海爾智家股份有限公司
Haier Smart Home Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

A Shares Stock Code: 600690 D Shares Stock Code: 690D H Shares Stock Code: 6690

ANNUAL REPORT 2020

Contents

Corporate Profile

We are a leader in the global major home appliance industry. According to the data from Euromonitor, we ranked first in the major home appliance industry in the world in terms of retail volume of major home appliances for 12 consecutive years. 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 13 and 12 consecutive years respectively. Currently, 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. Centering 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.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LIANG Haishan *(Chairman)*
Mr. LI Huagang *(Chief Executive Officer)*
Mr. XIE Juzhi *(Vice Chairman)*
(appointed with effect from 5 March 2021)

Non-executive Directors

Ms. TAN Lixia *(Vice Chairwoman)*
(retired with effect from 30 March 2021)
Mr. WU Changqi
Mr. LIN Sui
Mr. YU Hon To, David
(appointed with effect from 5 March 2021)
Ms. Eva LI Kam Fun
(appointed with effect from 5 March 2021)

Independent Non-executive Directors

Mr. DAI Deming
Mr. CHIEN Da-chun
Mr. WONG Hak Kun
Mr. LI Shipeng
(appointed with effect from 5 March 2021)

SUPERVISORS

Mr. WANG Peihua
Mr. MING Guoqing
Mr. YU Miao

BOARD SECRETARY

Ms. MING Guozhen

PRINCIPAL BOARD COMMITTEES

Audit Committee

Mr. DAI Deming *(Committee Chairman)*
Mr. LIN Sui
Mr. CHIEN Da-chun
Mr. WONG Hak Kun
Mr. YU Hon To, David
(appointed with effect from 5 March 2021)

Remuneration and Assessment Committee

Mr. CHIEN Da-chun *(Committee Chairman)*
Mr. LIANG Haishan
Ms. TAN Lixia
(retired with effect from 30 March 2021)
Mr. DAI Deming
Mr. WONG Hak Kun

Nomination Committee

Mr. WONG Hak Kun *(Committee Chairman)*
Mr. LIANG Haishan
Mr. WU Changqi
Mr. DAI Deming
Mr. CHIEN Da-chun

Strategic Committee

Mr. LIANG Haishan *(Committee Chairman)*
Mr. XIE Juzhi
Mr. WU Changqi
Mr. LIN Sui
Mr. DAI Deming
Mr. CHIEN Da-chun
Mr. WONG Hak Kun
Mr. LI Shipeng
(appointed with effect from 5 March 2021)

Environmental, Social and Governance Committee (established on 5 March 2021)

Ms. Eva LI Kam Fun *(Committee Chairwoman)*
Mr. LI Huagang
Mr. LIN Sui
Mr. CHIEN Da-chun

COMPANY SECRETARY

Mr. NG Chi Yin

LEGAL ADVISORS

As to PRC Law

King & Wood Mallesons

As to Hong Kong Law

Clifford Chance

COMPLIANCE ADVISOR

Anglo Chinese Corporate Finance, Limited

PRINCIPAL BANKER

China Construction Bank Corporation

AUDITORS

Hexin Certified Public Accountants LLP
HLB Hodgson Impey Cheng Limited

FINANCIAL CALENDAR

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

REGISTERED OFFICE AND HEADQUARTERS

Haier Industrial Park
Laoshan District, Qingdao
Shandong Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

STOCK CODE

The Shanghai Stock Exchange : 600690
The Frankfurt Stock Exchange : 690D
The Stock Exchange of Hong Kong Limited : 06690

WEBSITE

http://smart-home.haier.com

INVESTOR RELATIONS CONTACT

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Fax Number	:	(852) 2527 1196
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Letter to Shareholders

In 2020, a year like no other, with the resolve and dedication of 99,000 employees, Haier Smart Home weathered the storm of Covid-19 and came out stronger than ever — our sales revenue reached RMB209.7 billion, net profit attributable to owners of the company reached a record RMB8.88 billion, and operating cash flow went up to RMB17.6 billion.

2020 was also a milestone in Haier Smart Home's own history. With the overwhelming support from shareholders home and abroad, we successfully completed the privatization of Haier Electronics and the listing of H shares (stock code: 6690.HK), establishing ourselves as an integrated platform of people, capital, distribution networks, technologies and expertise with an eternal drive to create value for our users.

In the letter to shareholders from the H-share Prospectus, I reflected on how Haier rose from the verge of bankruptcy and became global appliance industry's most recognizable brand, gaining premium leadership and widespread consumer loyalty in the Chinese market while expanding global footprint by continuously embracing new members into the Haier family. At the beginning of 2021, mitigating the global pandemic has once again reminded us of our inspirations and the culture instilled by Haier's founders from day one: to provide our users with innovative products by leveraging cutting edge technologies, through enhanced services and scenarios applications, infused with our digital capabilities and passion, and become the lifelong partner in our users' journey of making their home a greater and smarter place. With growing confidence, we are going to reinforce the strategic implementation of platforms integration, scenario-based user experiences enhancement, manufacturing optimization and comprehensive digitalization. In the next three years, we remain fully committed to outgrowing the appliance industry, improving our operational excellence, giving our users the ultimate experiences and creating long lasting value for our shareholders.

1. Well-established localized brand portfolio and globalized operation platform play an essential role in accelerating worldwide market share expansion and profitability enhancement.

China does not only have the world's largest consumer population; it also produces the largest number of appliances every year through its comprehensive supply chain infrastructures. Originated in China, with organic growth and acquisitions in the past twenty years, Haier has completed the building of our global portfolio, unlike others, we chosen to serve global users directly from our localized facilities. 2020 was remarkable for our overseas business as we became the first in terms of market share in kitchen appliances, domestic air conditioner and top-load washing machine in the US; the first in washing machine in Australia & New Zealand and the first in freezer and large refrigerator in Japan; our total overseas revenue grew 8.3% to RMB100 billion.

It has become increasingly evident that our investment in our proprietary brands with a local touch and our endeavours to consolidate a globalized operating platform are bearing fruit. Ongoing integrations around the world have improved product and service offerings, more examples of multilateral collaborations that once created best-selling front loader and new water heater in the US are in the pipeline; secondly we stand ready to share decade-long experience of online operations with our colleagues abroad, where rapid e-commerce penetration is expected post pandemic; thirdly, pioneering the application of IoT technologies in China and the US gives us the opportunity to accumulate scenario and product innovations that are fundamental to strengthening our competitiveness in the rest of the world.

2. **Leveraging on premium leadership, product innovation and scenario applications to realize quality growth.**

Casarte also had another magnificent year in 2020. In China, it remains the undisputed No.1 in refrigerators, washing machines ASP over RMB10,000 & air conditioners ASP over RMB15,000, with 79% growth in kitchen appliances. We also see great potentials in new categories including tumble dryers, dish washers, small kitchen appliances and water purifiers.

More and more of the appliances we make are smart with connectivity, a feature we believe will be a prerequisite in the near future, where information can be gathered, analysed and processed to form user insights, so we could make products and provide services that cater to exactly what our users want. Haier's advances in IoT-based technologies and products have also received worldwide recognition. In the US, for the third consecutive year, IoT Breakthrough, a leading market intelligence agency, awarded GE Appliances (GEA) the Best Smart Home Appliances Company in 2021 in appraising its continued innovations in IoT-based home appliances product and smart home solutions.

We have long been aware of our users' growing frustration with featureless shelf displays and obvious lack of real interaction. Our answer was to launch the brand-new scenario-based Three-Winged Bird Stores, with a built-in smart kitchen, smart living room, smart bedroom, smart bathroom, store visitors can explore integrated one-stop appliance & decoration solutions with the help of our dedicated sales teams that are well trained by interior designers and food connoisseur; this revolutionary immersive experience is expected to form the foundation of a long lasting relationship with our users that could enhance traffic conversion with increasing loyalty.

3. **Create greater value through end-to-end digital reform.**

Haier's digital transformation has three focuses: digitalized user experience, digitalized operation process and digitalized business model. More and more users, younger generations in particular, favour the Internet for information, interaction and consumption, which means alliances with omni-channel partners including e-commerce platforms, social media, livestreaming businesses are critical for our growth; on the other hand, we ought to consolidate and streamline the backend operations in fulfilment, installation and after sales services so our omni-channel users can switch seamlessly without compromising Haier's product offerings, unique user insights, customized designs and comprehensive scenario applications. This is preciously why Haier Smart Home Cloud System was developed to mobilize and consolidate our operations in distribution, franchised stores, logistics and after sales services. With this enhanced interaction, our users receive the products and services they wish for while we become one-step closer to them, this whole process is our definition of consumer-oriented retail service transformation.

In 2020, several initiatives have also been made in renovating our factories, including identifying & prioritizing core activities and improving inventory turnover, with the aim to mitigate cost impact from escalating commodity prices; production was made leaner with reduction of SKUs, modularization of suppliers, and end to end inventory management. By aligning managerial KPI in PLM functions with the overall profit target, we were able to further streamlined SOP and enhance profitability management.

Haier's culture and maker spirit are pivotal to the success of our digital transformation, during this process, a sense of responsibility to our users and accountability to our own actions are essential in making constant adjustments with a more creative approach to capture the great possibilities from the age of online/offline integration; and Haier's RenDanHeYi (individual and goal combination) paradigm is what inspires our makers with an entrepreneurial spirit to sometimes step outside their comfort zone, often thrive in challenges and always look forward to life's new journeys.

Corporate social responsibilities and sustainable development

Earlier this year, Haier Smart Home was amongst the five companies in China chosen by FORTUNE as the Most Admired Companies in 2021. Candidates are evaluated based on their attributes in social responsibilities to the community and the environment, quality of management, financial soundness, long-term investment value, talent retention, and effectiveness in doing business globally. We consider this a reminder of our greater responsibility in the global business community: Haier Smart Home will continue to dedicate ourselves to the protection and preservation of our environment for future generations; promote equality and invest in our people for future innovations; support our suppliers, distributors, and local community for future sustainability.

In March 2021, Haier Smart Home's ESG Committee was formed under the Board of Directors, demonstrating our long-term commitment to environment, social and governance. The board would very much like to guide the management and mobilize all stakeholders in Haier's ecosystem to take immediate action in the implementation of our long-term ESG roadmap including green products development, regular suppliers' audit system, recycling, and production optimization to raise Haier's ESG standard.

At Haier Smart Home, we believe real life changing innovations begin when our brightest minds are encouraged to think outside the box and start to have beautiful imaginations about making the world a better place. With the full support of our global operational platform which prioritizes learning and sharing, GEA' well-established US market insight and network means we are always there when our users need us; while Haier's diversified product portfolio and supply chain infrastructures are integral to GEA's continued product innovation and market share expansion.

As we navigated the uncharted territory of a global pandemic, I often drew strength from ordinary people doing extraordinary things: when the virus struck the city of Wuhan in February, immediate actions were taken to form a team of 200 service specialists, many of whom volunteered, to deliver & install the first batch of the of refrigerators, water heaters and water purifiers we donated. Our team worked around the clock to make sure over 100 medical facilities were promptly equipped with our sanitizing air conditioners and they even stepped in to help installing units that were produced by our competitors, as we always choose to look at the bigger picture and prioritize social responsibility over economic gain; when Covid-19 first hit the US, we prioritized our people's health and safety and implemented a number of swift measures including mandatory temperature checks, flexible shifts and locations, cleaning and sanitization in all facilities, throughout the pandemic, 1,000 of our salaried employees volunteered a total of 150,000 hours on our factory assembly lines to make essential appliances for our users at a time when they needed us the most. Despite all the difficulties in 2020, GEA's production volume grew 10% over the same period in 2019, with 20% increase in the second half.

I wish Haier as a brand and everyone at Haier aspires to do good for our community and society. In May last year, Hu Yunchuan, a young engineer who was installing air conditioner in Zigong, Sichuan province at the time, rushed to the rescue of a five-year old girl without hesitation after onlookers noticed her being stranded outside a balcony six storeys up, heart-stopping footages showed him clinging onto railings grabbing hold of the terrified child and pushing her back inside, he was immediately hailed as a hero and we decided to award him with a new apartment, to show our utmost respect and recognition.

Extraordinary acts of selflessness and bravery from ordinary people that go above and beyond the call of duty define who we are and guide us in what we do. From sponsoring HOPE schools in underprivileged areas and donating to charitable organizations, to leading by example of our own code of conduct, I have always encouraged and supported Haier Smart Home, Haier's people and Haier's stakeholders to step up and do what we can when our community needs us. Small act of kindness from every individual will eventually become one big step in making the world we live in a better place.

Strategic initiatives for the future

Looking back at the year that was just behind us, I am grateful to the people that I have worked with in this day and age. Globalization make it possible for our products and services have remained undisrupted globally despite social distancing; our communication safeguarded by digital technologies, and more importantly, constant sharing of information and knowhow on managing containment measures, e-commerce operations and supply chain infrastructures, have given our colleagues in the US, Europe and the rest of the world a head start in preparation for the virus, we could therefore keep our promise in strengthening protection for employees, continuing innovation and providing consistent services to our users. This global pandemic has tested each individual and the society to its extreme. With creativity, solidarity and responsibility, we remained connected to the market and launched new products featuring well-being, environmental protection and smart technologies to helped our users in taking care for their families, making their food safe and clothes clean; we revamped go-to-market strategies to raise our profile and promote our products on new social networks; our logistics and services team worked day and night to ensure that every single order was delivered and installed on time. As we weathered the storm, the RenDanHeYi principle and the values we share as a company have never been so important.

In the next three years, we will remain committed to drive value from: 1. enhancing competitiveness and profitability of overseas businesses; 2. accelerating digital reform with a focus on scenario applications and user experience while improving operational efficiency; 3. leveraging innovation and IoT technologies to consolidate premium market leadership and increase profitability of all business units, thus accelerating the upgrade of our smart home solutions. With the solid cash flow generated from prior strategic initiatives, we can make consistent investments in digital upgrade, talent retention and R&D with the future in mind.

We remain deeply grateful to the confidence from our shareholders home and abroad for the unanimous vote of support to the then proposed privatization of Haier Electronics. We also appreciate Haier Group's full backing in recognizing Haier Smart Home as the flagship listing platform. With new inspirations, more diversified board and aligned strategic targets, we are ready to embark upon another new journey as we capture greater synergies and continue to lead the industry.

This is the best of our times. My team and I are full of anticipations for the future and we are committed to the path we have chosen. With open mind and willingness to learn and embrace the total harmonization of technology, consumption and humanity at this revolutionary point, we remain dedicated to strengthen our operations on the globalized platform, so we can develop products that best serve our users and enhance their experience, ultimately creating long lasting values for our shareholders.

Haier Smart Home Co., Ltd.
Liang Haishan
Chairman of the Board

Directors, Supervisors and Senior Management

The directors, supervisors and senior management of the Group during the year, and the directors at the reporting date are as follows:

EXECUTIVE DIRECTORS

Mr. LIANG Haishan ("Mr. Liang"), aged 54, has been the Chairman of the Board since April 2013 and an Executive Director of the Company since June 2007. He also currently serves as the deputy chairman of the board of directors of Haier Group Corporation (and together with its subsidiaries hereafter "Haier Group"), and directors of certain subsidiaries of Haier Group. He was appointed as a non-executive director of Haier Electronics Group Co., Ltd. ("Haier Electronics", a listed company of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), stock code: 1169 which was privatized and delisted on 23 December 2020) since November 2009.

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 Haier Electronics 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.

Mr. LI Huagang ("Mr. Li"), aged 51, has been an Executive Director of the Company since June 2019 and the Chief Executive Officer 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 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 Haier Electronics 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.

Mr. XIE Juzhi ("Mr. Xie"), aged 54, has been appointed as an Executive Director of the Company since 5 March 2021. Mr. Xie graduated from Shandong University of Finance and Economics in July 1989 with a bachelor's degree, and joined Haier Group Corporation in the same year. Mr. Xie has experience in whole-process product management, product-wide services and product-wide marketing. Mr. Xie had held senior positions in Electrothermal Division of the Haier Group Corporation and East China Marketing and Promotion Division of the Haier Group Corporation, and served as the Corporate General Manager of the Customer Services of the Haier Group Corporation since August 2002. Since July 2012, he has been the Vice President of Haier Group Corporation, and he has been in charge of Haier Group Corporation's integration of community sales services in first and second-tier cities, and developing the online and offline sales of new household products. From December 2015 to date, he has been managing the newly developed business segments of Haier Group Corporation, including water purification, logistics, Haier home and Gooday services and has started to concurrently manage the water heater business since 2019. He was appointed as the Chief Executive Officer and an Executive Director of Haier Electronics since 27 March 2019. Mr. Xie currently serves as a director of various subsidiaries of our Group. Mr. Xie was awarded honorary titles including the Gold Award of Outstanding Contribution Award of China's Home Appliance Services Industry (中國家電服務行業突出貢獻獎金獎) and Outstanding Entrepreneur of Shandong Province (山東省優秀企業家).

NON-EXECUTIVE DIRECTORS

Ms. TAN Lixia ("Ms. Tan"), aged 50, currently served as the director of Haier Group Corporation, and was a Non-executive Director of the Company from May 2008 to March 2021 and the Vice Chairwoman of the Board from June 2010 to March 2021. 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 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.

Mr. WU Changqi ("Mr. Wu"), 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 ("Mr. LIN"), 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.

Mr. YU Hon To, David ("Mr. Yu"), aged 73, has been appointed as a Non-executive Director of the Company since 5 March 2021. Mr. Yu holds a Bachelor of Social Science degree from The Chinese University of Hong Kong. Mr. Yu is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate Member of Hong Kong Institute of Certified Public Accountants. He is a chartered accountant with over 40 years' experience in the fields of auditing, corporate finance (including advisory on IPO, mergers & acquisitions and financial restructuring), financial investigation and corporate governance. Mr. Yu was formerly a partner of Coopers & Lybrand (now merged as PricewaterhouseCoopers) in Hong Kong with extensive experience in the corporate finance advisory assignments in Greater China for Hong Kong corporations, private equity groups and multinationals. Mr. Yu also served as an independent non-executive director and the chairman of the audit committee of Haier Electronics, a subsidiary of the Company, over the past three years.

Mr. Yu had served various public offices including being a member of the Listing Committee of the Hong Kong Stock Exchange from 1992 to 1995, a member of the Investment Committee and the Audit Committee of Employees Retraining Board (established under the Employees Retraining Ordinance of Hong Kong) from 1999 to 2020, and a member of the Board of Review (established under Inland Revenue Ordinance of Hong Kong) from 2006 to 2012. Mr. Yu is currently an independent non-executive director of several other companies listed on the Hong Kong Stock Exchange, namely China Renewable Energy Investment Limited (stock code: 987), Media Chinese International Limited (stock code: 685), One Media Group Limited (stock code: 426), Playmates Holdings Limited (stock code: 635), China Resources Gas Group Limited (stock code: 1193), Keck Seng Investments (Hong Kong) Limited (stock code: 184), New Century Asset Management Limited (the manager of New Century Real Estate Investment Trust (stock code: 1275)) and MS Group Holdings Limited (stock code: 1451).

Ms. Eva Li Kam Fun (name that also commonly used is "Mrs. Eva CHENG Li Kam Fun") ("Ms. Eva Li Kam Fun"), aged 68, has been appointed as a Non-executive Director of the Company since 5 March 2021. Ms. Eva Li Kam Fun graduated from the University of Hong Kong with Bachelor of Arts (Hons) and Master of Business Administration degrees. She was conferred with the degree of Doctor of Business Administration, honoris causa, from the Open University of Hong Kong in 2014. Ms. Eva Li Kam Fun is currently the president of Our Hong Kong Foundation. She also serves as an independent non-executive director of Nestle S.A, a publicly listed company on the SIX Swiss Exchange. Ms. Eva Li Kam Fun also served as an independent non-executive director of Haier Electronics, a subsidiary of the Company, over the past three years. Prior to joining the Our Hong Kong Foundation, Ms. Eva Li Kam Fun had a distinguished career that spanned 34 years with Amway Corporation. When she retired in 2011, she held the concurrent positions of Executive Vice President of Amway Corporation and Executive Chairman of Amway China Co. Ltd. responsible for Amway Greater China & Southeast Asia Region. During the last three years, Ms. Eva Li Kam Fun had also been an independent non-executive director of Amcor Limited (a company listed on the Australian Securities Exchange) from 2014 to 2019, and an independent non-executive director of Trinity Limited (a company listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 891) from 2011 to 2020. Ms. Eva Li Kam Fun's leadership was well recognised in the business community. She was twice named the "World's 100 Most Powerful Women" by Forbes Magazine in 2008 and 2009. CNBC awarded Ms. Eva Li Kam Fun with the "China Talent Management Award" in its 2007 China Business Leaders Awards. In the areas of public and social service, Ms. Eva Li Kam Fun is court member of the Open University of Hong Kong, advisor of the All-China Women's Federation Hong Kong Delegates Association, honorary president of the Hong Kong Federation of Women, and permanent honorary director of The Chinese General Chamber of Commerce.

Mr. Yan, Andrew Y ("Mr. Yan"), aged 64, had been a Non-executive Director of the Company since June 2019, and retired as the director of the Company on 3 November 2020. He is currently the founding managing partner of SAIF Asia Investment Fund. Prior to founding SAIF, Mr. Yan was the managing director and director of the Hong Kong office of AIG Asia Infrastructure Investment Fund from 1994 to 2001. From 1989 to 1994, he was an economist at the World Bank headquarters in Washington, a researcher at the well-known think tank Hudson Institute, and a director of strategic planning and business development for the Asia Pacific region at Sprint International Corporation. Mr. Yan obtained a bachelor's degree in engineering from Nanjing Institute of Aeronautics in 1982 and specialized in master's degree of Sociology in Peking University from 1984 to 1986. He studied his Ph.D. from Princeton University during 1986 to 1989 and received a master's degree in international economics in 1989. He also took advanced finance and accountancy courses at the Wharton School of Business in 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Deming ("Mr. DAI"), 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 ("Mr. CHIEN"), 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 ("Mr. WONG"), 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.

Mr. Shi Tiantao ("Mr. Shi"), aged 59, had been an Independent Non-executive Director (INED) of the Company since June 2014, and retired as the INED of the Company on 3 June 2020. He currently serves as a professor and doctoral supervisor of the School of Law at Tsinghua University as well as a director of Finance & Law Research Center under the School of Law at Tsinghua University. He concurrently holds other positions such as a vice president of the Chinese Research Association of Securities Law, an arbitrator of CIETAC, and a member of the Case Guidance Committee of the Supreme People's Court.

Mr. Li Shipeng ("Mr. Li"), aged 54, has been appointed as an Independent Non-executive Director of the Company since 5 March 2021. Mr. Li holds a bachelor's and master's degree from University of Science and Technology of China, and a PhD degree from Lehigh University, USA. Mr. Li has extensive experience in areas such as Internet of Things technology, and artificial intelligence. Mr. Li is currently the Executive President of Shenzhen Institute of Artificial Intelligence and Robotics. Prior to that, he served as the Chief Researcher and Deputy Dean of Microsoft Research Asia, Chief Technology Officer of Cogobuy Group, and Vice President of iFlytek Group.

Mr. Li is a member of the International Eurasian Academy of Sciences and a fellow of the International Institute of Electrical and Electronics Engineers (IEEE fellow). He was listed as one of the world's top 1,000 computer scientists by Guide2Research and ranked top 20 in Mainland China in 2020. Mr. Li is a renowned expert in areas such internet, computer vision, cloud computing, Internet of Things and artificial intelligence.

SUPERVISORS

Mr. WANG Peihua ("Mr. Wang"), 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 ("Mr. MING"), 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.

SENIOR MANAGEMENT

Mr. LI Huagang. See "EXECUTIVE DIRECTORS".

Mr. GONG Wei ("Mr. GONG"), 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 (全國優秀會計工作者)" 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 ("Ms. MING"), 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.

The following personnel have been appointed as vice-presidents and senior management of the Company since 7 February 2021:

Mr. Li Pan ("Mr. Li"), aged 44, graduated from Wuhan University in 1997 and obtained the double degree in economics and international business administration. He joined Haier Group in 1997 and currently serves as the general manager of the overseas platform of the Company. Mr. Li has held various positions in Haier Group, including serving as the assistant director of the Asia-Pacific Division, the manager of the Haier ASEAN Center, the manager of the Overseas Brands Marketing Center, the manager of the Overseas Strategic Center and the director on the operation of overseas markets. He has held important positions of the overseas platform of Haier Group since 2004 with extensive frontline management experience in product planning, brand marketing, market exploration and corporate operation.

Mr. Wu Yong ("Mr. Wu"), aged 42, graduated from Tianjin College of Commerce in 2001 and obtained a Bachelor's degree in heat supply, ventilation and air-conditioning engineering. He obtained the double degree of EMBA from the School of Economics and Management of Tsinghua University and the INSEAD in 2015. Mr. Wu joined Haier Group in 2001 and currently serves as the general manager of the kitchen appliances and household appliances businesses and the internet of food platform of the Company. Mr. Wu has served as the general manager of the PRC Region on manufacturing and production of refrigerators, overseas marketing and the air-conditioning business since joining the Group and possesses whole-process management experience in high-end manufacturing, marketing and industrial platforms.

Mr. Li Yang ("Mr. Li"), aged 44, graduated from Qingdao University of Science & Technology in 1998 and obtained a Bachelor's degree in fine chemical engineering. Mr. Li joined Haier Group in 1998 and currently serves as the general manager of the washing machine business and the internet of clothing platform of Haier. Mr. Li has held various positions in Haier Group, including serving as the manufacturing director and the general manager of the internet of clothing platform. He has held important positions of the internet of clothing platform of Haier since 2008 and has been engaged in the quality and systemic management of washing machines, production and manufacturing and other relevant management works. The ecological platform of the internet of clothing incubated by the team under his leadership was awarded the first prize for "Innovation Results in Modern Management of National Light Industry Enterprises" (全國輕工業企業管理現代化創新成果) in 2019. He received the "Most Promising Entrepreneur in Qingdao in 2018", the "Advanced Individual in Management Innovation of National Light Industry Enterprises" and other honors.

Ms. Wang Li ("Ms. Wang"), aged 55, graduated from Qingdao University of Science & Technology in 1986 and obtained a Bachelor's degree in heat supply, ventilation and air-conditioning engineering. She obtained a Master's degree in business administration from Renmin University of China in June 2013. Ms. Wang joined Haier Group (Qingdao Air-conditioner Company) in 1988 and currently serves as the general manager of the air business of Haier. Ms. Wang has held various positions, including the general manager of Haier's central air-conditioner business, the general manager of Haier's residential facilities business and the general manager of Haier's air business. Ms. Wang has held important positions in the air-conditioner department of Haier since 1988 with management experience in products and marketing. Ms. Wang has served various industrial positions, including a member of China Refrigeration and Air-Conditioning Industry Association. Ms. Wang was granted special government subsidy from the State Council and was awarded the Outstanding Entrepreneur in Light Industry in Shandong Province, the Labor Model of Qingdao City, the Outstanding Talent in Professional Technology in Qingdao City and other honorary titles.

Mr. Guan Jiangyong ("Mr. Guan"), aged 42, graduated from the Northeast Electric Power University in 2001 and obtained a Bachelor's degree in execution information system. Mr. Guan joined Haier Group in 2001 and currently serves as the general manager of the water heater business and the internet of water platform of Haier. Mr. Guan has been engaged in product management in industry and trade markets, production and manufacturing, product marketing and industrial pipeline management and served as a regional general manager, the market director on the water heater business and the general manager of the internet of water platform and the water heater business. He possesses whole-process management experience in product manufacturing, marketing, corporate planning management and industrial platforms.

Mr. Huang Xiao Wu ("Mr. Huang"), aged 43, graduated from the College of Photoelectric Engineering, Chongqing University with a bachelor's degree in engineering in 1998, and graduated from the Faculty of Business and Economics of The University of Hong Kong with a master's degree in business administration in 2004. From 2009 to 2020, Mr. Huang served as the deputy general manager of Haier Electronics Group Co., Ltd., a subsidiary of the Company, to assist the chief executive officer of Haier Electronics in implementing Haier Electronics's development strategy, and was responsible for capital market affairs such as investor relations, strategic investment, and equity financing. Mr. Huang has 19 years of extensive work experience in commercial banking, investment, industrial funds and corporate finance. Prior to joining Haier Group, he worked in the Ningbo branch and Shanghai branch of Industrial and Commercial Bank of China, Investment Banking Division of Guosen Securities, Anglo Chinese Investment Banking Group (英高投資銀行集團) and other institutions.

Business Review

BUSINESS REVIEW

Company Introduction

Since our establishment in 1984, the Company is committed to being an enterprise of the times, continuing to innovate and iterate by continuously introducing new products that lead the market development, and grasping industry opportunities arising. After over 30 years of development, the Company has already become the global leader in large-format home appliance industry and also the pioneer of global smart home solution provider:

- Leading provider of the global large-format home appliance industry: According to data from Euromonitor, an authoritative market researcher, among the large-format home appliances brands, the Company has ranked 1st in the global market in terms of retail volume for 12 consecutive years. The Company has a global portfolio of home appliance brands consisting of Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. Among the large-format home appliance brands, our Haier brand refrigeration appliances and laundry appliances also ranked first in the global market in terms of retail volume for 13 and 12 consecutive years.

- Pioneer of global smart home solutions: Capitalising on our full-range home appliances products, according to Euromonitor, the Company is one of the first home appliance enterprises in the industry to launch smart home solutions. Centering 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 physical experience stores and franchised stores, the Company provides smart home solutions suited for various lifestyle scenarios for users to satisfy their pursuit for a better life.

After years of development, the Company has established the following three business segments: smart home business in China, smart home business overseas and other businesses.

Smart Home Business in China

The Company provides full range home appliances products to our customers in China. Through online Haier Smart Home App, as supplemented by physical experience stores, the Company also provides value-added services centering on home appliance products, which jointly form our smart home solutions to meet users' needs in different lifestyle scenarios. Specifically, our smart home solutions can be further categorised as Household Food Solutions (Internet of Food), Household Clothing Solutions (Internet of Clothing), Household Air Solutions (Internet of Air), and Household Water Solutions (Internet of Water).

- Household Food Solutions (Internet of Food): the Company provides users with refrigerators, freezers, kitchen appliances and other products through domestic market sales and exports under Household Food Solutions. Through our interconnected products, the Company 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, the Company is able to meet their needs for convenience, health and delicious food.

BUSINESS REVIEW (continued)

Smart Home Business in China (continued)

- Household Clothing Solutions (Internet of Clothing): the Company provides users with washing machines, dryers and other products through domestic market sales and exports under Household Clothing Solutions. Through our interconnected products, the Company can achieve interactions, for example, between washing machines and dryers, and enable smart solution such as automatic use of laundry detergent. The Company provides 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 Air Solutions (Internet of Air): the Company provides users with household air-conditioners, commercial air-conditioners, purifiers, fresh air systems and other products through domestic market sales and exports 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 with regards air temperature, humidity, cleanliness and freshness.

- Household Water Solutions (Internet of Water): the Company provides 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 through domestic market sales and exports under Household Water Solutions. In particular, our interconnected products can provide whole-house water solutions including 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, the Company also manufactures and sells a comprehensive portfolio of home appliance products as well as provides 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. The Company has more than 20 years of experience in overseas operations. The Company further expanded overseas business through cross-border acquisitions. The Company acquired Haier Group Corporation'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 the Company's smart home business overseas has been fuelled by the synergies from both our organic growth as well as acquisitions of overseas business.

At present, the overseas smart home business of the Company has entered into a stage of stable development, having achieved multi-brand, cross-product and cross-region presence on a global basis. According to Euromonitor, in 2020, the Company 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 Middle East and Africa, with a market share of 8.4%; ranked fifth in Europe, with a market share of 7.2%.

BUSINESS REVIEW (continued)

Other Businesses

Based on our established smart home business, the Company also expanded its business to cover, among others, 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. Small home appliances business primarily involves design, outsourced manufacturing and sales of various small home appliances under our brands, to supplement the Company's smart home solutions business. The distribution services business primarily involves distribution of televisions, consumer electronic and other products for Haier Group and other third parties, leveraging our extensive sales network.

During the period, the Company disposed of the 54.50% equity interest of Haier COSMO IOT Ecosystem Technology Co., Ltd. (海爾卡奧斯物聯生態科技有限公司) (hereinafter referred to as 'COSMOPlat') under Other Businesses segment. The Company still holds a total of 18.75% equity interest in COSMOPlat through direct and indirect shareholdings. COSMOPlat is no longer accounted for on a consolidated basis in the combined statements of the Company, and the business of COSMOPlat is no longer included in Other Businesses segment starting from the fourth quarter of 2020.

During the period, the Company was once again being listed among the Top 500 World's Companies by Fortune, moved up 13 places as compared with 2019. We are named as the "2021 World's Most Admired Companies" by Fortune, and are the only company in Europe and Asia in home appliances industry selected and the only company incorporated outside the USA. Meanwhile, the Company became the world's only Internet-of-Things (IoT) ecosystem brand, being named second time in a row as BrandZ™ Top 100 Most Valuable Global Brands in 2020.

Industry Summary for 2020

(1) The China market

Due to the impact of the Covid-19 pandemic and the complex and volatile international environment, China's economic growth rate has declined. According to the National Bureau of Statistics, China's total GDP exceeded RMB101 trillion in 2020, an increase of 2.3% year-on-year, which was the lowest growth rate in the past five years. In the first quarter, the outbreak of the pandemic had strong impacts on the economy and enterprises. The drop in residents' average income led to more cautious consumer behavior. The home appliance market was being hit hard as overall consumer demand shrank. However, as the pandemic situation in the Mainland China was brought under control, work and production of industries were orderly resumed, and consumer demand also restored. Since the second quarter, the overall home appliance market has gradually shaken off the impact of the pandemic, and achieved significant quarter-on-quarter improvements. According to data from CMM, the annual domestic market size for white goods and kitchen appliances in terms of retail value was at RMB448.7 billion, a decrease of 11.9% year-on-year. In particular, retail sales for the refrigerator, washing machine, air conditioner and kitchen appliance categories have recorded negative growths of 3.3%, 6.5%, 22% and 5.4% respectively. However, the declines have significantly narrowed in the second half of the year with a retail market size reaching RMB232.9 billion, representing a year-on-year growth of negative 2.4%. Influenced by changes brewed during the post-pandemic era, the home appliance market continued to evolve towards health-conscious and smart upgrades, with encouraging developments in specific sub-categories and channels.

BUSINESS REVIEW (continued)

Industry Summary for 2020 (continued)

(1) The China market (continued)

First of all, the pandemic as a "black swan" event did not only bring impacts to various sectors of the economy, it also reshaped people's attitudes towards consumption. As people spent more time at home, they became more dependent on home appliances. For instance, the need to stock up on food has led to the pursuit of large-capacity refrigerators, and the increased frequency of home cleaning and laundry has brought favor to large-capacity washing machines and water heaters. At the same time, consumers' pursuit for higher standards of quality living has driven the upgrading of product features. Quality and eco-friendly home appliances with disinfection and sterilization features have become hot selling product segments. Home appliances such as air conditioners with fresh air intake, self-cleaning and comfortable air blow features, washing machines equipped with high-temperature sterilizing function, refrigerators that could maintain food freshness with odor control and anti-bacterial features, along with disinfection cabinets, water purifiers and air purifiers, have all achieved significant growths. According to CMM's retail monitoring data survey for major market trends for the online home appliance market in January-November 2020, categories with health-boosting features have all achieved high rankings in terms of sales value among products including washing machines, rice cookers, humidifiers.

Secondly, the upgrading of home appliances' features also further promoted the development of smart homes. Driven by technologies such as IoT, cloud computing, big data and artificial intelligence, smart homes have brought great convenience to home living with the characteristics of contactless dialogue systems, multi-product interactive linkages and self-learning capabilities. For example, robotic vacuum cleaners with higher level of intelligence can serve multiple purposes. They can master the room layout through AI learning and automatic recognition, and provide home security services, hence becoming a new center of connection for the living room. The proliferation of intelligence in single products also fueled the rise of whole-house intelligence. The development trend of the future home appliance industry has transformed from purchase of a single product to customization of product sets, and from individual network devices to application of smart scenarios. Many industry giants have already joined the field. Meanwhile, with the emergence of more and more open cloud platforms and reduction in hardware development costs, the smart home ecosystem value chain has become more mature. Users have gradually gained conviction on the uses of smart home products. The proportion of complete set purchases and scenario-based purchases have been on the rise.

Thirdly, as emerging consumer groups became more sophisticated and the concepts of healthy and quality living getting more ingrained into consumer mindset, small home appliances with the characteristics of low unit price, small size, installation-free and minimal service requirements have become a new market hotspot. Small home appliances have grown against the industry's downward trend especially during the pandemic outbreak, as they were more in line with the online sales model of live-streaming e-commerce. For instance, according to information from AVC, the online sales growth for categories such as high-speed blenders and composite devices with steam, microwave and roasting functions had reached 108.7% and 43.8% respectively in 2020. Against the backdrop of a slowdown in growth of conventional large-format appliances, small home appliances that offer both functionalities and enjoyment are capable of tapping into the market upside and provide opportunities for development of new categories.

