**	**16,261**	***14.7%***
Margin (%)	*28.8%*	*27.5%*		*28.2%*	*27.7%*	
Profit for the period attributable to owners of HSH	**7,612**	**6,301**	***-17.2%***	**2,554**	**3,520[2]**	***37.8%***
Margin (%)	*5.2%*	*4.1%*		*5.1%*	*6.0%*	
Profit for the period attributable to owners of HSH from continuing operations	**6,121**	**6,301**	***2.9%***	**1,104**	**3,520[2]**	***218.8%***
Margin (%)	*4.2%*	*4.1%*		*2.2%*	*6.0%*	

- **Overall performance**: HSH's revenue increased by 16.9% to RMB58,680m and gross profit increased by 14.7% to RMB16,261m in Q3, with improved sales from all business segments resulting from gradual recovery from the impact of COVID-19 in 2020Q3
- **Overseas business**: HSH leveraged its global procurement, supply chain and R&D platform capabilities to minimize the adverse impact of the COVID-19 pandemic, and actively explored online sales in the overseas market to increase sales and brand reputation among overseas customers, recording a YoY revenue growth of 5.3% in overseas business in 9M2020

- **Selling expenses**: Conducted more marketing activities through digital channels under the impact of COVID-19 and focused on improving efficiency of retail system through digitalization and streamlined processes, reducing the selling expenses-to-sales ratio from 15.6% in 9M2019 to 15.1% in 9M2020
- **Net profit**: Increased efficiency through digitalization and streamlined processes with continuous focus and efforts on R&D to release high-end products with health concepts, and optimized financing channels and corporate structure to improve profitability. Profit attributable to owners of HSH from continuing operations recorded a remarkable improvement in 2020Q3, representing a strong trend of recovery from the impact of COVID-19

Note1: Based on unaudited financial statements of HSH in 2019Q3, Jan-Sept 2019, 2020Q3, Jan-Sept 2020
Note 2: Including the one-off after-tax gain of RMB1,546 million attributable to owners of HSH from the transfer of 54.5% equity interest in COSMO

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Overview of HEG's Q3 Results

Overview of the Q3 results of HEG [1]

Despite that the offline home appliance market was impacted from COVID-19 earlier this year, HEG continued the recovery trend and recorded a revenue of RMB21.84bn in Q3, representing a year-on-year increase of 18.1%, of which the revenue from the washing machine business, water heater and water purifier business and channel services business increased by 18.7%, 16.0% and 16.4%, respectively

(RMBmm)	FY2019 9M	FY2020 9M	YoY change	FY2019 Q3	FY2020 Q3	YoY change
Revenue before intersegment elimination:						
Washing machine business	16,523	17,561	*6.3%*	6,677	7,927	*18.7%*
Water heater and water purifier business	6,014	6,321	*5.1%*	2,047	2,375	*16.0%*
Channel services business	48,848	49,961	*2.3%*	16,098	18,745	*16.4%*
Consolidated revenue	**55,450**	**56,916**	***2.6%***	**18,495**	**21,841**	***18.1%***
Adjusted operating profit[2]	**3,000**	**2,566**	***-14.5%***	**1,142**	**1,349**	***18.1%***
Margin (%)	*5.4%*	*4.5%*		*6.2%*	*6.2%*	
Profit attributable to owners of HEG	**6,111**	**2,655**	***-56.6%***	**4,275**	**1,320**	***-69.1%***
Margin (%)	*11.0%*	*4.7%*		*23.1%*	*6.0%*	

- **Washing machine business**: Growth of both channels and brand mix shift. The online and offline channels grew by over 25% and nearly 5% respectively, demonstrating a steady recovery after the pandemic
- **Water heater and water purifier business**: Brand mix optimization and channel expansion. In Q3, the revenue growth of Casarte and Leader water heater had exceeded 100% and reached about 18% respectively
- **Channel services business**: Growth of e-commerce channel and specialty stores channel. The revenue of the e-commerce sector recorded a growth of over 30% in Q3 as a result of the rich content marketing and increase in the proportion of mid-to-high-end products

- The adjusted operating profit in Q3 was RMB1.35bn, representing a yoy increase of 18.1%
- Despite the impact of COVID-19 and the intensified competition, HEG has managed to achieve a rapid growth in operating profit in Q3 by adopting a series of cost reduction and efficiency-gain measures
- HEG began to focus on process reconstruction and digitalized transformation in Q3 to achieve organizational efficiency and expense optimization, and have propelled operating profit margins to resume to the same level of the same period last year

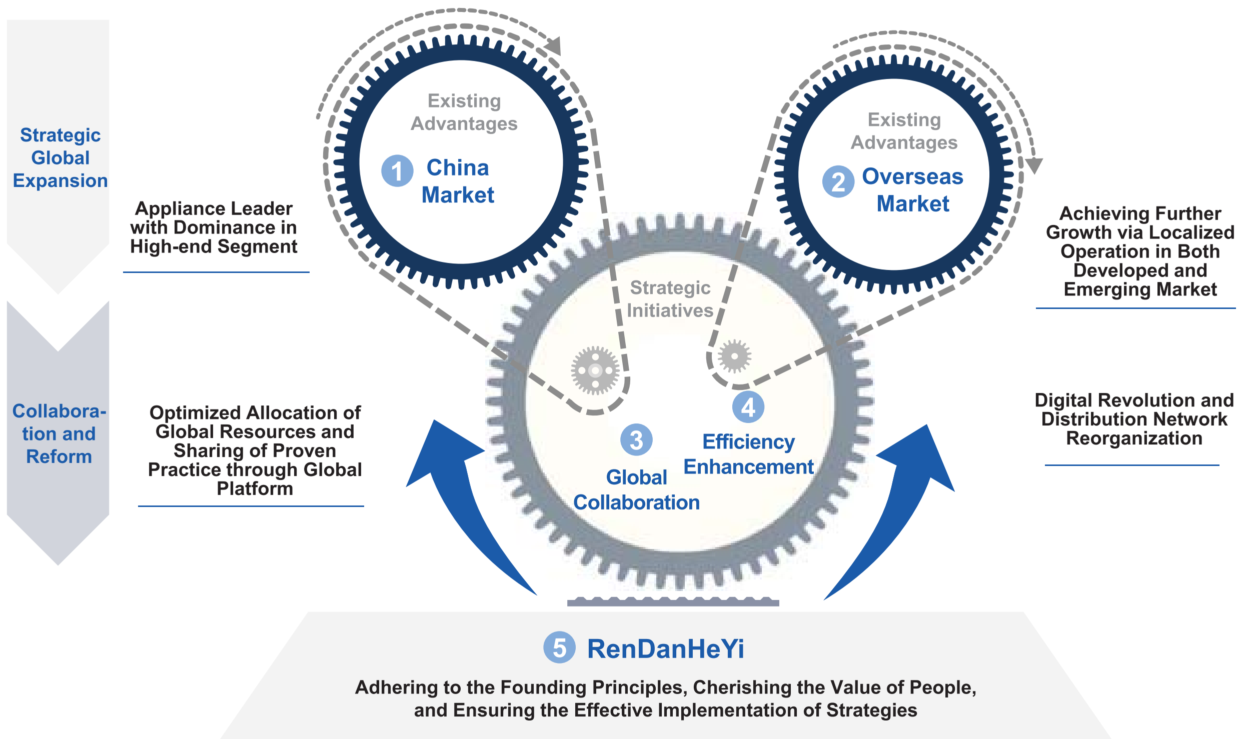
- The comparative figures in 2019 included the one-off non-cash disposal gain of ~RMB3.16bn from the asset swap transaction, therefore the profit attributable to owners of HEG recorded an yoy decrease in 2020Q3

Note 1: 2020Q3 Third Quarter Operational Update and 2020 Interim Report
Note 2: Adjusted operating profit is 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

Haier

Section II Investment Highlights

Well-positioned Globally to Sustain Leadership in the Future



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China Market

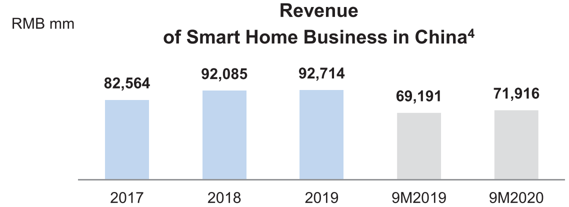
1.1 Leading Market Share and Solid Performance

Leading Market Share[1]

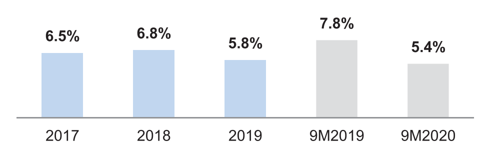
	Refrigeration Appliances[2]	Home Laundry Appliances[3]	Water Heaters	Large Kitchen Appliances	Air-conditioners
Ranking by Retail Volume in 2019	1	1	1	3	3
Market Share by Retail Volume in 2019	42.0%	43.9%	22.0%	9.0%	12.0%

Solid Performance

Revenue of Smart Home Business in China[4]



Operating Profit Margin of Smart Home Business in China[5]



Note 1: Euromonitor 2020
Note 2: Including built-in and non-built-in refrigerators, fridge freezers and freezers
Note 3: Including built-in and non-built-in fully automatic dryers, semi/fully automatic washing machines and washer dryers
Note 4: Audited financial figures of HSH for FY2017-2019, unaudited financial figures of HSH for FY9M2019 and FY9M2020. All figures have not been consolidated and offset
Note 5: Calculated based on audited financial figures of HSH for FY2017-2019, unaudited financial figures of HSH for FY9M2019 and FY9M2020

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China Market

1.2 Casarte — Leader in High-end Market

Leader in High-end Market

Market Share of Air-conditioners Priced over RMB15,000[1]

28%

Market Share of Washing Machines Priced over RMB10,000[1]

68%

Market Share of Refrigerators Priced over RMB10,000[1]

38%

Rapid Growth

Casarte's Revenue (RMB bn)[3] Jan – June 2020

3.5

Growth of Casarte's Revenue as % of HSH Revenue[3] 2017-2019

1.2pct

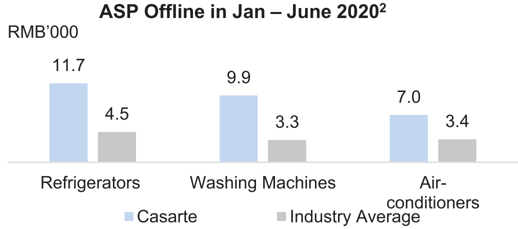
Casarte's Revenue CAGR[3] 2017-2019

36%

Well-recognized Premium Brand

- ASP in major categories offline > 2x industry average

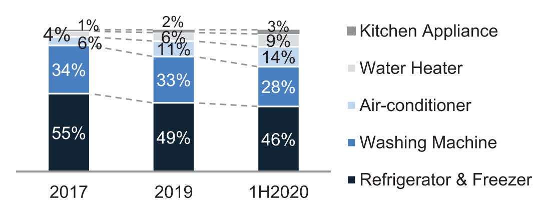
ASP Offline in Jan – June 2020[2]



From products to smart Home Solutions

- Growth driven by diversified products with increasing contribution from air-conditioner, water heater and kitchen appliance

Casarte Revenue by Segment[3]



Note 1: CMM 2020. In terms of offline retail volume in Jan – June 2020. ASP represents for average selling price
Note 2: CMM 2020
Note 3: HSH's information. Figures derived from management accounts

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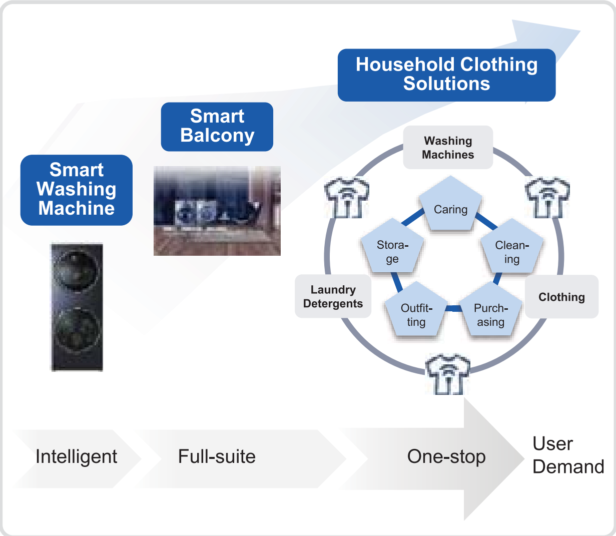
China Market

1.3 Continuous Upgrade of Smart Home Solutions

- Leveraging on HSH's competitive advantage in innovative and diversified products, HSH designs, implements and provides solutions of full-suite smart home products
- With integrated packages of appliances and interior design, HSH's business expands from individual appliance, to scenario applications, ultimately creating greater value with comprehensive one-stop smart home solutions



27.5% Revenue from sales of smart home products in sets as a % of revenue from smart home business in China 2019[1]