BUSINESS REVIEW (continued)

Industry Summary for 2020 (continued)

(1) The China market (continued)

Lastly, in terms of channels, as offline outlets were impacted by the pandemic prevention and control measures, online channels have become the main conduit for meeting consumer demands. According to AVC market data, the online market shares in terms of retail volumes for air conditioners, refrigerators and washing machines have all increased despite a fall in overall consumption, reaching 51.5%, 60.3% and 64.6% respectively, representing increases of 7.4, 8.0 and 9.3 percentage points. As more time is being spent at home, and the new generation of young people with preference on online shopping, e-commerce as a contactless cloud-experience sales medium has had huge influence on users' purchase preference and decision-making process. Through leveraging platform resources and technological advantages, live-streaming e-commerce improved the efficiency in dissemination and accelerated traffic conversions due to its mobile, social and scenario-driven characteristics, hence it has become one of the key modes of sales nowadays. In the future, online content platforms will be enriched by the rise of core user circles such as KOL and KOC, as well as the popularization of the 5G network and the increasingly mature VR technology. Live-streaming e-commerce has the potential to facilitate more in-depth and direct interactions between enterprises and users.

(2) Overseas markets

The global home appliance market has been developing differently across regions. In developed countries and regions, the development momentum of home appliance market relied on new housing, diversified demands in sub-markets and the upgrading of home appliances. In developing countries, due to the relatively low home appliance ownership rate, the overall market still saw potential for rapid growth. On the other hand, as Covid-19 has broken out in many countries around the world, economic and social activities have been restricted, people's income has been reduced, and the real estate sector was facing pressure in sales and delivery. These series of factors have led to a decline in user demand for home appliances, bringing negative impacts to different regions in varying degrees.

In terms of channels, while offline channels remained dominant, online channels have been developing rapidly. The distribution channels for the global home appliance market were increasingly diversified. In view of the transformation of retail channels, the rapid development of online channels and their integration with offline sales channels have further enhanced the growth potential of online channels.

BUSINESS REVIEW (continued)

Industry Summary for 2020 (continued)

(2) Overseas markets (continued)

Breakdown by markets:

(1) **The U.S. market:** Impacted by the pandemic, consumption in the U.S. market was sluggish in the first half of the year. However, with normalized pandemic prevention and control policies such as social distancing, according to Euromonitor International's statistics, the home appliance industry achieved double-digit growth in the second half of the year, with an annual growth rate of 5%. The recovery of the U.S. home appliance market was, first of all, benefited from the extension of the stay-at-home order, which has stimulated users' demand for home appliances, and shifted travel and entertainment spending into household consumption; secondly, their more mature e-commerce channels have facilitated a boost in household consumption; thirdly, a series of stimulus policies implemented by the government has effectively spurred the growth of household consumption; finally, mortgage rates were at record lows, leading to a surge in new home constructions, existing home sales were also maintaining at its highest level since 2006, which have further stimulated people's demand for home appliances.

(2) **The European market:** With the impact of the pandemic in 2020, the growth of the large-format home appliance market recorded was 3.9%. This included a 3.9% growth for refrigerators, a 1% growth for washing machines, and a 4% growth for built-in kitchen appliances.

(3) **The South Asian and Southeast Asian markets:** ① In response to the impact of the pandemic, the Indian government imposed a strict lockdown from late March to late June, essentially halted sales nationwide. According to estimates from local distributors, the industry has fallen by more than 25% year-on-year. ② Business activities in other regions have also been restricted by the government's quarantine rules. Retail sales and retail volume both declined before gradually recovering in May and June.

(4) **The Australian and New Zealand markets:** ① The Australian home appliance and furniture market has experienced a strong short-term growth due to the stay-at-home order. Competition in the industry has become more intense. Enterprises have actively developed online platforms and continued to improve their offline shopping experience. ② The home appliance chain channels in New Zealand have become more concentrated, market shares of small and medium-sized channels continued to shrink; the proportion of online sales has increased to 5%.

(5) **The Japanese Market:** The overall sales volume in the white goods industry has dropped 2.3% due to the impact of Covid-19. Specifically, the refrigerator category has experienced declines in both sales volume and sales value, whereas the washing machine category recorded a decrease of 2.9% in sales volume, and an increase of 2.4% in sales value. In addition, refrigerators have become a top-selling category during the pandemic, achieving year-on-year growths of 53.3% and 42.5% in terms of sales volume and sales value respectively (data from GFK).

BUSINESS REVIEW (continued)

Industry Summary for 2020 (continued)

(3) Industry Outlook for 2021

The Chinese Market: Various industries are expected to show trends of recovery in 2021. ① Refrigerator: The industry is expected to increase in both volume and revenue. Replacement demand due to structural upgrades will further expand market size. The refrigerator market is expected to achieve single digit growth in retail sales in 2021. The export market is expected to grow at a slower rate due to a high base over the same period. ② Washing machine: The domestic retail market and the export market are both expected to show positive growths. The domestic washing machine market is still in the process of recovery while products continue to innovate towards the directions of healthy laundry and the integration of "laundry + garment care". Meanwhile, emerging categories such as clothes dryers and tumble dryers are meeting users' current pursuit of quality living and are therefore expanding rapidly. ③ Residential air-conditioner: Volume and sales revenue are both expected to increase. Due to the expected macroeconomic recovery in 2021 and the low base over the same period, coupled with the rise in the average price of products, the air-conditioner segment is expected to achieve double-digit growths in both retail volume and retail revenue; exports are expected to continue the growth trend since the second quarter of 2020.④ In addition, the water heater market will see the dawn of recovery, the growth rate of the offline market is expected to be higher than that of the online market due to a low base over the same period, and growth in the online market is expected to slow down. ⑤The overall size of the kitchen appliance market will rebound from 2020, on one hand, although the control policies for the real estate market are tightening, the proportion of second-hand housing transactions are on the rise, which will drive the volume as well as quality growth of the kitchen appliance category; on the other hand, emerging categories such as dishwashers, integrated cookers and built-in integrated cookers will continue to see fast-growing trends.

The Global Market: Looking ahead to 2021, the long-term demand for home appliances as necessity goods remains stable. As many countries around the world are gradually resuming economic and social activities, and the pandemic is expected to be contained with the widespread application of vaccines, growth shall pick up in the global retail market of home appliances. According to Euromonitor's data forecast, the global market size for large-format home appliances (excluding 3C products) in 2021 will rebound to over RMB3 trillion, with a year-on-year increase of about 4%.

BUSINESS REVIEW (continued)

Management Discussion and Analysis

In 2020, the Group pressed ahead with our IoT smart home strategy and continued to expand our leading position in the global market, achieving an annual total revenue of RMB209.70 billion, an increase of 5.9%. Revenue for the fourth quarter was at RMB55.3 billion, an increase of 9.5%. As COSMOPlat business was disposed of at the end of September 2020, revenue of the fourth quarter of 2020 no longer consolidates the business. If excluding the disposed business on the fourth quarters of 2019, revenue should have grown 8.3% annually and 20% in the fourth quarter. The revenue growth was driven by progress in both our domestic and overseas businesses, among which, the smart home business in China achieved a revenue of RMB98.86 billion, an increase of 6.6%, while the second half of the year increased by 18.5%. The growth was due to the Group's ongoing development of leading set products, Casarte's efforts in continuously expanding its high-end market share, deepening retail transformation and optimizing efficiency. Oversea home appliance and smart home business achieved a revenue of over RMB100 billion, an increase of 8.3%, while the second half of the year increased by 15.8%. The growth was attributed to the Group's premiumization strategy as well as our focus on operational capacity enhancement for localized R&D, production and sales. Under the challenges of the pandemic, our "Rendanheyi Model (人單合一)" has ensured swift response from our micro entrepreneur in various regions. Relying on our global procurement, supply chain and R&D platforms, we have also fully leveraged our edge in global resource deployment and overcome the adverse impacts from external environment, hence resulting in the achievement of sustainable business development.

The Group achieved net profit from continuing operation of RMB11.32 billion with a growth rate of 25.5% and the net profit attributable to owner of the Company were RMB8.88 billion with a growth rate of 8.17%. The net profit attributable to the owners of the Company in the fourth quarter reached RMB2.58 billion, a record high over the same period in previous years. Profit growth for the year was driven by growth in revenue and optimization of expenses. Our gross profit margin was 29.01%, a decrease of 0.59 percentage points year-on-year. The decrease was driven by the impact from COVID 19, which resulted in a 1.7 percentage points lower gross profit margin in the first half. With the rapid recovery of topline growth, the increased proportion of Casarte as well as the product mix optimization in oversea market, the gross profit margin in the second half rebounded by 0.3 percentage points. Total sales and management expenses dropped 1.2 percentage points. In particular, China region has achieved an efficiency enhancement through four restructuring and six digital transformations. Overseas region has achieved expense ratio optimization by improving economies of scale and refining operations.

The Group's annual net cash flow from operating activities was RMB17.60 billion, an increase of 16.68%.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

During the reporting period, the business operations of the Group's segments were as follows:

(I) Smart Home Business in China

Under the dire challenge of a 11.9% retail sales decline in China's white goods and kitchen appliance industry, our smart home business in China has grown against the downward trend in 2020. Our competitiveness and industry-leading position have been further strengthened. Revenue from the domestic home appliance segment reached RMB98.863 billion, a year-on-year increase of 6.6%. Operating profit grew 8.5%. Our retail shares in various industries continued to rise. At the same time, our high-end brand Casarte achieved a net revenue of RMB8.7 billion, a year-on-year increase of 17%, among which the growth of the fourth quarter recorded 35%.

The Group's business growth has been driven by the introduction of smart set products that spearheaded innovations; the use of a unified warehousing and distribution system and the Yilihuo information tool that optimized inventory and improved channel efficiency; the active expansion of our high-end brand Casarte's product portfolio and market share; and the continuous deepening of our digital transformation efforts.

1. Household Food Solutions

(1) Refrigerators and Freezers

According to the retail data of CMM, the refrigerator industry had a retail volume of 32.57 million units in 2020, down 3.6% year-on-year; its retail value was at RMB91.2 billion, down 3.3% year-on-year. Looking back at the whole year, the refrigerator industry was heavily affected by the pandemic from the beginning of the year till May, and began to recover strongly in the second half of the year. Growth in retail sales has improved significantly in major domestic retail channels in the second half of the year. A surge in overseas orders also supported the rebound of domestic production. Haier has continued to strengthen our position as a global leader in the refrigerator industry. Through continuous technology innovation and iteration of product features, we provided users with health-oriented, intelligent and stylish solutions for fresh food storage, thereby leading the consumption upgrades of the industry. In 2020, the Group's domestic refrigerator business achieved revenue of RMB34.383 billion, an increase of 5%; During the period, according to CMM's report, the Group's shares of online and offline retail sales in the domestic market reached 36% and 39% respectively, representing increases of 2.2 and 1.9 percentage points; our shares of online and offline retail volume reached 30% and 36% respectively, representing increases of 3 and 3.6 percentage points.

Influenced by the pandemic, users have been increasingly conscious about healthy eating. At the same time, as users were spending more time at home, they had higher demands on the long-lasting freshness and storage capacity of refrigerators.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

1. Household Food Solutions (continued)

(1) Refrigerators and Freezers (continued)

Based on researches on the storage and nutrition of all kinds of food ingredients, the refrigerator business has accumulated big data of more than 1,000 kinds of ingredients and formulated a smart fresh-keeping algorithm, which could automatically calculate and adjust the temperature of the refrigerator according to the types of ingredients recorded by the user, so as to maintain maximum freshness. At the same time, we have established a variety of ways to manage food ingredients. Through multiple channels such as the refrigerator screen, smart voice, the Smart Home APP, etc. Users could manage ingredients in the refrigerator according to their own habits, and check the status of the ingredients in the refrigerator anytime and anywhere to ensure the freshness and timely use.

In terms of capacity expansion, the refrigerator business has integrated cabinet design to enable the full opening of refrigerator doors at 90° angles, which has greatly expanded the capacity of the refrigerator. In particular, Casarte's refrigerator introduced a new "seamless built-in model" with the innovative design of heat dissipation across the bottom of the fridge. Users no longer had to reserve space for heat dissipation, thus enabling the seamless fitting of the refrigerator into a cabinet without clearance space. This effectively fulfilled users' demand for the integration of furniture and home appliances, and instilled elegance and imagination into the kitchen space. It also greatly boosted the storage capacity of the refrigerator in a given space. Casarte's "seamless built-in model" has won international design awards including the iF Design Award and the Red Dot Design Award. This design also helped Casarte's refrigerator to achieve a total annual share of 12.3% in retail sales, which was an increase of 2.1 percentage points year-on-year. Specifically, its market share above RMB10,000 has reached 37%, representing an increase of 5.4 percentage points.

The refrigerator business has built on the advantages of the global supply chain to achieve rapid growth in the export business. As the overseas supply chains were more heavily impacted by the pandemic, recovery was rather slow, leading to a supply shortage in the market. This coupled with the closure of offline sales outlets and users' extended time at home, the demand for refrigerators and freezers from overseas users has continued to surge. The domestic supply chain on the other hand has recovered swiftly after the pandemic was brought under control in Mainland China, which has led to a rapid growth in the export of refrigerators. According to demand changes in major regions in the overseas market, we have promptly adjusted channel strategies and partnership models as well as expanding collaboration channels, resulting in rapid growths in various regions. The refrigerator export business had an annual growth of close to 60%.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

1. Household Food Solutions (continued)

(1) Refrigerators and Freezers (continued)

During the year, the Group has continued to push forward a global and efficient system for synergies between production and sales. In terms of procurement, we have intensified the collaborative relationships with local strategic partners and optimized our supply chain systems, thereby efficiently responded to local demands. In terms of manufacturing, we have implemented smart production scheduling and flexible manufacturing systems, so as to maximize capacity utilization through continuously improving our manufacturing efficiency.

(2) Kitchen appliances

In 2020, China's kitchen appliance segment recorded a revenue of RMB2.772 billion, a year-on-year increase of 13.8%. Revenue from Casarte's kitchen appliances grew 79%, with the number doubling for four consecutive months from September to December, hence displaying strong momentum in development and growth potential. In terms of market share, our share of domestic retail sales reached 6% with an increase of 1 percentage point year-on-year; market share in the high-end segment (price range above RMB5,000) grew 0.9 percentage points.

The Group has created "smart and healthy" kitchen and living experience through continuously developing global collaborations. The kitchen appliance business has achieved market breakthrough with its original East meets West technology, bringing a variety of healthy cooking styles from around the world into Chinese kitchens, and building user reputation through experiential marketing. Leveraging our robust R&D capabilities and solid experience in kitchen appliances around the globe, the Group's kitchen appliance business has continued to integrate technology resources from GEA, Fisher & Paykel and Candy in the kitchen appliance field, and established the GFC global R&D alliance. During the period, the kitchen appliance business launched a series of smart kitchen appliance products that integrated leading technologies and modules from various regions around the world. We released four pioneering standards, including constant air volume, medical-grade disinfection technology, smart home and garbage disposal unit, which have effectively supported the rapid development of the smart air series of range hoods and the Casarte medical-grade disinfection cabinets.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

1. Household Food Solutions (continued)

(2) Kitchen appliances (continued)

At the same time, Casarte's kitchen appliances have achieved breakthrough in the high-end market, which has effectively strengthened the brand awareness for its kitchen appliances. By effectively solving users' pain points, creating differentiated experience, and accumulating user reputation, the newly launched Casarte C5+ set products and the Haier "double defense" set products have raised the bar for the industry's products and technologies. Casarte C5+ Gourmet set products have enhanced user experience through pioneering technologies in various product categories: ① The constant air volume range hood pioneers a smart 12-square technology, which is not restricted by the wind pressure in high-rise and is not affected by exhaust ducts, hence offering constant ventilation that creates a smoke-free cooking environment. ② Casarte's three-burner stove accounted for half of the three-burner stove market. It is equipped with features that enable one key control rice cooking, smart temperature control, linkage between stove and range hood, etc., thus providing convenient cooking experience. ③ As the industry's first medical-grade disinfection cabinet, the C5+ disinfection cabinet can kill 10 kinds of pathogenic bacteria with intelligent tracking and auto sterilization, thus exceeding the industry's two-star standard which can only kill 2 kinds of pathogens. It has also won the annual disinfection technology leadership award. ④ Combining GE Appliances' century-old dry-heat cooking technology and Fisher & Paykel's moist-heat cooking technology, the C5+ oven can achieve dual control of temperature and humidity, so as to create culinary delicacies that are evenly roasted and tenderly braised. ⑤ Building on Candy's water-steam separation technology, the C5+ steamer features an innovative water-steam dual-circulation system, which can achieve 110℃ high-temperature steaming and multi-layer steaming through pure steam, thereby preserving the freshness and flavor of ingredients, allowing users to eat fresh and healthy. ⑥ The C5+ integrated steam oven enables a fifth cooking method of simultaneous steaming and roasting, which can shorten cooking time and produce more tasteful dishes.

The Group's kitchen appliances recorded an export revenue growth of 51%, which was mainly due to the strong growth in the Haier brand of kitchen appliances in markets such as Russia and the Philippines.

By adopting large-scale centralized production, encouraging module manufacturers to build local factories, and implementing lean production and refinement upgrades of technologies, the kitchen appliance factories have effectively reduced procurement costs, improved delivery speed and enhanced production efficiency during the period.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

1. Household Food Solutions (continued)

(3) The Food Ecosystem

With the increasing consumer demand for food quality, convenience in cooking and food safety, the Food Ecosystem has built on its intelligent hardware platform and alliance resources, to provide users a healthy eating experience of pre-made products through IoT technologies, standardization of culinary skills & dishes and digitization of cooking algorithms. The relationship between the Group and our users has gradually transformed from the previous one-off selling of tangible products to the high-frequency sharing of gourmet products. User loyalty has been greatly enhanced.

In terms of R&D of smart hardware products, the Food Network has upgraded the smart steam oven three times. The product is equipped with eight key functions such as dual temperature sensors and precise temperature control. It can take into account a variety of cooking modes and customization of ingredients. The smart cooking mode can be activated at the touch of a button. The smart refrigerator can offer recipe recommendation and purchase of ingredients. It can also be linked to the steam oven to bring out the genuine flavor of the food through digital precision in the cooking process.

In terms of alliance resources, the Group has partnered with partners including the Chinese Cuisine Association to set up the Haier Food Ecosystem Alliance. Together, we created a smart food ecosystem platform, turning recipes of famous chefs into "home cooked dishes". The gourmet experience and user reputation gained from the platform also supported the sales of the Group's smart products. For instance, the Group and resource partners have jointly developed the "Peking Roast Duck" recipe. After receiving the semi-finished product (duck embryo), users can scan the exclusive QR code to trace the breeding time, growth condition and quarantine status of the duck. All they have to do is to put the ingredients into the smart oven, and the oven would be automatically adjusted to the matching temperature and cooking time. No additional manual operation is required, and the resulting dish would be cooked to a higher standard. The duck embryos can also be purchased with a single click through the Smart Home App or the refrigerator screen. In response to the market demand from those who could not return home for New Year's Eve dinner with family under the call for celebrating Chinese New Year in situ, the Group has launched the "Reunion Dinner" package, bringing together 18 dishes from six major cuisines, which has achieved retail sales of 15,000 package sets and 120,000 dishes during the Spring Festival.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

2. Household Clothing Solutions

(1) Washing Machine Business

As impacted by Covid-19 as well as the complex and volatile international environment, China's economy was put to severe tests in multiple aspects in 2020. According to the market research report published by CMM, the annual retail volume and retail value of China's domestic washing machine market dropped 9.3% and 6.5% respectively. In view of the sluggish performance of the industry as a whole, the Group's washing machine business has reacted swiftly to market changes. By fully leveraging the strengths of our brand portfolio and actively pushing forward digital transformation throughout our entire process, we achieved strong growth against the downward trend and improved operational efficiency. During the period, the Group's washing machine business achieved a net revenue of RMB25.985 billion, representing an increase of 6.3%. While maintaining our leading position, our market share continued to grow, reaching 40.22% in the offline market, representing a rise of 3.89 percentage points year-on-year; and a share of 39.9% in the online market, a year-on-year increase of 3.5 percentage points. According to statistics from Euromonitor International, Haier's washing machine has been the world's No. 1 brand for 12 consecutive years in terms of retail volume, which reached 16.3% of total market share, 1.2 percentage points higher than that of 2019. Casarte's domestic offline share reached 12.2%, an increase of 3 percentage points year-on-year, making it one of the top three brands in the washing machine market; Leader on the other hand reaped an online share of 5.1%, ranking among the top five washing machine brands in the online market.

During the period, people's demand for washing machine products continued to develop towards the direction of health-conscious, personalized, smart and scenario-based. As an industry leader, Haier washing machine continued to focus on user needs, promoting industry upgrades through technological innovation and product iterations.

The growing health consciousness fueled by the pandemic has driven an accelerated upgrade and evolution of products in the washing machine industry. Centered around health and care, partition washing products were favored by users and became one of the hottest trends in product upgrades; meanwhile, healthy laundry features with various sterilization methods such as high temperature, silver ions, ultraviolet rays and ozone also gained popularity rapidly. Haier washing machine continued to capture market share in partition washers through the Casarte Twin Tasker series. We also leveraged the trend of healthy laundry and developed the pioneering self-initiative disinfection technology. The Yunxi and Xianmu top-load washers would generate deep ultraviolet light automatically during the laundry process, thus achieving auto sterilization without additional electricity consumption. During the period, the shares of top-load and front-load washers in terms of offline retail volume have reached 43.5% and 39.4% respectively, representing increases of 3.3 and 4.3 percentage points year-on-year.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

2. Household Clothing Solutions (continued)

(1) Washing Machine Business (continued)

In view of the trend of demand segmentation, the Group has performed deep dive analysis on the market demand of different user groups. In response to the growing demand for care and color protection of high-end fabrics, the Group launched the BlingBling colored apparel washer, an innovative product programmed with various modes of detergent usage to facilitate the restoration of the original color of clothing in just one click. Since the launch of the colored apparel washer, our online market sales have increased rapidly and successfully drove a 9% year-on-year increase in our market share of washers priced over RMB6,000. In addition, based on the waist protection needs of female users while doing housework, the washing machine business launched the Washer for mothers, which successfully led to a 2.9% year-on-year increase in the market share of top-load products in the price range of RMB2,700–4,000.

At the same time, the washing machine business has spearheaded the growing trend of smart products. The Casarte's Air Wash has upgraded from the initial variable-temperature steam Air Wash, to an Air Wash that integrated sterilization, wrinkle removal, odor removal, and humidity removal, as well as enhanced fluffiness in one machine. The Air Wash procedure could be customized precisely according to different fabric and needs, hence fulfilling user needs for high-end laundry in an intelligent way.

In terms of overseas exports, the growth of the washing machine business has slowed in the first half of the year due to the impact of the pandemic. However, benefiting from the Group's global strength of the "three in one" localized deployment and our product competitiveness, our export revenue has achieved rapid growth in the second half of the year, thus leading to an annual revenue growth of 40% in overseas markets. In the U.S. market, the healthy laundry product first launched in the region was favored by users due to its differentiated features, resulting in an increase of 4 percentage points in the market share of front-load washers and enhanced our market position. In Japan, the AQUA ultrasonic project focused on mid-range to high-end products in the variable-frequency series, which were highly effective in cleaning collars and cuffs and unlikely to damage clothing fibers. Although the industry declined 4%, our variable-frequency series achieved growth against the negative trend and recorded a gain of 4 percentage points in market share. In the European market, we continued to focus on high-end brands, featuring high-end front-load washers and highly profitable products, and has enhanced our market scale and overall profitability.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

2. Household Clothing Solutions (continued)

(1) Washing Machine Business (continued)

During the period, the washing machine business has achieved double breakthroughs in terms of production capacity and efficiency, and continued to push forward our super-factories project. Through betting with suppliers as well as centralizing product models, production modules and manufacturing sites, we raised the efficiency of product models and reduced the whole-machine cost. In addition, the washing machine business has advanced operational efficiency and optimized organizational structure through the digitization of channels. We also reduced labor costs and improved production efficiency through self-made equipment and automation. With the implementation of the interconnected factories project, the automated, intelligent and visualized production capacities of our factories have been strengthened. Through the collection and modeling of big data from users, our production decision-making capability and efficiency have been further enhanced.

(2) Internet of Clothing

Haier's Internet of Clothing has actively promoted cross-sectoral collaborations with laundry detergent, apparel and footwear manufacturers, so as to create an ecosystem for the laundry industry.

During the period, to address users' needs for personalized care of high-end clothing fabrics, the Internet of Clothing has joint hands with leading resource brands in the laundry detergent market to create the first ink cartridge washing machine. This ecological solution of ink cartridge laundry has won the recognition of users for its advanced technology including personalized laundry programs, precise and smart detergent dispensing and detergent smart purchase, coupled with convenient service experience.

Besides, as there is an increased awareness on household disinfection after the outbreak of Covid-19, timely and effective disinfection, sterilization and storage of footwear have become users' pain points. The Internet of Clothing has collaborated with resource partners in footwear laundry services, sporting goods chain brands and footwear brands to co-create a complete-scenario experience for the washing, caring, storage and customization of footwear.

During the outbreak of Covid-19, the Internet of Clothing has provided a complete scenario for household pandemic prevention solutions, covering the scenarios of going home, staying at home and on commute, hence offering users a one-stop solution for health protection, which have greatly boosted user demand for upgrading related smart home appliances, and generated enthusiasm for shopping with ecosystem resource partners such as laundry detergent.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

3. Household Air Solutions

The air conditioning segment in China has achieved revenue of RMB25.506 billion, an increase of 8.6%.

(1) Household air conditioners

The residential air conditioning business has focused primarily on health-conscious and intelligent products. It has led the industry to transform from distribution-based to retail-based, actively expanded the integration of offline networks and online channels, and pushed forward the construction of engineering channels, which have effectively increased growth in our retail shares. In terms of market share, both offline and online shares have achieved growths against negative trends, with offline share of retail sales standing at 14.7%, an increase of 2.2 percentage points; and online share of retail sales standing at 11.2%, an increase of 2.4 percentage points. Meanwhile, we have continued to expand Casarte's air conditioning product portfolio to stimulate structural upgrades and growth of scale.

The household air conditioning business has formulated a number of health-boosting air conditioning standards, such as sterilization cabin and air purification, and has applied for a total of 4,881 invention patents and 609 international patents. The residential air conditioning business has successively launched the "Thor" self-cleaning air conditioner with 56℃ sterilization, the "3D sterilization cabin" series of whole-house healthy-air air conditioner, and the "New Species" air-washing air conditioner and purifier. In particular, the "sterilization cabin" series of air conditioners have adopted a triple sterilization technology with the use of water, heat and electricity. They provide a bacteria removal rate of 99%, thus completely solving the pain point of dirty air blow from air conditioners, and have received unanimous praise from users during the pandemic. The market share of sterilization air conditioners has reached 56.6%. Drawing on the principles of aero engines, the world's first air-washing air conditioner is installed with a high-speed centrifugal waterfall curtain system to achieve a differentiated experience of purification, humidification, oxygenation, sterilization, air blow positioning and voice interaction. It can achieve the effect of air washing once every hour, hence offering clean, fresh and healthy air to users. Since its launch in the market, the air-washing air conditioner has continuously captured the largest share in the price segment above RMB14,000.

Casarte's air conditioner has achieved revenue growth of 27% through expanding its product portfolio and touch-points. In 2020, set products for Casarte's residential air conditioner have increased the Galaxy series. In terms of market share, our share in the price segment above RMB15,000 has reached 46.9%, an increase of 6.27 percentage points year-on-year; our high-end market share of hanging machines priced above RMB4,000 and standing machines priced above RMB10,000 has reached 16.6%, representing an increase of 3.8 percentage points.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

3. Household Air Solutions (continued)

(1) Household air conditioners (continued)

The Group's residential air conditioner had export revenue growth of 21%. In overseas markets, we have increased market share through continuous channel expansion and the launch of innovative products. We have also flexibly leveraged online marketing to propel enhancement of our localized competitiveness. At the same time, our domestic factories have resumed production in the first moments to ensure fulfillment of order demands in key markets as well as supporting the development of proprietary brand overseas.

(2) Commercial air conditioners

Benefiting from the swift control of the pandemic and the resumption of work and production in Mainland China, the commercial air conditioning industry has shown gradual recovery, and we outperformed the industry with double digit revenue growth.

With 61% market share in magnetic levitation products, we continue to lead the industry in energy efficiency solutions, we also launched the industry's first smart and energy efficient solution using IoT based VRF units developed clean energy products in anticipation of the surge in demand association with the switch from coal towards electricity.

Our air conditioning business has focused on featuring products that are health-boosting, energy saving and intelligent, thereby offering healthy and convenient experience for users. During the period, in response to users' continuous concern on health, the commercial air conditioning business has launched the Healthy Air Conditioner, and introduced the industry's first central conditioner with sterilization cabinet while continued the iteration of maglev units with a large cooling capacity. We also made breakthrough in smart air solution for commercial properties, developed identification technology for central air conditioners, IoT based control system that could potentially save users' cost by over 50%.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

4. Household Water Solutions

(1) Water heater business

The water heater and water purifier business has committed to providing users with safe, smart and comfortable whole-house water usage solutions. In 2020, although the pandemic situation has suppressed some offline consumer demand, the stay-at-home economy driven by social distancing has stimulated the growth of online traffic which further unlocked demands from lower tier markets. Haier's water heater and water purifier business has seized the opportunity and embraced the trend for health-boosting and intelligent home appliances. We continued to upgrade product features, and achieved a revenue of RMB10.217billion, a growth of 6.5% year-on-year.

During the period, the water heater status in the industry has further enhanced, ranking first in the overall industry. Our market shares also further increased, reaching 23.9% and 27.3% for offline and online markets respectively, representing year-on-year growths of 3.4% and 3.2%. In the high-end market, Casarte achieved a revenue growth of 80%, its market share also further grew by 4.2%. The Leader brand developed momentum in both online and offline markets through the Yellow Duckling IP, which has successfully captured the hearts and minds of young users, and realized a substantial increase in market share.

As revenue grew rapidly, the water heater business has continued to optimize costs and expenses, including streamlining SKUs, focusing resources on projects with high input-output ratio, etc., so as to effectively improve profitability. During the period, although the level of profit margin was impacted by the pandemic in the first half of the year, it has shown significant improvement in the second half of the year.

As an industry-leading brand, Haier electric water heater has committed to solving user pain points and meeting user needs. According to information from CMM, the online and offline market shares of the Group's electric water heater in terms of retail value were 37.7% and 36.5% respectively, representing year-on-year growths of 4.7% and 8%respectively. During the period, Haier electric water heater launched three leading technologies: variable-frequency instantaneous heating technology, AI artificial intelligence technology and water purifying technology, thereby bringing users large-capacity, intelligent and healthy bathing experience. At present, products with water purification features have accounted for more than 70% of Haier's electric water heaters. In particular, Casarte's Tianmu SPA series even provided users with unlimited hot water and a relaxing bathing experience for the whole family. At the same time, backed by Haier's AI artificial intelligence technology and the U+ big data platform, Haier electric water heaters not only provided users with smart water usage, they could also serve as smart network devices connecting with the bathroom or the entire house, hence bringing users a future living experience. Haier electric water heater's outstanding product innovation capabilities and stylish designs also received international recognitions, with Casarte's electric heater Tianquan SPA winning the AWE Outstanding Product Award.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

4. Household Water Solutions (continued)

(1) Water heater business (continued)

Haier gas water heaters also achieved exceptional performance during the period. Retail sales of the Group's gas water heaters skyrocketed by nearly 100% during the 618 Festival, and rose over 60% during the Double 11 Festival. According to information from CMM, the online and offline market shares of the Group's gas water heater in terms of retail value in 2020 were 16.3% and 15.6% respectively, representing year-on-year increases of 1.7 and 4 percentage points. During the period, the newly launched double-booster zero-cold-water product TR7 has overturned users' concerns on gas heater products, such as poor at maintaining constant temperature, poor wind resistance and high safety concerns. The product has received unanimous praise from the industry and users upon its release, leading to a two-fold increase in our market share of products priced below RMB5,000. The closed and stable core combustion technology adopted by the product also received the China Patent Excellence Award, marking the only "Nobel-class" patent in the China's gas heating industry in the past 40 years. Besides, Haier formulated the "special requirements for domestic instantaneous gas water heater with preheating function", a group standard for zero-cold-water product, which has become the industry benchmark for zero-cold-water technology. On 8 June 2020, Haier gas water heater CX3 was selected and certified by the China Household Electric Appliance Research Institute as the industry's "seven-star smart" gas water heater. As driven by industry-leading zero-cold-water waterfall washing products in the Casarte CR6 series, growth of Casarte's gas heater products has doubled.

During the period, Haier air power has accelerated the pace of R&D for products with health-boosting features such as high water temperature and sterilization. Meanwhile, it has dominated the industry's offline retail with an annual cumulative share of over 55%, and ranked first in the industry's online market with a 48% share. Its market share in the high-end product segment priced above RMB10,000 has grown 25%. Among the TOP10 best-selling model rankings of air-powered water heaters, Haier owned nine of them, thus completely dominated the industry.

(2) Water purifier business

According to CMM's retail monitoring report, growth in online retail sales for the overall industry has increased by 32.4%, Haier continued to lead the industry with an outperformed growth of 41.1%, which ranked first in the market and achieved a 0.8% year-on-year growth in market share; growth in offline retail sales for the overall industry has dropped by 22.8%, and Haier recorded a growth of 8.8% against the downward trend, which was the only brand among the five top-ranked brands to achieve positive retail growth, with a year-on-year increase of 3.8 percentage points in market share.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

4. Household Water Solutions (continued)

(2) Water purifier business (continued)

According to CMM, in terms of household point-of-use water purification, Haier water purification products recorded an online retail market share of 13.2% and took the first place in the industry; growth in offline market reached 7%, which was the only brand among the top five brands to achieve positive growth. In terms of whole-house water purification, through the provision of smart, differentiated set products of whole-house water solutions, Haier water purification achieved sales of over 11,000 sets of products under the whole-house centralized water purification and softening scenario, and over 46,000 sets of products under the living room water purification and drinking scenario. Meanwhile, building on BWT's brand reputation in the high-end whole-house water usage segment, the Haier and BWT joint venture company has successfully launched partnerships with renowned real estate developers in Mainland China on whole-house water usage engineering projects.

During the period, in response to users' demand for differentiated water quality, the water purification business has primarily focused on the promotion of high-end mineral water purifiers from the Casarte's Yunjing series. The product series provided solutions for mineral water that contains strontium to meet the health needs of users. The products have attracted widespread attention and user purchases once they were launched in the market.

(3) Water-related Ecosystem

In an effort to fulfil customers' aspiration for better water usage in everyday lives, Haier's whole-house smart water usage solution integrated whole-house water purification, water softening, water heating and home heating into a one-stop solution. In addition, Casarte's home heaters can be controlled remotely to preheat the room before the user comes home, heating times can also be scheduled according to the life rhythm of the user to avoid overuse, which is more energy efficient and environmental-friendly.

5. Operating Platform in China

In the face of the challenges of the pandemic in 2020, the Group has strengthened collaborations with e-commerce platforms, upgraded our own Smart Home App, and intensified the integration of all channels. At the same time, we have integrated with multiple resources such as home furnishings and building materials to create the brand-new Smart Home experience store.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

5. Operating Platform in China (continued)

Smart Home experience stores offered displays and sales of complete sets of products that revolved around the scenarios of clothing, food, living and entertainment. The stores have evolved from focusing solely on product sales to one-stop shops that provide design services before sales, immersed experience during sales, and maintenance services after sales. Building on our increasingly strengthened capacities on smart scenario deployment, as well as the full integration of the above-mentioned resources, the Group has rolled out the new ecosystem scenario brand "Three-Winged Bird" during the year, which focuses on providing users whole-process smart home solutions, hence charting a new development path for the Group.

During the period, the Group has made significant progress in the following areas. In terms of e-commerce channel, the Group has responded to users' growing demand for online consumption by actively expanding our product offerings on e-commerce channels and strengthening our brand-building strategies. At the same time, we have made use of digital tools to enhance content marketing and engage users in high-frequency interactions, which effectively improved user loyalty and conversions. During the period, the Group's overall e-commerce retail sales have increased 39.2% to 52.2 billion, ranking first in the industry. Specifically, according to CMM's monitoring data, Haier's share of online retail sales has reached 22.4% during the Double 11 Shopping Festival, which ranked first in the large-format home appliance segment. In addition, the Group's high-end products have attained an increasing proportion in the online market, user satisfaction also continued to improve, which maintained our leading standard in the market. In terms of commercial channel, the Group has focused on whole-house smart home projects and commercial projects. Building on our whole-process service capabilities, we established an operational system that ensured "zero missing demand, timely order delivery, and service without distance", hence achieving rapid growths in multiple product categories. In particular, through the brand mix of Casarte and GEA, the kitchen appliance business has achieved rapid growth with project coverage in multiple price segments. In terms of franchise store channel, due to the impact of the pandemic in the overall consumer market, sales revenue dipped in the first half of the year with a clear rebound in the second half. Major categories such as freezer and refrigerator, washing machine and water heater have all achieved growth higher than the industry.

During the reporting period, the Group has continued the roll out of the "Three-Winged Bird" scenario brand, continuously enriched the Smart Home experience cloud, promoted the integration of online and offline channels, and enhanced our refined operational capabilities with the help of digital platforms.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

5. Operating Platform in China (continued)

First of all, we provided one-stop customized services based on the "Three-Winged Bird" scenario brand.

Building on our solid experience in the development of smart and high-end set products as well as our extensive network of ecosystem resources, the Group has redefined our consumption scenarios, and launched the new brand scenario "Three-Winged Bird" in September 2020 that revolved around the needs of a "home", offering complete scenario-based smart home solutions to users for balconies, kitchens, living rooms, bathrooms and bedrooms. At the same time, through leveraging our extensive service network resources, we have established the 1+N service system. Through a single service steward and a project manager, the system enabled collaboration with numerous resource partners, including home appliance service personnel, set products service providers, distributors and home furnishing companies, hence providing an overall one-stop solution to users that covered the service needs of home appliances, home furnishings, HVAC and whole-house intelligence.

For example, the washing machine business has successfully developed 15 scenario-based solutions around the "theme of apparel wearing", such as the smart balcony and smart walk-in closet, which have provided full life cycle garment solution services for users that integrated laundry, fabric caring, garment storage, fashion mix-and-match and apparel purchasing. Taking the construction of the smart balcony as an example, "Three Winged Bird" would provide personalized solutions of balcony scenarios based on the needs of different users, along with one-stop services that include design, construction, delivery and installations. The construction could be completed in as little as three days.

As of the end of the year, the Group has launched 325 Three-Winged Bird 001 stores by means of new construction or renovation, achieving full coverage in all core cities. The Three-Winged Bird scenario-based solutions has effectively stimulated the sales of the Group's set products and achieved sales growth of 41% year-on-year, among which, the sales volume of high-end intelligent set products has growth of 63.2% year-on-year.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

5. Operating Platform in China (continued)

Secondly, we created an experience cloud platform for the IoT era.

Through bringing together a rich collection of online content, the Haier Smart Home App, an online e-commerce platform built and developed by Haier, has attracted users to watch live-streaming of comprehensive scenarios of clothing, food, living and entertainment. It also enabled interaction with users to identify their ideal solutions of home furnishing and living scenarios, and aroused their interests in purchasing home appliances and peripheral products.

During the period, the Smart Home App received an average of 1.206 million daily active users and 24.8 million monthly active users, representing skyrocket increases of 546% and 803% year-on-year respectively. In particular, the experience cloud crowd live-streaming has provided users with scenario-based solutions through live streaming upon its launch. Throughout the year it has delivered over 1,000 live streaming sessions with a total of over 50 million views. In the App, the newly launched Living Home section has offered an interactive platform for users to learn smart tips on home appliances' usage and home living. The "1+N Smart Home Renovation" section on the other hand has enabled integration with service resources in the ecosystem, which transformed pure home appliance service into comprehensive household services for home appliances, family and home living. Through the Smart Home App, the Group has helped 30,000 brick and mortar stores to go online, thus enhanced users' online and offline shopping experience for all types of scenarios.

The Group used the Haier Smart Home App as a digital medium to develop our experience cloud platform, which was created based on the data we accumulated from the above-mentioned live streaming sessions, user services and user interactions. Users could share their purchasing and product usage tips, manage their smart home appliances through the remote system, and apply for after-sales services on the platform. Through the experience cloud, the Group could also optimize the design and development of our own products and services, focusing on the continuous upgrade of user experience. At the same time, the Smart Home experience cloud has undergone timely iterations to improve the experience of smart product usage. For example, in terms of scenario development, we have provided templates to collaborating manufacturer brands to facilitate swift service implementation. In terms of smart voice products, our experience cloud has established an industry-leading whole-house distributed speech standard, which could achieve distributed recognition on five major appliances at home, hence driving the progress of smart products towards the goal of "speak anytime, able to understand, smartly recognized, know you better".

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

5. Operating Platform in China (continued)

Lastly, we fully integrated our information system to implement digital marketing and enhance capacities of our franchise stores.

At present, the Group's Jushanghui platform has full coverage of all franchise stores' customers, which enabled real-time visualized management of customers' purchases, sales and inventories. At the same time, the Yilihuo platform has also achieved 100% coverage of township stores, thus offering a digital system for the execution of store policy, product delivery, incentives and training directly at township levels. Through the popularization of the digitized channel systems, township management has become more transparent, which has greatly enhanced the effectiveness of marketing efforts and incentives. In addition, with the strengthening of the Group's digital management capability and the extensive coverage of unified warehousing and distributions at township stores, the proportion of customer-to-manufacturer orders from township customers have increased significantly, thereby optimized the number of SKUs in sinking channels and accelerated inventory turnover, which has made significant contributions to the enhancements of productivity and sales efficiency.

Meanwhile, the Group has leveraged the experienced cloud platform to enhance the digitization of marketing resources. We also developed a digital platform that covered all channels and scenarios based on AI precision marketing techniques for identifying, outreaching, managing and tracking of users, which has substantially improved the efficiency of marketing operations. During the period, the "Potential Customer Radar" has identified around 2 million potential users through accurate analysis of data, thus effectively empowering user conversions.

6. Smart manufacturing

During the reporting period, the Group has spearheaded the industry with the implementation of the super-factories strategy, which has driven efficiency improvement throughout the whole process. First of all, the Group has deepened the application of cutting-edge technologies such as 5G and edge computing, and rolled out more than 200 projects for in-depth integration of advanced manufacturing technologies and new-generation artificial intelligence technologies. Secondly, we established a strategic operation system for super-factories to foster collaboration and interaction throughout the entire process before production, and to enable processes to be digitally driven during operation, so as to ensure the achievement of production goals. Smart manufacturing in super-factories could effectively improve production efficiency, and create opportunities for cost optimization.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(I) Smart Home Business in China (continued)

6. Smart manufacturing (continued)

During the period, the Group has constructed 16 interconnected factories. In September 2020, the Haier Sino-German Industrial Park won the world's only "Industry 4.0 Award" in Germany, which symbolized the transformation of Haier's smart manufacturing from lighthouse factories to becoming a lighthouse base. In October, three factories, including one for central air conditioning, have passed the Ministry of Industry and Information Technology of the PRC's Intelligent Manufacturing Capability Maturity Level 4 certification. In December, Haier won the honor of the National Intelligent Manufacturing Benchmark Enterprise due to its central air conditioning interconnected factories, and was the only enterprise that has two factories being awarded under the National Intelligent Manufacturing Benchmark.

(II) Overseas home appliances and smart home businesses

Faced with the pandemic in 2020, the Group relied on our "3-in-1" localized deployment in overseas markets, pressed ahead with our high-end brand strategy and scenario ecosystem transformation, and grew sales revenue to over RMB100 billion and profit to RMB4 billion against headwind with growth rate of 8% and 26.79% respectively. Market shares have increased across all product segments. The growth in business performance was mainly attributed to the following factors:

1. With comprehensive premium product line-ups, an extensive distribution network and direct to end user sales coverage, we achieved above market average growth across regions.

2. Localized operations supported by the global platform does not only safeguard new product launches, but also maintained stead supply throughout the period, contributing to overall resilience in our performance.

3. We made several breakthrough in the implementations of scenario brands strategy globally, including Randori community laundry in Japan, Wash pass ink cartridge laundry units in the UK, similar progress was made under eco brand strategy including hOn Experience Cloud Platform in Western Europe and Smart HQ platform in the US, all of accelerated our development in products, scenario based solutions and ecosystem applications with enhanced users experience.

1. US

Despite the extraordinary challenges of pandemic outbreak, continued efforts have been made in user centric strategic implementation, brand premiumization, supply chain optimization and omni-channel integration，making 2020 one of the most remarkable years in our history. In north America, sales revenue grew by 10% reaching RMB63.7 billion, with over 30% growth in mass premium brands. Meanwhile, core appliance market share went up by 1.4 percentage points with expansion in all categories; we also launched new product lines in small appliances and water heaters. Furthermore, online presence has been strengthened and eco-system related revenue also increased significantly.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(II) Overseas home appliances and smart home businesses (continued)

1. US (continued)

On manufacturing front, swift and assertive actions were taken to ensure the health and safety of our employees and maintain continued service to our consumers. Measures implemented including mandatory temperature check for all employees, flexibility shifts and locations, cleaning and sanitization in all facilities to ensure the safety of our service technicians, almost 1,000 of our salaried employees volunteered a total of 150,000 hours on our factory assembly lines to make essential appliances for our users at a time when they needed us the most. Despite all the difficulties, GEA's production volume grew by 10% over the same period in 2019, with 20% increase in the second half. The largest assembly line from our kitchen appliance factory in Roper completed software upgrade of Proficy system, accelerating its transformation towards lean production under Industrial 4.0 framework.

On R&D front, we work closer with colleagues in Singapore, Israel etc on HOPE innovation platform for more inspiration and solutions on projects including new impeller design in AC, temperature control units in microwave, data safety from smart home system; in the launch of new large size front load washing machine, global collaboration and unified platform helped reduce development time by 55% with 33% fewer people involved.

We fully understood the concern for protection and safety when consumers are using our appliances to store foods and medicine, make meals for the family and fight germs on their clothes and dishes, thus new front load washing machines are made with UltraFresh Vent System and Microban antimicrobial technology to eliminate excess moisture & odours. Meanwhile, the new multi door refrigerators are equipped with humidity control system to extend the freshness of vegetables. In addition, new lines of small appliances products have been successfully launched under GE, GE Profile and Cafe brands, with GE Profile Opal ice maker topped home appliance and ice maker categories on Amazon member's day. We have also re-entered water heater category by becoming Costco's exclusive partner and forming partnership with plumbing industries.

We stay focused on increasing the connectivity of our appliances. Through our SmartHQ digital platforms, our owners are able to control their environment, whether it's their home or office. Our advances in promoting connectivity and smart home also received recognition from the appliances industry and consumers, including 2020 IoT CyberSecurity Breakthrough Award for Device Security Solution of the Year; IoT Breakthrough Award Winner for Smart Appliance Company of the Year consecutively from 2019 to 2021; the First Household Appliance Brand to Achieve Golden Security Rating from UL and our UltraFresh Front Load Washers earned the Good Housekeeping Seal in 2020.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(II) Overseas home appliances and smart home businesses (continued)

1. US (continued)

On distribution front, leveraging on the Group's prior experience of doing business online, swift actions were taken to capture new growth opportunities with ecommerce platforms. More importantly, the professionalism and commitment demonstrated by our people during the pandemic strengthened partnership with our most important distribution partners, which does not only contribute to our solid performance in 2020, but also to enhance trust and closer cooperation to our sustained growth in the future. We also set up a new business unit specializing in commercial clients with particular focus on air conditioners and water heaters.

2. Europe

During the reporting period, the European business of Haier achieved revenue of RMB16.5 billion, an increase of 8.7% year-on-year. The Group's above industry growth was driven by 1) Fully leverage on prior pandemic containment and prevention experience from China, the European team promptly accelerated our expansion on ecommerce platforms with raised profile on social media, followed by accelerated online/offline integration including opening flagship stores, brand walls and shop-in-shops, while setting up online specialty stores to enhance brand recognition. 2) In response to the demand generated by the pandemic, a series of products that brought convenience to everyday living were rolled out, including a full-space refrigerator with added capacity, washing machines with steam disinfection and sterilization features, large-capacity freezers, full range of smart kitchen appliances, and 56℃ air conditioners. 3) With early pandemic prevention measures that were in strict accordance with local government requirements, we took the lead in resuming work and production. 4) We also strengthened alliances with our partners, i.e., launched silence and steam cleansing washing machines together with detergent manufacturers; enhanced user choices and experiences of our ovens with grocers and online liquor platforms.

3. Australia & New Zealand

Australian and New Zealand's revenue was RMB5.98 billion, an increase of 11.71% year-on-year, and Haier brand grew by 69% by capturing new user demands for health and sterilization products with timely launch of new products including T-door refrigerator and dishwasher; while online revenue doubled with our initiatives in experience enhancement, product upgrade and premiumization.

Strict lockdown measures have affected consumption in the first half of 2020. During the period from March to May, retail sales offline in New Zealand tumbled by 70–80% on average; market momentum started to recover as the pandemic eased off in the second half, leveraging on global supply chain platform, the Group seized the growth opportunity from implementing comprehensive integration, strengthened collaboration with upstream and downstream partners, sufficient supply and flexible go to market strategies.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(II) Overseas home appliances and smart home businesses (continued)

3. Australia & New Zealand (continued)

Covid-19 has generated demand for large storage, sterilization, and long-lasting fresh keeping. In response, the headquarters and local teams worked closely and accelerated the launch of upgraded HRF565 T-door refrigerators and innovative RF605 series. We promoted wellbeing scenarios in TGG/HNV channel, while launching the "Social Kitchen" dialogue on social media such as Facebook and Instagram, by sharing tips in new product, healthy living and cooking with users, who are drawn to the new features of our T-door refrigerator, including temperature controlled zones, separated storage, and smart freshness, all of which contributed to 5.0% revenue growth from refrigerator segment for the year.

4. South Asia

During the reporting period, revenue reached RMB5.47 billion, down 13.69% year-on-year.

(1) In India, the lockdown from the end of March to the end of June lasted through the traditional peak season for appliances sales, resulting in an industry decline of 25%. In response to the new demand from the pandemic, the Group focused on products with wellbeing and sterilization features, and enhanced the competitiveness with large sizes and capacities, while network coverage increased by 70% and we started to produce front load washing machines locally, further contributed to our brand and products competitiveness.

(2) Amid industry wide decline in Pakistan, our revenue grew over 17% in local currency, this was mainly attributed ① the continuous expansion of offline network and the rapid development of e-commerce channels, which grew 300% during the year; ② enhancement of our product portfolio that catered to the demand at different consumption levels, in particular fully automatic washing machines continued to lead the market, while purifying air conditioner provided users with healthy air solutions and the share of smart products also increased; ③ our market share in refrigerator, household freezer, air conditioner and washing machine all reached No. 1.

5. Southeast Asia

During the reporting period, revenue of RMB4.12 billion was recorded, a year-on-year increase of 11.26%. The Group has focused on brand differentiation marketing, expanded network coverage, improve aftersales services and reduce call centre response time. We also implemented sales and PC management system to improve our go to market strategies while accelerating reforms towards mid to higher products on a more retail oriented network, levering on global supply chain, we continued to launch new products and upgrade existing products order to capture pandemic inspired demand, promote scenario based solutions and fulfil our users' demand.

BUSINESS REVIEW (continued)

Management Discussion and Analysis (continued)

(II) Overseas home appliances and smart home businesses (continued)

6. Japan

Revenue was RMB3.61 billion, up 11.2% year-on-year, it was driven by (1) Ongoing high-end brand building and optimization of product mix including the successful launch of the AQUA full-cabinet Delie refrigerators and our unique ultrasonic washing machine. (2) in response to users' demand to keep food fresh form prolonged time at home, we promptly developed industry's largest 280L freezer and 3IN2 temperature adjusted refrigerators and gained premium market recognition; (3) Despite the difficulty, AQUA community laundry unit consolidated its 70% market share through collaborating with a variety of partners, making significant progress towards scenario and ecosystem market leadership.

Outlook

In 2021, the Group will focus on the building of high-end, scenario and ecosystem brands, continuing to leverage our strengths in market-leading set products, global synergies, high-end brands and the Smart Home experience cloud platform. We will drive forward the whole process digital transformation to enhance efficiency, and continuously expand our smart home scenario-based solutions, thereby to maintain a strong development momentum.

1. **The Chinese market:** (1) The Casarte brand will expand its competitive edge in the high-end market through continuous product innovation, press ahead with digital transformation to achieve whole process efficiency enhancement, and achieve breakthrough in the air conditioning business through product upgrade, channel development and marketing innovation. (2) We will accelerate the development of the "Three-Winged Bird" scenario brand through expanding our touch point network, upgrading the collection of scenarios, and building capacity for 1+N services. (3) By focusing on the development of ecosystem brands such as the Food Network and the Internet of Clothing, we will achieve breakthroughs in the number of platform users, GMV and ecosystem revenue. (4) In terms of smart home construction, through developing the smart home perception and decision-making system, we shall create a Haier Smart Home brain system that can offer interactive, reliable, thoughtful home services that can be accessed anywhere. Through various gateways such as the Smart Home App, Three-Winged Bird App, distributed speech technology and the multi-screen feature, we will create a smart home interactive portal that attract users' attention.

2. **Overseas markets:** (1) create premium product portfolio, with comprehensive network and direct go to market approach in order to consolidate leadership in all markets; (2) improve the global supply chain infrastructure and provide immediate smart and healthy home solutions to our local users; (3) upgrade our hOn platform in Europe, EVO platform in Russia, Smart HQ platform in the US in order to provide users with superior experience leveraged on enhanced system capabilities.

3. We will construct fully digitalized operation systems for interconnected factories **globally**, aiming at maximum efficiency throughout the whole process, and focus on hitting the targets of precision, efficiency, balanced lines and full production capacity. Through the mega-factories projects, we strive to develop top-selling products that are most competitive in the market with the most cost-effective production methods.

BUSINESS REVIEW (continued)

Potential Risk

1. **Risk of decreasing market demand due to slowdown in macroeconomic growth.** As white goods are durable consumer appliances, the level of users income and their expectations of future income growth will have an impact on their willingness to purchase products. A slowdown in macroeconomic growth causing the decline in the purchasing power of users would have a negative impact on industry growth. In addition, a slowdown in real estate market would also have some negative impact on market demand, which will indirectly affect end-user demand for home appliances.

2. **Risk of price war due to intensify industry competition.** The white goods industry is highly competitive with a high degree of product homogeneity and industry concentration has increased in recent years. However, the increase in industry inventory capacity in individual sub-sectors due to the imbalance between supply and demand may lead to risks such as price wars. 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. The Group will actively invest in research and development to attract more users through continuous innovation in products and services, so as to build a lasting brand awareness.

3. **Risk of fluctuations in raw material prices.** The raw materials that we mainly use in our products and core components are metal raw materials such as steel, aluminium and copper, as well as commodities raw materials such as plastics and foam. If the prices of raw materials supply continue to rise, it will put pressure on the Group's production and operations. In addition, the Group relies on third party suppliers for key raw materials, components and manufacturing equipment, as well as OEM suppliers, and any disruption in supply or significant price increases from these suppliers would have a negative impact on the Group's business. As a leader in the industry, the Group will take steps to reduce the risk of raw material fluctuations on its operations by using valuation adjustment mechanism on volume and price with suppliers and hedging tools.

4. **Operational risks in overseas business.** The Group has steadily developed its global business and has established production bases, research and development centres and marketing centres in many parts of the world, with the proportion of overseas revenue increasing year-on-year. The overseas markets are subject to political and economic situations, legal systems and regulatory regimes of those countries and regions, and significant changes in these factors may pose certain risks to the Group's local operations in these markets. The Group has taken various measures to mitigate the relevant impact, including actively discussing and working with suppliers and customers to mitigate the impact of additional tariffs imposed by the United States; improving production efficiency to offset the impact on the Group's overall cost of sales; and potentially expanding the Group's supply resources to other countries.

BUSINESS REVIEW (continued)

Potential Risk (continued)

5. **Risk of exchange rate fluctuations.** As the Group's global footprint progresses, the import and export of the Group's products involves the exchange of foreign currencies such as the U.S. dollar, the Euro and the Japanese yen. If the exchange rates of the relevant currencies fluctuate, it will have a certain impact on the Group's financial position and increase its financial costs. In addition, the Group's consolidated financial statements are denominated in Renminbi, while the financial statements of its subsidiaries are measured and reported in the currency of the primary economic environment in which the entity operates, and are therefore subject to currency exchange risk. In this regard, the Group uses hedging instruments to reduce its exposure to exchange rate fluctuations.

   For the extent of hedging instruments used, please refer to the Note 49 "Financial Risk Management Objectives and Policies" of Notes to Consolidated Financial Statements section of this annual report for details.

6. **Risk of policy changes.** The home appliance industry is closely related to the consumer goods market and the real estate market. Changes in macroeconomic policies, consumer investment policies, real estate policies and relevant laws and regulations will affect customer demand for the Group's products, which in turn will affect the sales of the Group's products. The Group will closely monitor changes in the relevant policies and laws and regulations, and make forecasts of market changes to ensure the further development of the Group.

7. **Risk of Uncertainties resulted from COVID-19 outbreak.** The COVID-19 outbreak, which gradually spread by the end of 2019, could lead to a further weakening of consumer demand for home appliances, which could in turn affect the Group's product sales. Firstly, lockdowns, social distancing measures and travel restrictions will reduce customer mobility and result in the closure of the retail sales sites, thereby reducing consumer demand for home appliances. Secondly, the epidemic may also lead to operational disruptions for customers, such as logistical disruptions in product deliveries, resulting in customer dissatisfaction with the Group's service and consequently reduced demand for the Group's products. The Group will leverage on its experience in the China market and make best use of the synergy of global resources to mitigate the impact of the epidemic on our operations.

8. **Credit risk.** There is possibility that we will be unable to fully recover our trade receivables from our customers or that they cannot settle our trade receivables in a timely manner, our business, financial condition and results of operations may be adversely affected. As to this risk, 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.

Financial Review

In 2020, the Group's revenue amounted to approximately RMB209,703 million, representing an increase of 5.9% from RMB198,006 million in 2019 (increase of 8.3% on the same basis as compared to last year after considering the deconsolidation of COSMO business in September 2020 and excluding the COSMO's revenue contribution to the Group in the fourth quarter of 2019). The profit attributable to owners of the Group was RMB8,877 million, representing an increase of 8.2% (increase of 8% on the same basis as compared to the corresponding period of last year after excluding the one-off investment gains from deconsolidation of COSMO business and logistics in September 2020 and July 2019 respectively) from approximately RMB8,206 million in 2019.

1. ANALYSIS OF REVENUE AND PROFIT

Items	2020 RMB'M	2019 RMB'M	Change %
Revenue			
Smart Home Business in China	**98,863**	92,714	6.6
Refrigerator/Freezers	**34,383**	32,747	5.0
Kitchen Appliances	**2,772**	2,435	13.8
Air-conditioners	**25,506**	23,492	8.6
Laundry Appliances	**25,985**	24,444	6.3
Water Appliances	**10,217**	9,596	6.5
Smart Home Business Overseas	**100,623**	92,913	8.3
Other Businesses	**92,624**	83,667	10.7
Inter-segment eliminations	**(82,407)**	(71,288)	15.6
Consolidated revenue	**209,703**	198,006	5.9
Adjusted operation profit*	**9,886**	8,971	10.2
Profit for the year attributable to owners of the Company			
— from continuing operations	**8,877**	6,715	32.2
Profit attributable to owners of the Company	**8,877**	8,206	8.2
Earnings per share attributable to ordinary equity holders of the Company			
Basic			
— Profit for the year	**RMB1.34**	RMB1.29	3.9
— Profit from continuing operations	**RMB1.34**	RMB1.05	27.6
Diluted			
— Profit for the year	**RMB1.31**	RMB1.19	10.1
— Profit from continuing operations	**RMB1.31**	RMB0.96	36.5

1. ANALYSIS OF REVENUE AND PROFIT (continued)

The following table summarises our revenue by geographical location for the periods indicated:

	2020 RMB'M	2019 RMB'M	Change %
China	**107,655**	103,887	3.6
Other countries/regions	**102,048**	94,119	8.4
Total	**209,703**	198,006	5.9

* Adjusted operating profit is defined as profit before tax, net of interest income and expenses, net foreign exchange gains or losses, 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.

In 2020, the Group's revenue amounted to RMB209,703 million, representing an increase of 5.9% from approximately RMB198,006 million. Due to the impact of the epidemic, our revenue decreased by 1.6% year-on-year in the first half of 2020. In the second half of 2020, as the PRC was able to control the epidemic and the consumption of home appliances recovered gradually, the Group continued to launch market-leading set products, expanded the market share of high-end products constantly, deepened the transformation in retail, and insisted on the strategy of creating high-end brands and localized operations overseas, and therefore recorded significant increase of 13.2% year-on-year in revenue. If excluding the impact of deconsolidation of COSMOPlat business, the Group's revenue should have grown as high as 20% in the fourth quarter.

Revenue from the Smart Home Business in China increased by 6.6% from approximately RMB92,714 million to RMB98,863 million. All product lines of the Smart Home Business in China recorded stable growth attributable to smart package sales, Casarte's high-end brand strategy and the implementation of digital transformation.

(1) Household Food Solutions

Revenue from the refrigerator/freezers increased by 5.0% from approximately RMB32,747 million in 2019 to approximately RMB34,383 million in 2020. The refrigerator/freezers business was affected by the epidemic from the beginning of the year to May, but returned to a double-digit growth level since the beginning of the second half of the year, with refrigerator/freezer products under Casarte recording a growth of nearly 30% in the second half of the year.

Revenue from the kitchen appliances increased by 13.8% from approximately RMB2,435 million in 2019 to approximately RMB2,772 million in 2020, among which, revenue growth of the kitchen appliances of Casarte was 79%. This was mainly attributable to the fact that the kitchen appliance business continued to integrate the technical resources of GEA, Fisher&Paykel and Candy in kitchen appliances by leveraging the Group's strong research and development strength and experience in kitchen appliances across the globe, thereby increasing the proportion of high-end products significantly.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

(2) Household Air Solutions

Revenue from the air-conditioners increased by 8.6% from approximately RMB23,492 million in 2019 to approximately RMB25,506 million in 2020. Facing fierce market competition, the household air-conditioner business adhered to healthy and smart product lines, and increased the proportion of high-end products continuously. Notably revenue from air-conditioners under Casarte increased by 27%. Haier's commercial air-conditioner business also adhered to the main line of energy-saving, smart and healthy products, and its revenue recorded double-digit growth.

(3) Household Clothing Solutions

Revenue from the laundry appliances increased by 6.3% from approximately RMB24,444 million in 2019 to approximately RMB25,985 million in 2020. In response to the weak performance of the overall industry, the Company's washing machine business adapted to market changes rapidly, and realized significant increase in market share by leveraging the advantages of the brand portfolio in full and promoting actively the digital transformation in the whole process. Although revenue declined in the first half of 2020, revenue increased by over 10% in the second half of 2020, resulting a full-year positive revenue growth. Specifically, the brand structure has become more balanced as the proportion of brands such as Casarte and Leader increased further.

(4) Household Water Solutions

Revenue from the water appliances increased by 6.5% from approximately RMB9,596 million in 2019 to approximately RMB10,217 million in 2020. Following the trend of healthy and smart home appliances, Haier's water heater and water purifier business continued to upgrade products' function, and increased its market share rapidly. Although revenue declined in the first half of 2020, revenue increased by over 15% in the second half of 2020, resulting a full-year positive revenue growth. Specifically, the revenue of water heaters under Casarte, a high-end brand, increased by 80%, and the proportion of revenue contributed by Casarte increased rapidly.

(5) Smart Home Business Overseas

Revenue from smart home business overseas increased by 8.3% from approximately RMB92,913 million to RMB100,623 million. The growth of overseas markets was mainly attributable to Haier's "3-in-1" localised layout and globalized R&D and supply chain system. During the spread of the global epidemic, Haier's overseas home appliances and smart home businesses seized opportunities in the markets with its leading capabilities in integrating supply chains, capabilities in resuming production and services, iteration rate of healthy home appliance products and capabilities in expanding online channels, resulting in increases in both sales and average unit prices.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

(5) Smart Home Business Overseas (continued)

Revenue from North America increased by 10.0% from RMB57,922 million in 2019 to RMB63,705 million in 2020. The increase was mainly attributable to the Company's insistence on treating users as the priority and unremitting efforts in upgrading of brands, refinement of supply chains and integration of all channels. The Company has launched new categories of products for small home appliances and water heaters in the US market, as well as accelerating the development of online business, with significant increase in ecological-related revenue.

Revenue from the European market increased by 8.7% from RMB15,195 million in 2019 to RMB16,513 million in 2020. Despite the impact of the epidemic, the Company recorded better performance in Europe as compared with the industry, which was mainly due to the following: a series of products that brought convenience to everyday living were launched in response to the needs induced by the epidemic; factories in European were well prepared by adopting the PRC's experience in fighting against the epidemic, and implemented epidemic prevention measures specifically in accordance with the requirements of the local government, as well as taking the lead in resuming work and production while ensuring safety, so as to meet the demands from the market.

Profit Attributable to Owners of the Company

In 2020, the profit attributable to owners of the Company was approximately RMB8,877 million, representing an increase of 8.2% from approximately RMB8,206 million in 2019. The profit attributable to owners of the Group from continuing operations was RMB8,877 million with an increase of 32.2% from RMB6,715 million in 2019. It was due to the fact that the one-off after-tax gain of RMB1,546 million from disposal of COSMO business was counted as the profit from continuing operations.

Adjusted Operating Profit

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

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

In 2020, the adjusted operating profit of the Group was RMB9,886 million, representing an increase of 10.2% as compared to RMB8,971 million in 2019. The increase in the adjusted operating profit was mainly attributable to the increase in profit of each business segment of the Group in China and the overseas home appliances and smart home business.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Adjusted Operating Profit (continued)

The following table sets forth the reconciliation between the Group's adjusted operating profit and profit before tax from continuing operations prepared in accordance with IFRS in 2020 and 2019:

	2020 RMB'M	2019 RMB'M
Profit before tax	**13,555**	10,606
Adjustments:		
Bank interest income	**(470)**	(525)
Net foreign exchange losses/(gains)	**385**	(275)
Government grants	**(845)**	(964)
Return on investments in other financial assets	**(158)**	(172)
Dividend income from an equity investment designated at fair value through other comprehensive income	**(21)**	(39)
(Gain)/loss on disposal of subsidiaries	**(2,261)**	4
Finance costs	**1,321**	1,732
Share of profits or losses of associates*	**(1,620)**	(1,409)
Fair value losses on other non-current financial assets	**—**	13
Adjusted operating profit	**9,886**	8,971

The increase in share of profits and losses of associates is mainly due to the increase in profits of Controladora Mabe S.A.deC.V. There is no significant change in the remaining share of profit or losses of associates.

Gross Profit Margins

In 2020, the overall gross profit margin of the Group was 29.0%, representing a decrease of 0.6 percentage points from 29.6% in 2019. Specifically, the gross profit margin decreased by 1.7 percentage points year-on-year in the first half of 2020, which was mainly attributable to decrease in traffic of offline stores resulting from the epidemic, the significant decline in the retail of high-end products with relatively high gross profit margin, and decrease in efficiency of manufacturing cost resulting from low utilization of factory capacity during the epidemic. In the second half of 2020, the gross profit margin increased by 0.3 percentage points year-on-year, which was mainly attributable to the fact that the Group continued to introduce complete sets of intelligent products to lead innovation in the fierce market competition, actively expanded the product mix of Casarte, a high-end brand, and optimized the product structure.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Adjusted Operating Profit (continued)

Gross Profit Margins (continued)

In 2020, the gross profit margin of smart home business in China decreased by 1.2 percentage points year-on-year. On the one hand, the prices of bulk raw materials during the period were at a low level, and the Group continued to optimize the product structure and increase the proportion of high-end products, which boosted the gross profit margin of products. On the other hand, the average unit price of products has declined due to the impact of the epidemic and fierce price competition in the terminal market, which has lowered the gross profit margin.

The gross profit margin of smart home business overseas increased by 0.2 percentage points year-on-year, which was mainly attributable to the fact that Group seized the demand for healthy home appliances arising from the epidemic by adhering to the strategy of building brand with high-end products and transformation of scenario ecosystem, resulting in higher proportion of high-end products and average unit price.

Selling and Distribution Expenses

The ratio of selling and distribution expenses of the Group to its revenue decreased by 1.1 percentage points from 17.1% in 2019 to 16% in 2020. Specifically, the ratio of selling and distribution expenses in the PRC to its segment revenue decreased by 1.3 percentage points from 19.1% in 2019 to 17.8% in 2020, which was mainly attributable to significant improvement in efficiency of organization, operation and cost allocation derived from continuous digital transformation in the PRC. The ratio of selling and distribution expenses of overseas home appliances and smart home business to its segment revenue decreased by 0.6 percentage points from 14.8% in 2019 to 14.2% in 2020, which was mainly attributable to the improvement through economies of scale and fee utilization overseas.

Administrative Expenses

The ratio of administrative expenses of the Group to its revenue decreased by 0.1 percentage points from 8.7% in 2019 to 8.6% in 2020. On the one hand, the Company increased its R&D investment for new products and smart home ecosystems to improve its products' competitiveness, resulting in an increase of 0.1 percent in R&D expenses; on the other hand, the Company strengthened information management and improved the efficiency of organization and operation, resulting in a decrease of 0.2 percent in administrative expenses.

2. FINANCIAL POSITION

Items	2020 RMB'M	2019 RMB'M
Non-current assets	**89,196**	86,886
Current assets	**114,263**	100,568
Current liabilities	**109,474**	95,690
Non-current liabilities	**25,874**	26,774
Net assets	**68,111**	64,990

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

As at 31 December 2020, the Group's total balance of cash and cash equivalents and wealth management products from other financial assets increased by 21.8% from RMB39,437 million as at 31 December 2019 to RMB48,051 million as at 31 December 2020. The increase was mainly attributable to the contribution of net operating cash inflow during the period.

Items	2020 RMB'M	2019 RMB'M
Cash and cash equivalents	**45,635**	34,963
Wealth management products from other financial assets		
— Current portion	**2,416**	4,179
— Non-current portion	**—**	295
Total	**48,051**	39,437

Net Assets

The Group's net assets increased by 4.8% from RMB64,990 million as at 31 December 2019 to RMB68,111 million as at 31 December 2020. The increase in net assets was mainly attributable to the increase in profit for the year and partially offset by the decrease in the net assets as the COSMOPlat business was excluded from consolidation.

Working Capital

Trade and Bills Receivables Turnover Days

The trade and bills receivables turnover days of the Group was 48 days as at the end of 2020, representing an increase of 2 days as compared to the end of 2019, which was mainly attributable to the decrease in the factoring arrangement of GE Appliances and its increase in revenue.

2. FINANCIAL POSITION (continued)

Working Capital (continued)

Inventory Turnover Days

The Group's inventory turnover days at the end of 2020 was 71 days, representing a increase of 4 days as compared to the corresponding period, which was mainly attributable to the inventories of Candy did not included in the beginning of 2019 due to the acquisition of Candy was completed in January 2019. Apart from this factor, the inventory turnover days remaining relatively stable.

Trade and Bills Payable Turnover Days

The Group's settlement policy with suppliers remained stable. As at the end of 2020, trade payables turnover days were 141 days, representing an increase of 9 days as compared to the end of 2019, which was mainly attributable to the increase in our purchase of raw materials because of the significant revenue growth in the second half of 2020 despite the impact of abovementioned acquisition of Candy.

3. CASH FLOW ANALYSIS

Items	Note	2020 RMB'M	2019 RMB'M
Cash and cash equivalents as stated in the statement of cash flows at the beginning of the year		**34,963**	36,561
Net cash flow from operating activities		**17,599**	15,083
Net cash flow used in investing activities	(a)	**(5,264)**	(10,960)
Net cash flow used in financing activities	(b)	**(1,026)**	(6,013)
Effect of foreign exchange rate changes, net		**(637)**	292
Cash and cash equivalents as stated in the statement of cash flows at the end of the year		**45,635**	34,963
Add: Pledged deposits and other deposits with limited use		**826**	1,216
Cash and cash equivalents as stated in the statement of financial position at the end of the year		**46,461**	36,179

Net cash inflow from operating activities for the year amounted to RMB17,599 million, representing an increase of 16.7% as compared to last year. Such increase in the cash inflow from operating activities for the period was mainly due to the growth of the operating profit and increase in receipts in advance.

3. CASH FLOW ANALYSIS (continued)

(a) Net cash outflow from investing activities for the year amounted to RMB5,264 million, representing a decrease of 52.0% as compared to last year, with the details as follows:

Items	2020 RMB'M	2019 RMB'M
Payment for purchases of non-current assets	**(7,592)**	(6,194)
Redemption/(purchase) of wealth management products	**1,163**	(1,782)
Acquisition of subsidiaries	**(323)**	(2,730)
Cash inflow/(outflow) from disposal of subsidiaries and assets held for sale	**861**	(952)
Cash from disposal of fixed assets and leasehold land	**324**	261
Dividend from an associate	**485**	348
Interest received from wealth management products	**16**	203
Net cash outflow from other investing activities	**(198)**	(114)
Net cash flow used in investing activities	**(5,264)**	(10,960)

(b) Net cash outflow in financing activities for the year amounted to RMB1,026 million, representing a decrease of 82.9% as compared to last year, with details as follows:

Items	2020 RMB'M	2019 RMB'M
Proceeds from borrowings	**28,732**	18,468
Repayment of borrowings	**(23,509)**	(19,018)
Dividend distribution to shareholders and minority shareholders	**(5,800)**	(2,814)
Borrowings interest	**(989)**	(1,388)
Changes in ownership interests in subsidiaries	**1,299**	(358)
Lease payment*	**(728)**	(894)
Net cash outflow from other financing activities	**(31)**	(9)
Net cash flow used in financing activities	**(1,026)**	(6,013)

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. As at 31 December 2020, the Group had a current ratio of 1.04% (31 December 2019: 1.05%).