4.29mm Monthly active users of Haier Smart Home App[2]

68% Increase in the number of activated interconnected home appliances 2019[3]

Note 1: HSH's information. Figures derived from management accounts. Revenue from sales of smart home products in sets refers to single sales with more than one piece of products
Note 2: HSH's information. For the month ended June 30, 2020
Note 3: HSH's information

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China Market

1.4 Revitalizing Air-conditioner Business

Strengthen Presence

1) Increase distribution competitiveness through further penetration in villages
2) Break through e-commerce channels and lower tier markets with product differentiation
3) Strengthen corporation with property developers

Increase in market share

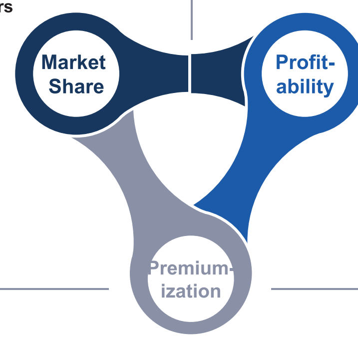
Offline in China Jan – June 2020[1]	Online in China Jan – June 2020[1]
+3.3 pct	**+3.9 pct**

Enhance Efficiency

1) Streamline SKUs and identify best sellers
2) Reduce cost by aggregated procurement and encouraging suppliers' participation in product development
3) Enhance end to end efficiency with direct shipment and designated production lines

Successfully reduced SKUs

Reduction in SKU in 2019[2]	Reduction in SKU Jan – June 2020[2]
15%	**9%**



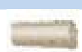
Adjust Market Positioning

1) Break through in high-end market via structural adjustment； 2) Capture market share with multi-brand portfolio;
3) Increase R&D investment and enhance recognition with iterative experience upgrade (from technology leadership to experience leadership)

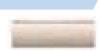
Increasing investment in multi-brand collabration and R&D

Optimize user experience with healthy air solution

Differentiate in middle and high-end market with Casarte



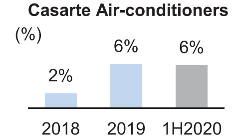
Haier 56 degree C anti-bacterial self-cleaning air conditioner

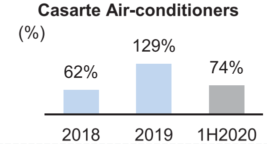


Casarte Tianjing anti-bacterial air conditioner with deep ultraviolet

Casarte

Expanding Premium Market Leadership[3]





Note 1: CMM 2020. Latest available data. Growth of market share in terms of retail volume of HSH's domestic air conditioners in Jan – June 2020, compared with Jan – June 2019
Note 2: HSH's information. Compared with 2018 and Jan – June 2019. As of Dec 31, 2019 and June 30, 2020
Note 3: HSH's information. Figures derived from management accounts

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Overseas Market

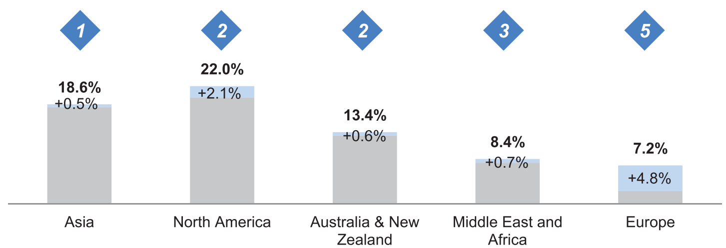
2.1 Market Share Expansion and Growth in Profitability Overseas

Market Share[1]

Market Share And Ranking In Global Major Home Appliance Industry 2019 [1]

1

14.7%



N Ranking 2019[1]

Market Share by Retail Volume 2017

Market Share Change by Retail Volume 2017-2019

Revenue and Profit

Organic growth and M&A

- Overseas contributes **48%** of total revenue in Jan – Sept 2020

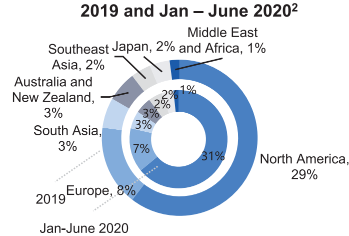
CAGR of Overseas Revenue 2017-2019[3]

14.8%

CAGR of Retail Revenue of Global Major Home Appliance Industry 2017-2019[4]

3.4%

Overseas Revenue Breakdown 2019 and Jan – June 2020[2]



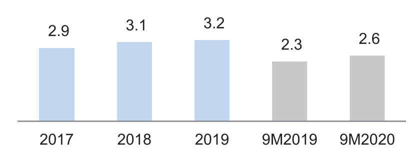
Steady profit growth

1 Benefits from global platform

2 Efficient cross region collaboration

Segment Profit of Overseas Smart Home Business 2017-2019 , Jan – Sept 2019 and Jan – Sept 2020[3]

(RMB bn)



Note 1: Euromonitor 2020. In terms of retail volume. Note 2: HSH's information. Figures derived from management accounts. Overseas revenue breakdown shows as % of total overseas revenue. Segment revenue has been consolidated and offset. Note 3: Calculated based on audited financial figures of HSH for FY2017-2019 and unaudited financial figures of HSH for Jan – Sept 2019 and Jan – Sept 2020 under IFRS standards. Segment profit from segment report in the audited financial statements of HSH prepared under IFRS. Note4: Euromonitor 2020. In terms of retail revenue

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Overseas Market

2.2 Well-recognized Brand Portfolio Serving Diversified Users

- Overseas strategy of proprietary brands
- Global brand portfolio with comprehensive coverage

	Self-grown Brands	Integrated Brands	
Luxury		MONOGRAM CAFÉ PROFILE GE APPLIANCES • Ranked first in North America's major home appliance by retail volume[2] • Comprehensive portfolios of products at different price points	OCS (Outdoor kitchen appliances) FISHER & PAYKEL • Ranked first in Australia & New Zealand's major household appliance industry by retail volume[2] • A leading brand with the world's top luxury kitchen appliances
High-end	Casarte • Absolute leading position in China's high-end home appliance market[1] • Ranked first in China's high-end refrigeration appliances/home laundry appliances/air-conditioners industry by retail volume[1]		
Middle-end	Haier • Ranked first in global major home appliance industry by retail volume [2] • Comprehensive portfolios of products at different price points • Main brand entering overseas markets	Candy • A home appliance brand with deep roots in Europe • A leading IoT home appliance brand in Europe	AQUA • A well-known home appliance brand acquired from Sanyo • High brand recognition in existing markets
Niche Markets	Leader • Comprehensive portfolios of products targeted on young users • Smart functions, stylish and minimalist design	Hotpoint • A minimalist home appliance brand • Offers cost-effective products	

Note 1: CMM 2020. Data in 1H2020
Note 2: Euromonitor 2020. Data in 2019

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Overseas Market

2.3 Successful M&A and Integration

A Series of Success

In 2015, HSH acquired Haier Group's overseas white goods business, including Sanyo Electric Co., Ltd.'s white goods business in Japan and Southeast Asia. In 2016, HSH acquired GE Appliances. In 2018, HSH acquired from Haier Group Fisher&Paykel, a New Zealand-based brand which HSH had been managing since 2015 under a trust arrangement. In 2019, HSH acquired the Italian Company, Candy

Promote Integration

1. *RenDanHeYi* model injects vitality
2. Global platform supports growth
3. Flexible and autonomous management mechanisms

Thriving GEA

Initiatives

R&D
Technology Sharing and Joint Development
Co-development of GEA's four-door refrigerators and large front-load washing machines

Procurement
Supplier Resource Sharing
Incorporate GEA in global procurement system

Management
Adopt *RenDanHeYi*
Align compensation with performance

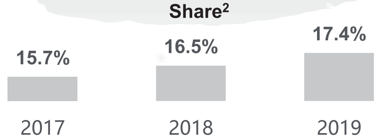
Product
Leveraging on Each Other's Competitive Strength
Support GEA to resume water heater business

Production
Agile Utilization of Global Production Capacity
GEA's four-door refrigerators and large front-load washing machines are produced by HSH in Qingdao

Performance[1]

10.3%	10.7%
Revenue CAGR 2015-2019	Net Profit CAGR 2015-2019

Year-on-Year Increase of Market Share[2]



Ranked **1st** among major home appliance brands in North America by retail volume in 2019[2]

Note 1: Calculated based on audited financial figures of HSH for FY2015 and FY2019. Revenue and net profit of HSH in 2015 are under the PRC GAAP standards and those in 2019 are under the IFRS standards
Note 2: Euromonitor 2020. In terms of retail volume

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Global Collaboration

3.1 Resource and Experience Sharing on a Unified Platform

R&D

- Co-develop high-end products
- R&D collaboration in components and technology
- Share of Patents

Applied to

FPA direct-drive motor → *Casarte washing machine*

Marketing

- Distribution network sharing with enhanced bargaining power
- Worldwide marketing campaign

Streaming

China ↔ *Overseas*

Procurement

- Alternate between regional and global suppliers
- Global procurement platform
- Adopt large-scale and digital procurement

Regional →Global Procurement Collaboration

Global Resource
One of the few major home appliance companies with leadership in China, US and Europe

Unified Platform
Global platform for R&D, procurement, supply chain, quality & service, strategy & branding

Proven Practice
Strengthen high-end products leadership and accelerate smart scenario implementation

Product Development

- Leveraging on each other's competitive strength
- Regional product collaboration

Haier → GE Appliances: *Support to resume the water heater business*

Branding

- Multi-class brand portfolio
- Differentiated multi-brand strategy globally
- Premiumization strategy

Supply Chain Management

- Flexible deployment of global production capacity
- Visualization and digitalisation of supply chain
- Share smart manufacturing technologies and know-how

Haier → GE Appliances: *Smart factory transformation* / *Proven practice transfer*

- *Enhance efficiency*
- *Reduce cost*

Note 1: HSH's information. As of June 30, 2020

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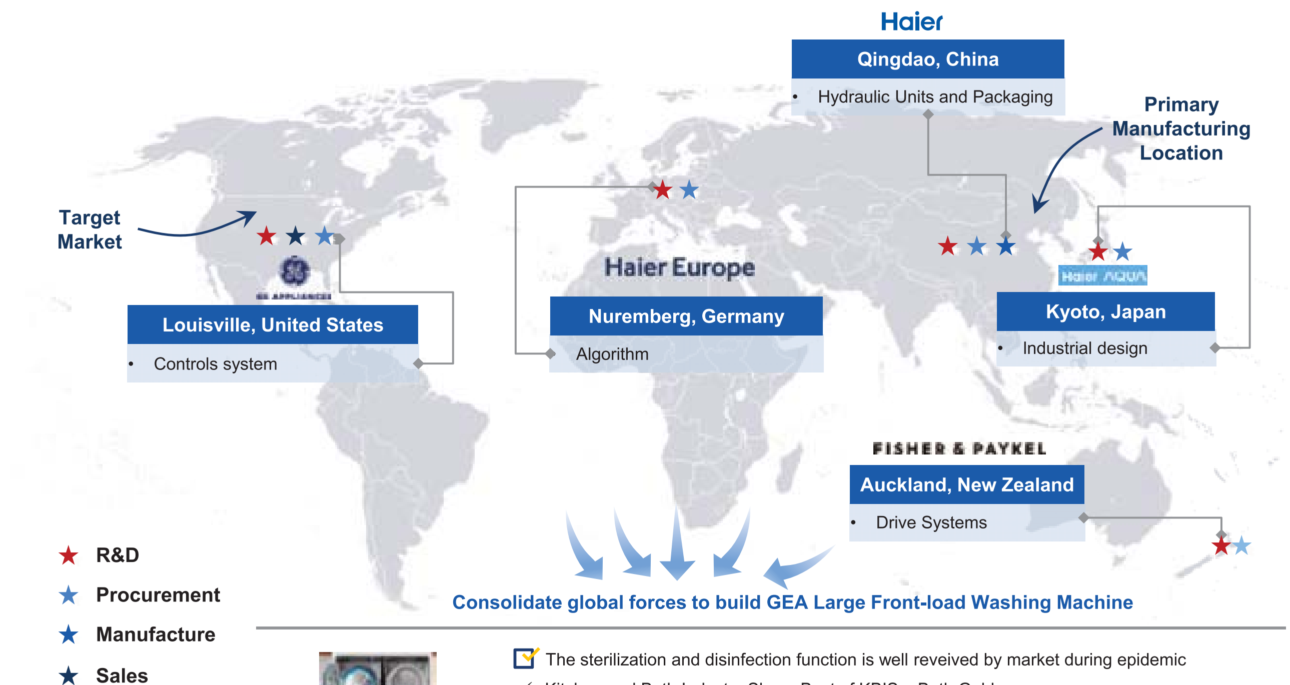
Global Collaboration