Items	2020 RMB'M	2019 RMB'M
Cash and cash equivalents	**45,635**	34,963
Wealth management products from other financial assets	**2,416**	4,474
	48,051	39,437
Less:		
Interest-bearing borrowings and bonds	**(30,036)**	(26,685)
Net balance of cash and cash equivalents and wealth management products from other financial assets	**18,015**	12,752

As at 31 December 2020, the wealth management products from other financial assets amounted to RMB2,416 million (31 December 2019: RMB4,474 million).

Among the cash and cash equivalents and the wealth management products from other financial assets balance, approximately 75.2% was denominated in Renminbi and the remaining 24.8% was denominated in Euro, Hong Kong dollars, U.S. dollars and other currency.

As at 31 December 2020, the Group's net balance of cash and cash equivalents and wealth management products from other financial assets amounted to RMB18,015 million (31 December 2019: RMB12,752 million), representing an increase of 41.3% as compared to 2019.

In 2020, financial return of cash and cash equivalents and the return on wealth management products from other financial assets amounted to RMB558 million, representing a decrease of 14.8% as compared to RMB655 million in 2019. On the one hand, as the increase of cash balances was mainly generated during the second half of 2020 and these balances were kept liquid to repay the maturing bonds in the first quarter of 2021, the interest return of these balances was comparatively lower. On the other hand, the interest rate in overseas market declined a lot during the year, which also led to a decrease in interest return.

For the currencies in which the interest-bearing borrowings and bonds are made, please refer to Note 33 "Interest-Bearing Borrowings" of the Notes to the Consolidated Financial Statements section of this annual report for details.

As at 31 December 2020, among the interest-bearing borrowings and bonds disclosed above, approximately 28.6%, being RMB8,602 million were fixed rate.

The Group will continue to maintain stable liquidity in its operations in 2021 to ensure meeting its working capital requirements in the coming year, and also for constructing super factory, as well as maintaining the financial flexibility for future strategic investment opportunities.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of 31 December 2020, the Group did not have any significant investment or future plans for material investments or capital assets.

Regarding to future capital expenditure planning, the capital expenditure in Chinese market mainly focuses on the intelligent factory layout and the improvement of employees' working environment, so as to promote the rapid development of relevant industries of the Company. The capital expenditure in overseas market mainly focuses on the global supply chain layout and industrial park reconstruction, new product R&D, informationised construction, etc., so as to continuously improve the overseas operation ability and ensure the leading position and rapid development of the market in the future. Investment funds will be financed through the Company's own funds and equity financing, etc.

USE OF PROCEEDS OF CONVERTIBLE BONDS

The H-share convertible bonds were converted from the exchangeable bonds that were issued on 21 November 2017 by Harvest International Company, a subsidiary of the Company. The funds then raised were for the purpose of repaying the overseas debt and had been utilized as planned.

On 18 December 2018, the Company issued an approximately RMB3,007 million A-Share convertible corporate bonds. After deducting cost of issue and other related expense were approximately RMB23 million, the net proceeds from the issuance of the convertible bond (the "Net Proceeds") were approximately RMB2,984 million. As the A-Share convertible bonds in 2019 met the redemption conditions, the Directors of the Company decided to exercise the redemption right after consideration and approval, the Company redeemed the balance of the A-Share convertible bonds in full. After the redemption, the convertible bonds of the Company were delisted on 17 December 2019. At present, the A-share convertible bonds no longer exist, but the funds raised from the issuance of the bonds have not been fully utilised.

During the year, the net proceeds utilized was approximately RMB722 million. As of 31 December 2020, approximately RMB2,398 million of the funds raised from A-share convertible bonds has been utilised, with a balance of approximately RMB633 million (the account balance includes the income generated from the purchase of wealth management products, interest on demand deposits, foreign exchange gains and losses and the not-yet-invested capital raised).

USE OF PROCEEDS OF CONVERTIBLE BONDS (continued)

Detailed breakdown and description of the Net Proceeds utilized during the twelve months ended 31 December 2020 are set out below:

	Actual Net proceed as at 1 January 2020 RMB'M	Reallocation 2020 RMB'M	Amount of the net proceeds utilized for the twelve months ended 31 December 2020 RMB'M	Unutilized net proceed as at 31 December 2020 RMB'M
Investment projects	1,331	(96)	625	610
Working Capital	—	96	96	—
Other general purposes*	24	—	1	23
	1,355	—	722	633

* The other general purposes are mainly interest on demand deposits, foreign exchange gains and losses.

The Company intends to continue utilizing the remaining net proceeds in the investment projects in the future. The unutilized net proceeds will focus on the following three projects namely "High-end central air-conditioning project with an annual output of 1.5 million air conditioners", "Haier North India Industrial Park (Phase I) Project" and "Haier Kitchen Appliance New Factory Project".

CAPITAL EXPENDITURE

The Company assesses its capital expenditure and investments in each business segment of the Group in China and the overseas home appliances and smart home business from time to time. The capital expenditure during the year was RMB7,592 million (2019: RMB6,194 million), in which RMB3,475 million and RMB4,117 million was mainly used in China and overseas respectively for the construction of plant and equipment, property rental expenses, and investment of information infrastructure.

GEARING RATIO

As at 31 December 2020, the Group's gearing ratio (defined as total borrowings (including interest bearing borrowings, bonds, lease liabilities and convertible and exchangeable bonds) divided by net assets of the Group was 58.0%, representing an increase of 2.2% as compared to 2019, mainly due to the issuance of ultra-short-term financing bonds during the period.

TREASURY POLICIES

The Group adopts a prudent approach for its cash management and risk control. Due to the global presence of our business, our results of operations are affected by foreign exchange rate movements, both on a transactional and translation basis.

The Group is primarily exposed to movements in the Renminbi, our reporting currency, against US dollar and, to a lesser extent, Euro and Japanese Yen. The translational effects of exchange rate fluctuations arise because the financial results of the Group's subsidiaries are measured in the currency of the primary economic environment in which they operate (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 the 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.

The transactional effects of exchange rate fluctuations arise when one of the Group's subsidiaries enters into a sale or purchase transaction in a currency other than its functional currency. The principal source of transaction risk arises from the fact that most of our costs are measured in RMB, while most of our sales are invoiced in other currencies (including US dollar, Euro and Japanese Yen). The Group attempts 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. The Group also uses forward foreign exchange contracts to mitigate its transactional exchange rate exposure.

CAPITAL COMMITMENT

The Group's capital commitments contracted but not yet provided for amounted to RMB3,009 million as at 31 December 2020 (31 December 2019: RMB2,053 million), which were mainly related to the Group's domestic and overseas factories construction projects.

CHARGE OF ASSETS

As at 31 December 2020, certain of the Group's buildings and leasehold land with a net carrying value of RMB Nil (31 December 2019: RMB55 million) and trade receivables with a net carrying value of RMB552 million (31 December 2019: RMB212 million) were pledged to secure certain of the Group's bank loans.

In addition, as at 31 December 2020, certain of the Group's bills payable were secured by the pledge of the Group's bank deposits amounting to RMB720 million (31 December 2019: RMB1,204 million) and the Group's bills receivable amounting to RMB12,562 million (31 December 2019: RMB12,706 million).

CONTINGENT LIABILITIES

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

RELATIONSHIP WITH EMPLOYEES, REMUNERATION POLICY

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

The total number of employees of the Group decreased to 99,299 as at 31 December 2020 from 99,757 as at 31 December 2019, which basically remained stable. The Group is achieved 23% optimization of operational efficiency through whole process digital transformation in China. Meanwhile, the Group further strengthened the construction of overseas markets, so the marketing personnel were increased by 49% as compared to the corresponding year.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

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

In China, we serve our customers through a comprehensive omni-channel sales network consisting of offline and online channels. 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.

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. 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 franchisees, national chain stores, major regional chain stores and major online B2B2C platforms have remained stable. There was no material non-compliance with the terms and conditions of our agreements with them.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS (continued)

North America and Europe are our two largest overseas markets and a substantial part of our overseas sales are made through local retailors. We also sell our products through online channels. We have established stable business relationship with our retailors and other customers. In the North America, we have maintained good collaboration with them through various kinds of branding, sales, marketing and promotion activities, which does not only enhance the sale of our products, but also promotes our brand recognition among the consumers covering various demographical groups. In Europe, our principal sales channels cover retail stores and e-commerce platforms. 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.

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.

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.

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.

MATERIAL ACQUISITIONS AND DISPOSALS

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 for the disposal has been fully settled in cash and the disposal has been completed on 29 September 2020.

MATERIAL ACQUISITIONS AND DISPOSALS (continued)

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

Haier International has guaranteed to Guanmei that the audited consolidated net profit of Qingdao Haishi for the three financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not be less than RMB470.5 million in aggregate.

The cumulative actual net profit recorded by the Qingdao Haishi in the three accounting years during the profit compensation period (i.e. 2018 to 2020) amounted to approximately RMB472.5 million. The net profit recorded exceeded the forecasted net profit and the performance commitment has been satisfied.

DIVIDENDS

The Board proposes the distribution of the final dividend for the year ended 31 December 2020 of RMB3.66 in cash for every 10 shares (inclusive of tax), totaling approximately RMB3.4 billion based on the current total issued capital, net of repurchased shares but not yet cancelled.

This dividend distribution proposal shall be subject to the consideration and approval at the Company's 2020 annual general meeting, and the final dividend is expected to be distributed to shareholders in two months from the 2020 annual general meeting.

This dividend represented approximately 38.3% of the profit attributable to the owners of the Company. The undistributed profits retained by the Company will be primarily used for project construction, investments, research and development, and routine operations related to the primary business of the Company, so as to maintain sustainable and stable development of the Company, and to maximize the returns for shareholders.

Dividends for D-Shares and H-Shares shall be paid in foreign currencies. According to the Articles of Association of the Company, the applicable rate of exchange shall be average exchange rate (medium rates) for converting Renminbi into foreign currencies as quoted by The People's Bank of China for a week immediately prior to the announcement of dividend.

Notice of the 2020 annual general meeting will announce the date of the 2020 annual meeting of the Company and details of relevant book closure of H Shares, as well as the arrangement of book closure of H Shares for the final dividend.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the applicable code provisions (the "Code Provision(s)") and principles under the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") during the year ended 31 December 2020. The Board shall review its code from time to time to ensure its continuous compliance with the Code. This report describes the Company's corporate governance practices, explains its applications of and deviations from the Code (if any), together with considered reasons for such deviations (if applicable).

BOARD OF DIRECTORS

Composition

As at 31 December 2020, the Board comprised two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors (the "INED(s)").

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

At least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Directors are well-versed in respective areas such as accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate balance of skills and experience. The chairman of the Board and the nomination committee will review the composition of the board from time to time so as to enhance it for meeting the strategic objectives of the Company. The Directors' biographical details are set out on pages 12 to 18 of this annual report.

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

The Articles of Association of the Company ("Articles of Association") have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. Under the Articles of Association, the Board may from time to time to nominate a director either to fill a casual vacancy or as an addition to the Board, subject to the election at the next following general meeting of the Company.

Non-executive Directors of the Company are all elected by the general meetings, with term of office of three years, which are renewable upon re-election and reappointment.

BOARD OF DIRECTORS (continued)

Board diversity policy

The Company recognizes that Board diversity will help improve corporate governance, increase the efficiency of the Board, reduce management and control risks and make better decisions, thereby achieving the sustainable and healthy development of the Company.

When determining the composition of the Board, the Company will take into full consideration the Board diversity, including but not limited to, gender, age, cultural and educational background, regions, professional experience, skills, knowledge and service terms of Directors as well as other regulatory requirements.

Appointments of Board members will be made on a merit basis and requirements for Board diversity will be fully considered, with a focus on evaluating which skills, experience, and diverse viewpoints and perspectives the candidates can bring to the Board, and how they can contribute to the Board.

The Nomination Committee of the Company is responsible for supervising and reporting to the Board matters concerning diversification of the Board members; working out the composition of the Board members, evaluating the professional experience, skills, knowledge and other diverse factors required by the Board, and making recommendations to the Board; searching for and nominating Director candidates and reporting the same to the Board for approval; supervising the appointment made by the Board; and ensuring that the recruitment and selection from the Board to common staff proceed according to proper procedures.

The Company shall establish and implement relevant plans to develop a broader and more diverse pool of skilled and experienced employees, so that, in time, their skills will prepare them for senior management and board positions.

The Nomination Committee will consider and, if appropriate, set measurable objectives to implement the Board diversity policy and review such objectives to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee of the Company will be responsible for monitoring the implementation of the Board diversity policy, evaluating the diversity of the Company every year and reviewing the Board diversity policy as appropriate, discussing any revisions required, and making recommendations to the Board for approval before implementation.

Delegation by the Board

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

BOARD OF DIRECTORS (continued)

Delegation by the Board (continued)

The major functions of the Board and the Management are summarized as follows:

The Board is principally responsible for:

1. determining the Company's business plans and investment schemes;

2. formulating the Company's annual budgets and final accounts;

3. formulating the Company's profit distribution plan and plan for covering losses;

4. formulating the Company's plans for increase or reduction of registered capital, issuance of bonds or other securities and listing plan;

5. formulating the Company's plans for significant acquisition, merger and acquisition, division, dissolution and change of corporate form;

6. determining establishment of the Company's internal management organisations;

7. formulating the Company's basic management rules and plans for amendment of the Articles of Association;

8. 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; and

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

BOARD OF DIRECTORS (continued)

Delegation by the Board (continued)

The Management is principally responsible for:

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

2. presiding over production and operation management of the Company, organizing implementation of Board resolutions and reporting to the Board of Directors on his/her work;

3. organising the implementation of the Company's annual business plans and investment plans;

4. formulating plans for establishment of internal management organisations of the Company;

5. formulating basic management rules, and specific rules and regulations of the Company;

6. determining the appointment or dismissal of management personnel other than those whose appointment or dismissal is decided by the Board of Directors; and

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

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

Chairman and Chief Executive Officer ("CEO")

The roles of chairman and chief executive officer ("CEO") of the Company are separated and are performed by the different persons. During the year ended 31 December 2020, Mr. Liang Haishan, an Executive Director, had served as the chairman of the Company, while Mr. Li Huagang has served as the CEO of the Company.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors (the "INED")

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

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

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

Supply of and access to information

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

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

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

BOARD OF DIRECTORS (continued)

Professional development

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

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

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

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

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

During the year, the Joint Company Secretaries of the Company have taken no less than 15 hours of relevant professional training.

Board meetings

During the year ended 31 December 2020, the Board held nine meetings to review and approve, among other things, the 2019 annual results, 2020 interim and quarterly results, to discuss and review the strategic transactions, such as the privatization of Haier Electronics Group Co., Ltd., and other assets restructure plans. The Company's board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communication.

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

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

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

BOARD OF DIRECTORS (continued)

Board meetings (continued)

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

The following table shows the attendance of the Directors at the Board Meetings during the year ended 31 December 2020:

	No. of the Board Meetings attended/held
Executive Directors:	
Mr. Liang Haishan *(Chairman)*	8/9
Mr. Li Huagang	9/9
Non-executive Directors:	
Ms. Tan Lixia	9/9
Mr. Wu Changqi	9/9
Mr. Lin Sui	9/9
Mr. Yan Andrew Y (retired on 3 November 2020)	8/8
INEDs:	
Mr. Dai Deming	9/9
Mr. Chien Da-chun	9/9
Mr. Shi Tiantao (retired on 3 June 2020)	2/2
Mr. Wong Hak Kun (appointed on 3 June 2020)	7/7

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

BOARD OF DIRECTORS (continued)

Model Code for Securities Transactions by Directors

The Company has adopted a model code for Securities Transactions by Directors and Supervisors (the "Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all Directors and Supervisors of the Company have confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2020.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Model Code. Having made specific enquiries of all the Relevant Employees, the Company confirmed that all the Relevant Employees had complied with the required standards as set out in the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2020.

Board Committees

The Board has established an Audit Committee (the "Audit Committee"), a Remuneration and Appraisal Committee (the "Remuneration and Appraisal Committee"), a Nomination Committee (the "Nomination Committee"), a Strategic Committee (the "Strategic Committee") and a Environmental, Social and Governance Committee (the "ESG Committee" which was established on 5 March 2021) (collectively the "Committees") to oversee specific aspects of the Company's affairs. The Committees report to the Board regularly, and have been provided with sufficient resources to discharge their respective duties. To reinforce independence, the chairmen of the Committees other than the Strategic Committee and the ESG Committee are INEDs. Each of the Committees has adopted specific terms of reference covering its duties, powers and functions which will be reviewed by the Board from time to time. The Board Secretary also acts as secretary of the Committees. The Committees adopt as far as practicable, the procedures and arrangement of the Board Meeting in relation to the conduct of meetings, notice of meetings and recording of minutes. Further particulars of each of the Committees are set out below:

(1) Audit Committee

During the year ended 31 December 2020, the Audit Committee comprised five members throughout the year. They are Mr. Dai Deming, Ms. Tan Lixia (retired as a member with effect from 5 March 2021), Mr. Lin Sui, Mr. Chien Da-chun, Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020) and Mr. Shi Tiantao (retired as a member with effect from 3 June 2020). Mr. Yu Hon To, David was appointed as a member with effect from 5 March 2021. The Audit Committee was chaired by Mr. Dai Deming who possesses the required accounting expertise. The terms of reference of the Audit Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(1) Audit Committee (continued)

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

During the year ended 31 December 2020, the Audit Committee held eight meetings to review with the management the accounting principles and practices adopted by the Group and to discuss financial reporting matters including the review of 2019 annual results and 2020 interim and quarterly results of the Group, review the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions, review of the internal control procedures and the connected transactions, review of the significant transactions of the Group, review the reappointment of external auditors, and review the terms of reference of the Audit Committee, and other related issues.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor. The annual results for the year ended 31 December 2020 were also reviewed by the Audit Committee.

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

The following table shows the attendance of members of the Audit Committee during the year ended 31 December 2020:

	No. of Audit Committee meetings attended/held
Non-executive Directors:	
Ms. Tan Lixia	8/8
Mr. Lin Sui	8/8
INEDs:	
Mr. Dai Deming	8/8
Mr. Chien Da-chun	8/8
Mr. Shi Tiantao (retired as a member with effect from 3 June 2020)	4/4
Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020)	4/4

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(2) Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee currently comprises five members including Mr. Liang Haishan, Ms. Tan Lixia (retired as member with effect from 30 March 2021), Mr. Dai Deming, Mr. Chien Da-chun, Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020) and Mr. Shi Tiantao (retired as a member with effect from 3 June 2020). The Remuneration and Appraisal Committee is chaired by Mr. Chien Da-chun, an INED. The terms of reference of the Remuneration and Appraisal Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

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

During the year ended 31 December 2020, the Remuneration and Appraisal Committee held two meetings. At the meetings, members of the Remuneration and Appraisal Committee reviewed and made recommendations to the Board on the remuneration proposal of the Directors and senior management by taking into account the factors such as remuneration packages and benefits offered by comparable companies, the respective contribution of each of the Directors and senior management to the Group and the business objectives of the Group. The Remuneration and Appraisal Committee also considered the performance based structures of the remuneration of Executive Directors and senior management.

The Remuneration and Appraisal Committee has adopted the model that it will review the proposals made by the Management on the remuneration of Executive Directors and senior managements with reference to the Board's corporate policies and objectives, and make recommendations to the Board. The remuneration plans or proposals mainly include but not limited to performance appraisal criteria, procedures and key appraisal system, and major incentive and penalty plans and systems. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(2) Remuneration and Appraisal Committee (continued)

The following table shows the attendance of members of the Remuneration and Appraisal Committee during the year ended 31 December 2020:

	No. of Remuneration and Appraisal Committee meetings attended/held
Executive Director:	
Mr. Liang Haishan	1/2
Non-executive Director:	
Ms. Tan Lixia	2/2
INEDs:	
Mr. Dai Deming	2/2
Mr. Chien Da-chun	2/2
Mr. Shi Tiantao (retired as a member with effect from 3 June 2020)	2/2
Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020)	0/0

(3) Nomination Committee

The Nomination Committee currently comprises five members including Mr. Liang Haishan, Mr. Wu Changqi, Mr. Dai Deming, Mr. Chien Da-chun, Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020) and Mr. Shi Tiantao (retired as a member with effect from 3 June 2020). The Nomination Committee was chaired by Mr. Shi Tiantao, and currently is chaired by Mr. Wong Hak Kun, INEDs. The terms of reference of the Nomination Committee (as revised) are available on the respective websites of the Company and the Hong Kong Stock Exchange.

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

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee (continued)

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee and review and approval of such nomination by the Board. The Nomination Committee shall proactively communicate with the Company's relevant departments, examine the Company's demand for new directors and senior managers. The selection criteria for Directors are that the candidates must have substantial experience in business relevant to the Company, or in corporate management, or in relevant profession and must be able to contribute effectively to the objectives of the Company. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria (such as professional expertise, relevant experience, personal ethics etc.) and with due regard for the benefits of diversity on the Board. Any committee member may propose suitable candidates for directorship for discussion and approval by the Nomination Committee, after which the Board will consider and, if proper, approve such nomination. Director thus selected is subject to election by the Company's shareholders in the next general meeting or next annual general meeting, as appropriate, according to the Articles of Association of the Company.

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

During the year ended 31 December 2020, the Nomination Committee held one meeting. At the meeting, members of the Nomination Committee have identified and recommended qualified individual to the Board for the appointment of a director, reviewed the composition of the Board and diversity of the Board.

The Nomination Committee discussed and agreed the measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. During the year, two directors (Mr. Shi Tiantao and Mr. Yan Andrew Y) retired and a director (Mr. Wong Hak Kun) has been appointed. The Nomination Committee assessed the candidate on objectives of offering relevant industry experience and business skill to the Board for the Company's strategic business developments, while maintaining diversity of perspectives appropriate to the requirements of the Company's business. The Committee reviewed the existing composition of the Board and received and accepted the report from the management in relation to identified business skills and experience required and their ranking and the action plan for recruiting new Board members. It also monitored the review of the Company's recruitment process to reinforce its commitment to the principle of equal opportunity. With these measures in place, therefrom a new Board member has been appointed during the year.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee (continued)

The following table shows the attendance of members of the Nomination Committee during the year ended 31 December 2020:

	No. of Nomination Committee meetings attended/held
Executive Director:	
Mr. Liang Haishan	0/1
Non-executive Director:	
Mr. Wu Changqi	1/1
INEDs:	
Mr. Dai Deming	1/1
Mr. Chien Da-chun	1/1
Mr. Shi Tiantao (retired as a member with effect from 3 June 2020)	1/1
Mr. Wong Hak Kun (appointed as a member with effect from 3 June 2020)	0/0

(4) Strategic Committee

The Strategic Committee currently comprises eight members and is chaired by Mr. Liang Haishan. Other members during the year include Ms. Tan Lixia, Mr. Li Huagang, Mr. Wu Changqi, Mr. Lin Sui, Mr. Yan Andrew Y (retired on 3 November 2020), Mr. Dai Deming, Mr. Chien Da-chun, Mr. Shi Tiantao (retired on 3 June 2020) and Mr. Wong Hak Kun (appointed on 3 June 2020).

On 5 March 2021, Ms. Tan Lixia and Mr. Li Huagang retired as members, and Mr. Xie Juzhi and Mr. Li Shipeng were appointed as members of the Strategic Committee.

The purpose of the Strategic Committee shall be to prepare recommendations for the Board in fulfilling its responsibilities relating to the study of the Company's long-term development strategy, major investment decisions and shareholders' return plan.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(4) Strategic Committee (continued)

The primary responsibilities and authorities of the Strategy Committee include:

(I) to study the Company's long-term development strategy plans and make recommendations;

(II) to study major investment financing programs which requires to be approved by the Board of Directors as stated in the Articles of Association and make recommendations;

(III) to study major capital operation and assets management projects which requires to be approved by the Board of Directors as stated in the Articles of Association and make recommendations;

(IV) to study shareholders' return plan of the Company and make recommendations;

(V) to study other important matters affecting the Company's development and make recommendations;

(VI) to review the implementation of the above matters;

(VII) to handle other matters as authorized by the Board.

During the year ended 31 December 2020, the Strategic Committee held three meetings. At the meetings, members of the Strategic Committee have discussed and reviewed the strategic transactions, such as the privatization of Haier Electronics Group Co., Ltd., and other assets restructure plans, and made recommendations to the Board.

The following table shows the attendance of members of the Strategic Committee during the year ended 31 December 2020:

	No. of Strategic Committee meetings attended/held
Executive Directors:	
Mr. Liang Haishan	2/3
Mr. Li Huagang (retired on 5 March 2021)	3/3
Non-executive Directors:	
Ms. Tan Lixia (retired on 5 March 2021)	3/3
Mr. Wu Changqi	3/3
Mr. Lin Sui	3/3
Mr. Yan Andrew Y (retired on 3 November 2020)	3/3
INEDs:	
Mr. Dai Deming	3/3
Mr. Chien Da-chun	3/3
Mr. Shi Tiantao (retired on 3 June 2020)	1/1
Mr. Wong Hak Kun (appointed on 3 June 2020)	2/2

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(5) Environmental, Social and Governance Committee

To better implement the ecological brand strategy of the Company in the age of the Internet of Things, integrate the idea of "Social, Environmental and Corporate Governance" into the corporate strategy, promote sustainable development, generate long-term value for all stakeholders and build a green, intelligent and mutual beneficial eco system of the Internet of Things, the Company has established the Environmental, Social and Governance Committee ("ESG Committee") on 5 March 2021.

The ESG Committee currently comprises four members including Ms. Eva LI Kam Fun, Mr. LI Huagang, Mr. LIN Sui and Mr. CHIEN Da-Chun. Ms. Eva LI Kam Fun serves as the chairwoman of the ESG Committee.

The ESG Committee serves as the specific working body for evaluating the Company's working progress on the environmental, social and governance (ESG) responsibilities and the risks and opportunities it faces, and formulating the Company's ESG vision, goals and strategies. The ESG Committee strives to improve and enhance the Company's capabilities of managing environment and social responsibilities, and to promote the sustainable development of the Company.

Corporate Governance Function

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

During the year, the Board have developed and reviewed the Company's corporate governance practices, including the review of the recent changes of regulatory requirements, review of the Articles of Association of the Company, review of terms of reference of the various committees of the Board, and the review of the process in upgrading the internal controls and risk management.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has maintained different communication channels with its shareholders through the publication of annual, interim and quarterly reports, circulars and announcements. Such information is also available on the websites of the Hong Kong Stock Exchange and the Company.

It is the Company's practice to provide an explanation to shareholders of the details of the voting by poll procedures in the general meetings in accordance with the Articles of Association and the relevant listing rules of the places where it securities are listed. The poll results of the general meetings are also published on the websites of the Company and of the stock exchanges where the securities are listed. The Board regards general meetings as one of the principal channels of communication with our shareholders and the Directors provide detailed and complete answers to questions raised by the shareholders in the general meetings.

During the year ended 31 December 2020, the Company held five general meetings, including the annual general meeting, two special general meetings, a A-Shares class meeting and a D-Shares class meeting, in which various resolutions were passed.

The following table shows the attendance of the Directors at the general meetings held during the year ended 31 December 2020:

	No. of the General meetings attended/ held
Executive Directors:	
Mr. Liang Haishan *(Chairman)*	5/5
Mr. Li Huagang	1/5
Non-executive Directors:	
Ms. Tan Lixia	1/5
Mr. Wu Changqi	0/5
Mr. Lin Sui	0/5
Mr. Yan Andrew Y (retired on 3 November 2020)	0/5
INEDs:	
Mr. Dai Deming	1/5
Mr. Chien Da-chun	0/5
Mr. Shi Tiantao (retired on 3 June 2020)	0/2
Mr. Wong Hak Kun (appointed on 3 June 2020)	0/3

During the year ended 31 December 2020, there have been changes in the Company's constitutional documents, principally for the Company to adapt to the issuance of H-Shares and their listing in the Hong Kong Stock Exchange.

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders may convene a special general meeting

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.

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.

SHAREHOLDERS' RIGHTS (continued)

Procedures by which enquiries may be put to the Board

Shareholders may put forward enquiries to the Board through the Board Secretary, Company Secretary and the representative of our office in Germany who will direct the enquiries to the Board for handling. Such enquiries can be made by the following means:

Mail:	Board Secretary Haier Smart Home Co., Ltd. Unit 513B, Board of Directors Building, Haier Industrial Park, 1 Haier Road, Laoshan District, Qingdao City, the PRC
Email:	finance@haier.com
Mail:	Company Secretary Haier Smart Home Co., Ltd. Unit 3513, 35/F, The Center, 99 Queen's Road Central, Hong Kong
E-mail:	ir@haier.hk
Mail:	Haier Germany Office Haier Deutschland GmbH Konrad-Zuse-Platz 681829 München, Germany
E-mail:	Y.sun@haier.de

Procedures for putting forward proposals at a Shareholders' 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.

SHAREHOLDERS' RIGHTS (continued)

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

When the Company needs to elect a director, the shareholders of the Company may nominate a person for election as a director of the Company at the shareholders' general meeting (including annual general meeting and extraordinary general meeting) to be convened then according to the Articles of Association of the Company ("Articles of Association").

1. According to Article 84 of the Articles of Association, the shareholders' general meeting may exercise the following functions and powers: (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; (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.

2. According to Article 96 of the Articles of Association, when the Company decides to convene a shareholders' general meeting, the Board of Directors, the Board of Supervisors and shareholders that severally or jointly hold 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company. The shareholders that severally or jointly hold more than 3% of the Company's shares 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.

3. According to Article 101, Article 138 and Article 196 of the Articles of Association, the election of directors and supervisors shall comply with the following provisions:

   (I) The list of candidates for directors and supervisors shall be presented in the form of a proposal at a shareholders' general meeting for voting.

   (II) Upon the expiration of the term of office of the Board of Directors or the Board of Supervisors or in need of replacement of directors or supervisors due to vacancies within the Board of Directors or the Board of Supervisors, the shareholders, individually or jointly, holding 3% or more of the total number of the outstanding shares with voting rights of the Company may recommend candidates for directors or supervisors to the Board of Directors in writing. Upon the Board of Directors' or the Board of Supervisors' review and examination, if the candidates comply with the provisions by law and the Articles of Association, the Board of Directors or the Board of Supervisors shall submit the candidate list, curriculum vitae and basic information in the form of a proposal to the shareholders' general meeting for deliberation and election. Upon the expiration of the term of office of the Board of Supervisors or in need of replacement of supervisors due to vacancies within the Board of Supervisors, supervisors previously held by the employee representatives of the Company shall still be replaced or by-elected through democratic election among the Company's staff and workers.

SHAREHOLDERS' RIGHTS (continued)

Procedures for Shareholders to propose a person for election as a Director (continued)

3. According to Article 101, Article 138 and Article 196 of the Articles of Association, the election of directors and supervisors shall comply with the following provisions: (continued)

    (III) Where a shareholders' general meeting proposes to discuss election matters of directors and supervisors, the notice of the shareholders' general meeting shall fully disclose the detailed information of the proposed candidates for directors and supervisors.

    (IV) The Company's Board of Directors, Board of Supervisors and shareholders who hold 1% or more of the issued shares of the Company, individually or jointly, may nominate candidates for independent directors, who will be decided through election by the shareholders' general meeting. The agreement of the nominee shall be obtained before the nominator nominates him/her as an independent director. The nominator shall be fully aware of such details of the nominee as occupation, educational background, title, work experience, all concurrent positions etc., and shall express his/her/its opinions on the nominee's qualifications for holding the position of independent director and his/her/its independence. The nominee shall make a public statement that no relationship exists between himself/herself/itself and the Company that could affect his/her/its independent and objective judgments. The Board of Directors of the Company shall make the aforementioned information public in accordance with regulations before the holding of the shareholders' general meeting at which the independent director is to be elected.

    (V) When a shareholders' general meeting votes on the election of directors and supervisors, the cumulative voting method may be implemented pursuant to the provisions of the Articles of Association or the resolution of a shareholders' general meeting. The cumulative voting system referred to in the preceding paragraph shall mean that when a shareholders' general meeting elects directors or supervisors, each share shall have the same number of voting rights as the number of directors or supervisors to be elected and the voting rights held by a shareholder may be used together. The Board of Directors shall announce the curriculum vitae and basic information of candidates for directors and supervisors to the shareholders before the holding of the shareholders' general meeting.

    (VI) Where the shareholders' general meeting has passed the proposal on the election of the relevant directors and supervisors, the newly-elected directors and supervisors shall take office on the date when the resolution is passed at the shareholders' general meeting, unless otherwise resolved by the shareholders' general meeting.

INSURANCE

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

POLICY ON PAYMENT OF DIVIDENDS

The 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.

The 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, the 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.

The 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.

After the completion of the Privatisation Proposal of Haier Electronics Group Co., Ltd. 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.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles and ensuring that the financial statements give a true and fair view of the Group's financial position. In preparing the financial statements of the Group for the year ended 31 December 2020, the Directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

ACCOUNTABILITY AND AUDIT (continued)

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

The Board aims to present a comprehensive, balanced and understandable assessment of the Group's development and prospects in all corporate communications, including but not limited to annual, interim and quarterly reports, any price sensitive announcements and financial disclosures required under the relevant listing rules of the places where it securities are listed and other regulations, any reports to regulators as well as to information required to be disclosed pursuant to other statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Control Environment

- Risk awareness and control responsibility are built into the company culture and are regarded as the foundation of risk management and internal control systems;
- An effective internal audit function is maintained which is independent from operational management;
- Whistleblowing Guideline of the Company is in place.

Internal Auditing Function

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

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Auditing Function (continued)

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

Risk Management

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

The Internal Audit Department of the Company plays a significant role in the risk management execution. Major risks of all levels facing the Group are identified and evaluated, and the management ultimately reviewed the identification and evaluation of these risks. Based on these measures, mitigation strategies and plans with respect to each key risk identified are developed and implemented, which include establishing or enhancing internal controls, with regular review and update so as to mitigate the risks to controllable range. The process of the work performed are reported regularly to the Audit Committee and the Board.

Control Process

The Company recognizes that the assessment of the internal control system is an on-going process, and management enhancements are required to address deficiencies in internal controls over operations, compliance and financial and non-financial reporting.

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

The Internal Audit Department establishes an annual internal control review plan for major internal control systems covering areas including operational control, financial control and compliance control (including review of controls on continuing connected transactions). The review tasks on various internal controls are prioritized in accordance with the risk level assessed or where significant changes have been taken place.

During the year ended 31 December 2020, the Internal Audit Department has conducted a review of the effectiveness of Group's internal control system's procedures on the major business and operational processes. Recommendations for further improvements have been reported to the Audit Committee as well as Board, together with its findings. Such recommendations have been or are being implemented by the Management with regular review.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Review of Control Effectiveness

The Audit Committee reviewed the effectiveness of the risk management and internal control systems by reviewing the internal control assessment report of the Internal Audit Department. The Board has, through the Audit Committee, reviewed and considered that for the year ended 31 December 2020, the Group's risk management and internal control systems were effective and adequate.

As part of the audit of the financial statements, the external auditor has issued its standard unqualified report on their audit of the Company's internal control on financial reporting system.

Inside Information

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

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

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

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

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

REMUNERATION OF EXTERNAL AUDITORS

The domestic and overseas auditors of the Company for 2020 were Hexin Certified Public Accountants LLP and HLB Hodgson Impey Cheng Limited. During the year ended 31 December 2020, the audit fees payable/paid by the Group to Hexin Certified Public Accountants LLP was RMB10 million.

The audit fees payable/paid by the Group to HLB Hodgson Impey Cheng Limited were RMB3.24 million. In addition, HLB Hodgson Impey Cheng Limited was appointed as the Company's reporting accountant in relation to its listing by introduction of its H-Shares on the Hong Kong Stock Exchange, in relation to which was non-statutory audit fees paid or payable to HLB Hodgson Impey Cheng Limited was RMB19 million.

30 March 2021

Report of The Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

During the year, the Company and its subsidiaries continued to be engaged in smart home business in China and overseas, evolving around a comprehensive portfolio of home appliances established over the years, covering primarily refrigeration appliances, kitchen appliances, air-conditioners, laundry appliances and water appliances, with value-added consumer services. There were no significant changes in the nature of the Group's principal activities during the year. The principal activity of the Company also includes investment holding.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties faced by the Group and an indication of the Group's likely future developments, can be found in the Chairman's Letter to Shareholders and Business Review and Financial Review set out on pages 5 to 11 and 22 to 69 of this Annual Report. Such information forms part of the Report of The Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the Group's financial position as at that date are set out in the financial statements on pages 120 to 306.

The Directors of the Company recommend the payment of a final dividend for the year ended 31 December 2020 of RMB3.66 (2019: RMB3.75) in cash for every 10 shares (inclusive of tax).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 307. This summary does not form part of the audited financial statements.

SIGNIFICANT EVENTS

On 30 July 2020, the Board of Directors deliberated and approved the Proposal on the Specific Scheme of the Material Assets Reorganization ("《關於本次重大資產重組具體方案的議案》"). In this scheme, the Company, as the offeror, requests the Board of Directors of Haier Electronics Group Co., Ltd. ("Haier Electronics"), upon satisfaction of the prerequisites, to put forward a proposal on privatizing Haier Electronics by way of scheme arrangement to all shareholders ("Scheme Shareholders") of Haier Electronics other than the Company and its subsidiaries of shares that have been issued by Haier Electronics or may be issued prior to the record date of the scheme arrangement (hereinafter referred to as "Scheme Shares"). The proposal would be made in accordance with Section 99 of the Bermuda Companies Act in the form of a scheme arrangement ("Scheme Arrangement") involving, among other things, the cancellation of all the Scheme Shares, whereby the Scheme Shareholders will receive the newly issued H-shares of the Company and cash payment from Haier Electronics. The Scheme Arrangement will be specifically implemented through the following steps: (1) all Scheme Shares will be cancelled; (2) for each cancelled Scheme Share, Scheme Shareholders will receive 1.60 newly issued H-shares of the Company and cash payment of HK$1.95 from Haier Electronics; (3) Haier Electronics will reduce the issued shares by canceling Scheme Shares, and immediately after the reduction of the share capital, issue new shares to the Company, the number of which is equal to the number of Scheme Shares so cancelled, so that the number of issued shares of Haier Electronics would be increased to that of it before the Scheme Shares were cancelled; and after the Scheme takes effect, the amount equivalent to the cash payment made to cancel the Scheme Shares will be reduced from Haier Electronics' share premium and other reserve accounts. Upon this Scheme Arrangement taking effect: (1) Haier Electronics would be delisted from the Hong Kong Stock Exchange and become a wholly-owned or controlling subsidiary of the Company; (2) H-shares of the Company will be listed and traded on the main board of the Hong Kong Stock Exchange by way of introduction; (3) the Scheme Shareholders will become H-share shareholders of the Company. The privatization scheme took effect on 21 December 2020 (Bermuda time); Haier Electronics was delisted from the Hong Kong Stock Exchange at 9:00 a.m. (Beijing time) on 23 December 2020 and became a wholly-owned subsidiary of the Company; H-shares of Haier Smart Home was listed and traded on the main board of the Hong Kong Stock Exchange by way of introduction at 9:00 a.m. (Beijing time) on 23 December 2020. Scheme Shareholders (other than non-qualified foreign shareholders) became H-share shareholders of the Company, the number of H Share issued was 2,448,279,814; on 24 December 2020, Haier Electronic paid HK$1.95 to Scheme Shareholders by cash cheque for each cancelled Scheme Share.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year ended 31 December 2020 are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2020 are set out in notes 37 to the financial statements.

During the year, the Company has completed the listing by way of introduction of H Shares of the Company on the main Board of the Stock Exchange of Hong Kong Limited for the purpose of the privatisation of Haier Electronics Group Co., Ltd. by the Company. A total of 2,448,279,814 H Shares have been issued and listed accordingly.

CONVERTIBLE BONDS

On 21 November 2017, Harvest International Company (the "Issuer"), an indirect wholly owned subsidiary of the 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 shares of Haier Electronics Group Co. Ltd (the "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 privatization of HEG, 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, the Company has proposed to amend the HSH Exchangeable Bonds Terms and Conditions, such that, subject to the satisfaction of certain conditions precedent, after listing of the H shares of the Company, the HSH Exchangeable Bonds will not be exchangeable into the HEG Shares but will instead be convertible into the H Shares of the Company (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 has became effective upon listing of H Shares of the Company and HK$7,993,000,000 in aggregate principal amount of the HSH Convertible Bonds was outstanding initially. The initial conversion price per share of the HSH Convertible Bonds was approximately HK$19.5961. One time repayment of principal and interest (105.11% on remaining par value) will be made upon maturity. Subsequent to the balance sheet date, in accordance with the HSH Convertible Bonds Terms and Conditions, the conversion price per share has been adjusted to approximately HK$18.8369.

There was no conversion of HSH Convertible Bonds to H Shares of the Company during the year.

PRE-EMPTIVE RIGHTS

There are no provisions in the relevant PRC laws and the Company's Articles of Association for granting pre-emptive rights to the Company's existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 55 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of the Company Law of the PRC, amounted to approximately RMB4.35 billion, of which RMB3.4 billion has been proposed as a final dividend for the year.

ENVIRONMENTAL AND SOCIAL POLICIES AND PERFORMANCE

The Group would 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. The Group would 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, the Group would set clear short/medium/long- term quantitative emission and resource goals which are subject to regular review with improvement initiatives in place. The Group would integrate global user and supply chain resources to create and develop an environmental-friendly and society-harmonious green value chain. The Group would 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.

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. 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, standardized 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.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

We are of the view that, the Group had complied, in all material respects, with all relevant laws and regulations in the jurisdictions we operate in during the year. Particularly, 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

During the year ended 31 December 2020, Haier Group Corporation, the substantial shareholders of the Company, had beneficial interests in three of the Group's five largest suppliers.

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

DIRECTORS

The Directors of the Company during the year were:

Executive directors:
Mr. LIANG Haishan *(Chairman)*
Mr. LI Huagang *(Chief Executive Officer)*

Non-executive directors:
Ms. TAN Lixia *(Vice Chairwoman)*
(retired on 30 March 2021)
Mr. WU Changqi
Mr. LIN Sui
Mr. YAN Andrew Y
(retired on 3 November 2020)

Independent non-executive directors:
Mr. DAI Deming
Mr. CHIEN Da-chun
Mr. WONG Hak Kun *(appointed from 3 June 2020)*
Mr. SHI Tiantao *(retired on 3 June 2020)*

Mr. YAN Andrew Y retired as a Non-executive Director of the Company with effect from 3 November 2020. Mr. YAN had taken this decision to devote more time to his other business commitments.

Mr. SHI Tiantao retired as an Independent Non-executive Director of the Company with effect from 3 June 2020 as his term of office has expired.

Subsequent to the balance sheet date, with effect from 5 March 2021, there are additions of directors as follows:

Mr. XIE Juzhi was appointed as Executive director and Vice Chairman of the Company. Mr. YU Hon To, David and Ms. Eva LI Kam Fun were appointed as Non-executive Directors of the Company. Mr. LI Shipeng was appointed as Independent Non-executive Director of the Company.

Ms. Tan Lixia retired as Non-executive Director and Vice Chairwoman of the Company with effect from 30 March 2021. Ms. Tan had taken this decision due to working reason that she intends to devote more time and effort on other business she is responsible.

DIRECTORS (continued)

The Company has received an annual confirmation of independence from each of Mr. DAI Deming, Mr. CHIEN Da-chun, Mr. WONG Hak Kun and Mr. LI Shipeng, and as at the date of this report, the Board still considers them independent on the basis of such confirmations.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and Supervisors of the Company and the senior management of the Group are set out on pages 12 to 21 of the annual report.

CHANGES OF INFORMATION OF DIRECTORS

Below are the changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

In the year under review, Mr. Liang Haishan and Mr. Li Huagang have retired as directors of Haier Electronics Group Co., Ltd., a subsidiary of the Group, after its privatisation by the Company.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY

A Directors' and Officers' Liability Insurance is in place to protect the Directors and officers of the Group against any potential liability arising from the Group's activities which such directors and officers may be held liable.

DIRECTORS' REMUNERATION

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2020, the interests and short positions of the Directors, Supervisors and chief executive in the share capital and underlying shares ("Share(s)") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company:

Name	Position	Class of Shares to be held	Number of Shares to be held	Nature of interest	Approximate percentage of shareholding interest in the relevant class of Shares	Approximate percentage of shareholding interest in the total share capital of the Company
Mr. LIANG Haishan	Chairman of the Board and executive Director	A Shares	14,923,047	Beneficial owner	0.2366%	0.1653%
Ms. TAN Lixia	Vice Chairwoman of the Board and Non-executive Director	A Shares H Shares	8,535,920 368,851	Beneficial owner Beneficial owner	0.1353% 0.0151%	0.0946% 0.0041%
Mr. LI Huagang	Executive Director and Chief Executive Officer	A Shares H Shares	694,607 812,145	Beneficial owner Beneficial owner	0.0110% 0.0332%	0.0077% 0.0090%
Mr. WANG Peihua	Chairman of the Board of Supervisors	A Shares	161,067	Beneficial owner	0.0026%	0.0018%
Mr. MING Guoqing	Supervisor	A Shares	105,511	Beneficial owner	0.0017%	0.0012%

* The percentage is calculated on the basis that the share capital of the Company as at 31 December 2020 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.

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

Long positions in the shares of the Associated Corporations:

Name	Position	Name of Associated Corporations	Percentage Shareholding in the Associated Corporations
Mr. LIANG Haishan	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	0.01%
		Haier Pakistan (Private) Limited	0.0167%
		HNR Company (Private) Limited	0.0002%
		Haier Russia Trading Company LLC	0.1%
Ms. TAN Lixia	Vice Chairwoman of the Board and Non-executive Director	Qingdao Haier Biomedical Co., Ltd.	1.98%
		Haier Electrical Appliances (Thailand) Company Limited	0.000008%

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive had any interests or short positions in the shares or underlying shares of the Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE AWARD SCHEMES

The Company operates share award schemes 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 Share Award Schemes are funded by the internal incentive funds established by the Company. 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.

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 the 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 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. 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).

SHARE AWARD SCHEMES (continued)

Vesting during the year

During the year, shares of 2018 Share Award Scheme vested for the second time. The directors, supervisors, senior managers, and employees of the Company had not satisfied the Vesting Conditions and no vesting for this time. The other 428 holders should allocate 4,640,815 shares according to the results of the 2019 annual performance and personal assessment.

During the year, shares of 2019 Share Award Scheme vested for the first time. Based on a comprehensive assessment of the holders, a total of 589 holders having 5,386,118 shares vested this time in which the directors, supervisors and senior management of the Company (7 holders) had a total of 995,043 shares vested. In particular, the details of shares vested with the directors and supervisors of the Company are as follows:

Names	Positions	Shares Award (A Shares) vested during year 2020
2020		
Liang Haishan	Director	439,581
Tan Lixia	Director	399,660
Li Huagang (note*)	Director	41,301
Wang Peihua	Supervisor	16,303
Ming Guoqing	Supervisor	11,006

Note* Apart from the A-shares vested from the share award scheme of the Company, Mr. Li Huagang also had 277,591 shares of Haier Electronics Group Co., Ltd. ("HEG"), subsidiary of the Company, vested during the year from the restricted shares award scheme of HEG.

The 2016 Share Award Scheme and the 2017 Share Award Scheme

As of the end of 2020, 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.

SHARE AWARD SCHEMES (continued)

The 2018 Share Award Scheme and the 2019 Share Award Scheme

As of the end of 2020, (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 Directors, Supervisors, senior management and connected persons; (ii) the number of outstanding shares (A Shares) underlying the granted but unvested Share Awards pursuant to the 2018 Share Award Scheme and 2019 Share Award Scheme are 5,553,816 shares and 11,270,660 shares, respectively, being 16,824,476 Shares in aggregate representing approximately 0.19% of the total issued share capital of the Company. All Shares Awards are granted and/or vested with the selected participants at nil consideration. In particular, the details of shares granted to the directors and supervisors of the Company which are outstanding are as follows:

Names	Positions	Number of outstanding Shares granted but unvested	Approximate% of shareholding in the total share capital
Liang Haishan	Director	672,828	0.0075%
Tan Lixia	Director	605,545	0.0067%
Li Huagang	Director	63,216	0.0007%
Wang Peihua	Supervisor	24,954	0.0003%
Ming Guoqing	Supervisor	16,847	0.0002%

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

Save as the share awards granted and vested to the Directors and supervisors, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors, supervisors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and supervisors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

The Group has contracts with Haier Corp and their subsidiaries and/or associates (collectively referred to as "Haier Affiliates") for the transactions include those for Property Leasing Framework Agreement, Services Supply Framework Agreement, Services Procurement Framework Agreement, Products and Materials Sales Framework Agreement, Products and Materials Procurement Framework Agreement, and Financial Services Framework Agreement. Further details of the transactions undertaken in connection with these contracts during the year are included in the section "CONNECTED TRANSACTIONS".

EQUITY-LINKED AGREEMENT

Save as the convertible bonds issued from the EB-to-CB Proposal, the Company has not engaged in any equity-linked agreement during the year ended 31 December 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2020, the following shareholders who have interest in 5% or more of the issued share capital of the Company were recorded in the register of substantial shareholders as required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name of 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 Corporation[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 COSMO Co., Ltd.[Notes 1 and 2]	A Share	1,258,684,824	Beneficial owner	19.95%	13.94%
HCH (HK) Investment Management Co., Limited[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 H Class Shareholders[Note 5]					
Other D class Shareholders[Note 6]					

* The percentage is calculated on the basis that the share capital of the Company as at 31 December 2020 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.

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

Notes:

1. Haier Group Corporation holds directly 1,072,610,764 A Shares. In addition, Haier Group Corporation indirectly owns or controls (i) 1,258,684,824 A Shares through Haier COSMO Co., Ltd. (海爾卡奧斯股份有限公司) (formerly Haier Electric Appliances International Co., Ltd.), 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 Corporation.

2. Haier Group Corporation holds 51.20% of the issued shares in Haier COSMO Co. Ltd. (海爾卡奧斯股份有限公司) (formerly Haier Electric Appliances International Co., Ltd.), and is also entitled to exercise the remaining 48.80% voting rights in Haier Cosmo Co., Ltd. through an irrevocable voting rights entrustment arrangement.

3 HCH (HK) Investment Management Co., Limited ("HCH (HK)") holds 538,560,000 H Shares. Haier Group Corporation 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 Corporation. Therefore, Haier Group Corporation is deemed to be interested in the 57,142,857 D Shares held by Haier International Co., Limited.

5. Green Court Capital Management Limited held 132,825,600 H Shares, representing approximately 5.43% of the total number of H Shares; Citigroup Inc. held 132,392,816 H Shares, representing approximately 5.40% of the total number of H Shares.

6. Silk Road Fund Co., Ltd. held 55,000,000 D Shares, representing approximately 20.29% of the total number of D Shares; China Investment Corporation held 24,000,000 D Shares, representing approximately 8.86% of the total number of D Shares; Rechi Precision Co. Ltd. held 18,058,672 D Shares, representing approximately 6.66% of the total number of D Shares.

Short positions and Lending pools:

Citigroup Inc. had a short position of 15,266,363 H Shares, representing approximately 0.62% of the total number of H Shares; and had a lending pool of 115,517,061 H Shares, representing approximately 4.71% of the total number of H Shares.

Save as disclosed above, as at 31 December 2020, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Haier Group 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 the Company's connected persons by virtue of Rules 14A.07(1) and 14A.07(4) of the Listing Rules.

Following the listing of the Company by way of introduction on the Main Board of the Hong Kong Stock Exchange (in the form of H Shares) for the privatisation of Haier Electronics Group Co., Ltd. by the Company, the transactions between members of the Group and Haier Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These connected transactions have complied with the disclosure requirements of Chapter 14A of the Listing Rules.

The non-exempt continuing connected transactions include those for Property Leasing Framework Agreement, Services Supply Framework Agreement, Services Procurement Framework Agreement, Products and Materials Sales Framework Agreement, Products and Materials Procurement Framework Agreement, and Financial Services Framework Agreement. These continuing connected transaction agreements shall remain in force from the listing date of H-shares to 31 December 2022 (except that the Financial Services Framework Agreement shall remain in force for the period from the listing date of H-Shares of the Company to the date of the 2020 Annual General Meeting of the Company). Further details and reasons of these transactions are as follows:

During the year ended 31 December 2020, the Group had the following material transactions with Haier Group:

		Cap Amounts	Transaction Amounts	
		2020	**2020**	2019
	Notes	**RMB'000**	**RMB'000**	RMB'000
Property Leasing Framework Agreement	(i)	**157,000**	**114,000**	136,000
Services Supply Framework Agreement	(ii)	**308,000**	**308,000**	269,000
Services Procurement Framework Agreement	(iii)	**4,876,000**	**4,808,000**	4,240,000
Products and Materials Sales Framework Agreement	(iv)	**4,638,000**	**3,153,000**	5,257,000
Products and Materials Procurement Framework Agreement	(v)	**20,500,000**	**19,115,000**	19,976,000
Financial Services Framework Agreement	(vi)			

CONNECTED TRANSACTIONS (continued)

	Notes	Cap Amounts 2020 RMB'000	Transaction Amounts 2020 RMB'000	Transaction Amounts 2019 RMB'000
Deposit Services	(vi)			
(a) Maximum daily outstanding balance		**25,100,000**	**24,987,000**	17,752,000
(b) Interest income		**86,000**	**86,000**	81,000
Loan Services	(vi)			
(a) Maximum daily outstanding balance		**3,977,000**	**3,628,000**	2,737,000
(b) Interest expense		**103,000**	**86,000**	73,000
Other Financial Services	(vi)			
(a) Maximum daily trading balance of Foreign exchange derivative products		**5,500,000**	**4,418,000**	1,850,000
(b) Service fee		**22,000**	**18,000**	22,000

Notes:

(i) The Group rents certain properties from Haier Group and its associates from time to time for the Group offices and business uses, for which Haier Group will charge the Group rental and other charges. The purpose is that our Group has historically occupied certain properties owned by Haier Group and its associates for our offices and business uses. 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.

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.

(ii) The Group has provided certain sales-related services mainly include after-sale services and value-added consumer services, such as installation, calibration, consultation, repair and maintenance and technical support and other services to Haier Group and its associates on a non-exclusive basis from time to time.

The purpose is that our Group has also entered into the Products Sales Framework Agreement 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 provides Haier Group with a one-stop solution in relation to its demands for Products and Materials for Sale from us. 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.

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.

CONNECTED TRANSACTIONS (continued)

Notes: (continued)

(iii) The Group will purchase certain services mainly include logistics services, advertising, promotional and marketing services and other comprehensive services from Haier Group and its associates on a non-exclusive basis from time to time.

The purpose is that 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. 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 the relevant services in a stable and quality manner.

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.

(iv) The Group has to provide certain products and materials mainly include products for internal consumption, components and raw materials for production use and full-suite smart home solutions, including ancillary products and services to Haier Group and its associates on a non-exclusive basis from time to time.

The purpose is that 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.

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 and Materials 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.

(v) The Group has to procure certain products and materials mainly include products for internal consumption and resale uses, production and experimental equipment used, idled, procured and/or tailor-made by Haier Group and its associates for the Group internal consumption use, and raw materials and parts required for production use from Haier Group and its associates on a non-exclusive basis, from time to time.

The purpose is that 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 Group is 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 thereby lowering our Group's procurement costs. 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.

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 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, cost of products and materials, estimated value and market price for comparison and referencing purpose.

CONNECTED TRANSACTIONS (continued)

Notes: (continued)

(v) (continued)

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.

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.

(vi) 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 mainly include deposit services, Loan services and entrusted loan services and other financial services to the Group on a non-exclusive basis from time to time.

The purpose is that 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. The benefits to our Group to use the financial services of Haier Group Finance include: (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; and (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.

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.

CONNECTED TRANSACTIONS (continued)

The internal audit department of the Company reviewed the continuing connected transactions and the adequacy and effectiveness of the internal control procedures, and provided the findings to the independent non-executive Directors to assist them in performing their annual reviews. The independent non-executive Directors also made appropriate enquiries with the management to ensure that they have sufficient information to review the transactions and the internal control procedures. The INEDs have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

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

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

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

The amounts of the continuing connected transactions have not exceeded the cap disclosed in the listing document for H Shares of the Company.

HLB Hodgson Impey Cheng Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. HLB Hodgson Impey Cheng Limited, have issued their unqualified letter to the Board containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules as follows:

a. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the above list of continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange in April 2021.

MANAGEMENT CONTRACTS

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

DONATIONS

During the year, the Company's expenditures on targeted measures in poverty alleviation was approximately RMB40.58 million.

TAXATION POLICIES FOR DIVIDEND

Taxation policies applicable to the shareholders in respect of the cash dividend received for the shares held by them in the Company shall follow the laws and regulations as revised from time to time by the State, details in relation thereto will be otherwise announced by the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, at least 25% of the Company's total issued share capital was held by the public, and the H Shares was more than 15% of our Company's total number of issued shares. Therefore, the Company is able to meet the minimum public float requirement under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 56 to the financial statements.

AUDITORS

There have been no changes of auditors in the preceding three years, and Hexin Certified Public Accountants LLP audited the 2020 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises (PRC Accounting Standards).

HLB Hodgson Impey Cheng Limited was appointed on 5 March 2021 and audited the 2020 annual financial statements prepared by the Company in accordance with International Financial Reporting Standards.

On behalf of the Board

Liang Haishan
Chairman

Qingdao, the PRC
30 March 2021

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

TO THE SHAREHOLDERS OF
HAIER SMART HOME CO., LTD.
(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Haier Smart Home Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 120 to 306, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of goodwill and other intangible assets	
Refer to Notes 2.3, 18 and 19 to the consolidated financial statements	
The Group had goodwill and other intangible assets with carrying amounts of approximately RMB22,518 million and RMB8,957 million respectively as at 31 December 2020. This impairment assessment conclusion was arrived at based on estimation of the recoverable amount of the goodwill and other intangible assets as at 31 December 2020 using the value-in-use model, which required exercise of management judgment with respect to the determination of appropriate discount rate and estimation of forecasted cash flows for the financial projection period, in particular future revenue growth. We focused on this area due to the size of the balances and the judgement exercised by management in determining impairment assessment on goodwill and Independent external valuation were obtained in order to support management's estimates other intangible assets as at 31 December 2020.	Our procedures in relation to the management's impairment assessment included: • Evaluating the competency, capabilities and objectively of the independent professional external valuer; • Assessing the appropriateness of the methodology and key assumptions and inputs used based on our knowledge of the business and of the relevant industry and using our valuation experts; • Challenging management about the valuation reasonableness of key assumptions and inputs used, based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. Based on the procedures performed, we found the management judgement and estimates used in impairment assessment were supported by the available evidence.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for obsolete and slow-moving inventories **Refer to Notes 2.3 and 25 to the consolidated financial statements** As at 31 December 2020, the Group had inventories of approximately RMB29,447 million and recognised provision for obsolete and slow-moving inventories of approximately RMB1,015 million to statement of profit or loss during the year 31 December 2020. The provision against obsolete and slow-moving inventories is estimated based on the net realisable value of the inventories with reference to the latest selling prices and current market conditions. Management judgement is involved in estimate the selling price for inventories, the costs of completion and the costs necessary to make the sale. We focused on this area due to the size of the balances and the judgement exercised by management in determining the obsolete and slow-moving inventories.	Our procedures in relation to the management's assessment for obsolete and slow-moving inventory included: • Evaluating the estimates made by management and used to determine the provision obsolete and slow-moving inventories during the year and compare to the provisions made in prior year; • Performing a recalculation, on a sample basis, of the inventory provision made on individual inventories; • Sample checking on the subsequent selling price of finished goods; and • Checking the ageing profile of inventories, the historical sales and usage records of the inventories. Based on the procedures performed, we consider management's judgement and estimates in the provision assessment against obsolete and slow-moving inventories, to be supported by the available evidence.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for product warranties **Refer to Notes 2.3 and 34 to the consolidated financial statements** As at 31 December 2020, the Group had provision. for product warranties of approximately RMB2,911 million. Product warranty provisions are made with reference to the sales volume and the expected unit costs for warranty services. The assessment of the provision amount involves management assumptions, judgements and estimates. We focused on this area due to the size of the balances and the judgement exercised by management in determining the obsolete and slow-moving inventories.	Our procedures in relation to the management's assessment for product warranties included: • Evaluating the estimates made by management and used to determine the provision for product warranties during the year and compare to the provisions made in prior year; • Performing a recalculation, on a sample basis, of the provision made; • Sample checking on the subsequent costs of warranty services; and • Comparing the provision made by the Group and the operation result of the Group. Based on the procedures performed, we consider management's judgement and estimates in the assessment provision for product warranties, to be supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "**Other Information**").

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 30 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'M	2019 RMB'M
CONTINUING OPERATIONS			
REVENUE	5	**209,703**	198,006
Cost of sales		**(148,870)**	(139,393)
Gross profit		**60,833**	58,613
Other gains or losses	5	**3,994**	3,324
Selling and distribution expenses		**(33,641)**	(33,843)
Administrative expenses		**(17,930)**	(17,165)
Finance costs	7	**(1,321)**	(1,732)
Share of profits and losses of associates		**1,620**	1,409
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**13,555**	10,606
Income tax expenses	10	**(2,232)**	(1,584)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**11,323**	9,022
DISCONTINUED OPERATION			
Profit for the year from discontinued operation	11	**–**	3,313
PROFIT FOR THE YEAR		**11,323**	12,335
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that may be reclassified to profit or loss in subsequently periods:			
Share of other comprehensive (loss)/income of associates		**(342)**	103
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		**(97)**	(21)
Exchange differences on translating foreign operations		**(2,004)**	500
		(2,443)	582
Items that will not be reclassified to profit or loss in subsequent periods:			
Changes arising from re-measurement of defined benefit plans		**(23)**	(10)
Change in fair value of equity investments designated at fair value through other comprehensive income ("**FVTOCI**"), net of tax		**(110)**	(3)
		(133)	(13)

	Notes	2020 RMB'M	2019 RMB'M
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(2,576)**	569
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,747**	12,904
Profit for the year attributable to owners of the Company			
— from continuing operations		**8,877**	6,715
— from discontinued operations	11	**—**	1,491
		8,877	8,206
Profit for the year attributable to non-controlling interests			
— from continuing operations		**2,446**	2,307
— from discontinued operations	11	**—**	1,822
		2,446	4,129
		11,323	12,335
Total comprehensive income attributable to:			
Owners of the Company		**6,340**	8,751
Non-controlling interests		**2,407**	4,153
		8,747	12,904
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
From continuing and discontinued operations			
— Basic (RMB per share)	13	**1.34**	1.29
— Diluted (RMB per share)	13	**1.31**	1.19
From continuing operations			
— Basic (RMB per share)	13	**1.34**	1.05
— Diluted (RMB per share)	13	**1.31**	0.96

Consolidated Statement of Financial Position

As as 31 December 2020

	Notes	2020 RMB'M	2019 RMB'M
NON-CURRENT ASSETS			
Property, plant and equipment	15	**24,815**	23,919
Investment properties	16	**28**	29
Right-of-use assets	17(a)	**3,901**	3,802
Goodwill	18	**22,518**	23,352
Other intangible assets	19	**8,957**	9,640
Interests in associates	20	**21,569**	20,461
Equity investments designated at FVTOCI	21	**2,659**	1,396
Financial assets measured at fair value through profit or loss ("**FVTPL**")	22	**–**	295
Financial assets measured at amortised cost	23	**331**	332
Derivative financial instruments	24	**47**	77
Long-term prepayments	27	**1,404**	1,423
Deferred tax assets	36	**2,208**	1,579
Other non-current assets		**759**	581
Total non-current assets		**89,196**	86,886
CURRENT ASSETS			
Inventories	25	**29,447**	28,229
Trade and bills receivables	26	**30,066**	24,967
Contract assets	32(a)	**263**	423
Prepayments, deposits and other receivables	27	**5,212**	6,441
Financial assets measured at FVTPL	22	**2,165**	308
Financial assets measured at amortised cost	23	**554**	3,981
Derivative financial instruments	24	**78**	19
Pledged deposits	28	**822**	1,211
Other deposit with limited use	28	**4**	5
Cash and cash equivalents	28	**45,635**	34,963
		114,246	100,547
Assets and disposal group held for sale	29	**17**	21
Total current assets		**114,263**	100,568
CURRENT LIABILITIES			
Trade and bills payables	30	**57,539**	53,059
Other payables and accruals	31	**22,519**	19,726
Contract liabilities	32(b)	**7,049**	5,583
Interest-bearing borrowings	33	**12,643**	13,315
Lease liabilities	17(b)	**671**	595
Tax payable		**1,371**	1,278
Bonds	44	**5,535**	–
Provisions	34	**1,881**	1,992
Derivative financial instruments	24	**239**	99
Financial liabilities measured at FVTPL	43	**27**	43
Total current liabilities		**109,474**	95,690

	Notes	2020 RMB'M	2019 RMB'M
NET CURRENT ASSETS		**4,789**	4,878
TOTAL ASSETS LESS CURRENT LIABILITIES		**93,985**	91,764
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	33	**11,858**	13,370
Lease liabilities	17(b)	**2,073**	1,980
Convertible and exchangeable bonds	45	**6,714**	7,005
Deferred income	35(a)	**551**	628
Deferred tax liabilities	36	**1,900**	1,154
Provisions for pensions and similar obligations	50	**1,246**	1,122
Provisions	34	**1,443**	1,399
Put option liabilities	35(b)	**—**	55
Other non-current liabilities		**89**	61
Total non-current liabilities		**25,874**	26,774
Net assets		**68,111**	64,990
EQUITY			
Share capital	37	**9,028**	6,580
Reserves	39(a)	**57,788**	41,307
Equity attributable to owners of the Company		**66,816**	47,887
Non-controlling interests	39(b)	**1,295**	17,103
Total equity		**68,111**	64,990

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2021 and signed on its behalf by:

Mr. Liang Haishan	**Mr. Li Huagang**
Chairman	*Executive Director*

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

As as 31 December 2020

		Attributable to owners of the Company														
			Reserves													
	Notes	Issued equity RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedges reserve (Note 39(a)(iv)) RMB'M	FVTOCI reserve (Note 39(a)(v)) RMB'M	Equity method investments reserve RMB'M	Reserve funds (Note 39(a)(i)) RMB'M	Convertible and exchangeable bonds reserves (Note 39(a)(ii)) RMB'M	Retained profits RMB'M	Exchange differences on translation of financial statements reserve (Note 39 (a)(iii)) RMB'M	Other reserves RMB'M	Total reserves RMB'M	Total RMB'M	Non-controlling interests RMB'M	Total equity RMB'M
At 1 January 2019		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 income/(loss) 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
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	–	(579)	(579)
Transfer to reserves fund		–	–	–	–	–	–	367	–	(367)	–	–	–	–	–	–
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)
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

Consolidated Statement of Changes in Equity

As as 31 December 2020

	Notes	Issued equity RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedges reserve (Note 39(a)(iv)) RMB'M	FVTOCI reserve (Note 39(a)(v)) RMB'M	Equity method investments reserve RMB'M	Reserve funds (Note 39(a)(i)) RMB'M	Convertible and exchangeable bonds reserves/ Convertible bond reverse (Note 39(a)(ii)) RMB'M	Retained profits RMB'M	Exchange differences on translation of financial statements reserve (Note 39 (a)(iii)) RMB'M	Other reserves RMB'M	Treasury shares RMB'M	Total reserves RMB'M	Total RMB'M	Non-controlling interests RMB'M	Total equity RMB'M
		Attributable to owners of the Company – Reserves															
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 year		–	–	–	–	–	–	–	–	8,877	–	–	–	8,877	8,877	2,446	11,323
Other comprehensive income/(loss) for the year																	
– Share of other comprehensive (loss)/income of associates		–	–	–	–	–	(369)	–	–	–	–	–	–	(369)	(369)	27	(342)
– Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		–	–	–	(104)	–	–	–	–	–	–	–	–	(104)	(104)	7	(97)
– Exchange differences on translating foreign operations		–	–	–	–	–	–	–	–	–	(1,991)	–	–	(1,991)	(1,991)	(13)	(2,004)
– Changes arising from re-measurement of defined benefit plans		–	–	(23)	–	–	–	–	–	–	–	–	–	(23)	(23)	–	(23)
– Change in fair value of equity investments designated at FVTOCI		–	–	–	–	(50)	–	–	–	–	–	–	–	(50)	(50)	(60)	(110)
Total comprehensive income/(loss) for the year		–	–	(23)	(104)	(50)	(369)	–	–	8,877	(1,991)	–	–	6,340	6,340	2,407	8,747
Dividend paid to owners of the Company		–	–	–	–	–	–	–	–	(2,467)	–	–	–	(2,467)	(2,467)	–	(2,467)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(726)	(726)
Cash payment paid to scheme shareholders under the privatisation proposal (Note 39 (d))		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,513)	(2,513)
Transfer to reserves fund		–	–	–	–	–	–	390	–	(390)	–	–	–	–	–	–	–
Disposal of subsidiaries		–	–	–	–	–	2	–	–	–	12	(25)	–	(11)	(11)	(1,277)	(1,288)
Changes in ownership interests in subsidiaries that do not result in a loss of control		–	(835)	–	–	(80)	57	–	–	–	179	–	–	(679)	(679)	2,362	1,683
Acquisition of non-controlling interests (Note 39 (c))		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(16,061)	(16,061)
Privatisation of a subsidiary by issue of new shares, net of transaction costs		2,448	13,372	–	–	–	–	–	–	–	–	–	–	13,372	15,820	–	15,820
Purchase of treasury shares		–	–	–	–	–	–	–	–	–	–	–	(29)	(29)	(29)	–	(29)
Exchanged from exchangeable bonds to convertible bonds (Note 45)		–	(1,937)	–	–	–	–	–	1,934	–	–	–	–	(3)	(3)	–	(3)
Other changes		–	–	–	–	–	–	–	–	(42)	–	–	–	(42)	(42)	–	(42)
At 31 December 2020		9,028	14,237	37	(100)	(159)	(292)	3,044	2,365	38,447	(535)	773	(29)	57,788	66,816	1,295	68,111

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'M	2019 RMB'M
Cash flows from operating activities			
Profit before tax			
From continuing operations		**13,555**	10,606
From a discontinued operation	11	**—**	4,025
Adjustments for:			
Finance costs	7	**1,321**	1,763
Interest income	5	**(575)**	(677)
Share of profits and losses of associates		**(1,620)**	(1,409)
Dividends income from equity investment designated at FVTOCI	5	**(21)**	(39)
Gain on disposal of financial assets/liabilities measured at FVTPL, net	5	**(70)**	(42)
Gain on disposal of associates and subsidiaries, net		**(2,261)**	(3,813)
Loss/(gain) on disposal of non-current assets, net	5	**111**	(399)
Fair value gain on financial assets/liabilities at FVTPL, net	5	**(62)**	(76)
Depreciation of property, plant and equipment	15	**3,408**	2,998
Depreciation of investment properties	16	**2**	2
Depreciation of right-of-use assets	17(a)	**715**	898
Amortisation of other non-current assets	6	**35**	13
Amortisation of other intangible assets	19	**929**	752
Provision for obsolete and slow-moving inventories, net	6	**1,015**	576
Allowance for expected credit losses on trade and bills receivables, net	26	**131**	131
Allowance for expected credit losses on prepayments, deposits and other receivables, net	27	**265**	233
Impairment of property, plant and equipment	15	**1**	11
Impairment of interests in associates	20	**44**	56
Impairment of other intangible assets	19	**46**	—
Impairment of contract assets	32	**—**	4
Share-based payment, net	6	**289**	477
Operating cash inflow before movements in working capital		**17,258**	16,090
Increase in inventories		**(3,118)**	(3,949)
Increase in trade and bills receivables		**(5,379)**	(908)
Increase in trade and bills payables		**10,283**	5,228
Change in other working capital		**142**	(157)
Cash generated from operations		**19,186**	16,304
Interest received		**438**	488
Income tax paid		**(2,025)**	(1,709)
Net cash generated from operating activities		**17,599**	15,083

	2020 RMB'M	2019 RMB'M
Cash flows from investing activities		
Payment for purchases of non-current assets	**(7,592)**	(6,194)
Proceeds from disposal of non-current assets	**324**	261
Payment for acquisition of subsidiaries, net of cash acquired	**(323)**	(2,730)
Cash inflow/(outflow) from disposal of subsidiaries, net of cash disposed	**861**	(952)
Payment for acquisition of associate	**(218)**	—
Proceeds from disposal of associates	**3**	—
Payment for purchases of equity investments designated at FVTOCI	**(5)**	(221)
Proceeds from disposal of equity investments designated at FVTOCI	**—**	70
Dividends received from associates	**485**	348
Dividends received from equity investment designated at FVTOCI	**21**	35
Dividends received from investments	**1**	2
Proceeds from dispose of/(payments for acquisition) financials assets measured at amortised cost and financial assets at FVTPL	**1,163**	(1,782)
Interest received from financial assets measured at amortised cost and financial assets at FVTPL	**16**	203
Net cash flows used in investing activities	**(5,264)**	(10,960)
Cash flows from financing activities		
Contribution from shareholders of the Company	**24**	—
Other payments of listing-related expenses	**(49)**	—
Proceed from borrowings	**23,232**	18,468
Proceed from bonds	**5,500**	—
Repayment of borrowings	**(23,509)**	(19,018)
Redemption of convertible and exchangeable bond	**(6)**	(9)
Dividends paid to shareholders	**(2,467)**	(2,235)
Distribution to non-controlling interests	**(820)**	(579)
Cash payment paid to scheme shareholders under the privatisation proposal	**(2,513)**	—
Lease payments	**(728)**	(894)
Interest paid for borrowings	**(989)**	(1,388)
Changes in ownership interests in subsidiaries	**1,299**	(358)
Net cash flows used in financing activities	**(1,026)**	(6,013)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'M	2019 RMB'M
Net increase/(decrease) in cash and cash equivalents		**11,309**	(1,890)
Cash and cash equivalents at beginning of the year		**34,963**	36,561
Effect of foreign exchange rate changes, net		**(637)**	292
Cash and cash equivalents at end of the year		**45,635**	34,963
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**22,751**	18,890
Time deposits		**22,884**	16,073
Cash and cash equivalents as stated in the statement of financial position		**45,635**	34,963

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 H-shares of the Company are listed on The Stock Exchange of Hong Kong Limited in December 2020. The addresses of the registered office are located at the Haier Industrial Park, Laoshan District, Qingdao, Shandong Province, PRC.