3.2 GEA's Case —Capture Market Share with Successful Launch of New Front-loader



- The sterilization and disinfection function is well reveived by market during epidemic
- ✓ Kitchen and Bath Industry Show: Best of KBIS – Bath Gold
- ✓ Good Housekeeping: Best Overall Washing Machine of the 8 Best-performing Washing Machine in 2020 in US, 15 Best Innovations of 2020
- ✓ Family Handyman: One of the Best Smart Washers for 2020

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Efficiency Enhancement

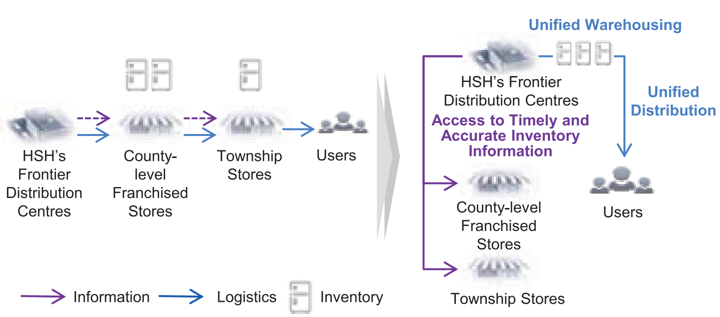
4.1 User-oriented Global Distribution Network

Direct Interaction with Users

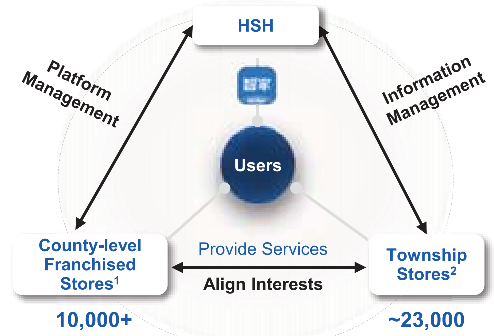
China market: ongoing efficiency reform

- Constantly promoting channel integration and efficiency enhancement

"Unified Warehousing and Distribution" Transformation



- Digital distribution network with extensive town level coverage



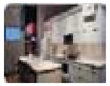
Overseas market: extensive distribution network

- Distribution network

160+ Countries and Regions

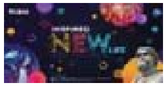
66 Sales Centres

- Efficient retailer cooperation



Scenario-based experiential sales format

- Expanding presence online



Inspired Live global marketing campaign

Streaming overseas

Source: HSH's information. As of June 30, 2020
Note 1: Including over 7,000 county-level franchised stores that are able to provide full-suite smart home products and solutions, and over 3,000 county-level franchised stores that are focusing on selected product lines
Note 2: Including over 14,000 township-level franchised stores and nearly 9,000 local retail stores at township-level

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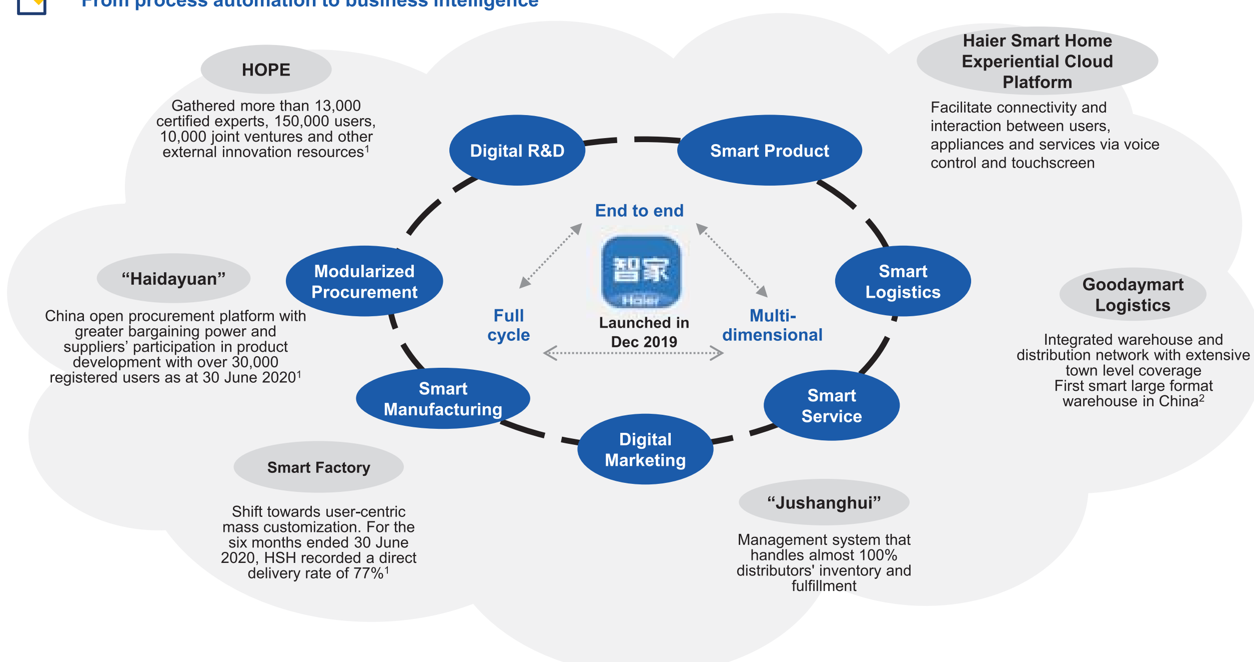
Efficiency Enhancement

4.2 Embark upon the Digital Transformation

Building A Digitalised Enterprise of technologies

- From operation control to full value chain vitalization
- From process automation to business intelligence



Note 1: HSH's information
Note 2: Euromonitor 2020

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RenDanHeYi

5 Unlock Our People's Potential with *RenDanHeYi* Model in the Creation of Outstanding User Experience

RenDanHeYi Model

- ✓ Our people can realize individual value when creating value for users , which also adds to the enterprise value and shareholders' value
- ✓ Three Key Elements: ecosystem-based micro-enterprise (EBME) contracts, the self-driven system and the sharing of value

Haier's success is the result of a root-and-branch overhaul of its once-traditional management model…… Haier's shorthand for these practices is *rendanheyi*, a mash-up of Chinese characters that connotes a tight coupling of the value created for customers with the value received by employees.

——*The End of Bureaucracy*. Harvard Business Review, 2018

The ideology seeks to make big companies operate like a collection of startups, emphasizing flexibility and risk-taking and no middle managers. Zhang (Ruimin) thought the approach would help revitalize a stagnant GEA, where sales growth was 1 percent in 2014……The company says it's working so far. GEA's revenue in U.S. dollars grew 11 percent in the first half of last year with the help of new products.

——Bloomberg Businessweek, February, 8th 2019

- ✓ The *RenDanHeYi* model has been replicated in overseas regions

Experienced and Talented Management Team

~ **30** years of experience in the industry

20+ years working for Haier

Aligned Equity Incentive Schemes

- HSH launched **four** equity incentive plans and **four** core employees' equity ownership plan from 2009 to 2019
- **Broad coverage** includes the majority of key personnel
- **Well defined mechanism** that aligns compensation with performance

Haier

Chapter III: Benefits for Shareholders of Haier Electronics Group Co., Ltd. ("HEG")

Haier

Section I: Financial Benefits

Financial Benefits to Scheme Shareholders -- Summary

Financial Return for Scheme Shareholders

New HSH H shares
- 1.60 new HSH H Shares for every Scheme Share cancelled

+

Cash Payment
- Cash Payment of HK$1.95 for every Scheme Share cancelled

Earnings per Share (EPS) accretion for Scheme Shareholders

- Excluding the Cash Payment, the pro forma EPS accretion of the proposed privatisation for Scheme Shareholders shall be 9.9%[2]

Total value of the transaction

- The theoretical total value which can be received for every Scheme Share is HK$38.03 based on 1) the Share Exchange Ratio of 1.60 HSH H Shares for every Scheme Share cancelled and the mid-point of the valuation range estimated by the Valuation Adviser issued at November 16, 2020 of HK$22.55 per HSH H Share[3], and 2) the Cash Payment of HK$1.95 for every Scheme Share cancelled; Corresponding total return on the Scheme Shares is demonstrated below:

Total return on the Scheme Shares[1]

	Latest Practicable Date	Last trading day (Prior to 3.5 Announcement)	30-day (Prior to 3.5 Announcement)	60-day (Prior to 3.5 Announcement)
Average closing price (HK$)	36.60	26.85	24.55	23.03
Return on Scheme Shares (%)	3.91	41.64	54.91	65.11

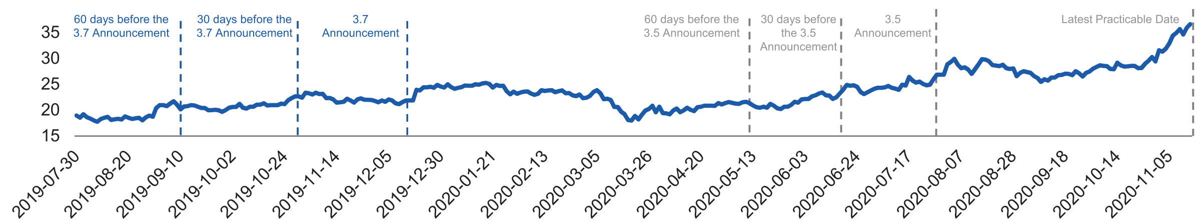
- Theoretical Total Value for each Scheme Share of HK$38.03[3] = Share Exchange Ratio of 1.60 ✖ HSH H Share Valuation of HK$22.55 + Cash Payment of HK$1.95
- The implied valuation of HEG is HKD107,131mm, representing an implied 2019 PE of 22.32x and 2019 EV/EBITDA of 18.30x

Note 1: HEG's share price increased by 9.38% during the first trading day after the Rule 3.7 Announcement
Note 2: EPS calculation is based on profit from continuing operations attributable to shareholders of HSH without the effect of one-off listing and privatisation expenses
Note 3: HSH H Share Valuation is the mid-point of the valuation range of HK$22.55 estimated by the Valuation Adviser issued at November 16, 2020

1 Financial Benefits to Scheme Shareholders -- Total Return

- **The implied premium of the proposed transaction (sum of the HSH H Shares & Cash Payment) is in line with average premium offered in the share exchange privatisation precedents in Hong Kong Stock Exchange**

HEG Shares Performance and Implied Total Premium of the Proposed Transaction



	Latest Practicable Date	Last trading day (Prior to 3.5 Announcement)	30-day (Prior to 3.5 Announcement)	60-day (Prior to 3.5 Announcement)	Offer Period Commencement Date (Prior to 3.7 Announcement)
Total Premium of the Proposed Transaction (%)	3.91	41.64	54.91	65.11	74.05

Premium offered in Share Exchange Privatisation Precedents in Hong Kong Stock Exchange[1]

Rule 3.5 Announcement Date	Target	Acquirer	Last trading day	30-day	60-day
2017/9/8	CNMC	CNBM	19.19%	31.18%	44.86%
2014/12/30	CNR	CSR	13.30%	23.85%	26.74%
2010/5/19	Denway	GAC	18.47%	27.09%	25.83%
2008/6/2	China Netcom	China Unicom	3.02%	17.25%	19.46%
	Mean		**13.50%**	**24.84%**	**29.22%**
	Median		**15.89%**	**25.47%**	**26.28%**

Source: Wind, as of November 13, 2020, Exchange rate: CNY 1=HKD1.1707
Note 1: This is an exhaustive list based on all completed share exchange privatisation market precedents in Hong Kong Stock Exchange which did not involve a distribution in specie or a cash consideration option and which were announced between January 1, 2008 and November 13, 2020

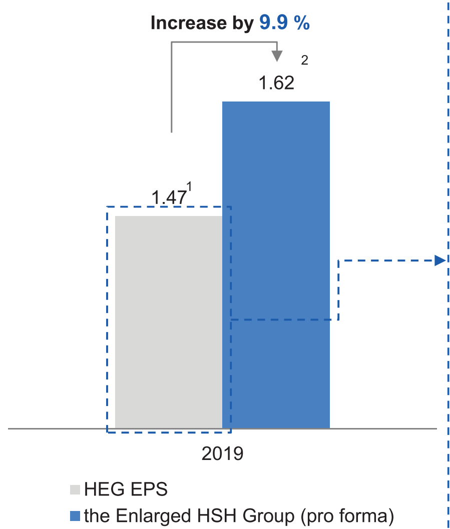
2 Financial Benefits to Scheme Shareholders -- Considerable EPS Accretion

EPS for Scheme Shareholders

- Based on the RMB4.10bn and RMB6.71bn profit from continuing operations attributable to owners of HEG and HSH in 2019 and the Share Exchange Ratio, **the pro-forma EPS for Scheme Shareholders will increase by 9.9 %**

Pre- and post-transaction EPS for Scheme Shareholders

(RMB per share)



Continuing Operating Profit Analysis of HSH[3]