In the opinion of the directors of the Company, 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 smart home solutions. The Company and its subsidiaries (collectively referred as 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 year end 31 December 2019 (Note 11).

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company and all values are rounded to the nearest million ("**RMB'M**") ("**'M**"), except when otherwise indicated.

1. GENERAL INFORMATION OF THE GROUP (continued)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Haier Electronics Group Co., Ltd	Mainland China and Hong Kong/Bermuda	Hong Kong Dollars ("**HKD**") 3,107	**68.26**	**31.74**	14	31.87	Investment holding, manufacturing and sale of washing machines and water heaters, distribution and logistics service	Limited liabilities	(v)
Wonder Global (BVI) Investment Limited	The United State of America ("**USA**")/ British Virgin Islands ("**BVI**")	RMB18,596	**–**	**100**	–	100	Manufacture and sale of household appliances and logistics service	Limited liability company	(ii)
Haier U.S. Appliance Solutions, Inc.	USA/USA	United States Dollars ("**USD**") 2,307	**–**	**100**	–	100	Home appliances production and distribution business	Limited liability company	(ii)
Haier Singapore Investment Holding Co., Ltd.	Singapore and other overseas areas/ Singapore	USD896	**–**	**100**	–	100	Manufacture and sale of household appliances	Limited liability company	(ii)
Qingdao Haier Air Conditioner Gen. Corp., Ltd	Mainland China/ Mainland China	RMB918	**100**	**–**	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	–	Manufacture and sale of refrigerator	Limited liability company	(iv)
Hefei Haier Air-conditioning Co., Limited	Mainland China/ Mainland China	RMB12	**100**	**–**	100	–	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Wuhan Haier. Electronics Co., Ltd.	Mainland/China	RMB62	**60**	**–**	60	–	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	Mainland China/ Mainland China	RMB956	**99.54**	**–**	99.83	–	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Information Plastic company Development Co., Ltd.	Mainland China/ Mainland China	RMB78	**100**	**–**	100	–	Manufacture of plastic product	Limited liability	(iv)
Dalian Haier Precision Products Co., Ltd.	Mainland China/ Mainland China	RMB48	**90**	**–**	90	–	Manufacture and sale of precise plastics	Limited liability company	(iv)
Hefei Haier Plastic Co., Ltd.	Mainland China/ Mainland China	RMB34	**77.36**	**4.83**	94.12	5.88	Manufacture and sale of plastic parts	Limited liability company	(iv)
Qingdao Haier Moulds Co., Ltd.	Mainland China	RMB158	**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	Manufacture of plastic powder, plastic sheet and high-performance coatings	Limited liability company	(iv)

1. GENERAL INFORMATION OF THE GROUP (continued)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Chongqing Haier Precision Plastic Co., Ltd.	Mainland China/ Mainland China	RMB65	**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	Manufacture and sale of electronics and automatic control system equipment	Limited liability company	(iv)
Qingdao Haier Robot Co., Ltd.	Mainland China/ Mainland China	RMB16	**100**	**–**	100	–	Research, development, manufacture and sale of robot	Limited liability company	(iv)
Qingdao Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB207	**100**	**–**	97.2	–	Manufacture and production of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Refrigerator (International) Co., Ltd.	Mainland China/ Mainland China	RMB260	**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	–	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	–	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	–	Manufacture and sales of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Dishwasher Co., Ltd.	Mainland China/ Mainland China	RMB180	**100**	**–**	100	–	Manufacture and production of dish washing machine and gas stove	Limited liability company	(iv)
Qingdao Haier Special Freezer Co., Ltd.	Mainland China/ Mainland China	RMB388	**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	–	Manufacture and production of air-conditioners	Limited liability company	(iv)
Dalian Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB110	**90**	**–**	90	–	Manufacture and production of refrigerators	Limited liability company	(ii)
Qingdao Haier Electronic Plastic Co., Ltd.	Mainland China/ Mainland China	RMB60	**80**	**–**	80	–	Development, assembling and sales of plastics, electronics and product	Limited liability company	(iv)

1. GENERAL INFORMATION OF THE GROUP (continued)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Wuhan Haier Freezer Co., Ltd.	Mainland China/ Mainland China	RMB50	**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	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	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	Manufacture and sales of air conditioners	Limited liability company	(iv)
Qingdao Haier Precision Products Co., Ltd.	Mainland China/ Mainland China	RMB10	**–**	**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	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	Domestic trade	Limited liability company	(iv)
Dalian Free Trade Zone Haier Refrigerator Trading Co., Ltd.	Mainland China/ Mainland China	RMB1	**–**	**100**	–	100	Domestic trade	Limited liability company	(iv)
Qingdao Ding Xin Electronics Technology Co., Ltd.	Mainland China/ Mainland China	RMB20	**–**	**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	Household appliance sales	Limited liability company	(ii)
Chongqing Haier Refrigeration Appliance Co., Ltd.	Mainland China/ Mainland China	RMB108	**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	–	Manufacture and production of refrigerator	Limited liability company	(iv)
Wuhan Haier Energy and Power Co., Ltd.	Mainland China/ Mainland China	RMB8	**–**	**75**	–	75	Energy service	Limited liability company	(iv)

1. GENERAL INFORMATION OF THE GROUP (continued)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Qingdao Haier HVAC Engineering Co., Ltd	Mainland China/ Mainland China	RMB8	–	100	–	100	Air-conditioning	Limited liability company	(iv)
Chongqing Gooddaymart Electric Appliance Sale Co., Ltd.	Mainland China/ Mainland China	RMB5	–	51	–	51	Sales of household appliances and electronics	Limited liability company	(iv)
Qingdao Haier (Jiaozhou) Products Co., Ltd.	Mainland China/ Mainland China	RMB119	–	100	–	100	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Air Conditioner Co., Ltd.	Mainland China/ Mainland China	RMB80	–	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	–	Investment holding	Limited liability company	(iv)
Shenyang Haier Refrigerator Co., Ltd.	Mainland China/ Mainland China	RMB100	100	–	100	–	Manufacture and sales of refrigerator	Limited liability company	(iv)
Foshan Haier Freezer Co., Ltd.	Mainland China/ Mainland China	RMB100	100	–	100	–	Manufacture and sales of freezer	Limited liability company	(iv)
Zhengzhou Haier Air-conditioning Co., Ltd.	Mainland China/ Mainland China	RMB100	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	–	Development, purchase and sales of electrical product and components	Limited liability company	(ii)
Qingdao Haier Intelligent Technology Development Co., Ltd.	Mainland China/ Mainland China	RMB130	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	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	Industrial design and prototype production	Limited liability company	(iv)
Beijing Haier Guangke Digital Technology Co., Ltd.	Mainland China/ Mainland China	RMB6	–	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	Wholesale and retail of medical facility	Limited liability company	(iv)
Qingdao Haier Technology Co., Ltd.	Mainland China/ Mainland China	RMB80	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	–	Entrepreneurship investment and consulting	Limited liability company	(iv)

1. GENERAL INFORMATION OF THE GROUP (continued)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Qingdao Casarte Smart Living Appliances Co., Ltd.	Mainland China/ Mainland China	RMB10	**–**	**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	Sales of household appliances and digital products	Limited liability company	(iv)
Haier Overseas Electric Appliance Co., Ltd.	Mainland China/ Mainland China	RMB40	**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	–	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	Production and sales of air conditioners and refrigeration equipment	Limited liability company	(ii)
Chongqing Haier Home Appliance Sale Hefei Co., Ltd.	Mainland China/ Mainland China	RMB5	**–**	**100**	–	100	Household appliance sales	Limited liability company	(iv)
Beijing Haier Zhongyou Netmedia Co., Ltd.	Mainland China/ Mainland China	RMB15	**–**	**51**	–	51	Radio and television program	Limited liability company	(iv)
Qingdao Weixi Smart Technology Co., Ltd.	Mainland China/ Mainland China	RMB4	**–**	**71.43**	–	71.43	Intelligent bathroom	Limited liability company	(iv)
Haier U+smart Technology (Beijing) Co., Ltd.	Mainland China/ Mainland China	RMB143	**100**	**–**	100	–	Software development	Limited liability company	(iv)
Qingdao Haier Industry Intelligence Research Institute Co., Ltd.	Mainland China/ Mainland China	RMB34	**100**	**–**	100	–	Industrial intelligent technology	Limited liability company	(iv)
Haier (Shanghai) Appliance Co., Ltd.	Mainland China/ Mainland China	RMB5	**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	Manufacture of household cleaning and sanitary electric	Limited liability company	(v)
Qingdao Economy and Techonology Development Zone Haier Heater Co., Ltd	Mainland China/ Mainland China	RMB120	**–**	**100**	–	100	Manufacture and sales of water heater Mainland China	Limited liability company	(v)
Qingdao Haier Smart Kitchen Appliances Co., Ltd.	Mainland China/ Mainland China/	RMB180	**100**	**–**	100	–	Smart kitchen appliances sales	Limited liability company	(iv)

1. GENERAL INFORMATION OF THE GROUP (continued)

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital 'M	Percentage of equity attributable to the Company As at 31 December 2020		2019		Principal activities	Type of legal status	Note
			Direct	Indirect	Direct	Indirect			
Haier New Zealand Investment Holding Company Limited	New Zealand/New Zealand	New Zealand Dollars ("**NZD**") 477	**–**	**100**	–	100	Production and distribution of home appliances	Limited liability company	(iii)
Qingdao Gooday Lejia IOT Technology Co., Ltd	Mainland China/ Mainland China/	RMB66	**79.82**	**–**	–	–	Household appliance service	Limited liability company	(iv)
Aqua Co., Ltd	Japan/Japan	Japanese Yen ("**JPY**") 90	**–**	**100**	–	100	Import of electrical appliances and materials	Limited liability company	(vi)
Candy S.p.A	Europe/Italy	Euro ("**EUR**") 42	**–**	**100**	–	100	Manufacture and sales of household appliances	Limited liability company	(vii)
Fisher&Paykel Appliances Limited	New Zealand/ New Zealnd	NZD246	**–**	**100**	–	100	Research, development, manufacture, sale and distribution of home appliances business	Limited liability company	(iii)

* 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.

Notes:

(ii) The statutory financial statements for the years ended 31 December 2020 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 2020 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 2020 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 years ended 31 December 2020 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.

(vi) The statutory financial statements for the years ended 31 December 2020 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 years ended 31 December 2020 and 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 December 31, as their financial year end.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements 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 consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out in note 2.3.

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 consolidated financial statements 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, 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.

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board (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 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

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRS standards in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS standards, that have been issued but are not yet effective, in the consolidated financial statements:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to IFRS standards will have no material impact on the consolidated financial statements in the foreseeable future.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 *Financial Instruments* ("**IFRS 9**") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

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 financial assets/financial liabilities 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving businesses under common control

The consolidated financial statements include 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 consolidated financial statements 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is described below.

Investments in associates

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in the 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 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 the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate 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. 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 exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

When the Group ceases to have significant influence over an associate, 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 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 and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate 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.

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 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 of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale (continued)

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, 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 from contracts with customers

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

(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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease

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

For contracts entered into or modified or arising from business combinations, 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

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.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Definition of a lease (continued)

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.

The Group as lessee

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lease (continued)
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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lease (continued)

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 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. 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor (continued)

Classification and measurement of leases (continued)

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("**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.

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.

Changes in considerations of lease contracts that were not part of the original term and conditions are accounted for a lease modifications including lease incentive provided through forgiveness or reduction of rentals.

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 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 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).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 related to income 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. Such grants are presented under "Government grants" under "other gains or losses".

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.

Employee benefits

Retirement benefit costs

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs (continued)
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.

Termination benefits
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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Short-term and other long-term employee benefits (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated financial statements 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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, except for freehold land, which is always presumed to be recovered entirely 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. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and borrowing costs capitalised for qualifying assets in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and for intended use. 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%

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

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. 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;

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets — research and development expenditure (continued)
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: (continued)

- 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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets 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 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(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.

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 and losses" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit losses ("**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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

Lifetime ECL for trade and bills receivables, deposits and other receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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.

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities measured at amortised cost

Financial liabilities including borrowings, convertible and exchangeable bonds, bonds, trade payables, other 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

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.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

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.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

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 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.

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 consolidated financial statements.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

(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

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 when control of the asset is transferred to the customer, generally on delivery of goods.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 2020 were approximately RMB2,208 million (2019: RMB1,579 million), 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 2020 were approximately RMB2,640 million (2019: RMB1,374 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 Notes 21 and 48 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. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2020, the carrying amount of the property, plant and equipment were approximately RMB24,815 million (2019: RMB23,919 million).

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 years ended 31 December 2020 and 2019. As at 31 December 2020, the carrying amount of goodwill are approximately RMB22,518 million (2019: RMB23,352 million). Further details are given in Note 18 to the consolidated Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 year ended 31 December 2020 were approximately RMB44 million (2019: RMB56 million). As at 31 December 2020, the net carrying amount of the investment in associates are approximately RMB21,569 million (2019: RMB20,461 million). Further details are given in Note 20 to Consolidated Financial Statements.

Provision of inventories

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed. As at 31 December 2020, the net carrying amounts of inventories (after impairment provision) were approximately RMB29,447 million (2019: RMB28,229 million)

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 2020, the product warranty amounted to approximately RMB2,911 million (2019: RMB3,058 million). Further details are included in Note 34 to Consolidated Financial Statements.

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 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

4. OPERATING SEGMENT INFORMATION (continued)

(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 Consolidated Financial Statements, 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, bonds and 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:

4. OPERATING SEGMENT INFORMATION (continued)

2020

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers RMB'M	Kitchen Appliances RMB'M	Air-conditioners RMB'M	Laundry Appliances RMB'M	Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total RMB'M
Segment revenue								
Segment revenue from external customers	30,562	2,636	21,861	22,483	9,833	100,044	22,284	209,703
Inter-segment revenue	3,821	136	3,645	3,502	384	579	70,340	82,407
Total	34,383	2,772	25,506	25,985	10,217	100,623	92,624	292,110
Reconciliation:								
Inter-segment eliminations								(82,407)
Total								209,703
Segments results	2,333	41	93	2,200	1,165	4,001	(13)	9,820
Reconciliation:								
Elimination of inter-segment results								(3)
								9,817
Corporate and other unallocated income and gains or losses								3,688
Corporate and other unallocated expenses								(249)
Finance costs								(1,321)
Share of profits and losses of associates								1,620
Profit before taxation								13,555

4. OPERATING SEGMENT INFORMATION (continued)

2019

Continuing operations

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers RMB'M	Kitchen Appliances RMB'M	Air-conditioners RMB'M	Laundry Appliances RMB'M	Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total 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

4. OPERATING SEGMENT INFORMATION (continued)

2020

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers RMB'M	Kitchen Appliances RMB'M	Air-conditioners RMB'M	Laundry Appliances RMB'M	Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total RMB'M
Segment assets	11,689	2,533	20,925	10,136	4,137	50,763	56,984	157,167
Reconciliation:								
Elimination of segment assets								(54,985)
Goodwill								22,518
Interests in associates								21,569
Equity investments designated at FVTOCI								2,659
Deferred tax assets								2,208
Financial assets measured at FVTPL								2,165
Financial assets measured at amortised cost								554
Derivative financial instruments								78
Pledged deposits								822
Other deposits with limited use								4
Cash and cash equivalents								45,635
Other receivables								2,735
Other non-current financial assets								330
Total assets								203,459
Segment liabilities	29,206	1,539	13,439	8,219	5,108	31,107	60,169	148,787
Reconciliation:								
Elimination of segment liabilities								(54,845)
Tax payable								1,371
Other payable								1,030
Derivative financial instruments								239
Financial liabilities at FVTPL								27
Interest-bearing borrowings								24,501
Deferred tax liabilities								1,900
Convertible and exchangeable bonds								6,714
Other non-current liabilities								89
Bonds								5,535
Total liabilities								135,348

4. OPERATING SEGMENT INFORMATION (continued)

2019

	Smart Home Business in China							
	Household Food Solutions		Household Air Solutions	Household Clothing Solutions	Household Water Solutions			
	Refrigerators/ Freezers RMB'M	Kitchen Appliances RMB'M	Air-conditioners RMB'M	Laundry Appliances RMB'M	Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total 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 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

4. OPERATING SEGMENT INFORMATION (continued)

2020

	Smart Home Business in China: Household Food Solutions: Refrigerators/Freezers RMB'M	Smart Home Business in China: Household Food Solutions: Kitchen Appliances RMB'M	Smart Home Business in China: Household Air Solutions: Air-conditioners RMB'M	Smart Home Business in China: Household Clothing Solutions: Laundry Appliances RMB'M	Smart Home Business in China: Household Water Solutions: Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total RMB'M
Other segment information:								
Product warranty provisions	1,343	98	794	798	636	1,055	–	4,724
Provision for obsolete and slow-moving inventories, net	207	37	417	79	33	191	51	1,015
Allowance for expected credit losses in respect of trade and bills receivable, net	7	–	22	–	3	90	9	131
Impairment of prepayments, deposits and other receivables and other assets, net	175	8	23	47	26	3	74	356
Loss on disposal of non-current assets, net	9	–	2	–	(1)	96	5	111
Depreciation and amortisation	420	98	339	403	151	3,297	381	5,089

2019

	Smart Home Business in China: Household Food Solutions: Refrigerators/Freezers RMB'M	Smart Home Business in China: Household Food Solutions: Kitchen Appliances RMB'M	Smart Home Business in China: Household Air Solutions: Air-conditioners RMB'M	Smart Home Business in China: Household Clothing Solutions: Laundry Appliances RMB'M	Smart Home Business in China: Household Water Solutions: Water Appliances RMB'M	Smart Home Business Overseas RMB'M	Other Business RMB'M	Total 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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 RMB'M	2019 RMB'M
Mainland China	**107,655**	103,887
North America	**63,705**	57,922
Europe	**16,513**	15,195
South Asia	**5,472**	6,340
Australia and New Zealand	**5,979**	5,352
Southeast Asia	**4,123**	3,706
Japan	**3,613**	3,249
Middle East and Africa	**1,205**	1,118
Other country/regions	**1,438**	1,237
	209,703	198,006

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.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2020 RMB'M	2019 RMB'M
Mainland China	**15,029**	14,237
Other country/regions	**25,213**	25,566
	40,242	39,803
Interests in associates	**21,569**	20,461
Goodwill	**22,518**	23,352
Equity investments designated at FVTOCI	**2,659**	1,396
Financial assets measured at FVTPL	**—**	295
Deferred tax assets	**2,208**	1,579
	89,196	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.

Information about major customers

No single customer of the Group contributed 10% or more to the total revenue of the Group during the years ended 2020 and 2019.

5. REVENUE, OTHER GAINS OR LOSSES

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

	2020 RMB'M	2019 RMB'M
Sale of goods	**209,373**	197,746
Rendering of services	**330**	260
	209,703	198,006

	2020 RMB'M	2019 RMB'M
Sale of goods		
— Point in time	**209,373**	197,746
Rendering of service		
— Point in time	**116**	77
— Over time	**214**	183
	209,703	198,006

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.

5. REVENUE, OTHER GAINS OR LOSSES (continued)

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. As permitted under practical expedient of IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

An analysis of other gains or losses from continuing operation is as follows:

	2020 RMB'M	2019 RMB'M
Treasury and investment income:		
Interest income from		
Bank	**470**	525
Wealth management products	**88**	130
Other	**17**	22
Cash discount income	**144**	162
Dividend income from equity investment designated at FVTOCI	**21**	39
	740	878
Compensation received from suppliers	**43**	279
Gain/(loss) on disposal of		
Non-current assets, net	**(111)**	399
Financial assets/liabilities measured at FVTPL, net	**70**	42
Subsidiaries	**2,261**	(4)
Government grants (Note (a))	**1,151**	1,256
Rental income from investment properties (Note (b))	**23**	13
Net fair value gain on financial assets/liabilities at FVTPL	**62**	76
Net foreign exchange (losses)/gains	**(385)**	275
Sundry income	**140**	110
	3,994	3,324

5. REVENUE, OTHER GAINS OR LOSSES (continued)

Rendering of services (continued)

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 2020 and 2019 amounted to approximately RMB4 million and RMB5 million respectively.

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax from continuing operations has been arrived at after charging/(crediting):

	2020 RMB'M	2019 RMB'M
Cost of inventories sold	**147,631**	138,666
Provision for obsolete and slow-moving inventories, net (Note(a))	**1,015**	576
Cost of services	**224**	151
	148,870	139,393
Depreciation of property, plant and equipment	**3,408**	2,998
Depreciation of investment properties	**2**	2
Depreciation of right-of-use assets	**715**	898
Amortisation of other intangible assets	**929**	752
Amortisation of other non-current assets	**35**	13
Discontinued operation impact on depreciation and amortisation	**—**	(292)
	5,089	4,371
Employee benefit expense:		
(including directors', chief executive and supervisors' remuneration — Note 8):		
Salaries, bonuses, allowances and benefits in kind	**22,265**	20,157
Pension scheme contributions	**1,178**	1,882
Share-based payment	**289**	477
	23,732	22,516

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (continued)

Profit before tax from continuing operations has been arrived at after charging/(crediting):

	2020 RMB'M	2019 RMB'M
Impairment of trade and bills receivables, net (Note(b))	**131**	131
Impairment of prepayments, deposits and other receivables and long term prepayments, net (Note(b))	**265**	233
Impairment of property, plant and equipment (Note(b))	**1**	11
Impairment of interests in associates (Note(b))	**44**	56
Impairment of other intangible assets (Note(b))	**46**	—
Impairment of contract assets (Note(b))	**—**	4
	487	435
Research and development costs	**6,860**	6,221
Auditors' remuneration		
— Audit services: Annual audit	**13**	10
— Services in connection with the Listing	**19**	—
Expenses relating to short-term leases and low value leases	**212**	356
Variable lease payments not included in the measurement of lease liabilities	**130**	93
Product warranty provisions	**4,724**	5,078
Net foreign exchange losses/(gains)	**385**	(275)
Loss/(gain) on disposal/write-off of non-current assets, net	**111**	(399)
Listing expense	**22**	—

Notes:

(a) The net provision for obsolete and slow-moving inventories for the year 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:

	2020 RMB'M	2019 RMB'M
Interest on borrowings	**789**	1,078
Interest on bonds	**35**	—
Interest on convertible and exchangeable bonds	**177**	274
Interest on lease liabilities	**123**	98
Other finance costs	**197**	282
	1,321	1,732

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year, 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:

	2020 RMB'000	2019 RMB'000
Fees	**351**	351
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**5,493**	4,419
Share-based payment	**19,498**	41,415
Pension scheme contributions	**198**	207
	25,189	46,041
	25,540	46,392

Note:

Value are rounded to the nearest thousand (RMB'000).

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

(a) Independent non-executive directors

The remuneration of independent non-executive directors during the years ended 31 December 2020 and 2019 is as follows:

2020

	Notes	Fees RMB'000	Salaries, Bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
DAI Deming		–	200	–	–	200
SHI Tiantao	(ii)	–	138	–	–	138
CHIEN Da-chun	(iii)	–	200	–	–	200
WONG Hak Kun	(iv)	–	75	–	–	75
		–	613	–	–	613

2019

	Notes	Fees RMB'000	Salaries, Bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
WU Cheng	(i)	–	125	–	–	125
DAI Deming		–	200	–	–	200
SHI Tiantao	(ii)	–	200	–	–	200
CHIEN Da-chun	(iii)	–	75	–	–	75
		–	600	–	–	600

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

(b) Executive directors and the chief executive

The remuneration of executive directors and the chief executive during the years end 31 December 2020 and 2019 are as follows:

2020

	Note	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
LIANG Haishan		200	2,360	7,134	108	9,802
LI Huagang						
(chief executive)	(v)	151	1,649	5,434	90	7,324
		351	4,009	12,568	198	17,126

2019

	Note	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total 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
		351	2,975	23,233	147	26,706

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

(c) Non-executive directors

The remuneration of non-executive directors during the years end 31 December 2020 and 2019 are as follows:

2020

	Notes	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Non-executive directors:						
TAN Lixia		–	–	6,486	–	6,486
WU Changqi		–	200	–	–	200
LIN Sui	(ix)	–	200	–	–	200
YAN, Andrew Y	(x)	–	188	–	–	188
		–	588	6,486	–	7,074

2019

	Notes	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
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
		–	634	17,022	–	17,656

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

(d) Supervisors

The remuneration of supervisors during the years end 31 December 2020 and 2019 are as follows:

2020

	Notes	Fees RMB'000	Salaries, Bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total RMB'000
WANG Peihua		–	–	265	–	265
MING Guoqing		–	–	179	–	179
YU Miao	(xii)	–	283	–	–	283
		–	283	444	–	727

2019

	Notes	Fees RMB'000	Salaries, Bonuses, allowances and benefits in kind RMB'000	Share-based payment RMB'000	Pension scheme contributions RMB'000	Total 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

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

(d) Supervisors (continued)

Notes:

(i) WU Cheng resigned on 18 June 2019.

(ii) SHI Tiantao resigned on 3 June 2020.

(iii) CHIEN Da-chun appointed on 18 June 2019.

(iv) WONG Hak Kun appointed on 3 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 3 November 2020.

(xi) WANG Yuqing resigned on 8 June 2019.

(xii) YU Miao appointed on 18 June 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 3 directors and one of which is the chief executive (2019: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2019: two) highest paid non-director employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, bonuses, allowances and benefits in kind	**4,378**	3,188
Share-based payment	**25,102**	15,764
Pension scheme contributions	**200**	118
	29,680	19,070

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 2020	 2019
HK$5,500,001 to HK$6,000,000	**—**	1
HK$7,000,001 to HK$7,500,000	**1**	—
HK$16,000,001 to HK$16,500,000	**—**	1
HK$26,500,001 to HK$27,000,000	**1**	—
Total	**2**	2

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 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 consolidated financial statements for the years ended 31 December 2020 and 2019 are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSES

	2020 RMB'M	2019 RMB'M
Current tax		
Charge for the year	**2,116**	1,649
Deferred tax (Note 36)	**116**	(65)
Total tax charge for the year from continuing operations	**2,232**	1,584
Current tax		
Charge for the year		60
Deferred tax (Note 36)		652
Total tax charge for the year from a discontinued operation		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 during the years ended 31 December 2020 and 2019.

Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2019: 16.5%).

Pursuant to the income tax rules and regulations of USA, the companies comprising the Group in USA were liable to the federal corporate tax rate of 21% for the years ended 31 December 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.

10. INCOME TAX EXPENSES (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2020 RMB'M	2019 RMB'M
Profit before tax from continuing operations	**13,555**	10,606
Profit before tax from a discontinued operation	**–**	4,025
	13,555	14,631
Tax at the statutory tax rate	**3,388**	3,656
Lower tax rates enacted by local authorities	**(477)**	(866)
Adjustments in respect of current tax of previous periods	**(460)**	(261)
Tax effect of share of profit or losses to associates	**(351)**	(211)
Tax effect of income not taxable for tax purpose	**(230)**	(164)
Tax effect of expenses not deductible for tax purpose	**269**	128
Tax effect of temporary differences not recognised	**93**	14
Total tax charge for the year	**2,232**	2,296
Total tax charge for the year from continuing operations	**2,232**	1,584
Total tax charge for the year from a discontinued operation	**–**	712

11. DISCONTINUED OPERATION

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group 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 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 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 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 2019.

On 26 July 2019, the Group completed the Asset Swap as further detailed in Notes 2.3 and 4 to Consolidated Financial Statements. As a result, the Bingji Group has since become an associate to the Group and its business is classified as a discontinued operation.

11. DISCONTINUED OPERATION (continued)

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) are presented below:

	Note	Period from 1 January to 25 July 2019 RMB'M
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	10	(47)
Related to remeasurement of fair value	10	(665)
Profit for the year from discontinued operation		3,313
Attributable to:		
Owners of the Company		1,491
Non-controlling interests		1,822
		3,313
Total comprehensive income attributable to owners of the Company:		
— from continued operations		7,260
— from discontinued operations		1,491
		8,751

11. DISCONTINUED OPERATION (continued)

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 to 25 July 2019 RMB'M
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 to 25 July 2019
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 year used in the basic earnings per share calculation (Note 13)	6,381,003,276
Effect of dilutive potential ordinary shares:	
Convertible bond	186,455,019
Weighted average number of ordinary shares used in the diluted earnings per share calculation (Note 13)	6,567,458,295

12. DIVIDENDS

	2020 RMB'M	2019 RMB'M
Proposed final dividend	**3,400**	2,467
Dividend paid during the year	**2,467**	2,235

	2020 RMB	2019 RMB
Dividend proposed per share*	**0.366**	0.375

* The amount represents RMB3.66 for every 10 shares in 2020 (2019: RMB3.75 for every 10 shares).

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 years ended 31 December 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.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings per share are based on:

	2020 RMB'M	2019 RMB'M
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation:		
From continuing operations	**8,877**	6,715
From a discontinued operation	**—**	1,491
	8,877	8,206
Earnings for the purpose of basic earnings per share from continuing operation	**8,877**	6,715
Effect of dilutive potential ordinary shares:		
Interest on convertible and exchangeable bonds, net of tax	**177**	259
Profit for the year attributable to convertible and exchangeable bonds holders	**(370)**	(645)
Earnings for the purpose of diluted earnings per share from continuing operations	**8,684**	6,329

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings per share are based on:

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**6,639,703,600**	6,381,003,276
Effect of dilutive potential ordinary shares:		
Convertible bonds	**10,434,277**	186,455,019
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**6,650,137,877**	6,567,458,295

Note:

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.

14. RELATED PARTY TRANSACTIONS

(a) During the year, in addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with the Group's related parties (and their affiliates):

Relationship	Nature of transactions	2020 RMB'M	2019 RMB'M
Associates	Sale of goods and services	**1,592**	1,566
	Logistics service fees	**–**	23
	Purchase of goods and services	**17,044**	15,841
	Interest income	**158**	94
	Interest expenses	**87**	63
Haier Affiliates (Note (i))	Sale of goods and services	**2,567**	2,634
	Logistics service fees	**–**	51
	Purchase of goods and services	**22,238**	20,120
	Other service fee expenses	**114**	181

The above transactions were conducted in accordance with the terms and conditions mutually agreed by the parties involved.

Note:

(i) Haier Affiliates include Haier Group's associates and subsidiaries and its respective associates.

14. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel (including the directors, chief executive and supervisors of the Company) of the Group.

	2020 RMB'000	2019 RMB'000
Short term employee benefits	**7,323**	6,020
Post-employment benefits	**306**	290
Share-based payment	**20,913**	46,068
Total compensation paid to key management personnel	**28,542**	52,378

Further details of directors' and chief executive's emoluments are included in Note 8 to Consolidated Financial Statements.

The number of non-director and non-chief executive key management personnel whose remuneration fell within the following bands is as follows:

	2020	2019
Number of individuals within the band of $1,000,001–$1,500,000	**1**	—
Number of individuals within the band of $2,000,001–$2,500,000	**1**	—
Number of individuals within the band of $2,500,001–$3,000,000	**—**	1
Number of individuals within the band of $4,000,001–$4,500,000	**—**	1

14. RELATED PARTY TRANSACTIONS (continued)

(c) The Group had the following balances with its related parties as at 31 December 2020 and 2019:

	2020 RMB'M	2019 RMB'M
Balance due from related parties:		
Trade related		
— Associates	**581**	573
— Haier Affiliates	**1,655**	1,503
	2,236	2,076
Balance due from related parties:		
Non-trade related		
— Controlling shareholder	**–**	215
— Associates	**–**	5
— Haier Affiliates	**–**	110
	–	330
Balance due to related parties:		
Trade related		
— Associates	**320**	285
— Haier Affiliates	**6,829**	5,368
	7,149	5,653
Balance due to related parties:		
Non-trade related		
— Haier Affiliates	**–**	190

The non-trade balance due from/to related parties settled upon the listing.

(d) Guarantee

Certain of the Group's loans are guaranteed by:

(i) Haier Group, the controlling shareholder of the Company, approximately RMB Nil as at 31 December 2020 (2019: approximately RMB12,175 million); and

Save as above, all guarantees provided to the Group by the Controlling Shareholder and/or its close associates have been released at the end of the reporting period.

(e) For the transactions constitute connected transactions under Listing Rules, please refer to "Connected Transactions and Continuing Connected Transactions" under "Directors' Report".

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'M	Leasehold improvement RMB'M	Machinery and equipment RMB'M	Motor vehicles RMB'M	Furniture fixture and equipments RMB'M	Construction in progress RMB'M	Total RMB'M
Cost:							
As at 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)
Transfers	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	**141**	**134**	**1,228**	**3**	**125**	**4,697**	**6,328**
Acquisition of subsidiaries	**–**	**–**	**50**	**1**	**–**	**1**	**52**
Disposal of subsidiaries (Note 41)	**(597)**	**(36)**	**(1,150)**	**(11)**	**(171)**	**(147)**	**(2,112)**
Disposals/write-off	**(50)**	**(8)**	**(1,071)**	**(9)**	**(243)**	**–**	**(1,381)**
Transfer from construction in progress	**941**	**13**	**1,843**	**15**	**439**	**(3,285)**	**(34)**
Transfer to investment property (Note 16)	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Exchange realignment	**(262)**	**(6)**	**(998)**	**(5)**	**(59)**	**(93)**	**(1,423)**
As at 31 December 2020	**9,751**	**562**	**23,369**	**151**	**2,341**	**3,597**	**39,771**
Accumulated depreciation and impairment:							
As at 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 year	**497**	**154**	**2,400**	**20**	**337**	**–**	**3,408**
Eliminated on disposal of subsidiaries (Note 41)	**(321)**	**(16)**	**(817)**	**(10)**	**(105)**	**–**	**(1,269)**
Eliminated on disposals/write-off	**(18)**	**(8)**	**(794)**	**(6)**	**(218)**	**–**	**(1,044)**
Reversal of impairment loss	**–**	**–**	**–**	**–**	**–**	**(34)**	**(34)**
Impairment provided for the year	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Exchange realignment	**(65)**	**(4)**	**(440)**	**(3)**	**(18)**	**–**	**(530)**
As at 31 December 2020	**3,136**	**222**	**10,602**	**81**	**914**	**1**	**14,956**
Carrying amounts							
As at 31 December 2020	**6,615**	**340**	**12,767**	**70**	**1,427**	**3,596**	**24,815**
As at 31 December 2019	6,535	369	13,214	77	1,332	2,392	23,919

15. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2020, certain of the Group's land and buildings with an aggregate net book value of approximately RMB858 million (2019: RMB1,173 million), which did not have building ownership certificates registered under the names of the respective subsidiaries of the Company.

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 2020, certain of the Group' s land and buildings with an aggregate carrying amount was RMB Nil (2019: RMB55 million) were pledged to secure bank loans granted to the Group (Note 33).

16. INVESTMENT PROPERTIES

	RMB'M
Cost:	
As at 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 31 December 2020	49
Accumulated depreciation:	
As at 1 January 2019	17
Depreciation provided for the year	2
As at 31 December 2019 and 1 January 2020	19
Depreciation provided for the year	2
As at 31 December 2020	21
Carrying amounts	
As at 31 December 2020	28
As at 31 December 2019	29

The Group's investment properties consist of one commercial property in Hong Kong and three industrial properties in Mainland China as at 31 December 2020 (2019: one commercial property in Hong Kong and two industrial properties in Mainland China).

16. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties at 31 December 2020 was RMB62 million (2019: RMB62 million). The fair value has been arrived at based on a valuation carried out by 青島天和資產評估有限責任公司, independent valuers not connected with the Group.

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 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. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2020		2019	
	Carrying amount RMB'M	**Fair value at Level 3 hierarchy RMB'M**	Carrying amount RMB'M	Fair value at Level 3 hierarchy RMB'M
Investment properties in Hong Kong	**19**	**22**	20	24
Investment properties outside Hong Kong	**9**	**40**	9	38

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Investment property	1.9% to 10.56%

As at 31 December 2020, the Group's investment properties in Mainland China with a carrying amount of approximately RMB7 million (2019: RMB9 million) 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 Consolidated Financial Statements.