(RMB mm)	2017	2018	2019
Revenue	154,165	177,594	198,006
yoy (%)	*33.7%*	*15.2%*	*11.5%*
Gross Profit	50,164	52,179	58,613
Gross Margin (%)	*32.5%*	*29.4%*	*29.6%*
SG&A	41,973	43,103	51,008
As % of Rev (%)	*27.2%*	*24.3%*	*25.8%*
EBIT[4]	8,191	9,076	7,605
EBIT Margin (%)	*5.3%*	*5.1%*	*3.8%*
D&A from continuing operations	2,970	3,019	4,371
EBITDA	11,161	12,095	11,976
EBITDA Margin (%)	*7.2%*	*6.8%*	*6.0%*
Profit for the year from continuing operations	8,791	9,533	9,022
Attributable to owners of the Company	6,845	7,391	6,715

Gross margin increased by 0.2 pct driven by strong sales growth of premium brand & deconsolidation of logistics business

EBIT margin declined by 1.3 pct due to:
- Increase in marketing expenses;
- Higher D&A caused by further investment in smart factories, smart home and overseas acquisitions

Note 1: Calculated based on audited financial figures of HEG for FY2019. From continuing operation. Note 2: Calculated based on the unaudited pro forma financial information of HSH Group for FY2019, based on the 1.60 exchange ratio. From continuing operation. Without the effect of one-off listing and privatisation expenses, the post-transaction EPS for Scheme Shareholders will be RMB1.01 per share * 1.60 = RMB1.62 per share. Note 3: Calculated based on audited financial figures of HSH for FY2017-2019. Note 4: EBIT=total revenue-COGS-SG&A-other operating expense

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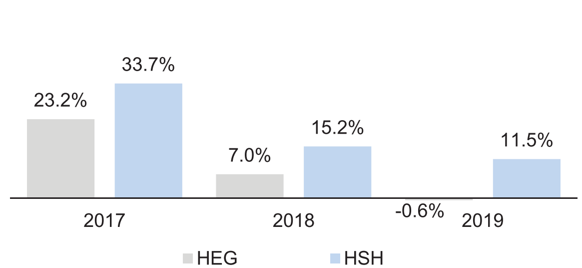
3 Financial Benefits to Scheme Shareholders -- HSH Shares with Greater Return

- **The Enlarged HSH Group is committed to increase its pay-out ratio in the future**

Stronger Growth

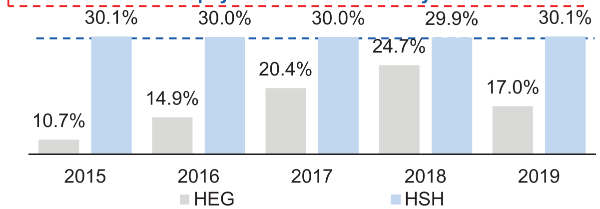
Revenue[2]



Cash Dividend

Historical dividend pay-out ratio[1]

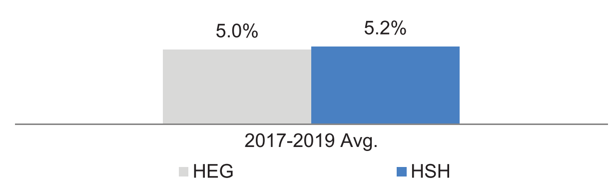
After the Scheme becomes effective, HSH plans to increase its dividend pay-out ratio to 40% in 3 years[1]



- HSH's average dividend pay-out ratio during the past 5 years was 30%, with all past dividends paid in cash

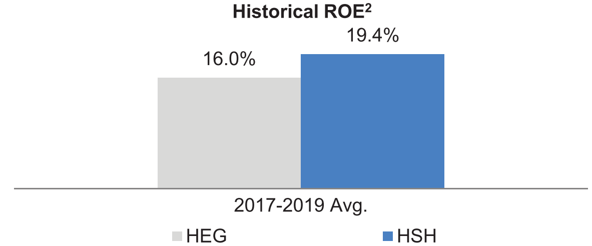
Net Profit Margin

Historical profit margin[2]



ROE

Historical ROE[2]



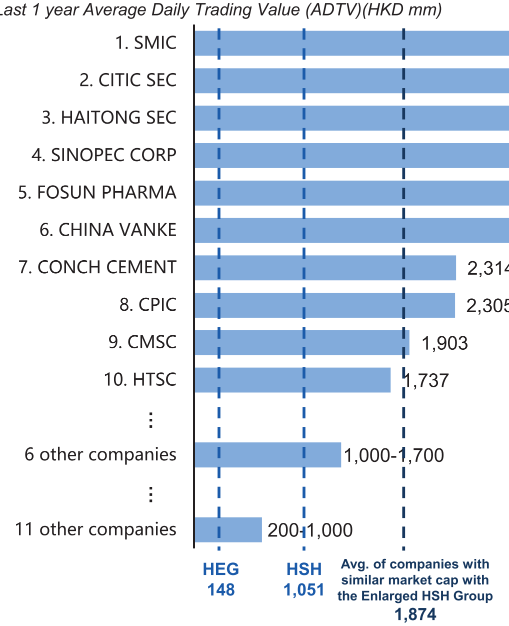
Note 1: Calculated based on audited financial figures of HSH and HEG for FY2015-2019 by actual total cash dividends and net profit attributable to ordinary shareholders
Note 2: Calculated based on audited financial figures of HSH and HEG for FY2017-2019; HEG's revenue is consolidated into HSH's accounts, and the proposed transaction will not change HSH's revenue; the financial statement is restated after the deconsolidation of the logistics business, and the profit from discontinued operations attributable to the owners of the company is deducted; the restated data after the deconsolidation of the logistics business is adopted for HEG; ROE=profit for the year from continuing operations attributable to the owners of the company/average equity attributable to owners of the company

4 Financial Benefits to Scheme Shareholders -- HSH Shares with Improved Liquidity

- After the successful listing by way of introduction, HSH will also be able to **diversify its investors base** through its H Share platform and H Share holders of HSH are expected to include both existing HEG investors and new HSH investors, thus bringing about **potential increase in liquidity**

Comparison of liquidity of A+H dual-listed companies with similar market capitalization[1] with the Enlarged HSH Group

Last 1 year Average Daily Trading Value (ADTV)(HKD mm)



Last 1 year ADTV	(HKD mm)
Average ADTV of companies with similar market capitalization with the Enlarged HSH Group	**1,874**
Maximum ADTV of companies with similar market capitalization with the Enlarged HSH Group	7,774
Minimum ADTV of companies with similar market capitalization with the Enlarged HSH Group	288
HSH	**1,051**
HEG	**148**

Note 1: A+H dual-listed companies with similar market capitalization with the Enlarged HSH Group include those with market capitalization between 50% and 200% of the assumed market capitalization of the Enlarged HSH Group of HK$300.2 billion, which is calculated based on the stock price of HSH and the enlarged share capital of HSH Group based on the market data as of November 13, 2020

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Haier

Section II Potential Synergies

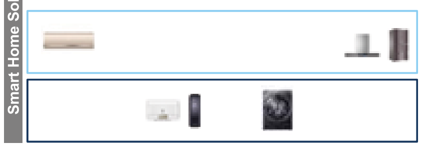
1 Potential Synergies from the Transaction -- Enhance Operational Efficiency

1 Consolidate Product Portfolio to Provide Full Scenario Smart Home Solution

Provide full scenario and customized user experience

Smart Home Solutions

Household Air Solutions	Household Water Solutions	Household Clothing Solutions	Household Food Solutions

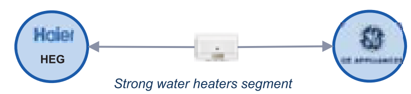


Experience cloud platform

2 Accelerate Development of Washing Machines and Water Appliance Overseas

- Leverage on HSH's global platform in the development of washing machines and water appliance business
- Global production optimization

For examples: smoother collaboration between HEG and GEA in water heaters business after the transaction



Strong water heaters segment

3 Improve Efficiency and Reduce Cost through Digital Transformation

- Enhance operational efficiency and reduce cost through end to end digital operation

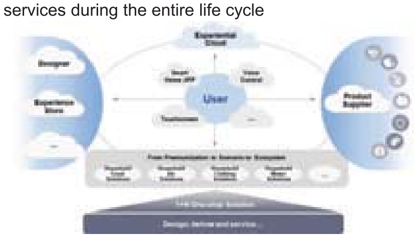
Experience cloud platform	
Brand	
Gome、Suning	E-commerce, franchised stores and logistics
Manufacturing	Manufacturing
Procurement	
R&D	R&D
R&D system	

Full Process Integration

Business of HSH pre transaction (excluding HEG) | Business of HEG pre transaction

4 Develop Experiential Cloud

- Upon the completion of the transaction, all product categories could utilize a unified experiential cloud, through which HSH Group could accelerate online and offline integration and provide users with customized services during the entire life cycle



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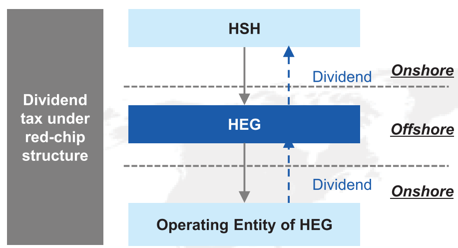
2 Potential Synergies from the Transaction (Cont'd) -- Increase Shareholder Return

1 Optimize Capital Allocation

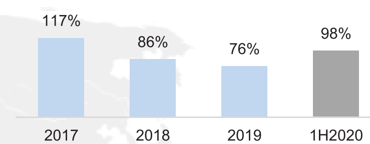
Aggregate capital allocation



Optimize capital structure

- Reduce leverage ratio

Gearing Ratio of HSH[1]



2 Improve Shareholder Return

Increase the dividend pay-out ratio in 3 years to[1]

40%

Dividend Pay-out Ratios of HSH and HEG in 2015-2019[2]

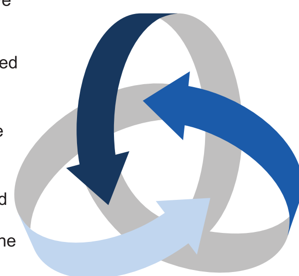
Annual Dividend/Profit Attributable to the Owners of the Company (%)	2015	2016	2017	2018	2019	5-year Avg.
HSH	30.1	30.0	30.0	29.9	30.1	30.0
HEG	10.7	14.9	20.4	24.7	17.0	17.5

Note 1: Calculated based on audited financial figures of HSH for FY2015-2019 and Jan-June 2020. Gearing ratio is calculated by dividing the closing balance of total debt (interest bearing indebtedness including interest bearing borrowings, lease liabilities and convertible and exchangeable bonds) by the closing balance of equity attributable to owners of the Company.
Note 2: Calculated based on audited financial figures of HSH and HEG for FY2015-2019 by total actual cash dividends and net profit attributable to ordinary shareholders

3 Potential Synergies from the Transaction (Cont'd) -- Improve Corporate Governance

1 Design Incentive Programme for Global Employees

- The Introduction will provide a new tool of equity incentive for HSH Group. HSH Group will increase the incentive granted to core management and excellent talents in different markets worldwide with Incentive Schemes based on various classes of shares
- The Enlarged HSH Group intends to maintain a wide coverage under the Incentive Schemes to strengthen the incentives and reach more key personnel, especially overseas employees
- The Incentive Schemes will be linked to performance and profit targets with reference to the terms of employees incentive plans stipulated by comparable companies in the industry. Relevant performance and profit targets may include, but are not limited to, operating profit and earnings per share



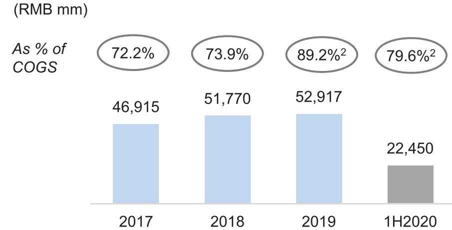
3 Raise ESG[1] Standards

- Focus on and implement the ESG concept of "Green, Life, and Care" and improve our ESG standard in terms of ESG governance, ESG disclosure, and ESG management
- Gradually incorporate impact of climate change into our strategic considerations and risk management processes
- Integrate global user and supply chain resources to create and develop an environmental-friendly and society-harmonious green value chain
- Actively uphold corporate responsibility and protect employees' rights and interests, while giving back to the society, by carrying out public welfare activities and bringing warmth to the society

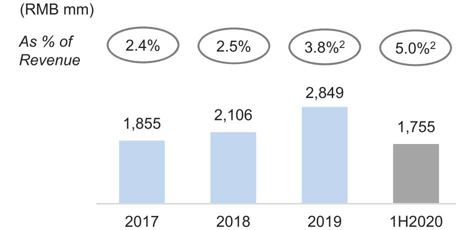
2 Reduce Connected Party Transactions

- Reap the benefits of simpler corporate structure

Connected Party Procurement by HEG from HSH and its associates [2]



Connected Party Sales by HEG to HSH and its associates [2]



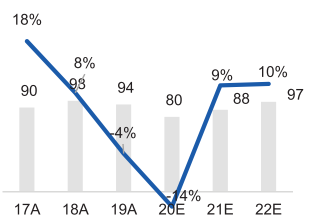
Note 1: Environment, Social Responsibility and Corporate Governance
Note 2: HEG's information. Figures derived from management accounts on an unrestated basis; Connected party procurement as % of COGS and connected party sales as % of revenue are higher in 2019 due to deconsolidation of logistic business; Connected party procurement includes purchase of finished goods, equipment and raw materials, and mould; Connected party sales includes export sales of products after expense and domestic sales of products


Haier
Appendix

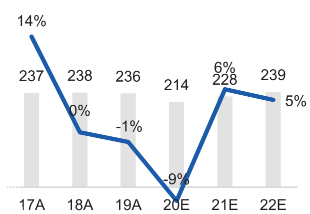
1.1 Overview of Chinese Major Home Appliance Industry

Overall Growth Slows Down

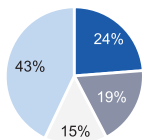
2017-2022 Retail Revenue and Growth Rate of Major Home Appliances in China[1]



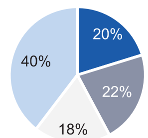
2017-2022 Retail Volume and Growth Rate of Major Home Appliances in China[1]



2019 Retail Revenue Breakdown of Major Home Appliances in China, by Category[1]



2019 Retail Volume Breakdown of Major Home Appliances in China, by Category[1]



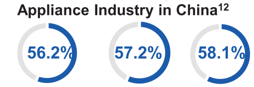
Refrigeration Appliances | Large Kitchen Appliances | Home Laundry Appliances | Air-conditioners

Impact of COVID-19	Although the COVID-19 pandemic has suppressed the demand for home appliances in the short term, its impact in the medium and long term will be limited and it will further stimulate the demand for healthy and smart home appliances COVID-19 has also changed the retail channel layout of major appliances which have gradually shifted to online channels

Fierce Competition Increasing Concentration

- **Price competition will continue to increase the concentration of the industry with players gaining market share by leveraging on their brands, supply chains, distribution channel, R&D, etc.**
- Leading players' market share in refrigeration appliances continue to increase while leaders in home laundry appliances, air-conditioners, and kitchen appliances remain stable

2017-2019 CR3 in Major Home Appliance Industry in China[12]

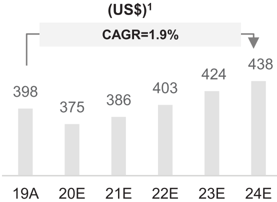


	2017	2018	2019
Haier	22.3%	22.9%	23.2%
Company A	19.7%	20.0%	22.2%
Company B	14.2%	14.3%	12.7%

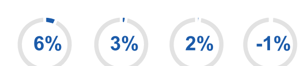
Market Share		2017	2018	2019	
Refrigeration Appliances	CR3[2]	64.5%	66.4%	68.1%	
	Haier	39.9%	41.1%	42.0%	1
Home Laundry Appliances	CR3[2]	81.0%	79.9%	78.4%	
	Haier	43.8%	43.9%	43.9%	1
Air-conditioners	CR3[2]	69.0%	68.9%	68.5%	
	Haier	11.6%	11.9%	12.0%	3
Large Kitchen Appliances	CR3[2]	35.0%	35.6%	35.2%	
	Haier	8.5%	9.0%	9.0%	3

Demand Driven by Consumption Upgrade

2019-2024 ASP of Major Home Appliances in China (US$)[1]



2019-2024 Forecasted ASP Growth by Category



- With the rising consumption level and the transforming consumption concepts, the focus of home appliance consumption has shifted from function to quality

Source: Euromonitor 2020
Note 1: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances
Note 2: Based on sales volume, CR3 stands for the market share of the top three companies (including Haier)

1.1 Overview of Chinese Major Home Appliance Industry (Cont'd)
-- The Home Appliance Industry Is Becoming Integrated, Intelligent, Scenario-based and Full-suite Solutions

Home Appliance Consumption towards Integrated, Intelligent, Scenario-based and Full-suite Appliance Solutions Driven by User Demand and Technological Development

Drivers: Changeing Demand + Technology Iteration

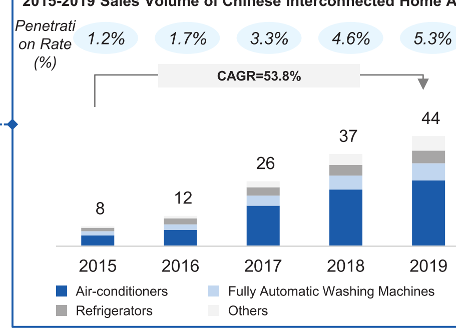
Industry Trend: Integrated; Intelligent; Scenario-based; Full-suite

Industry Competition:
- One-dimension Competition: Hardware Competition
- All-dimension Competition: Integrated Products; Interconnected Platforms → Ecosystem

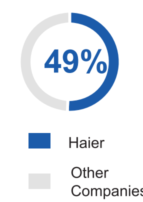
Electronic Home Appliance→Interconnected Home Appliance → Interconnected Home Appliance →Scenario-based Smart Home Solution → Scenario-based Smart Home Solution→Smart Home Ecosystem

Sales Volume and Penetration Rate of Chinese Interconnected Home Appliances Increase Year by Year; Haier Dominates in the Market

2015-2019 Sales Volume of Chinese Interconnected Home Appliances (Million units)[1]



2019 Chinese Interconnected Home Appliances Breakdown[2]



One Stop Home Solutions → **Home Appliance Industry Moving towards Scenario-based Solutions**
- ✓ Interconnection in Different Scenarios
- ✓ One-stop Purchase
- ✓ Unified Style

→
- Scenario-based solutions require a **comprehensive product portfolio and leading technology**
- Currently, the majority of players in China can only provide individual products

The trend towards **integrated, intelligent, scenario-based and full-suite** solutions has emerged in the home appliance industry, posing greater demand for **a comprehensive product portfolio and leading technology**

Source: Euromonitor 2020
Note 1: Interconnected home appliances include interconnected major home appliances (refrigeration appliances, home laundry appliances, Air-conditioners and large kitchen appliances) and the interconnected small home appliances.
Note2: By sales volume

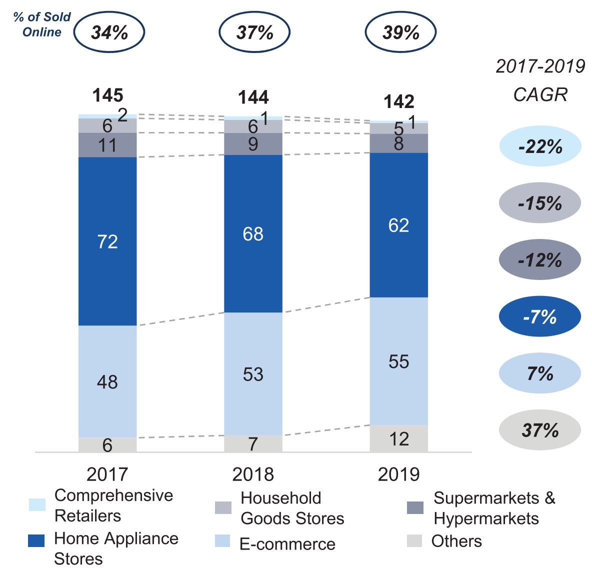
50

1.1

Overview of Chinese Major Home Appliance Industry (Cont'd)
-- Diversified Distribution Ecosystem and Online-Offline Integration

Increasingly Diversified Distribution Network with Online-Offline Integration

2017-2019 Retail Volume Breakdown of Major Home Appliances in China, by Channel (Million Units)[1]



a **Offline Stores as the Mainstream Channel**

- Promoting the high-end transformation through scenario-based experience, increased proportion of mid-to-high-end products and refined operation, in order to improve efficiency

b **Dominated by JD, Suning and Tmall with increasing lower tier penetration and online offline integration**

- There are three dominant players, namely JD, Suning and Tmall, among online E-commerce platforms, which accelerate their development in offline markets of lower-tier cities to enhance online-offline integration
- The E-commerce platforms accelerates the emergence of short videos, streaming, etc., which drives the new marketing trend of content operation centred on users

c **The Rapidly Growing Construction Business Channel as A New Growth Driver**

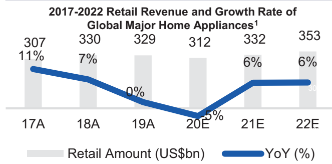
- Driven by refined decoration, construction business grows rapidly

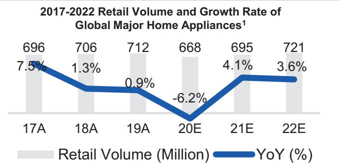
With the increasingly diversified distribution network, it is imperative to **adopt unified management of channels, promote online-offline integration and improve operational efficiency**

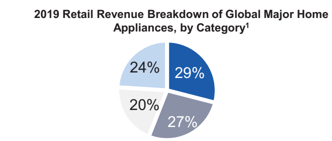
Source: Euromonitor 2020
Note 1: Major home appliances include home laundry appliances, large kitchen appliances and refrigeration appliances and does not include air-conditioners. Other channels include fine decoration and TV shopping.

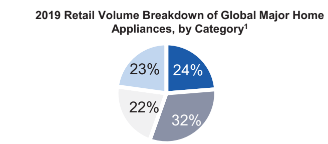
1.2 Overview of Global Major Home Appliance Industry

Retail Revenue and Retail Volume of Global Major Home Appliance Maintain Growth Rate of 3%-6% in 2021-2022







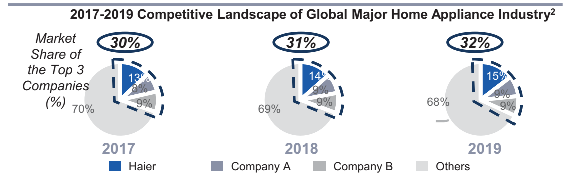


Refrigeration Appliances | Large Kitchen Appliances | Home Laundry Appliances | Air-conditioners

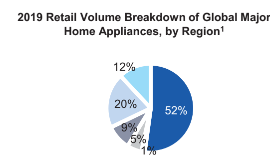
Impact of COVID-19

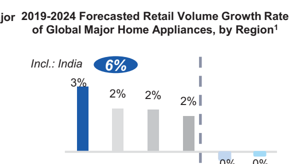
- **The COVID-19 pandemic causes the short-term slowdown in consumption but does not affect its long-term fundamentals. Social operations have gradually resumed in many countries**
- Consumers' demand for home appliances will continue to exist and rise steadily. In addition, the epidemic also stimulate the demand for health-related products such as ventilation and disinfection products, and change the retail channel layout of major appliances which have gradually shifted to online channels
- The industry trend towards **interconnected and high-end home appliances** will continue to drive the steady market growth

Leading Players Maintained Solid Market Share; Haier Ranked No. 1 with 15% Market Share by Sales Volume



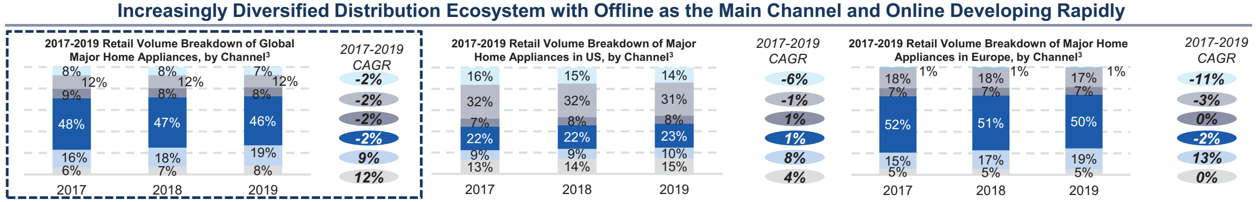
- With high penetration rate, the main driver in **developed areas** is the **upgrading demand**. The Chinese enterprises realize their expansion in developed areas' home appliance market by **increasing their market share**
- **The rising penetration rate in developing countries drives** the **rapid market growth**, from which the newly entered Chinese companies benefit when increasing their market share





Asia Pacific | Australia & New Zealand | Middle East and Africa | Latin America | Europe | North America

Increasingly Diversified Distribution Ecosystem with Offline as the Main Channel and Online Developing Rapidly



Source: Euromonitor 2020
Note 1: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances
Note 2: Based on sales volume
Note 3: Major home appliances include home laundry appliances, large kitchen appliances and refrigeration appliances, and does not include air-conditioners

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1.2 Overview of Global Major Home Appliance Industry (Cont'd)
-- Broad Development Space in Overseas Market

Drviers
- Trend for growth in both quantity and quality
- Trend for transformation towards the high-end
- Trend for full-suite, customised solutions
- Trend for AI-based, interconnected appliances