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.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'M	Land and building RMB'M	Machinery and equipment RMB'M	Motor vehicles RMB'M	Furniture, fixtures and equipment RMB'M	Total 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	**245**	**855**	**15**	**54**	**75**	**1,244**
Disposals	**(184)**	**(49)**	**(6)**	**(4)**	**–**	**(243)**
Disposal of subsidiaries (Note 41)	**(23)**	**(19)**	**–**	**–**	**–**	**(42)**
Depreciation provided for the year	**(21)**	**(535)**	**(9)**	**(60)**	**(90)**	**(715)**
Exchange realignment	**(3)**	**(121)**	**1**	**1**	**(23)**	**(145)**
As at 31 December 2020	**1,061**	**2,478**	**27**	**105**	**230**	**3,901**

As at 31 December 2020, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB Nil (2019: RMB105 million) did not have land use right certificates registered under the names of the Group. The Group obtained undertakings from Haier Group in relation to this title issue, details of which are set out in Note 15 to Consolidated Financial Statements.

17. LEASES (continued)

The Group as a leasee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	RMB'M
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)
As at 31 December 2019 and 1 January 2020	**2,575**
New leases	**999**
Interest expenses recognised during the year	**123**
Payments	**(728)**
Disposal of subsidiaries (Note 41)	**(23)**
Early Termination	**(83)**
Exchange realignment	**(119)**
As at 31 December 2020	**2,744**
Analysed into:	
As at 31 December 2020	
Current portion	**671**
Non-current portion	**2,073**
	2,744
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 49 to Consolidated Financial Statements.

17. LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss from continuing operations in relation to leases are as follows:

	2020 RMB'M	2019 RMB'M
Interest on lease liabilities	**123**	98
Depreciation charge of right-of-use assets	**693**	644
Expense relating to:		
Short-term leases	**199**	356
Lease of low value assets	**13**	—
Variable lease payments not included in the measurement of lease liabilities	**130**	93
Total amount recognised in profit or loss	**1,158**	1,191

(e) The total cash outflow for leases is disclosed in Note 42(c) to Consolidated Financial Statements.

	2020 RMB'M	2019 RMB'M
Lease liabilities payble:		
Within one year	**691**	661
Within a period of more than one year but not exceeding two years	**577**	494
Within a period of more than two years but not exceeding five years	**458**	443
Within a period of more than five years	**1,402**	1,311
Total minimum lease payment	**3,128**	2,909
Less: total future interest expenses	**(384)**	(334)
	2,744	2,575
Less: Amount due for settlement with 12 months shown under current liabilities	**(671)**	(595)
Amount due for settlement after 12 months shown under non-current liabilities	**2,073**	1,980

The weighted average incremental borrowing rates applied to lease liabilities range from 0.12% to 11.45% (2019:from 0.12% to 10.0%).

17. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (Note 16) consisting of one commercial property in Hong Kong and three industrial properties in Hefei and Dalian, the Mainland China, under operating lease arrangements as at 31 December 2020 ((2019: one commercial property in Hong Kong and two industrial properties in Hefei and Dalian, the Mainland China,). Rental income recognised by the Group was approximately RMB23 million (2019: RMB13 million) for the years ended 31 December 2020, details of which are included in Note 5 to Consolidated Financial Statements.

At the end of the reporting period, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'M	2019 RMB'M
Within one year	**31**	13
In the second to fifth years, inclusive	**18**	19
After five years	**3**	7
	52	39

18. GOODWILL

	2020 RMB'M	2019 RMB'M
Cost:		
As at 1 January	**23,352**	21,239
Acquisition of subsidiaries (Note 40)	**465**	2,061
Disposal of subsidiaries (Note 41)	**(3)**	(285)
Exchange realignment	**(1,296)**	337
As at 31 December	**22,518**	23,352
Net carrying amount	**22,518**	23,352

18. GOODWILL (continued)

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing:

Smart Home Business Overseas segment:

- GE Appliances;
- Haier New Zealand Investment Holding Company Limited ("**HNZ**"); and
- Haier Europe Appliance Solutions S.P.A (Formly know as "**Candy S.p.A**") ("**Candy**")

Other business segment:

- 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:

	2020 **RMB'M**	2019 RMB'M
GE Appliances (Note)	**19,383**	20,725
HNZ (Note)	**509**	509
Candy (Note)	**2,086**	2,032
Lejia IOT (Note)	**448**	—
Other	**92**	86
Net carrying amount	**22,518**	23,352

Note: The recoverable amounts of GE Appliances, HNZ, Candy and Lejia IOT have been determined by using cash flow projections based on financial budgets approved by senior management.

Assumptions were used in the value-in-use calculation of the above cash-generating units as at 31 December 2020 and 2019. 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 2020 and 2019, the management of the Group determines that there is no impairment on goodwill.

18. GOODWILL (continued)

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 2020	**13.08%**	**2.50% to 3.40%**	**2.00%**	**6.91% to 8.18%**	**9.91% to 11.18%**	**RMB13,356**
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

Key assumptions used in the calculation the recoverable amount of HNZ are as follows:

	Pre-tax discount	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2020	**13.55%**	**0.25% to 3.08%**	**2.00%**	**3.90% to 9.13%**	**10.84% to 15.54%**	**RMB288**
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

Key assumptions used in the calculation the recoverable amount of Candy are as follows:

	Pre-tax discount	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2020	**10.41% to 10.42%**	**8.92% to 77.37%**	**2.11%**	**2.80% to 7.14%**	**5.26% to 8.34%**	**RMB924**
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

Key assumptions used in the calculation the recoverable amount of Lejia IOT are as follows:

	Pre-tax discount	Annual growth rate	Terminal growth rate	EBIT rate	EBITDA rate	Headroom (in million)
As at 31 December 2020	**14.89%**	**-5.85% to 8.36%**	**2.50%**	**20.38% to 27.34%**	**20.38% to 27.34%**	**RMB4.72**

18. GOODWILL (continued)

Sensitivity analysis of the recoverable amount are disclosed as below:

	GE Appliances	HNZ	Candy	Lejia IOT
1% (increase)/decrease in discount rate would result in recoverable amount (decrease)/increase by:				
31 December 2020 (in million):	**RMB(4,131)/ 4,960**	**RMB(356)/426**	**RMB(856)/1,093**	**RMB(41)/48**
31 December 2019 (in million):	RMB(4,766)/5,958	RMB(380)/462	RMB(850)/1,105	N/A

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 2020, if the discount rate increase 1%, while other parameters remain constant, the recoverable amount of the GE Appliances, HNZ, Candy and Lejia IOT will reduce approximately RMB4,131 million, RMB356 million, RMB856 million and RMB41 million (2019: approximately RMB4,766 million, RMB380 million and RMB850 million) respectively, and further impairment of goodwill of GE Appliances, HNZ, Candy and Lejia IOT of approximately RMB Nil, RMB80 million, RMB Nil and RMB36 million (2019: approximately RMB Nil, RMB262 million, RMB332 million and N/A) 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 RMB'M	Patents and licences RMB'M	Trademarks RMB'M	Software & Others RMB'M	Total RMB'M
As at 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	**109**	**48**	**—**	**402**	**559**
Acquisition of subsidiaries	**—**	**—**	**—**	**55**	**55**
Disposal of subsidiaries (Note 41)	**—**	**—**	**—**	**(24)**	**(24)**
Disposals	**—**	**—**	**—**	**(8)**	**(8)**
Amortisation provided for the year	**(169)**	**(135)**	**—**	**(625)**	**(929)**
Impairment loss	**—**	**—**	**—**	**(46)**	**(46)**
Exchange realignment	**(10)**	**(226)**	**(8)**	**(46)**	**(290)**
As at 31 December 2020	**971**	**3,447**	**2,714**	**1,825**	**8,957**

The carrying amounts of trademarks allocated to each of cash generating unites of the Group is as follows:

	2020 RMB'M	2019 RMB'M
GE Appliances	**620**	663
HNZ	**608**	612
Candy	**1,486**	1,447
Net carrying amount	**2,714**	2,722

19. OTHER INTANGIBLE ASSETS (continued)

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 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 and Candy, being the cash generating unit of the Group with indefinite useful lives (i.e. trademark) as at 31 December 2020 and 2019 are as follows:

		GE Appliances	HNZ	Candy
	Key parameters on valuation:			
(a)	Annual growth rate			
	31 December 2020:	**6.90%–7.33%**	**8.29%–11.02%**	**9.21%–29.96%**
	31 December 2019:	7.00%	8.33%–8.81%	9.21%–18.19%
(b)	Pre-tax discount rate			
	31 December 2020:	**12.34%**	**18.90%**	**10.25%**
	31 December 2019:	11.22%	18.70%	9.27%
(c)	Terminal growth rate			
	31 December 2020:	**2.00%**	**–%**	**2.11%**
	31 December 2019:	2.00%	–%	1.80%
(d)	Royalty rate			
	31 December 2020:	**1.25%**	**2.50%**	**1.25%**
	31 December 2019:	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.

19. OTHER INTANGIBLE ASSETS (continued)

There was no impairment loss recognised during the years ended 31 December 2020 and 2019.

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 2020 (in million):	**RMB(9)/9**	**RMB(43)/49**	**RMB(271)/351**
31 December 2019 (in million):	RMB(84)/103	RMB(43)/48	RMB(286)/386
Headroom			
31 December 2020 (in million):	**RMB57**	**RMB149**	**RMB1,059**
31 December 2019 (in million):	RMB133	RMB146	RMB1,039

20. INTERESTS IN ASSOCIATES

Details of interests in associates of the Group and the Company is as follow:

	2020 RMB'M	2019 RMB'M
Cost of investments in associates	**14,552**	14,168
Share of post-acquisition profits and other comprehensive income, net of dividends received	**7,144**	6,376
Impairment loss	**(127)**	(83)
	21,569	20,461

20. INTERESTS IN ASSOCIATES (continued)

Particulars of the material associates of the Group are as follows:

Name	Place of incorporation/ registration of business	Paid-up capital or registered capital 'M	Percentage of equity attributable to the Company 2020	2019	Principal activities	Type of legal activity
Haier Group Finance Co., Ltd	Mainland China/ Mainland China	RMB7,000	**42.00%**	42.00%	Financing	Limited liability company

The following table illustrates summarised financial position of Haier Group Finance Co., Ltd information as at 31 December 2020 and 2019 and summarised financial performance information for the years ended 31 December 2020 and 2019 adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

Haier Group Finance Co., Ltd. ("Haier Finance")

	2020 RMB'M	2019 RMB'M
Current assets	**62,750**	61,570
Non-current assets, excluding goodwill	**12,907**	5,906
Current liabilities	**(59,895)**	(52,897)
Non-current liabilities	**(223)**	(268)
Net assets, excluding goodwill	**15,539**	14,311
Reconciliation on to the Group's interest in Haier Finance:		
Net assets of Haier Finance, excluding goodwill	**15,539**	14,311
Proportion of the Group's ownership	**42.00%**	42.00%
The Group's share of net assets of Haier Finance	**6,526**	6,011

20. INTERESTS IN ASSOCIATES (continued)

Haier Group Finance Co., Ltd. ("Haier Finance") (continued)

	2020 RMB'M	2019 RMB'M
Revenue	**2,226**	2,541
Profit for the year	**1,551**	1,720
Other comprehensive (loss)/income	**(23)**	20
Total comprehensive income for the year	**1,528**	1,740
Dividends declared	**126**	126
Share of results of Haier Finance	**651**	722

The following table illustrates the aggregate financial information of the Group's and the Company's associates that are not individually material:

	2020 RMB'M	2019 RMB'M
Share of results of the associates for the year	**969**	687
Share of the associates' other comprehensive (loss)/income	**(315)**	106

	2020 RMB'M	2019 RMB'M
Aggregate carrying amount of the Group's investments in the associates	**15,043**	14,450

The Group's trade receivable and payable balances with the associates are disclosed in Notes 26 and 30 to Consolidated Financial Statements, respectively.

21. EQUITY INVESTMENTS DESIGNATED AT FVTOCI

	2020 RMB'M	2019 RMB'M
Listed equity investments, at fair value:		
— Qingdao East soft Communication Technology Co., Ltd	**13**	11
— Other	**6**	11
Unlisted equity investments, at fair value:		
— SINOPEC Fuel Oil Sales Corporation Limited	**1,118**	1,243
— Haier COSMO IOT Ecosystem Technology Co., Ltd. ("Haier COSMO")	**1,397**	—
— Other	**125**	131
	2,659	1,396

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 48 to Consolidated Financial Statements.

During the year ended 31 December 2020, the Group received dividends in the amount of approximately RMB21 million (2019: RMB39 million) from the above investments.

22. FINANCIAL ASSETS MEASURED AT FVTPL

	2020 RMB'M	2019 RMB'M
Current		
Current portion of wealth management products	**1,862**	198
Foreign currency forward contracts	**105**	85
Investment funds	**114**	—
Investment in other equity instruments	**84**	25
	2,165	308
Non-current		
Non-current portion of wealth management products	**–**	295
	2,165	603

As at 31 December 2020 and 2019, 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

	2020 RMB'M	2019 RMB'M
Current		
Wealth management products	**554**	3,981
Non-current		
Consignment loan	**–**	24
Long-term receivables	**331**	308
	331	332
	885	4,313

As at 31 December 2020 and 2019, 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.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RMB'M	2019 RMB'M
Non-current assets		
Derivative financial instruments	**47**	77
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Current assets		
Foreign currency forward contracts	**52**	17
Forward commodity contract	**26**	2
	78	19
	125	96
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Current liabilities		
Foreign currency forward contracts	**189**	85
Interest rate swaps	**50**	14
	239	99

25. INVENTORIES

	2020 RMB'M	2019 RMB'M
Raw material	**2,670**	2,953
Work in progress	**337**	408
Finished goods	**26,440**	24,868
	29,447	28,229

26. TRADE AND BILLS RECEIVABLES

	2020 RMB'M	2019 RMB'M
Trade receivables	**16,371**	11,461
Less: Allowance for expected credit losses ("ECL")	**(442)**	(445)
Trade receivables, net	**15,929**	11,016
Bills receivables	**14,148**	13,966
Less: Allowance for ECL	**(11)**	(15)
Bills receivables, net	**14,137**	13,951
Total	**30,066**	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 (net of ECL) as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'M	2019 RMB'M
1 to 3 months	**14,097**	9,247
3 months to 1 year	**1,450**	1,276
1 to 2 years	**211**	266
2 to 3 years	**63**	93
Over 3 years	**108**	134
	15,929	11,016

26. TRADE AND BILLS RECEIVABLES (continued)

The movements in the ECL allowance of trade and bills receivables are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**460**	346
Impairment losses, net (Note 6)	**131**	131
Amount written off as uncollectible	**(91)**	(83)
Acquisition of subsidiaries	**–**	120
Disposal of subsidiaries	**(21)**	(57)
Exchange realignment	**(26)**	3
As at 31 December	**453**	460

As at 31 December 2020 and 2019, 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.

26. TRADE AND BILLS RECEIVABLES (continued)

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 2020

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	**2.0%**	**8.3%**	**31.5%**	**41.0%**	**2.7%**
Gross carrying amount (RMB'M)	**15,866**	**230**	**92**	**183**	**16,371**
ECL (RMB'M)	**319**	**19**	**29**	**75**	**442**

As at 31 December 2019

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Average loss rate	3.9%	3.0%	5.3%	4.1%	3.9%
Gross carrying amount (RMB'M)	10,949	274	99	139	11,461
ECL (RMB'M)	426	8	5	6	445

Included in the Group's trade and bills receivables are amounts due from Haier Affiliates approximately RMB1,092 million (2019: RMB859 million) and amounts due from associates approximately RMB471 million (2019: RMB507 million) as at 31 December 2020. 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 Consolidated Financial Statements.

As at 31 December 2020, certain of the Group's bills receivable of approximately RMB12,562 million (2019: RMB12,706 million) were pledged to secure certain of the Group's bills payable (Note 30).

As at 31 December 2020, certain of the Group's trade receivables of approximately RMB1,834 million (2019: RMB396 million) were pledged.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'M	2019 RMB'M
Current		
Dividend receivables (Note a)	**5**	5
Interest receivables (Note a)	**322**	273
Taxes recoverable (Note a)	**2,438**	2,578
Prepayments (Note a)	**765**	1,273
Deposits (Note a)	**118**	3
Other receivables (Note a)	**1,487**	2,228
Right-of-return assets (Note a)	**418**	374
	5,553	6,734
Less: Allowance for ECL	**(341)**	(293)
	5,212	6,441
Non-current		
Long-term prepayments (Note b)	**1,404**	1,423
	6,616	7,864

Notes:

(a) Included in the Group's prepayments, deposits and other receivables are amounts due from Haier Affiliates of approximately RMB563 million (2019: RMB754 million) and amounts due from associates of approximately RMB110 million (2019: RMB71 million) as at 31 December 2020. The balance at 31 December 2020 also included amounts due from controlling shareholders (and their affiliates) of approximately RMB Nil (2019: RMB215 million). 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 2020 were 6.14% (2019: 4.35%). 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 RMB81 million (2019: RMB185 million) as at 31 December 2020. The amounts are unsecured, interest-free and repayable on demand.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The movements in the ECL of prepayments and other receivables are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**293**	243
Impairment losses (Note 6)	**267**	233
Reversal of impairment	**(2)**	—
Amount written off as uncollectible	**(213)**	(179)
Disposal of subsidiaries	**(3)**	(4)
Exchange realignment	**(1)**	—
As at 31 December	**341**	293

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.30% to 0.40% per annum (2019: 0.30% to 0.40% per annum) for the year ended 31 December 2020. The pledged deposits carry interest rate which range from 0.39% to 3.90% per annum (2019: 0.39% to 3.20% per annum) for the year ended 31 December 2020. 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 RMB720 million (2019: RMB1,204 million) have been pledged to secure bills payables (Note 30) as at 31 December 2020 and are therefore classified as current assets.

	2020 RMB'M	2019 RMB'M
Cash and bank balances	**23,577**	20,106
Time deposits	**22,884**	16,073
	46,461	36,179
Less: Cash and bank balances and time deposits pledged for:		
Bills payable (Note 30)	**(720)**	(1,204)
Bank guarantees	**(102)**	(7)
Pledged deposits	**(822)**	(1,211)
Other deposit with limited use:	**(4)**	(5)
Cash and cash equivalents	**45,635**	34,963

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (continued)

As at 31 December 2020, the cash and bank balances and time deposits of the Group, denominated in RMB, amounted to approximately RMB34,508 million (2019: RMB26,505 million). 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 RMB24,958 million (2019: RMB16,566 million) placed with Haier Finance, as at 31 December 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 0.39% to 3.90% per annum (2019: 0.39% to 3.20% per annum) for the year ended 31 December 2020. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in Note 14 to Consolidated Financial Statements.

29. ASSET AND DISPOSAL GROUP HELD FOR SALE AND ASSOCIATED LIABILITIES

	2020 **RMB'M** **(Note (b))**	2019 RMB'M (Note (a))
Assets	**17**	21

Notes:

(a) 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.

(b) During the year ended 31 December 2020, the assets held for sale are mainly included Qingdao Hairer Information Plastic & Rubber Manufacture Co., Ltd. and Qingdao Household Appliance Technological Equipment Institute signed a demolition compensation agreement, with the fair value of approximately RMB13 million in total, with the local government with regards to certain land use rights with the local government. The land use right has been classified as disposal group held for sale and are presented separately in the consolidated statement of financial position.

30. TRADE AND BILLS PAYABLES

	2020 **RMB'M**	2019 RMB'M
Trade payables	**36,303**	33,751
Bills payables	**21,236**	19,308
	57,539	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:

	2020 **RMB'M**	2019 RMB'M
Within 1 year	**57,065**	52,492
1 to 2 years	**96**	169
2 to 3 years	**96**	156
Over 3 years	**282**	242
	57,539	53,059

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 and bills payables are amounts due to Haier Affiliates of approximately RMB4,076 million and RMB5,248 million and amounts due from an associate of approximately RMB268 million and RMB316 million as at 31 December 2019 and 2020 respectively. Further details of the purchases from these related parties are set out in Note 14 to Consolidated Financial Statements.

As at 31 December 2020, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to approximately RMB720 million (2019: approximately RMB1,204 million) (Note 28) and the Group's bills receivable amounting to approximately RMB12,562 million (2019: approximately RMB12,706 million) (Note 26).

31. OTHER PAYABLES AND ACCRUALS

	2020 RMB'M	2019 RMB'M
Other payables and accruals	**20,384**	17,491
Refund liabilities:		
Volume rebate	**1,548**	1,695
Sales return	**505**	459
Deferred income (Note 35(a))	**82**	81
	22,519	19,726

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 RMB1,581 million (2019: RMB1,482 million) and amounts due to associates of approximately RMB4 million (2019: RMB17 million) as at 31 December 2020. All of these amounts are unsecured, interest-free and repayable on demand.

32. CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

	2020 RMB'M	2019 RMB'M
Current:		
Retention for rendering service	**263**	427
Impairment of contract assets	**–**	(4)
	263	423

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.

32. CONTRACT ASSETS/CONTRACT LIABILITIES (continued)

(b) 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 contract liabilities are analysed as follows:

	2020 RMB'M	2019 RMB'M
Receipt in advance/contract liabilities		
Sale of goods	**7,044**	5,582
Rendering of services	**5**	1
As at 31 December	**7,049**	5,583

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.

	2020 RMB'M	2019 RMB'M
Contract liabilities		
As at 1 January	**5,583**	5,533
Consideration received from customers over the amounts of revenue recognised	**7,117**	5,506
Less:		
Revenue recognised that was included in the contract during the year	**(5,651)**	(5,456)
As at 31 December	**7,049**	5,583

There were contract liabilities of approximately RMB4,013 million (2019: RMB5,456 million brought forward from the prior year and recognised during the year ended 31 December 2020 as revenue from continuing operations from sales of goods and rendering of services.

33. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	2020 RMB'M	2019 RMB'M
Current		
Bank loans — unsecured	**12,171**	5,286
Bank loans — secured	**472**	8,029
	12,643	13,315
Non-current		
Bank loans — unsecured	**11,858**	8,878
Bank loans — secured	**—**	4,492
	11,858	13,370
	24,501	26,685
Unsecured	**24,029**	14,164
Secured	**472**	12,521
	24,501	26,685
Analysed into:		
Loans repayable:		
Within one year or on demand	**12,643**	13,315
In the second year	**6,814**	6,599
In the third to fifth years, inclusive	**5,044**	6,723
Beyond five years	**—**	48
	24,501	26,685
Effective interest rate		
Current:		
Bank loans — unsecured	**0.50% to 12.50%**	0.45% to 11.95%
Bank loans — secured	**0.13% to 5.85%**	0.17% to 4.62%
Non-current:		
Bank loans — unsecured	**0.85% to 7.50%**	0.80% to 3.61%
Bank loans — secured	**N/A**	0.52% to 3.60%

33. INTEREST-BEARING BORROWINGS (continued)

As at 31 December 2020 and 2019, the Group's interest-bearing borrowings were denominated in the following currencies:

	2020 RMB'M	2019 RMB'M
United States dollar	**12,848**	14,033
Renminbi	**363**	2,055
Other currencies	**11,290**	10,597
	24,501	26,685

Included in the Group's interest-bearing borrowings of approximately RMB454 million and RMB1,884 million and were borrowed from Haier Finance as at 31 December 2020 and 2019 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 1.6% to 3.5% and 2.70% to 4.62% per annum for the years ended 31 December 2020 and 2019 respectively. Further details of the interest expense attributable to the interest-bearing borrowings placed with Haier Finance are set out in Note 14.

Certain of the Group's loans are guaranteed by:

(i) Haier Group, the controlling shareholder of the Company, approximately RMB Nil as at 31 December 2020 (2019: RMB12,175 million); and

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 2020 of approximately RMB Nil (2019: approximately RMB55 million); and

(ii) pledge of the Group's trade and bills receivables totalling approximately RMB552 million as at 31 December 2020 (2019: approximately RMB212 million).

34. PROVISIONS

	2020 RMB'M	2019 RMB'M
Product warranties	**2,911**	3,058
Legal claim	**32**	20
Others	**381**	313
	3,324	3,391
Portion classified as current liabilities	**(1,881)**	(1,992)
Non-current portion	**1,443**	1,399

The movements in product warranties are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**3,058**	2,827
Additional provision (Note 6)	**4,724**	5,078
Acquisition of subsidiaries	**—**	172
Amounts utilised during the year	**(4,828)**	(5,035)
Exchange realignment	**(43)**	16
As at 31 December	**2,911**	3,058

34. PROVISIONS (CONTINUED)

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:

	2020 RMB'M	2019 RMB'M
As at 1 January	**20**	20
Additional provision	**11**	2
Amounts utilised during the year	**–**	(1)
Exchange realignment	**1**	(1)
As at 31 December	**32**	20

35. DEFERRED INCOME/PUT OPTION LIABILITIES

(a) Deferred Income

The movement of deferred income is set out below:

	2020 RMB'M	2019 RMB'M
As at 1 January	**709**	645
Compensation received during the year	**296**	203
Credit to profit or loss	**(372)**	(109)
Exchange realignment	**–**	(30)
As at 31 December	**633**	709
Less: Current portion included in other payables and accruals (Note 31)	**(82)**	(81)
Non-current portion	**551**	628

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 statement 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.

35. DEFERRED INCOME/PUT OPTION LIABILITIES (continued)

(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.

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 unable observed in the market; as a result, the Company determined the fair vale measurement is a third-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.

36. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the years ended 31 December 2020 and 2019 are as follows:

Deferred tax assets

	Provisions RMB'M	Accruals and payables RMB'M	Unrealised profits RMB'M	Others RMB'M	Total RMB'M
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 credited to the statement of profit or loss during the year, net	**50**	**116**	**21**	**308**	**495**
Disposal of subsidiaries (Note 41)	**(6)**	**(9)**	**—**	**—**	**(15)**
Exchange realignment	**—**	**—**	**—**	**13**	**13**
As at 31 December 2020	**374**	**1,747**	**669**	**1,169**	**3,959**

36. DEFERRED TAX (continued)

Deferred tax liabilities

	Withholding taxes RMB'M	Differences of depreciation and amortisation RMB'M	Others RMB'M	Total RMB'M
As at 1 January 2019	78	1,119	208	1,405
Deferred tax charged to the statement of profit or loss during the year, net	—	263	730	993
Deferred tax credited 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 charged to the statement of profit or loss during the year, net	**16**	**336**	**259**	**611**
Deferred tax charged to the statement of other comprehensive income during the year	**—**	**—**	**15**	**15**
Disposal of subsidiaries (Note 41)	**—**	**(1)**	**(15)**	**(16)**
As at 31 December 2020	**94**	**2,366**	**1,191**	**3,651**

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:

	2020 RMB'M	2019 RMB'M
Net deferred tax assets recognised in the consolidated statement of financial position	**2,208**	1,579
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(1,900)**	(1,154)
Net deferred tax assets	**308**	425

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.

36. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

As at 31 December 2020, the Group has recognised deferred tax liabilities of approximately RMB94 million (2019: RMB78 million) in relation to withholding taxes for the earnings of the Mainland China subsidiaries to be remitted in the foreseeable future.

37. SHARE CAPITAL

The movements of the Company's issued share capital during the years ended 31 December 2020 and 2019 are as follows:

	Number of shares 'M	Share capital RMB'M
As at 1 January 2019	6,369	6,369
Converted convertible bonds to shares (Note a)	211	211
As at 31 December 2019 and 1 January 2020	**6,580**	**6,580**
Issue of shares (Note b)	**2,448**	**2,448**
As at 31 December 2020	**9,028**	**9,028**

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 45 to Consolidated Financial Statements.

(b) The Company has applied to and approved by the Stock Exchange for the listing of, and permission to deal in, 2,448,279,814 H Shares on the Stock Exchange on 22 December 2020.

(c) Up to 16 November 2020, the privatisation of HEG and the listing of the Company by way of Introduction have been completed. Upon the privatisation scheme become effective, Haier Electronics has become a wholly-owned subsidiary of the Company.

(d) All shares issued are at par value at RMB1.

38. SHARE-BASED PAYMENTS TRANSACTIONS

The Group operates share award schemes, which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the share award schemes, the Group may purchase the scheme shares in the open market and hold the purchased shares in the share award schemes 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.

(a) Haier Smart Home Co., Ltd. Share Award Scheme

The Company operates share award schemes ("**HSH SAS**") as approved by the Board on 28 April 2016 (the "**No. 1 HSH SAS**"), 27 February 2017 (the "**No. 2 HSH SAS**"), 24 April 2018 (the "**No. 3 HSH SAS**") and 29 April 2019 (the "**No. 4 HSH SAS**", together with the No. 1 HSH SAS, No. 2 HSH SAS and No. 3 HSH SAS, 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 Share Award Schemes are funded by the internal incentive funds established by the Company. 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.

The duration of each Share Award Scheme shall not exceed 60 months for the No. 1 HSH SAS and No. 2 HSH SAS and 36 months for the No. 3 HSH SAS Scheme and No. 4 HSH SAS (the "**Duration**"), commencing from the time when the 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.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(a) Haier Smart Home Co., Ltd. Share Award Scheme (continued)

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. 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).

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(a) Haier Smart Home Co., Ltd. Share Award Scheme (continued)

The following table discloses movements of the Scheme during 31 December 2020:

Option type	Outstanding at 1/1/2020	Allotted during year	Outstanding at 31/12/2020
No. 1 HSH SAS	**1,783,038**	**—**	**1,783,038**
No. 2 HSH SAS	**1,854,568**	**—**	**1,854,568**
No. 3 HSH SAS	**10,194,631**	**(4,640,815)**	**5,553,816**
No. 4 HSH SAS	**16,656,778**	**(5,386,118)**	**11,270,660**
	30,489,015	**(10,026,933)**	**20,462,082**

The following table discloses movements of the Scheme during 31 December 2019:

Option type	Outstanding at 1/1/2019	Granted during year	Allotted during year	Outstanding at 31/12/2019
No. 1 HSH SAS	1,960,850	—	(177,812)	1,783,038
No. 2 HSH SAS	14,103,181	—	(12,248,613)	1,854,568
No. 3 HSH SAS	16,063,800	—	(5,869,169)	10,194,631
No. 4 HSH SAS	—	16,656,778	—	16,656,778
	32,127,831	16,656,778	(18,295,594)	30,489,015

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(a) Haier Smart Home Co., Ltd. Share Award Scheme (continued)

The exercise prices and exercise periods/vesting periods of the awarded shares outstanding as at 31 December 2020 and 2019 are as follows:

2020			**2019**		
Number of awarded shares	**Exercise price per share RMB**	**Exercise period#**	Number of awarded shares	Exercise price per share RMB	Exercise period#
1,783,038	**–**	**30/11/2016– 29/11/2017**	1,783,038	–	30/11/2016– 29/11/2017
1,854,568	**–**	**29/03/2017– 28/03/2018**	1,854,568	–	29/03/2017– 28/03/2018
5,553,816	**–**	**23/05/2018– 22/05/2019**	10,194,631	–	23/05/2018– 22/05/2019
11,270,660	**–**	**17/07/2019– 16/07/2020**	16,656,778	–	17/07/2019– 16/07/2020

The weighted average share price at the dates of exercise for awarded shares exercised during the year was RMB16.23 (2019: RMB16.72) per share.

In respect of the awarded shares granted in the prior years, a Share Award Schemes expense of approximately RMB101 million (2019: approximately RMB270 million) was recognised during the year ended 31 December 2020.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(b) Haier Electronics Group Co., Ltd ("HEG") Restricted Share Award Scheme

As at the end of the reporting period, the number of ordinary shares held for the restricted share award scheme was Nil (2019: 5,353,091) with an aggregate carrying amount of RMB Nil (2019: RMB63,150,000).

	2020		2019	
	Weighted average exercise price per share HK$	Number of awarded shares	Weighted average exercise price per share HK$	Number of awarded shares
At 1 January	0.05	19,803,282	0.05	20,006,540
Granted during the year	—	—	—	11,509,100
Forfeited/lapsed during the year	—	(4,553,733)	—	(2,583,460)
Exercised during the year	—	(15,249,549)	—	(9,128,898)
At 31 December	0.05	—	0.05	19,803,282

The weighted average share price at the dates of exercise for awarded shares exercised during the year was HK$32.90 (2019: HK$19.02) per share.

As at 31 December 2020, upon the completion of the privatisation proposal, HEG delisted from the Main Board of the Stock Exchange, the corresponding HEG Shares have been vested with the grantees and no further HEG Share Awards granted.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(b) Haier Electronics Group Co., Ltd ("HEG") Restricted Share Award Scheme (continued)

The exercise prices and exercise periods/vesting periods of the awarded shares outstanding as at 31 December 2019 are as follows:

Number of awarded shares	2019 Exercise price per share* HK$	Exercise period#
148,400	6.42	08/07/2016—07/07/2020
138,920	—	08/07/2016—01/07/2020**
1,441,400	—	03/03/2017—01/07/2020**
—	—	29/05/2017— 01/07/2019
627,078	—	05/07/2018—01/07/2020
135,800	—	12/07/2018—01/07/2020
5,802,584	—	17/09/2018—01/07/2020
10,450,000	—	09/10/2019—01/07/2021
1,059,100	—	24/12/2019—01/07/2021
19,803,282		

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

\# The restricted shares will become exercisable once they are vested.

** The vesting period has been extended to 1 July 2020.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(b) Haier Electronics Group Co., Ltd ("HEG") Restricted Share Award Scheme (continued)

The fair values of the awarded shares granted during the year ended 31 December 2019 were approximately RMB193 million and RMB23 million (RMB18.46 and RMB21.87 each), of which the Group recognised a restricted share award scheme expense of approximately RMB35 million during the year ended 31 December 2019.

In respect of the awarded shares granted in the prior years, a restricted share award scheme expense of RMB168 million (2019: RMB86 million) was recognised during the year ended 31 December 2020.

(c) HEG Share Option Scheme

The HEG operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the operations. Eligible participants of the share option scheme include any employee, executive or officer (including executive, non-executive and independent non-executive directors of the HEG) and any suppliers, consultants, agents, advisers, shareholders, customers, partners or business associates who, in the opinion of the board of directors of the HEG, have contributed to the Group. The HEG current share option scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the date of this report, the share option scheme had a remaining life of around one year.

The maximum number of shares in respect of which options may be granted under the share option scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the HEG, must not exceed 10% of the issued share capital of the HEG as at the date of adoption of the share option scheme. The maximum number of shares issuable upon exercise of the options granted under the share option scheme and any other share option scheme(s) of the HEG (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the HEG in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the HEG (and if required, the holding company) and the shareholders' approval of the HEG (and if required, the approval of the shareholders of the holding company) in a general meeting.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(c) HEG Share Option Scheme (continued)

Share options granted to a director, chief executive or substantial shareholder of the HEG, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the HEG (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the HEG and the holding company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the HEG, or to any of their respective associates, in excess of 0.1% of the shares of the HEG in issue as at the date of grant and with an aggregate value (based on the closing price of the shares of the HEG as at the date of grant) in excess of HK$5,000,000, within any 12-month period, is subject to the issue of a circular by the HEG (and if required, the holding company) and the shareholders'approval of the HEG (and if required, the approval of the shareholders of the holding company) in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of RMB1 or HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the share option scheme, whichever is earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the shares of the HEG as stated in the daily quotation sheet of the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average of the closing prices of the shares of the HEG as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the HEG.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

38. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

(c) HEG Share Option Scheme (continued)

The following share options were outstanding under the share option scheme during the year:

	2020		2019	
	Weighted average exercise price per share HK$	Number of awarded shares	Weighted average exercise price per share HK$	Number of awarded shares
At 1 January	12.84	1,871,400	12.84	2,454,855
Exercised during the year	12.84	(1,548,200)	12.84	(583,455)
Forfeited/lapsed during the year	12.84	(323,200)	—	—
At 31 December	12.84	—	12.84	1,871,400

The weighted average share price at the date of exercise for share options exercised during the year was HK$19.97 (2019: HK$21.99) per share.

During the year ended 31 December 2020, no share options outstanding as at the end of the reporting period.

The exercise price and exercise period of the share options outstanding as at 31 December 2019 are as follows:

Number of awarded shares	2019 Exercise price per share* RMB	Exercise period
1,871,400	12.84	10/5/2016—10/5/2020

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the HEG's share capital.

The 583,455 share options exercised during the year 31 December 2019 resulted in the issue of 583,455 ordinary shares of the HEG and new share capital of HK$7,492,000 (equivalent to RMB6,597,000) (before issue expense).

At the end 31 December 2019, the HEG had 1,871,400 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the HEG, result in the issue of 1,871,400 additional ordinary shares of the HEG and additional share capital of HK$187,000 (equivalent to RMB167,000) and share premium of HK$23,842,000 (equivalent to RMB21,315,000) (before issue expenses).

39. RESERVES AND NON-CONTROLLING INTERESTS

(a) Reserves

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2020 and 2019 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

(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.

(iv) The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

(v) Fair value reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income ("**FVTOCI**") under HKFRS 9 that are held at the end of the reporting period.

39. RESERVES AND NON-CONTROLLING INTERESTS (continued)

(b) Non-controlling interests

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 RMB'M	Accumulated non-controlling interests RMB'M
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

Haier Electronics Group Co., Ltd is listed on the stock exchange of Hong Kong. Although the Group has only 45.87% ownership in Haier Electronics Group Co., Ltd as at 31 December 2019, 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 54.13% ownership interests in Haier Electronics Group Co., Ltd as at 31 December 2019 are owned by thousands of shareholders that are unrelated to the Group, none individually holding more than 1%.