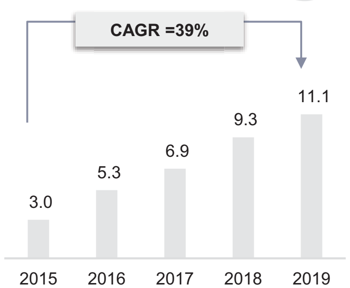
Europe and US Markets Show Clear Intellectualization Trend and Appliance Upgrade Becomes Future Growth Driver

a In Europe, smart home appliance rose from less than 2.0% in 2015 to 4.0% in 2019. **With traditional home appliances in saturation, interconnected products will become a new future growth driver**

b With the main **U.S.** market demand driven by upgrade and replacement, development of **smart and interconnected products will continue to promote the overall growth of the home appliance market**

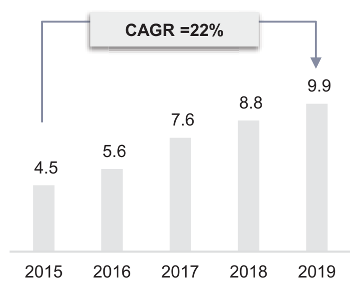
2015-2019 Retail Volume of Interconnected Home Appliances in Europe (Million)[1]

Proportion of Haier Interconnected Home Appliances in 2019 **9.5%**



2015-2019 Retail Volume of Interconnected Home Appliances in US (Million)[1]

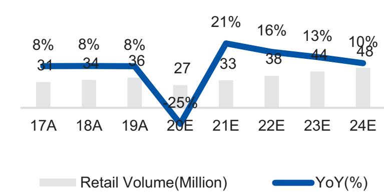
Proportion of Haier Interconnected Home Appliances in 2019 **8.5%**



Penetration Increase in Developing Countries

a Appliance market continue to grow in countries like India with rising income and low penetration

2017-2024 Retail Volume and Growth Rate of Major Home Appliances in India[2]



	India	China
Penetration of Refrigerators	32%	99%
Penetration of Washing Machines	6%	62%
Penetration of Air-conditioners[3]	8%	87%

- **With significant growth potential, overseas market has become the incremental market that Chinese companies target**
- As interconnected home appliances increase abroad, **the globalized trend of IoT smart homes might open up new opportunities**

Source: Euromonitor, 2020
Note 1: Interconnected home appliances include interconnected major home appliances (refrigeration appliances, home laundry appliances, air-conditioners, large kitchen appliances) and interconnected small home appliances
Note 2: Major home appliances include air-conditioners, home laundry appliances, large kitchen appliances and refrigeration appliances
Note 3: The penetration rates of refrigerators and washing machines are 2019 data, while the data of air-conditioners are 2017 data

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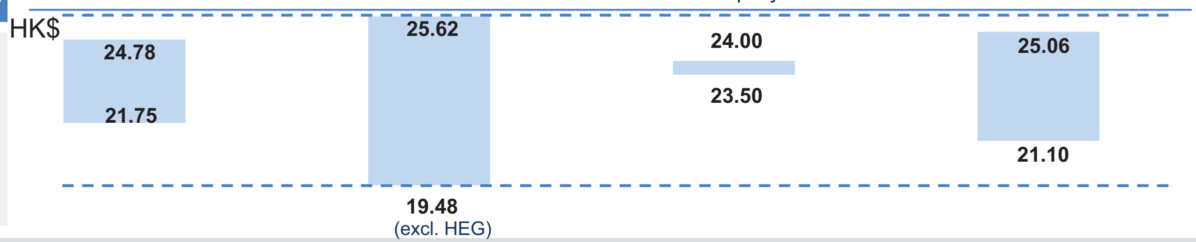
2.1 Valuation Analysis of HSH H shares
——Overview

	1 Global Comps	2 SOTP	3 Direct Comps
Description	Selected comparable companies based on the following principle: (i) listed on a stock exchange globally; (ii) engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America; and (iii) market capitalisation greater than RMB5bn, and use their valuation as a valuation benchmark	Divide HSH's valuation into the sum of (i) value of HEG attributable to HSH, and (ii) remaining HSH value apart from (i). Value the two parts separately and sum them up to get the total valuation of HSH	Select HEG, which is a subsidiary of and highly comparable to HSH in terms of business segments, listing venue and valuation correlation, as the direct comparable company and used its multiple to value HSH
Valuation Methodology	(i) EV/EBITDA * 2019 EBITDA; and (ii) P/E * 2019 net profit from continuing operations attributable to ordinary equity holders of the company	HEG's market cap * HSH's shareholding % in HEG + P/E of global comps * Non-HEG's net profit from continuing operations attributable to ordinary equity holders of the company	(1) EV/EBITDA * 2019 EBITDA and (2) P/E * 2019 net profit from continuing operations attributable to ordinary equity holders of the company

Valuation Reult



Considering HEG's share price has likely been affected by the transaction post the Rule 3.5 Announcement, we selected the global comparable valuation excluding HEG method to reach the valuation of HSH, which stands at HK$19.48-HK$25.62, with the median being HK$22.55

Source: Valuation Report issued by Platinum, the Valuation Advisor, on Nov 16 2020. For the full valuation report and details of the valuation analysis, please refer to Appendix B of the Scheme Document

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2.2 Valuation Analysis of HSH H Shares
-- Comparable companies overview

Criteria of Comps

- Listed on a stock exchange globally
- Engaged in manufacturing and/or sale of home appliances and other related products, with revenue generated globally from Asia, Europe and North America
- Market capitalisation greater than RMB5bn
- **The list of comparable companies below represent an exhaustive list based on the aforementioned selection criteria and publicly available information.**

Company Name	Ticker	Total Market Cap (RMB mn)	Average Closing Price (RMB)	FY2019 P/E[1] (x)	FY2019 EV/EBITDA (x)
HK-listed home appliance players					
HEG	1169 HK	72,385	25.7	17.7	13.2
Hisense Home Appliances	0921 HK 000921 CH	16,512	9.05	9.2	8.4
A-share listed home appliance players			13.68		
Midea Group	000333 CH	533,485	78.78	22.0	17.8
Gree Electric Appliances	000651 CH	353,579	58.78	14.3	7.7
Robam	002508 CH	34,131	35.96	21.5	16.4
Overseas-listed home appliance players					
Daikin	6367 JP	368,222	1,256.24	34.3	15.4
Whirlpool	WHR NYSE	82,640	1,287.22	14.7	8.9
Electrolux	ELUX ST	45,678	158.15	32.7	9.2
A. O. Smith	AOS NYSE	60,025	360.06	24.5	16.3
Arcelik AS	ARCLK TI	21,164	31.32	19.4	7.7
			Average	21.0	12.1
			Median	20.4	11.2
			Average (excl. HEG)	21.4	12.0
			Median (excl. HEG)	21.5	9.2

Source: Valuation Report issued by Platinum, the Valuation Advisor, on Nov 16 2020. For the full valuation report and details of the valuation analysis, please refer to Appendix B of the Scheme Document
Note 1: EPS calculation for HSH is based on audited IFRS standard profit from continuing operations attributable to parent, for other comparable companies is based on profit from continuing operations attributable to parent

2.3 Valuation Analysis of HSH H Shares (Cont'd)
-- Overview of the SOTP valuation methodology

HSH's SOTP Valuation

HEG

HEG's market capitalization × HSH's shareholding percentage

Non-HEG

Non-HEG's share of net profit from continuing operations attributable to ordinary equity holders of the company × Non-HEG Comps' FY2019 PE

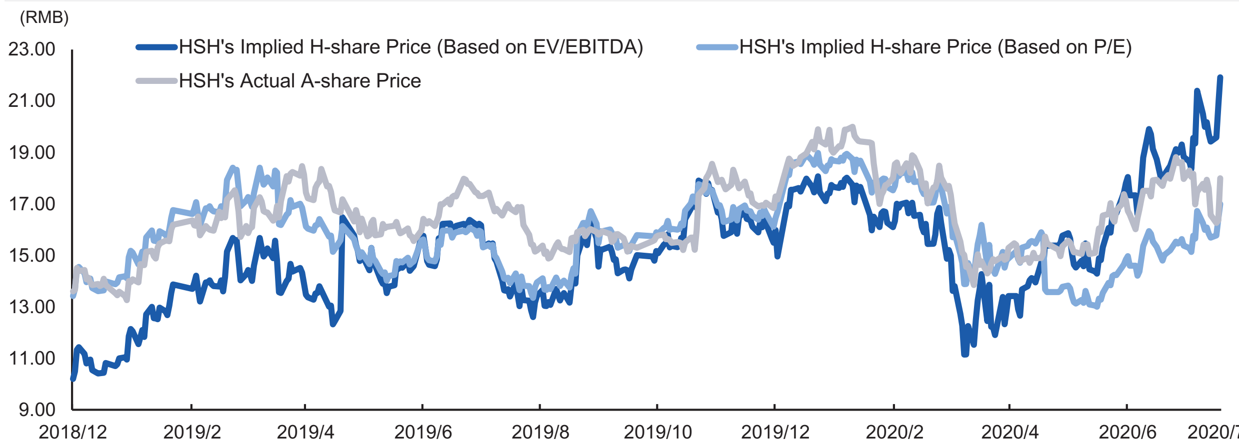
Company Name	Ticker	Total Market Cap (RMB mn)	Average Closing Price (RMB)	FY2019 P/E (x)
HK-listed home appliance players				
Hisense Home Appliances	0921 HK 000921 CH	16,512	9.05	9.2
A-share listed home appliance players			13.68	
Midea Group	000333 CH	533,485	78.78	22.0
Gree Electric Appliances	000651 CH	353,579	58.78	14.3
Robam	002508 CH	34,131	35.96	21.5
Overseas-listed home appliance players				
Daikin	6367 JP	368,222	1,256.24	34.3
Whirlpool	WHR NYSE	82,640	1,287.22	14.7
Electrolux	ELUX ST	45,678	158.15	32.7
Arcelik AS	ARCLK TI	21,164	31.32	19.4
			Average	21.0
			Median	20.4

Source: Valuation Report issued by Platinum, the Valuation Advisor, on Nov 16 2020. For the full valuation report and details of the valuation analysis, please refer to Appendix B of the Scheme Document

2.4 Valuation Analysis of HSH H Shares (Cont'd)
-- Implied A/H Discount

Implied A/H Discount of HSH

- **Given that HSH has a considerable percentage of foreign shareholders**, its A-share stock price is a strong benchmark for new HSH H Shares; HSH's historical implied A/H discount rate can be obtained from **calculating HSH's implied H-share price based on the historical valuation of HEG** and comparing it to HSH's A-share stock price during the same period
- **Based on P/E and EV/EBITDA multiples, HSH's average implied A/H discount rates in the 12 months prior to the 3.5 announcement are 4.7% and 7.6%, respectively**



Considering the significant share price movements of both HSH and HEG post the Rule 3.5 Announcement, as well as the fact that the A share market price may have partly reflected public investors' expectation of HSH's future performance after the privatization of HEG, we consider the above range as appropriate to assess the A/H discount between HSH's existing A Shares and H Shares to be issued

Source: Capital IQ, as of July 29, 2020. Source: Valuation Report issued by Platinum, the Valuation Advisor, on Nov 16, 2020. For the full valuation report and details of the valuation analysis, please refer to Appendix B of the Scheme Document
Note 1: As of July 29, 2020

2.5 Valuation of Home Appliance Targets in Global Precedent Transactions

Criteria for Precedent Transactions

- Announced and completed transactions between January 1, 2010 and December 31, 2019 , where the target companies are mainly engaged in white goods production and sales (excluding black appliances[1] companies) and transaction information is publicly disclosed

Announcement date	Description	Target	EV/EBITDA
2018/10/23	Midea Group's acquisition of 43.77% stake in Little Swan	Little Swan	13.02x
2018/9/28	Qingdao Haier's acquisition of 100% stake in Candy, an Italian home appliance manufacturer	Candy	8.24x
2018/5/29	Hisense Group acquisition of 62.46% stake in Gorenje, a Slovenian home appliance manufacturer	Gorenje	9.17x
2016/1/14	Qingdao Haier's acquisition of GEA's business, a US home appliance manufacturer	GEA	10.11x
2015/7/15	Acquisition of 100% stake in Aga Rangemaster, a UK home appliance manufacturer, by Middleby Corporation, a US home appliance manufacturer	AGA Rangemaster	7.80x
2014/7/10	Whirlpool's acquisition of 100% stake in Indesit, an Italian home appliance manufacturer	Indesit	8.45x
2012/9/11	Haier Group's acquisition of 80% stake in Fisher & Paykel, a home appliance manufacturer from New Zealand	Fisher & Paykel	12.56x
2012/11/14	BSH Home Appliances's acquisition of 100% stake in Zelmer, a Polish small home appliance manufacturer	Zelmer	9.04x
2011/8/22	Electrolux's acquisition of 100% stake in Compania Tecno Industria, a home appliance manufacturer from Chile	CTI	7.43x
	Median		**9.04x**
	Average		**9.54x**

Source: Valuation assessment report on the material asset acquisition of HSH issued by the independent financial advisor to HSH on July 29 2020. For the full valuation assessment report and details of the analysis, please refer to Appendix 1 of the separate announcement published by HSH on the website of the Stock Exchange (www.hkex.com.hk) on the same day as the date of the Joint Announcement setting out material information with Takeovers Code implications as published in Chinese on the website of the Shanghai Stock Exchange (www.sse.com.cn).
Note 1: White goods refer to products that replace people's housework, including washing machines, refrigerators, etc., or products that provide people with a higher quality of living experience, including air conditioners and electric heaters; black appliances refer to products that offer entertainment, such as DVD players, TV sets, audio equipment, game consoles, cameras, video cameras, video games, home cinemas, telephones, telephone answering machines, etc.

3.1 EB-to-CB Proposal

On 21 November 2017, a wholly-owned subsidiary of HSH issued the HSH Exchangeable Bonds ("EB") that are exchangeable into HEG Shares. The entire principal amount of EB is HK$8,000 million at the time of issuance. Upon the Scheme becoming effective, HEG Shares will be delisted from the Hong Kong Stock Exchange ("HKSE"). HSH proposes to amend the current terms and conditions of the EB, subject to the satisfaction of the relevant conditions precedent, such that the EB will not be exchangeable into the unlisted HEG Shares after the Scheme becomes effective, but will instead be convertible into new HSH H Shares ("CB").

1 Comparison of select key terms of EB and CB

	Key terms of EB	Key terms of CB
Issuer	Harvest International Company	Harvest International Company
Guarantor	• HSH (Onshore guarantor) • HS (HK) [1] (Offshore guarantor)	HSH
Coupon	0.00%	0.00%
Gross yield	1.00% per annum	1.00% per annum
Principal amount	HK$8,000 million[2]	Not more than HK$7,993 million[2]
Shares	HEG Shares	HSH H Shares
Exchange (Conversion) Price[3]	Current implied exchange price is HK$31.35 per share; current underlying shares is c. 255,153,451 shares, representing c. 9.06% of the current total issued share capital of HEG	Conversion price is c. HK$19.60 per H share, corresponding to c. 407,888,307[2] new HSH H Shares[2,4]
Maturity date	21 November 2022	21 November 2022

Changes to key commercial terms

The key commercial terms of CB are consistent with those of EB; the adjustment of CB conversion price reflects the economic benefit of the Scheme for HEG Shareholders

Note 1: On 29 October, 2020, after fulfilment of relevant conditions, the Exchange Property have been transferred from HS (HK) to FRL (the New Guarantor) and HS (HK)'s relevant obligations will be provided by the New Guarantor instead

Note 2: As of 22 October 2020, Company received a notice from certain Bondholder requiring the Issuer to redeem the EB in the aggregate principal amount of HK$7,000,000 pursuant to the 3-year put right under the existing terms and conditions. Accordingly, upon redemption of such EB on 21 November, 2020, the outstanding principal amount of the EB will be reduced to HK$7,993,000,000 and the pro rata share of the Exchange Property shall be reduced accordingly

Note 3: Current number of underlying shares of HK$8,000 million EB is c. 255,153,451 HEG Shares (factored in the effect of HEG 2019 annual dividend paid on 3 August 2020), and the corresponding EB exchange price has been adjusted to c. HK$31.35. CB conversion price is c. HK$19.60, equivalent to EB exchange price divided by the Share Exchange Ratio of 1.60 (assuming no further adjustment of EB exchange price), corresponding to c. 407,888,307 H Shares, calculated based on the principal amount of HK$7,993,000,000 as explained in Note 2

Note 4: After the Cash Payment (HK$1.95 for every Scheme Share cancelled) is paid, the CB conversion price will be further adjusted to be equivalent to current EB exchange price / (1.60 + 1.95 / R). R represents the average of the closing prices of H Shares for the 10 HKSE trading days following (and excluding) the date on which Cash Payment is made (R can only be determined after a specific period after the H Share listing). The CB conversion price corresponds to c. 407,888,307 + 254,930,192 *1.95/R Shares (assuming no further adjustment in EB exchange price, calculated based on the principal amount of HK$7,993,000,000 as explained in Note 2)

3.1 EB-to-CB Proposal (cont'd)

2 Current progress

- Conditions satisfied
  - On 28 August 2020, the resolution to approve the EB-to-CB Proposal was duly passed at the meeting of bondholders
  - On 1 September 2020, the resolution to approve the EB-to-CB Proposal was duly passed at the HSH General Meeting, the HSH A Shares Class Meeting and the HSH D Shares Class Meeting
  - On 27 October 2020, CSRC approved the EB-to-CB Proposal
  - On 13 November 2020, the Listing Committee of the HKSE approved the listing of, and permission to deal in, the HSH H Shares (including the HSH H Shares to be issued pursuant to the conversion of the CB) on the HKSE
- Conditions to be satisfied
  - Satisfying the conditions imposed by HKSE on the EB-to-CB Proposal
  - The applicable filings and/or approvals with or from relevant PRC governmental or regulatory authorities (other than CSRC) which are required to be completed or obtained prior to the EB-to-CB Proposal taking effect
- In addition, the EB-to-CB Proposal is also conditional upon the satisfaction of the Privatisation Pre-Conditions and Privatisation Conditions, as well as the Scheme becoming effective (the Scheme becoming effective is not conditional upon the EB-to-CB becoming effective)
- Based on the expected timetable and conditional upon the satisfaction of the aforementioned conditions, the EB-to-CB Proposal is expected to become effective the same day dealings in the HSH H shares is expected to commence, i.e. on 22 December, 2020

3 Pro forma shareholding of HSH

	Shareholding structure of HSH assuming the EB-to-CB Proposal becomes effective, and none of the CB is converted into HSH H Shares	Shareholding structure of HSH assuming the EB-to-CB Proposal becomes effective, and all of the CB is converted into HSH H Shares[1]
Haier Group and Other HSH Concert Parties (A+H+D)	36.04%	34.48%
Other public HSH A Shareholders	40.84%	39.08%
Other public HSH D Shareholders	2.37%	2.27%
Other public HEG Shareholders (Other public HSH H Shareholders after the Scheme becomes effective)	20.75%	19.85%
EB / CB holder	0.00%	4.32%
Total	**100.00%**	**100.00%**

Note 1: Illustrative calculation; whether CB holders will convert and when they would convert depends on a variety of factors (e.g. CB maturity date, CB conversion price and H Shares trading price, etc.); assuming the principal amount EB has been adjusted as a result of the exercise of the put option

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Thank You!

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Haier

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

COMMERCIAL COURT

2020: No. 286

IN THE MATTER OF

HAIER ELECTRONICS GROUP CO., LTD.

AND

SECTION 99 OF THE COMPANIES ACT 1981

SCHEME OF ARRANGEMENT

BETWEEN

HAIER ELECTRONICS GROUP CO., LTD.

AND

THE SCHEME SHAREHOLDERS

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite to them:

"Business Day"	a day (other than Saturday or Sunday) on which the Stock Exchange is open for the transaction of business
"Cash Payment"	subject to this Scheme becoming effective and as part of this Scheme, the payment of HK$1.95 per Scheme Share payable in cash by the Company to the Scheme Shareholders whose names appear on the register of members of the Company at the Scheme Record Time
"CICC"	China International Capital Corporation Hong Kong Securities Limited, a company incorporated in Hong Kong with limited liability and licenced under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and this Scheme
"Companies Act"	the Companies Act 1981 of Bermuda

"Company" or "HEG"	Haier Electronics Group Co., Ltd., an exempted company incorporated in Bermuda with limited liability, the HEG Shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 1169)
"Condition(s)"	the condition(s) to the Privatisation Proposal as set out in the section headed "*Conditions of the Privatisation Proposal and the Scheme*" in the Explanatory Statement
"Court"	the Supreme Court of Bermuda
"Court Meeting"	a meeting of the Scheme Shareholders convened at the direction of the Court at which this Scheme will be voted upon, or any adjournment thereof
"CSRC"	China Securities Regulatory Commission
"Directors"	the directors of the Company and a Director means any of them
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong, or any delegate thereof
"Explanatory Statement"	the explanatory statement set out in the Scheme Document
"Flourishing Reach Limited" or "FRL"	Flourishing Reach Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of HSH
"Fractional Shares"	502 HEG Shares arising as a result of the aggregation of fractional entitlements to consolidated shares in the share consolidation of HEG as disclosed in the announcement, the circular and the announcement of HEG dated 24 January 2007, 6 February 2007 and 8 March 2007, respectively which are proposed to be cancelled if approved by the Shareholders at the SGM and which arose by operation of law and remain in the issued share capital of HEG with no registered holder
"Haier Group"	Haier Group Corporation, a company incorporated under the laws of the PRC and is the controlling shareholder of HSH
"HCH (HK)"	HCH (HK) Investment Management Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect subsidiary of Haier Group
"HEG Shares"	ordinary shares of HK$0.10 each in the share capital of the Company
"HKI/HIC Restricted Share Award Schemes"	the restricted share award schemes adopted on 22 August 2018 and 14 November 2016 respectively by Haier (HK) Investment Co., Limited and Haier International Co., Limited (each being a wholly-owned subsidiary of Haier Group) for the benefit of

	their respective participants, in their present form or as amended from time to time in accordance with their rules, and HKI/HIC Restricted Share Award Scheme means any of the aforementioned schemes. Under the rules of those schemes, the selected participants will, after the vesting of awards made, either be entitled to HEG Shares or cash, except that awards granted to any selected participant who is a Director or a chief executive of HEG will only be cash-settled
"HKI/HIC Trustee"	Bank of Communications Trustee Limited (i.e. Bank of Communications Trustee Limited — T144 and Bank of Communications Trustee Limited — T168), a professional trust who is an independent third party not associated or connected with Haier (HK) Investment Co., Limited or Haier International Co., Limited (as the case may be) or its respective connected persons appointed by Haier (HK) Investment Co., Limited and Haier International Co., Limited (as the case may be) for the administration of the corresponding HKI/HIC Restricted Share Award Scheme
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HSH" or "Offeror"	Haier Smart Home Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose A shares are listed on the Shanghai Stock Exchange (stock code: 600690) and whose D shares are listed on the China Europe International Exchange AG D-Share Market on the Frankfurt Stock Exchange (stock code: 690D)
"HSH Concert Parties"	Parties acting in concert with HSH in relation to HEG, including Haier Group, HCH (HK), the HKI/HIC Trustee, the directors of each of HSH and Haier Group, CICC and J.P. Morgan (except for the relevant members of the CICC group and J.P. Morgan group which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code), each of which is presumed under the Takeovers Code to be acting in concert with HSH in relation to HEG
"HSH A Shares"	the A shares in the ordinary share capital of HSH with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange (stock code: 600690)

"HSH D Shares"	the D shares in the ordinary share capital of HSH with a nominal value of RMB1.00 each, which are listed and traded on the China Europe International Exchange AG D-Share Frankfurt Stock Exchange (stock code: 690D)
"HSH H Shares"	Overseas listed foreign shares in the ordinary share capital of HSH with a nominal value of RMB1.00 each, which are to be traded in HK$ and which are to be listed on the Stock Exchange pursuant to the Introduction
"Introduction"	the proposed listing of HSH by way of introduction on the Main Board of the Stock Exchange
"J.P. Morgan"	J.P. Morgan Securities (Asia Pacific) Limited, a company incorporated in Hong Kong with limited liability and licenced under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, and one of the financial advisers to HSH in respect of the Privatisation Proposal and this Scheme
"Latest Practicable Date"	13 November 2020, being the latest practicable date prior to the date of the Scheme Document for the purpose of ascertaining certain information contained in the Scheme Document
"PRC"	the People's Republic of China
"Privatisation Proposal"	the proposal for the privatisation of the Company by HSH by way of this Scheme and the withdrawal of the listing of the HEG Shares from the Stock Exchange
"Register"	the principal or branch register of members of the Company (as the case may be)
"Registrar of Companies"	the Registrar of Companies in Bermuda
"Scheme"	this scheme of arrangement under section 99 of the Companies Act between the Company and the Scheme Shareholders with or subject to any modification, addition or condition which may be approved or imposed by the Court
"Scheme Document"	the composite scheme document (which contains, amongst other things, details of the Privatisation Proposal), the accompanying proxy forms and notices of the Court Meeting and the SGM, published or despatched by the Offeror and the Company to HEG Shareholders (except those in certain excluded overseas jurisdictions)
"Scheme Effective Date"	the date on which this Scheme becomes effective in accordance with the Companies Act

"Scheme Long Stop Date"	30 June 2021 or such later date as may be agreed by HSH and HEG, or to the extent applicable, as the Court may direct and, in all cases, as permitted by the Executive
"Scheme Record Time"	the record time (to be jointly announced by HSH and HEG) for determining entitlements under this Scheme
"Scheme Shareholders"	the registered holders of the Scheme Shares as at the Scheme Record Time
"Scheme Shares"	the HEG Shares in issue on the Scheme Record Time, other than those held by HSH and those held by any of its wholly-owned subsidiaries (including but not limited to Flourishing Reach Limited). For the avoidance of doubt, the Scheme Shares shall include HEG Shares held by the other HSH Concert Parties, but will not include the Fractional Shares
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company convened for the purposes of passing all necessary resolutions for, amongst other things, the implementation of this Scheme
"Shareholder(s)"	the registered holder(s) of the HEG Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"US" or "United States"	United States of America

(B) The Company is an exempted company with limited liability incorporated in Bermuda on 23 September 1997. As at the Latest Practicable Date, the Company had an authorised share capital of HK$3,000,000,000 divided into 30,000,000,000 HEG Shares of which 2,816,995,978 HEG Shares had been issued fully paid or credited as fully paid.