39. RESERVES AND NON-CONTROLLING INTERESTS (continued)

(b) Non-controlling interests (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

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")

	2019 RMB'M
Current assets	35,533
Non-current assets	14,525
Current liabilities	(19,012)
Non-current liabilities	(1,407)
Equity attributable to owners of HEG	29,221
Non-controlling interests	418

	2019 RMB'M
Revenue	75,880
Expenses	(68,362)
Profit for the year	7,518
Profit attributable to:	
owners of HEG	7,351
non-controlling interest	167
Profit for the year	7,518

39. RESERVES AND NON-CONTROLLING INTERESTS (continued)

(b) Non-controlling interests (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Haier Electronics Group Co., Ltd ("HEG") (continued)

	2019 RMB'M
Other comprehensive income for the year	91
Total comprehensive income attributable to:	
owners of HEG	7,394
non-controlling interest	215
Total comprehensive income for the year	7,609
Dividends paid to non-controlling interests of HEG	4,705
Net cash inflow from operating activities	4,705
Net cash outflow from investing activities	(3,325)
Net cash outflow from financing activities	(1,602)
Net cash outflow in cash and cash equivalents	(222)

(c) Acquisition of non-controlling interest

During the year ended 31 December 2020, the Company issue H shares to scheme shareholders pursuant to the scheme of arrangement in December 2020, and a corresponding decrease in non-controlling interest's share of net assets in December 2020 after deduction of the related expenses.

(d) Cash payment paid to scheme shareholders under the privatisation proposal

During the year ended 31 December 2020, upon the completion of the privatisation and the scheme becoming unconditional and effective, the payment of approximately HK$2,984 million (equivalent to approximately RMB2,513 million based on the exchange rate of HK$1.00 to RMB0.8421) is calculated based on the total number of schemes share of 1,530,174,884 at HK$1.95 per scheme share payable in cash to the scheme shareholders.

40. BUSINESS COMBINATIONS

(a) 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

40. BUSINESS COMBINATIONS (continued)

(a) Candy (continued)

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.

(b) Shanghai Feisheng International Logistics Co., Ltd. ("Feisheng Logistics")

On 12 April 2019, the Group made a capital contribution of approximately RMB22 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.

40. BUSINESS COMBINATIONS (continued)

(b) Shanghai Feisheng International Logistics Co., Ltd. ("Feisheng Logistics") (continued)

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.

40. BUSINESS COMBINATIONS (continued)

(b) Shanghai Feisheng International Logistics Co., Ltd. ("Feisheng Logistics") (continued)

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.

40. BUSINESS COMBINATIONS (continued)

(c) 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	(71)
Contract liabilities	(20)
Interest-bearing borrowings	(1)
Tax payable	(1)
Deferred income	(2)
Provision for pensions and similar obligation	(4)
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

40. BUSINESS COMBINATIONS (continued)

(c) Lejia IOT (continued)

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 RMB236 million to the Group's revenue and approximately RMB40 million profit for the year ended 31 December 2020.

41. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2020, the Group disposed certain of subsidiaries. One of the disposals was related that the Group disposed 54.50% shares of Haier COSMO on 29 September 2020. The net assets of Haier COSMO and remaining disposed subsidiaries ("**Others**") at the date of disposal were as follows:

Details of disposal of subsidiaries during the year ended 31 December 2020 are as follow:

	Haier COSMO RMB'M	Others RMB'M	Total RMB'M
Net assets disposed of:			
Property, plant and equipment	702	141	843
Right-of-use assets	42	—	42
Goodwill	—	3	3
Other intangible assets	20	4	24
Interest in associates	204	—	204
Equity investments designated at FVTOCI	9	—	9
Financial assets measured at amortised cost	926	—	926
Deferred tax assets	12	3	15
Other non-current assets	81	—	81
Inventories	1,542	40	1,582
Trade and bills receivables	3,542	19	3,561
Prepayments, deposits and other receivables	2,083	5	2,088
Cash and bank balances	2,820	—	2,820
Trade and bills payables	(4,259)	(14)	(4,273)
Other payables and accruals	(460)	(17)	(477)
Contract liabilities	(1,082)	—	(1,082)
Interest-bearing borrowings	(1,208)	(81)	(1,289)
Lease liabilities	(23)	—	(23)
Tax payable	(30)	(1)	(31)
Deferred income	(227)	(3)	(230)
Deferred tax liabilities	(8)	(8)	(16)
Provisions for pensions and similar obligations	(3)	—	(3)
Others	(13)	2	(11)
Non-controlling interests	(1,225)	(52)	(1,277)
	3,445	41	3,486
Gain on disposal of subsidiaries, net	2,267	(6)	2,261
	5,712	(35)	5,747

41. DISPOSAL OF SUBSIDIARIES (continued)

	Haier COSMO RMB'M	Others RMB'M	Total RMB'M
Satisfied by:			
Cash	4,060	35	4,095
Equity investments designated at FVTOCI	1,397	—	1,397
Interests in associates	255	—	255
	5,712	35	5,747

An analysis of the net cash and cash equivalents receivable in respect of the material disposal of subsidiaries is as follows:

	Haier COSMO RMB'M	Others RMB'M	Total RMB'M
Cash consideration	4,060	35	4,095
Cash and bank balance disposed of	(2,820)	—	(2,820)
Net cash and cash equivalents receivable in respect of the disposal of subsidiaries	1,240	35	1,275

41. DISPOSAL OF SUBSIDIARIES (continued)

Details of disposal of subsidiaries during the year ended 31 December 2019 are as follow:

	2019 RMB'M
Net assets disposed of:	
Property, plant and equipment	2,091
Right-of-use assets	2,053
Goodwill	285
Other intangible assets	56
Long-term prepayments	76
Deferred tax assets	59
Trade and bills receivables	2,216
Prepayments, deposits and other receivables	473
Pledged deposits	7
Cash and bank balances	938
Other financial assets	2,074
Asset and disposal group held for sale	124
Trade and bills payables	(2,096)
Other payables and accruals	(775)
Contract liabilities	(58)
Interest-bearing borrowings	(12)
Lease liabilities	(1,023)
Tax payable	(82)
Liabilities directly associated to the assets classified as held for sale	(14)
Deferred income	(88)
Deferred tax liabilities	(4)
Put option liabilities	(1,771)
Non-controlling interests	(1,904)
	2,625
Loss on disposal of subsidiaries, net	(2)
Gain recognised on the remeasurement of fair value of the discontinued operation	3,191
Gain recognised on disposal of the discontinued operation	637
	6,451

41. DISPOSAL OF SUBSIDIARIES (continued)

	2019 RMB'M
Satisfied by:	
Cash	1
Interests in associates	5,376
Deemed distributions for business combination under common control	1,074
	6,451

An analysis of the net cash and cash equivalents payable in respect of the material disposal of subsidiaries is as follows:

	2019 RMB'M
Cash consideration	1
Cash and bank balance disposed of	(938)
Net cash and cash equivalents receivable/(payable) in respect of the disposal of subsidiaries	(937)

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets of approximately RMB999 million (2019: RMB1,533 million) and lease liabilities of approximately RMB999 million (2019: RMB1,469 million), in respect of lease arrangements for land and building, machinery and equipment, motor vehicles and furniture, fixtures and equipments.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

	Other payables and accruals in relation to financing activities RMB'M	Interest-bearing borrowings RMB'M	Lease liabilities RMB'M	Convertible and exchangeable bonds RMB'M	Bond RMB'M
As at 1 January 2019	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 paid and payable	1,364	—	125	274	—
Amounts reclassified as held for sale	—	11	—	—	—
Disposal of subsidiaries	(22)	(12)	(1,023)	—	—
Dividends 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	**(6,805)**	**(277)**	**(728)**	**(6)**	**5,500**
Foreign exchange movement	**(64)**	**(619)**	**(119)**	**(433)**	**—**
New leases	**—**	**—**	**999**	**—**	**—**
Early Termination	**—**	**—**	**(83)**	**—**	**—**
Acquisition of subsidiaries	**13**	**1**	**—**	**—**	**—**
Interest paid and payable	**990**	**—**	**123**	**177**	**35**
Conversion of convertible bonds	**—**	**—**	**—**	**(29)**	**—**
Disposal of subsidiaries	**—**	**(1,289)**	**(23)**	**—**	**—**
Dividends payable to the shareholders	**2,467**	**—**	**—**	**—**	**—**
Dividends payable to non-controlling interests	**3,333**	**—**	**—**	**—**	**—**
As at 31 December 2020	**127**	**24,501**	**2,744**	**6,714**	**5,535**

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

	2020 RMB'M	2019 RMB'M
Within operating activities	**(342)**	(448)
Within financing activities	**(728)**	(894)
	(1,070)	(1,342)

43. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'M	2019 RMB'M
Foreign currency forward contracts	**27**	43

44. 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.

45. CONVERTIBLE AND EXCHANGEABLE BONDS

On 21 November 2017, Harvest International Company (the "**Issuer**"), an indirect wholly-owned subsidiary of the Company, issued the HK$8,000 million five-year Zero Coupon Guaranteed Exchangeable Bonds due on 21 November 2022 (the "**HSH Exchangeable Bonds ("EB")**") 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 of Haier Electronics Group Co. Ltd (the "**HEG**") 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 privatization of HEG, 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, the Company has proposed to amend the HSH Exchangeable Bonds Terms and Conditions, such that, subject to the satisfaction of certain conditions precedent, after listing of the H shares of the Company on 23 December 2020, the HSH Exchangeable Bonds will not be exchangeable into the HEG Shares but will instead be convertible into the H Shares of the Company (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". As at the balance sheet date, HK$7,993 million in aggregate principal amount of the HSH Convertible Bonds remains outstanding. The initial conversion price per share of the HSH Convertible Bonds was approximately HK$19.5961. Subsequent to the balance sheet date, in accordance with the HSH Convertible Bonds ("**CB**") Terms and Conditions, the conversion price per share has been adjusted to approximately HK$18.8369.

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 ("**CEB**") 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.

45. CONVERTIBLE AND EXCHANGEABLE BONDS (continued)

The fair value of the CEB on the issuance date were recognised into as follows:

	2020 RMB'M	2019 RMB'M
Liability component	**6,747**	6,300
Equity component (Note 39(a)(ii), note)	**2,365**	431
	9,112	6,731

Note:

During the year ended 31 December 2020, the Group exchanged from CEB with amounted to approximately RMB431 million to CB with amounted to approximately RMB2,365 million, the net effect on capital reverse was RMB1,937 million. The difference of approximately RMB3 million between the exchanges of CEB to CB and capital reserve has been recognised to retained earnings.

The movement of the liability component of CEB is as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**7,005**	9,192
Recognise CB	**6,741**	—
Interest expense	**177**	274
Exercise of CEB	**—**	(2,605)
Derecognise CEB	**(6,770)**	—
Redemption of CEB	**(6)**	(9)
Exchange realignment	**(433)**	153
As at 31 December	**6,714**	7,005

46. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the interest-bearing borrowings, lease liabilities, bonds and CEB disclosed in notes 33, 17(b), 44 and 45 respectively, net assets of the Group, comprising issued share capital, retained profits and other reserves.

The gearing ratio at the end of the reporting period was as follows:

	2020 RMB'M	2019 RMB'M
Debt (i)	**39,494**	36,265
Equity (ii)	**68,111**	64,990
Net debt to equity ratio	**58.0%**	55.8%

(i) Debt is defined as long and short-term interest-bearing borrowings, lease liabilities, bonds and CEB as detailed in notes 33, 17(b), 44 and 45.

(ii) Equity includes all capital and reserves of the Group.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

Financial assets

31 December 2020

	Financial assets at FVTPL RMB'M	Financial assets at FVTOCI RMB'M	Derivative designated as hedges RMB'M	Financial assets measured at amortised cost RMB'M	Total RMB'M
Equity investments designated at FVTOCI	–	2,659	–	–	2,659
Trade and bills receivables	–	14,137	–	15,929	30,066
Financial assets included in deposit and other receivables	–	–	–	3,911	3,911
Financial assets at FVTPL	2,165	–	–	–	2,165
Financial assets measured at amortised cost	–	–	–	885	885
Derivative financial instruments	47	–	78	–	125
Pledged deposits	–	–	–	822	822
Other deposits with limited use	–	–	–	4	4
Cash and cash equivalents	–	–	–	45,635	45,635
	2,212	16,796	78	67,186	86,272

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

31 December 2019

	Financial assets at FVTPL RMB'M	Financial assets at FVTOCI RMB'M	Derivative designated as hedges RMB'M	Financial assets measured at amortised cost RMB'M	Total RMB'M
Equity investments designated at FVTOCI	—	1,396	—	—	1,396
Trade and bills receivables	—	13,951	—	11,016	24,967
Financial assets included in deposit and 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	77	—	19	—	96
Pledged deposits	—	—	—	1,211	1,211
Other deposits with limited use	—	—	—	5	5
Cash and cash equivalents	—	—	—	34,963	34,963
	680	15,347	19	56,299	72,345

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

31 December 2020

	Financial liabilities measured at FVTPL RMB'M	Derivative designated as hedges RMB'M	Financial liabilities measured at amortised cost RMB'M	Total RMB'M
Trade and bills payables	—	—	57,539	57,539
Financial liabilities included other payables and accruals	—	—	20,384	20,384
Financial liabilities at FVTPL	27	—	—	27
Derivative financial instruments	—	239	—	239
Interest-bearing borrowings	—	—	24,501	24,501
CB	—	—	6,714	6,714
Other non-current liabilities	—	—	89	89
Bonds	—	—	5,535	5,535
Lease liabilities	—	—	2,744	2,744
	27	239	117,506	117,772

31 December 2019

	Financial liabilities measured at FVTPL RMB'M	Derivative designated as hedges RMB'M	Financial liabilities measured at amortised cost RMB'M	Total RMB'M
Trade and bills payables	—	—	53,059	53,059
Financial liabilities included other payables and accruals	—	—	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

48. 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 and bills 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. As 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 those charged with governance 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 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, and price-to-book ("**P/B**") 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 unlisted equity investments which was designated at FVTPL, 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, 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 profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(c) The fair values of put option liabilities have been estimated using the discounted cash flow model by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, or by the combination of the discounted cash flow model and the Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates.

The Group invests in unlisted investments, which represent wealth management products included in 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 2020 and 2019.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

31 December 2020

	Level 1 RMB'M	Level 2 RMB'M	Level 3 RMB'M	Total RMB'M
Equity investments designated at FVTOCI	19	—	2,640	2,659
Bills receivables	—	14,137	—	14,137
Financial assets at FVTPL	114	1,967	84	2,165
Derivative financial instruments	—	125	—	125
	133	16,229	2,724	19,086

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Assets measured at fair value (continued)

31 December 2019

	Level 1 RMB'M	Level 2 RMB'M	Level 3 RMB'M	Total 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	—	96	—	96
	22	14,625	1,399	16,046

Liabilities measured at fair value

31 December 2020

	Level 1 RMB'M	**Level 2 RMB'M**	**Level 3 RMB'M**	**Total RMB'M**
Financial liabilities at FVTPL	**—**	**27**	**—**	**27**
Derivative financial instruments	**—**	**239**	**—**	**239**
	—	**266**	**—**	**266**

31 December 2019

	Level 1 RMB'M	Level 2 RMB'M	Level 3 RMB'M	Total RMB'M
Financial liabilities at FVTPL	—	43	—	43
Derivative financial instruments	—	99	—	99
Put option liabilities	—	—	55	55
	—	142	55	197

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value (continued)

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 unable observed in the market; as a result, the Company determined the fair value measurement is a third-level fair value measurement.

During the years ended 31 December 2020 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Financial assets	Fair value as at 31/12/2020	Fair value as at 31/12/2019	Fair value hierarchy	Valuation technique	Range	Significant unobservable input(s)	Sensitivity of fair value to the input
Equity investment designated at FVTOCI-SINOPEC Fuel Oil Sales Corporation Limited	**RMB1,118 million**	RMB1,243 million	Level 3	Market approach	2020: 17.77-18.13 2019: 16.92-17.27	Average P/E multiple of peers	1% increase (decrease) in average P/E multiple of the Comparable Companies would result in increase (decrease) in fair value by 2020: RMB11,177,000 (RMB11,177,000) 2019: RMB12,429,000 (RMB12,429,000)
					2020: 11%-13% 2019: 9%-11%	Discount for lack of marketability	1% increase (decrease) in the lack of marketability would result in decrease (increase) in fair value by 2020: RMB12,701,000 (RMB12,701,000) 2019: RMB13,810,000 (RMB13,810,000)
Equity investment designated at FVTOCI-Haier COSMO IOT Ecological Technology Co., Ltd	**RMB1,397 million**	N/A	Level 3	Market approach	2020: 2.93-2.99	Average P/B multiple of peers	1% increase (decrease) in average P/B multiple of the Comparable Companies would result in increase (decrease) in fair value by 2020: RMB13,313,000 (RMB13,313,000)
					2020: 36%-38%	Discount for lack of marketability	1% increase (decrease) in the lack of marketability would result in decrease (increase) in fair value by 2020: RMB21,188,000 (RMB21,188,000)

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Financial assets/Financial liabilities	Fair value as at 31/12/2020	Fair value as at 31/12/2019	Fair value hierarchy	Valuation technique(s)
Bill receivables	**RMB14,137 million**	RMB13,951 million	Level 2	Discount cash flow
Financial assets at FVTPL – Foreign currency forward contracts	**Assets – RMB105 million and Liabilities – RMB27 million**	Assets – RMB85 million and Liabilities – RMB43 million	Level 2	Discounted cash flow.
Financial assets at FVTPL – Wealth management products	**Assets – RMB1,862 million**	Assets – RMB198 million	Level 2	Discounted cash flow.
Derivative financial Instruments – Foreign currency forward contracts	**Assets – RMB52 million and Liabilities – RMB189 million**	Assets – RMB17 million and liabilities - RMB85 million	Level 2	Discounted cash flow.
Derivative financial Instruments – Forwards commodity contract	**Assets – RMB 26 million**	Assets – RMB2 million	Level 2	Discounted cash flow.
Derivative financial Instruments – Interest rate swaps	**Liabilities – RMB50 million**	Liabilities – RMB14 million	Level 2	Monte Carlo Simulation.
Equity investment designated at FVTOCI – Listed entity	**Assets – RMB19 million**	Assets – RMB22 million	Level 1	Quoted bid prices in an active market.
Financial assets at FVTPL – Investment fund	**Assets – RMB114 million**	N/A	Level 1	Quoted bid prices in an active market.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 fair value measurements

	Equity investments designated FVTOCI RMB'M	Financial assets at FVTPL RMB'000	Total RMB'000
At 1 January 2019	1,380	19	1,399
Total gains or losses:			
— in profit or loss	—	(2)	(2)
— in other comprehensive income	(18)	—	(18)
Additions	20	8	28
Settlements	(8)	—	(8)
At 31 December 2019 and 1 January 2020	1,374	25	1,399
Total gains or losses:			
— in profit or loss	—	4	4
— in other comprehensive income	(115)	—	(115)
Additions	1,403	55	1,458
Settlements	(22)	—	(22)
At 31 December 2020	**2,640**	**84**	**2,724**

	Contingent consideration RMB'M	Put Option RMB'M	Total RMB'M
At 1 January 2019	5	204	209
Total gains or losses:			
— in profit or loss	(5)	—	(5)
Additions	—	1	1
Settlements	—	(150)	(150)
At 31 December 2019 and 1 January 2020	—	55	55
Settlements	—	(55)	(55)
At 31 December 2020	**—**	**—**	**—**

49. 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 borrowings 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 post-tax profit (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.

	2020		2019	
	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
If RMB strengthens against the United States dollar	**5**	**693**	5	563
If RMB weakens against the United States dollar	**(5)**	**(693)**	(5)	(563)
If RMB strengthens against the Japan dollar	**5**	**11**	5	17
If RMB weakens against the Japan dollar	**(5)**	**(11)**	(5)	(17)
If RMB strengthens against the Euro	**5**	**293**	5	381
If RMB weakens against the Euro	**(5)**	**(293)**	(5)	(381)

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31 Dec 2020 RMB'M	31 Dec 2019 RMB'M	**31 Dec 2020 RMB'M**	31 Dec 2019 RMB'M
United states dollars	**24,949**	23,086	**10,405**	6,981
Japanese dollars	**808**	934	**587**	461
Hong Kong dollars	**2,190**	—	**702**	668
Euro	**11,083**	12,185	**4,921**	3,729
Other	**5,144**	4,376	**6,541**	4,974

Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, other deposits with limited use, and financial assets included in 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, other deposits with limited use, pledged deposits, and financial assets included in 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 as low credit risk from the management's assessment as at 31 December 2020 and 2019, which is mainly based on past due information unless other information is available without undue cost or effort.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 Consolidated Financial Statements.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits, fixed-rate bank borrowings and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and HIBOR arising from the Group's RMB denominated borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates, including derivatives which are designated as effective hedging instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2019: 100 basis points) increase or decrease in variable-rate bank balances and a 100 basis point (2019: 100 basis points) increase or decrease in variable-rate bank borrowings and interest rate swaps designated to hedge cash flow interest rate risk are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates, post-tax profit for the year ended 31 December 2020 would decreased/increase by RMB184 million.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2020, the Group has available unutilised overdraft and short-term bank loan facilities of RMB82,202 million (2019: RMB51,407 million) in total. Details of which are set out in note 49.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative instruments. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

31 December 2020

	On demand or no fixed terms of repayment RMB'M	Within one year RMB'M	Over one year RMB'M	Total undiscounted cash flows RMB'M	Carrying amount RMB'M
Trade and bills payables	–	57,539	–	57,539	57,539
Financial liabilities included other payables and accruals	20,384	–	–	20,384	20,384
Interest-bearing borrowings	–	12,803	12,013	24,816	24,501
Financial liabilities at FVTPL	–	27	–	27	27
Derivative financial instruments	–	239	–	239	239
CB	–	–	6,903	6,903	6,714
Other non-current liabilities	–	–	89	89	89
Lease liabilities	–	691	2,437	3,128	2,744
Bonds	–	5,535	–	5,535	5,535
	20,384	76,834	21,442	118,660	117,772

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

31 December 2019

	On demand or no fixed terms of repayment RMB'M	Within one year RMB'M	Over one year RMB'M	Total undiscounted cash flows RMB'M	Carrying amount RMB'M
Trade and bills payables	–	53,059	–	53,059	53,059
Other payables	17,491	–	–	17,491	17,491
Interest-bearing borrowings	–	13,679	13,602	27,281	26,685
Financial liabilities at FVTPL	–	43	–	43	43
Derivative financial instruments	–	99	–	99	99
Put option liabilities	–	–	55	55	55
CEB	–	–	7,202	7,202	7,005
Other non-current liabilities	–	–	61	61	61
Lease liabilities	–	661	2,248	2,909	2,575
	17,491	67,541	23,168	108,200	107,073

50. 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.

50. DEFINED BENEFIT OBLIGATIONS (continued)

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Defined pension benefit (Note (a))	**38**	**603**	**641**	84	578	662
Termination benefits	**—**	**430**	**430**	—	324	324
Provision for work-related injury compensation	**—**	**213**	**213**	—	220	220
Total	**38**	**1,246**	**1,284**	84	1,122	1,206

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:

	2020 RMB'M	2019 RMB'M
Haier Asia Co., Ltd. pension plans	**(46)**	(34)
Roper Corporation pension plans	**151**	138
Haier U.S. Appliances Solutions, Inc. post retirement plan	**293**	310
Haier U.S. Appliances Solutions, Inc. pension plans	**64**	73
Total net liabilities of the defined pension obligations at United States and Japan	**462**	487
Others	**179**	175
	641	662

50. DEFINED BENEFIT OBLIGATIONS (continued)

The summary net liabilities of the defined pension obligations at United States and Japan are as follows:

	2020 RMB'M	2019 RMB'M
Presents value of defined benefit obligation	**992**	1,019
Fair value of plan assets	**(530)**	(552)
	462	467

The major amounts recognised in the consolidated statement of financial position and the movements in the net defined pension benefit over the years ended 31 December 2020 and 2019 are as follows:

(1) Haier Asia Co., Ltd pension plan

	2020	2019
Discount rates	**0.50%**	0.50%
Compensation increases	**2.00%**	2.00%

Movements in the present value of the defined benefit obligations during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**334**	324
Current service cost	**9**	9
Interest cost	**1**	1
Acturial loss	**2**	—
Exchange realignment on foreign plans	**(4)**	11
Benefits paid	**(18)**	(11)
As at 31 December	**324**	334

50. DEFINED BENEFIT OBLIGATIONS (continued)

(1) Haier Asia Co., Ltd pension plan (continued)

Movements in the fair value of the plan assets during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**368**	326
Interest income	**7**	6
Remeasurement (gains)/losses:		
Return on plan assets (excluding amounts included in net interest expense)	**5**	16
Contributions from the employer	**6**	15
Exchange realignment on foreign plans	**(5)**	13
Benefits paid	**(11)**	(8)
As at 31 December	**370**	368

Note: Neither the Company's ordinary shares or bonds, nor the properties occupied the Company are included in the plan assets.

The net asset of the defined benefit obligations are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**(34)**	(2)
Components of defined benefit cost recognised in profit or loss	**3**	4
Components of defined benefit cost recognised in other comprehensive income	**(3)**	(16)
Other reconciling items	**(12)**	(20)
As at 31 December	**(46)**	(34)

50. DEFINED BENEFIT OBLIGATIONS (continued)

(2) Roper Corporation pension plan

	As at 31 December 2020	2019
Discount rates	**2.47%**	3.27%

Movements in the present value of the defined benefit obligations during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**138**	118
Current service cost	**6**	5
Interest cost	**4**	2
Remeasurement (gains)/losses:		
Actuarial gains and losses	**12**	18
Exchange realignment	**(1)**	2
Benefits paid	**(8)**	(7)
As at 31 December	**151**	138

The net liability of the defined benefit obligations are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**138**	118
Components of defined benefit cost recognised in profit or loss	**10**	7
Components of defined benefit cost recognised in other comprehensive income	**12**	18
Other reconciling items	**(9)**	(5)
As at 31 December	**151**	138

50. DEFINED BENEFIT OBLIGATIONS (continued)

(3) Haier U.S. Appliance Solutions, Inc. post retirement plan

	2020	2019
Discount rates	**2.09%**	3.06%

Movements in the present value of the defined benefit obligations during the years ended 31 December 2020 and 2019 were as follows:

	2020 **RMB'M**	2019 RMB'M
As at 1 January	**310**	326
Interest cost	**8**	9
Remeasurement (gains)/losses:		
Actuarial gains and losses	**3**	(1)
Exchange realignment	**(4)**	5
Benefits paid	**(24)**	(29)
As at 31 December	**293**	310

The net liability of the defined benefit obligations are as follows:

	2020 **RMB'M**	2019 RMB'M
As at 1 January	**310**	326
Components of defined benefit cost recognised in profit or loss	**8**	9
Components of defined benefit cost recognised in other comprehensive income	**3**	(1)
Other reconciling items	**(28)**	(24)
As at 31 December	**293**	310

50. DEFINED BENEFIT OBLIGATIONS (continued)

(4) Haier U.S. Appliance Solutions, Inc. pension plan

	2020	2019
Discount rates	**2.08%**	2.96%

Movements in the present value of the defined benefit obligations during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**257**	284
Interest cost	**6**	10
Remeasurement (gains)/losses:		
Actuarial gains and losses	**10**	11
Exchange realignment	**(4)**	4
Benefits paid	**(45)**	(52)
As at 31 December	**224**	257

Movements in the fair value of the plan assets during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**184**	201
Remeasurement (gains)/losses:		
Return on plan assets (excluding amounts included in net interest expense)	**10**	7
Contributions from the employer	**14**	26
Exchange realignment	**(3)**	3
Benefits paid	**(45)**	(53)
As at 31 December	**160**	184

50. DEFINED BENEFIT OBLIGATIONS (continued)

(4) Haier U.S. Appliance Solutions, Inc. pension plan (continued)

The net liabilities of the defined benefit obligations are as follows:

	2020 RMB'M	2019 RMB'M
As at 1 January	**73**	83
Components of defined benefit cost recognised in profit or loss	**6**	10
Components of defined benefit cost recognised in other comprehensive income	**–**	4
Other reconciling items	**(15)**	(24)
As at 31 December	**64**	73

51. CHANGE IN OWNERSHIP INTEREST IN SUBSIDIARIES

During the year, the Group disposal of its interests in certain of subsidiaries, reducing its continuing interest. The proceeds on disposal of approximately RMB1,683 million were received/receivable in cash. An amount of approximately RMB2,362 million (being the proportionate share of the carrying amount of the net assets of certain of subsidiaries) has been transferred to non-controlling interests. The difference between the increase in the non-controlling interests and the consideration received has been credited to equity.

52. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

53. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'M	2019 RMB'M
Contracted, but not provided for:		
Property, plant and equipment	**3,009**	2,053

54. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

The Group's borrowings and bill payables had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	2020 RMB'M	2019 RMB'M
Property, plant and equipment	**–**	55
Trade and bills receivables	**14,396**	13,102
Pledged bank deposits	**822**	1,211

55. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year ended are as follows:

	2020 RMB'M	2019 RMB'M
NON-CURRENT ASSETS		
Property, plant and equipment	**205**	246
Right-of-use assets	**7**	5
Other intangible assets	**58**	11
Interests in associates	**3,066**	3,177
Investments in subsidiaries	**49,224**	32,390
Equity investments designated at FVTOCI	**804**	5
Financial assets measured at amortised cost	**—**	—
Deferred tax assets	**154**	97
Other non-current assets	**31**	9
Total non-current assets	**53,549**	35,940
CURRENT ASSETS		
Inventories	**74**	234
Trade and bills receivables	**5,492**	1,182
Prepayments, deposits and other receivables	**4,222**	6,018
Financial assets measured at amortised cost	**439**	605
Cash and cash equivalents	**8,287**	5,624
Total current assets	**18,514**	13,663
CURRENT LIABILITIES		
Trade and bills payables	**248**	3,412
Other payables and accruals	**29,754**	27,007
Contract liabilities	**9**	17
Interest-bearing borrowings	**20**	—
Bonds	**5,535**	—
Lease liabilities	**1**	—
Tax payable	**41**	67
Total current liabilities	**35,608**	30,503
NET CURRENT LIABILITIES	**(17,094)**	(16,840)
TOTAL ASSETS LESS CURRENT LIABILITIES	**36,455**	19,100

55. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (continued)

	2020 RMB'M	2019 RMB'M
NON-CURRENT LIABILITIES		
Interest-bearing borrowings	**–**	20
Lease liabilities	**1**	–
Deferred income	**17**	51
Deferred tax liabilities	**220**	44
Total non-current liabilities	**238**	115
Net assets	**36,217**	18,985
EQUITY		
Share capital	**9,028**	6,580
Reserves (note)	**27,189**	12,405
Total equity	**36,217**	18,985

Note: A summary of the Company's reserves is as follows:

	Contributed surplus RMB'M	Capital redemption reserve RMB'M	Reserve funds RMB'M	Retained profits RMB'M	Other comprehensive income RMB'M	Convertible and exchangeable bonds reserves RMB'M	Total reserve RMB'M
As 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 reserve funds	–	–	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**
Privatisation of a subsidiary by issue of new shares, net of transaction cost*	**13,372**	**–**	**–**	**–**	**–**	**–**	**13,372**
Transfer to reserve fund	**–**	**–**	**390**	**(390)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**3,900**	**(21)**	**–**	**3,879**
Dividend payable	**–**	**–**	**–**	**(2,467)**	**–**	**–**	**(2,467)**
As at 31 December 2020	**20,110**	**298**	**2,440**	**4,351**	**(10)**	**–**	**27,189**

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.

56. EVENTS AFTER THE REPORTING PERIOD

(a) According to the resolution of the 17th meeting of the 17th session of the Board of Directors of the Company held on 30 March 2021, the profit for the year is proposed to be distributed on the basis of the total number of shares on the record date after deducting the repurchased shares from the repurchased account when the plan is implemented in the future, the Company will declare cash dividend of RMB3.66 (including taxes) for every 10 shares to all shareholders.

(b) On 5 March 2021, the Company convened the 16th meeting of the 10th session of the Board of Directors, which considered and approved the Resolution in Relation to the Repurchase Plan of a Portion of Public Shares of Haier Smart Home Co., Ltd. It approved the Company to use its own funds to repurchase a portion of shares of the Company by way of centralised bidding. The repurchase price is no more than RMB46 per share and the proposed repurchase amount is no more than RMB4.0 billion and no less than RMB2.0 billion. The period of this repurchase is within 12 months from the date the Board considered and approved the resolution of repurchase of shares. The source of capital is from the Company's owned funds and the category of the shares repurchased are the A-shares issued by the Company. Calculated at the upper limit for the share repurchase and the repurchase price, the upper limit of the number of shares proposed to be repurchased is 86,960,000 shares, accounting for approximately 0.94% of the current total share capital of the Company. The specific number of shares repurchased is the number of shares actually repurchased upon the expiry of repurchase period. As of the date of approval for the publication of these financial statements, the Company has repurchased 2,715,800 shares with a repurchase amount of RMB80,630,000.

(c) Subsequent to the balance sheet date, a total of HK$5,690,000,000 of H-share convertible bonds have been converted into the H shares of the Company, and the total number of H shares from these conversions was 302,066,640. The remaining outstanding H-share convertible bonds then amounted to HK$2,303,000,000, accounting for 28.81% of the total number of H-share convertible bonds issued.

(d) Referring to the listing document of the Company dated 16 November 2020, in relation to the HK$8,000,000,000 zero coupon guaranteed exchangeable bonds due on 21 November 2022 (now referred to as HK$8,000,000,000 zero coupon guaranteed convertible bonds due 2022 convertible into the ordinary H shares of the Company, the "**Bonds**").

Pursuant to Condition 6(a)(iii)(B) and Condition 6(d)(ix) of the terms and conditions of the Bonds, the Company hereby announces that the conversion price per share in effect on the initial adjustment date (being 12 January 2021) shall be adjusted from approximately HK$19.5961 to approximately HK$18.8369 (the "**Adjustment**"). The conversion ratio (calculated by way of illustration based on each HK$1,000,000 principal amount of Bonds) is 53,087.3586. Further details of the adjustment to conversion price of the bonds were set out in the announcements of the Company dated 12 January 2021.

The Company has no other significant event after the reporting period that needs to be disclosed.

Five Year Financial Summary

The consolidated results of Haier Smart Home Co., Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020 and the consolidated assets and liabilities of the Group as at 31 December 2020 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the years ended 31 December 2017, 2018 and 2019 and of the consolidated assets and liabilities of the Group as at 31 December 2017, 2018 and 2019 has been extracted from the prospectus issued on 16 November 2020 in connection with the listing of the Company's H-shares on the Main Board of The Stock Exchange of Hong Kong Limited on 23 December 2020.

The summary of the consolidated results of the Group for the year ended 31 December 2016 and of the consolidated assets and liabilities of the Group as at 31 December 2016 has been extracted from the prospectus issued on 12 October 2018 in connection with the listing of the Company's D-shares on the CEINEX D-share Market on 24 October 2018, where the published results and statement of assets and liabilities have not been prepared on a consistent basis.

The summary below does not form part of the audited financial statements.

A summary of the results and of the assets, liabilities and non-controlling interests of the Group is set out below.

	Year ended 31 December				
	2020 RMB'M	2019 RMB'M	2018 RMB'M (Restated)	2017 RMB'M (Restated)	2016 RMB'M
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**209,703**	198,006	177,594	154,165	119,117
Cost of sales	**(148,870)**	(139,393)	(125,415)	(104,001)	(83,131)
Gross profit	**60,833**	58,613	52,179	50,164	35,986
Other gains or losses	**3,994**	3,324	2,389	2,228	2,000
Selling and distribution expenses	**(33,641)**	(33,843)	(29,076)	(29,979)	(21,254)
Administrative expenses	**(17,930)**	(17,165)	(14,029)	(11,994)	(8,789)
Finance costs	**(1,321)**	(1,732)	(1,464)	(1,396)	(729)
Share of profits and losses of associates	**1,620**	1,409	1,325	1,189	974
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**13,555**	10,606	11,326	10,212	8,188
Income tax expenses	**(2,332)**	(1,584)	(1,793)	(1,421)	(1,492)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**11,323**	9,022	9,533	8,791	6,696
DISCONTINUED OPERATION					
Profit for the year from discontinued operation	**–**	3,313	367	353	–
PROFIT FOR THE YEAR	**11,323**	12,335	9,900	9,144	6,696
Attributable to:					
Owners of the Company	**8,877**	8,206	7,484	6,944	5,042
Non-controlling interests	**2,446**	4,129	2,416	2,200	1,654
	11,323	12,335	9,900	9,144	6,696

Five Year Financial Summary

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**203,459**	187,454	168,092	158,301	131,470
TOTAL LIABILITIES	**(135,348)**	(122,464)	(112,284)	(109,906)	(93,790)
NON-CONTROLLING INTERESTS	**(1,295)**	(17,103)	(16,066)	(14,795)	(11,242)
	68,816	47,887	39,742	33,600	26,438