(C) The Offeror has agreed to appear by Conyers Dill & Pearman Limited at the hearing of the petition to sanction this Scheme and has undertaken to the Court to be bound by this Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable by the Offeror for the purpose of giving effect to this Scheme.

(D) The primary purpose of this Scheme is to cancel all Scheme Shares and to issue new HEG Shares to the Offeror equal to the number of Scheme Shares cancelled on the Scheme Effective Date so that the Company becomes wholly-owned by the Offeror (assuming the EB-to-CB Proposal becomes unconditional and effective and is fully implemented).

THE SCHEME

PART I

CANCELLATION OF THE SCHEME SHARES

1. Simultaneously on the Scheme Effective Date:

   (a) all Scheme Shares shall be cancelled; and

   (b) the Company shall issue new HEG Shares to the Offeror equal to the number of Scheme Shares cancelled and the Company shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares in paying up in full at par such new HEG Shares.

PART II

CONSIDERATION FOR CANCELLATION OF THE SCHEME SHARES

2. In consideration of the cancellation of all Scheme Shares, each Scheme Shareholder shall be entitled to receive for every Scheme Share cancelled:

   i. from HSH, 1.60 new HSH H Shares; and

   ii. from HEG, the Cash Payment of HK$1.95.

PART III

GENERAL

3. (a) Under this Scheme, fractions of a HSH H Share will not be issued to any Scheme Shareholder. Fractional entitlements of Scheme Shareholders to HSH H Shares will be aggregated (and if necessary, rounded down to the nearest whole number of a HSH H Share) and sold on the open market with the proceeds (net of expenses and taxes) to be paid to and retained for the benefit of HSH.

   (b) As soon as possible and in any event not later than seven (7) Business Days after the Scheme Effective Date, HSH shall (i) allot and issue the new HSH H Shares and (ii) send or cause to be sent to the Scheme Shareholders the certificates representing the appropriate number of new HSH H Shares, in registered form, allotted and issued to the persons entitled thereto pursuant to paragraph 2 above.

   (c) In respect of the new HSH H Shares which the Scheme Shareholders are entitled to receive as consideration for cancellation of their Scheme Shares under this Scheme, each Scheme Shareholder will be sent one share certificate representing all HSH H Shares, except for HKSCC which may request for share certificates to be issued in such denominations as it may specify.

(d) In the absence of any specific instructions to the contrary received in writing by the Hong Kong branch share registrar of the Company before the Scheme Effective Date, the share certificates for the new HSH H Shares will be sent to the Scheme Shareholders whose names appear on the Register as at the Scheme Record Time at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the Register in respect of the joint holding, and such share certificates will be sent by ordinary post in postage pre-paid envelopes. All such share certificates will be sent at the risk of the person(s) entitled thereto and none of the Company, HSH, their respective advisers and share registrars, and any of their respective directors, employees, officers, agents or associates or any other persons involved in the Privatisation Proposal will be responsible for any loss or delay in despatch.

(e) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.

4. (a) Cheques in respect of the Cash Payment shall be sent to the Scheme Shareholders whose names appear in the register of members of the Company at the Scheme Record Time as soon as possible but in any event within seven Business Days of the Scheme Effective Date.

(b) On or after the day being six calendar months after the date of posting the cheques for the Cash Payment, the Company shall have the right to cancel or countermand payment of any such cheque which has not been cashed or which has been returned uncashed and shall place all monies represented thereby in a deposit account in the name of the Company with a licenced bank in Hong Kong selected by the Company.

(c) The Company shall hold such monies represented by uncashed cheques until the expiry of six years from the Scheme Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to this Scheme to persons who satisfy the Company that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. Any payments made by the Company shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Cash Payment and deduct interest, tax or any withholding tax or any other deduction required by law. The Company is entitled to determine at its absolute discretion whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

5. Share certificates relating to the Scheme Shares shall cease to be valid for any purpose on and after the Scheme Effective Date.

6. This Scheme shall become effective as soon as a copy of the order of the Court sanctioning this Scheme under Section 99 of the Companies Act has been delivered to the Registrar of Companies in Bermuda for registration.

7. The Company and the Offeror may jointly consent for and on behalf of all Scheme Shareholders to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.

8. Subject to the requirements of the Takeovers Code, the parties shall bear their own costs, charges and expenses of and incidental to this Scheme.

NOTICE OF COURT MEETING
IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
COMMERCIAL COURT
2020: No. 286

IN THE MATTER OF
HAIER ELECTRONICS GROUP CO., LTD.
AND
IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981
SCHEME OF ARRANGEMENT
BETWEEN
HAIER ELECTRONICS GROUP CO., LTD.
AND
THE SCHEME SHAREHOLDERS

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order (the "**Order**") dated 6 November 2020, the Court has directed a meeting (the "**Court Meeting**") of the Scheme Shareholders (as defined in the Scheme mentioned below) to be convened and held for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (the "**Scheme**") proposed to be made between Haier Electronics Group Co., Ltd. (the "**Company**") and the Scheme Shareholders and that the Court Meeting will be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on 9 December 2020 at 9:30 a.m. (Hong Kong time) at which all Scheme Shareholders are invited to attend.

The Scheme and the explanatory statement required by section 100 of the Companies Act 1981 are part of the composite scheme document, which also includes this notice and other information, a copy of which can be obtained by Scheme Shareholders from the branch share registrar of the Company, Tricor Tengis Limited.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A **PINK** form of proxy for use at the Court Meeting is enclosed with the composite scheme document.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding. In the case of a Scheme Shareholder which is a corporation, the Scheme Shareholder may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its corporate representative at the Court Meeting and exercise the same powers on behalf of the corporate Scheme Shareholder as if the corporate Scheme Shareholder was an individual Scheme Shareholder of the Company.

PINK forms appointing proxies should be lodged with the branch share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 9:30 a.m. on Monday, 7 December 2020, but if the **PINK** forms are not so lodged they may be handed to the chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting.

By the Order, the Court has appointed Zhou Yunjie, or failing him, any other director of the Company, to act as chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme is subject to the subsequent sanction of the Court.

Dated: 16 November 2020

By order of the Court
Conyers Dill & Pearman Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
Attorneys for the Company

HAIER ELECTRONICS GROUP CO., LTD.
海爾電器集團有限公司*

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 1169)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Haier Electronics Group Co., Ltd. (the "**Company**") will be held at Grand Ballroom 2, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Wednesday, 9 December 2020 at 10:00 a.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened to be held at the same place on the same date at 9:30 a.m. (Hong Kong time) has been concluded or adjourned) for the purpose of considering and, if thought fit, approving the special resolutions set out below:

SPECIAL RESOLUTIONS

1. "**THAT:**

(a) conditional upon the compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda (the "**Companies Act**"), the issued share capital of the Company be reduced by cancelling 502 shares of HK$0.10 each in the issued share capital of the Company, being aggregated fractional shares arising as a result of a share consolidation approved by the shareholders of the Company on 7 March 2007, with immediate effect upon passing of this resolution ("**Cancellation of Fractional Shares**"); and

(b) each director of the Company be and is hereby authorized to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Cancellation of Fractional Shares."

2. "**THAT**:

(a) the scheme of arrangement dated 16 November 2020, in the form of the print contained in the composite scheme document (the "**Scheme Document**") which has been produced to this meeting and initialled or signed by the chairman of the meeting (for the purpose of identification only), between the Company and the Scheme Shareholders (as defined in the Scheme) (with or without modification(s)) (the "**Scheme**") subject to any modifications, additions or conditions as may be approved or imposed by the Supreme Court of Bermuda, be and is hereby approved;

* *For identification purpose only*

(b) for the purposes of giving effect to the Scheme, on the Scheme Effective Date (as defined in the Scheme):

(i) the issued share capital of the Company shall be reduced by cancelling the Scheme Shares (as defined in the Scheme) and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive the HSH H Shares and the Cash Payment (both as defined in the Scheme);

(ii) subject to and simultaneously with the cancellation of the Scheme Shares on the Scheme Effective Date, the Company shall restore the issued share capital to the amount prior to the cancellation of the Scheme Shares by issuing and allotting to Haier Smart Home Co., Ltd. ("**HSH**") of one ordinary share of HK$0.10 each in the share capital of the Company ("**New Shares**") for each Scheme Share cancelled;

(iii) the credit arising in the Company's books of account as a result of the cancellation of the Scheme Shares shall be applied in paying up the New Shares which shall be allotted and issued, credited as fully paid, to HSH;

(c) subject to the Scheme being approved and becoming effective and the compliance by the Company with all statutory requirements under section 46(2) of the Companies Act, on the Scheme Effective Date (as defined in the Scheme) all amount standing to the credit of the share premium account of the Company as of the Scheme Effective Date be cancelled (the "**Cancellation of Share Premium**");

(d) subject to the Scheme being approved and the Scheme and the Cancellation of Share Premium becoming effective, on the Scheme Effective Date, the board of directors of the Company be and is hereby authorised to utilise the credit arising as result of the Cancellation of Share Premium, and/or any amount standing to the credit of any distributable reserves of the Company, to effect the Cash Payment (as defined in the Scheme) to the Scheme Shareholders for the Scheme Shares cancelled;

(e) each director of the Company be and is hereby authorised to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Scheme, including but not limited to, the issuance and allotment of the New Shares to HSH, the reduction in issued share capital as a result of the cancellation of the Scheme Shares, the Cancellation of Share Premium and making the Cash Payment pursuant to the Scheme, and giving consent to any modification of, or addition to, the Scheme or the transactions contemplated in the Scheme as the Supreme Court of Bermuda may see fit to impose; and

(f) subject to the Scheme becoming effective, the withdrawal of the listing of the shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved, and any director of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company."

All registered shareholders of the Company are invited to attend the SGM.

By Order of the Board
HAIER ELECTRONICS GROUP CO., LTD.
Zhou Yunjie
Chairman
Hong Kong, 16 November 2020

As at date of this notice, the executive directors of the Company are Mr. Zhou Yunjie (Chairman), Mr. Xie Ju Zhi and Mr. Li Huagang; the non-executive directors of the Company are Mr. Liang Haishan and Mr. Yang Guang; the independent non-executive directors of the Company are Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun, Mr. Gong Shao Lin and Dr. John Changzheng Ma.

Notes:

1. *A registered shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint one proxy, or if he is a holder of more than one share, not more than two proxies to attend and vote in his, her or its stead. A proxy need not be a registered shareholder of HEG, but must attend the SGM in person to represent him or her.*

2. *A* **white** *form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are urged to complete and return the* **white** *form of proxy in accordance with the instructions printed on it.*

3. *To be valid, the* **white** *form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged at the office of the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited (the "***Share Registrar***"), at Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong, not later 10:00 a.m. (Hong Kong time) on Monday, 7 December 2020 (being not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof). Completion and return of the* **white** *form of proxy will not preclude a registered shareholder of HEG from attending and voting in person at the SGM or any adjournment thereof but in that event the form of proxy will be revoked by operation of law.*

4. *A registered shareholder of the Company which is a corporation may by resolution of its directors or other governing body or by power of attorney authorise such person or persons as it thinks fit to act as its corporate representative or representatives, as the case may be, at the SGM and each person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual registered shareholder of the Company, provided that if more than one person is authorised, the authority must specify the number and class of shares held by the relevant registered shareholder of the Company in respect of which each such person is authorised to act as such representative.*

5. *In the case of joint registered holders of a share, any one of such persons may vote at the SGM, either personally or by proxy, as if he, she or it were solely entitled thereto. However, if more than one of such joint holders is present at the SGM personally or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such share(s) will alone be entitled to vote in respect thereof.*

6. *At the SGM, the chairman of the SGM will exercise his power under bye-law 70 of the bye-laws of the Company to put the resolutions to the vote by way of a poll.*

7. *The register of members of the Company will be closed from Friday, 4 December 2020 to Wednesday, 9 December 2020 (both dates inclusive) during which period no transfer of shares of HEG will be registered. In order to be entitled to attend and vote at the SGM, all duly completed share transfer forms accompanied by the relevant share certificates must be lodged at the office of the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Thursday, 3 December 2020.*