HAIER SMART HOME CO., LTD

AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

HLB 國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS 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 8 to 229, which comprise the consolidated statements of financial position as at 31 December 2019, 2018 and 2017 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2019, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 2018 and 2017 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB").

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.

Other Matter

The consolidated financial statements are prepared by the Company solely to enable the Company to prepare the unaudited pro forma report in relation to privitisation proposal and introduction of Haier Electronics Group Co., Ltd.. Our report is intended solely for use of the board of directors of the Company for this purpose.

INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
HAIER SMART HOME CO., LTD. (CONTINUED)
(incorporated in the People's Republic of China with limited liability)

Key Audit Matters

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, 6, 18 and 19 to the consolidated financial statements	
The Group had goodwill and other intangible assets with carrying amounts of approximately RMB 23,352 million and RMB 9,640 million respectively as at 31 December 2019. 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 2019 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 the goodwill and other intangible assets as at 31 December 2019.	Our procedures in relation to the management's impairment assessment included: • Assessing the appropriateness of the methodology and key assumptions and inputs used in the value-in use model based on our knowledge of the business and of the relevant industry; • Challenging management about the 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. We found the key assumptions were supported by the available evidence.

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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, 6 and 25 to the consolidated financial statements	
As at 31 December 2019, the Group had net inventories of approximately RMB 28,229 million and recognised provision for obsolete and slow-moving of approximately RMB 576 million to statement of profit or loss during the year 31 December 2019. 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 aging 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 assessment provision against obsolete and slow-moving inventories, to be supported by the available evidence.

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
HAIER SMART HOME CO., LTD. (CONTINUED)
(incorporated in the People's Republic of China with limited liability)

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 2019, the Group had provision for product warranties of approximately RMB 3,058 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.

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**INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
HAIER SMART HOME CO., LTD. (CONTINUED)**
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Responsibilities of Directors and the Audit Committee for 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 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 auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
HAIER SMART HOME CO., LTD. (CONTINUED)
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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 Shek Lui.

HLB Hodgson Impey Cheng Limited

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 30 July 2020

I. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December 2017 RMB'M	2018 RMB'M	2019 RMB'M
CONTINUING OPERATIONS				
REVENUE	5	154,165	177,594	198,006
Cost of sales		(104,001)	(125,415)	(139,393)
Gross profit		50,164	52,179	58,613
Other gains or losses	5	2,228	2,389	3,324
Selling and distribution expenses		(29,979)	(29,076)	(33,843)
Administrative expenses		(11,994)	(14,027)	(17,165)
Finance costs	7	(1,396)	(1,464)	(1,732)
Share of profits and losses of associates		1,189	1,325	1,409
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	10,212	11,326	10,606
Income tax expenses	10	(1,421)	(1,793)	(1,584)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		8,791	9,533	9,022
DISCONTINUED OPERATION				
Profit for the year from a discontinued operation	11	353	367	3,313
PROFIT FOR THE YEAR		9,144	9,900	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		(308)	177	103
Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		12	(6)	(21)
Exchange differences on translating foreign operations		(251)	632	500
Change in fair value of available-for-sale ("AFS") financial assets		(3)	-	-
		(550)	803	582

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of profit or loss and other comprehensive income (continued)

	Notes	Year ended 31 December 2017 RMB'M	2018 RMB'M	2019 RMB'M
OTHER COMPREHENSIVE (LOSS)/INCOME (CONTINUED)				
Items that will not be reclassified to profit or loss in subsequent periods:				
Changes arising from re-measurement of defined benefit plans		(4)	80	(10)
Change in fair value of equity investments designated at fair value through other comprehensive income ("FVTOCI"), net of tax		-	(40)	(3)
		(4)	40	(13)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX		(554)	843	569
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,590	10,743	12,904
Profit for the year attributable to owners of the Company				
- from continuing operations		6,844	7,391	6,715
- from discontinued operations	11	100	93	1,491
Profit for the year attributable to owners of the Company		6,944	7,484	8,206
Profit for the year attributable to non-controlling interests				
- from continuing operations		1,947	2,142	2,307
- from discontinued operations	11	253	274	1,822
Profit for the year attributable to non-controlling interests		2,200	2,416	4,129
		9,144	9,900	12,335
Total comprehensive income attributable to:				
Owners of the Company		6,391	8,211	8,751
Non-controlling interests		2,199	2,532	4,153
		8,590	10,743	12,904

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of profit or loss and other comprehensive income (continued)

		Year ended 31 December		
		2017	2018	2019
		RMB'M	*RMB'M*	*RMB'M*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
From continuing and discontinued operations				
- Basic (RMB per share)	13	1.14	1.22	1.29
- Diluted (RMB per share)	13	1.09	1.19	1.21
From continuing operations				
- Basic (RMB per share)	13	1.12	1.20	1.05
- Diluted (RMB per share)	13	1.07	1.17	0.98

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of financial position

		As at 31 December		
		2017	2018	2019
	Notes	*RMB'M*	*RMB'M*	*RMB'M*
NON-CURRENT ASSETS				
Property, plant and equipment	15	18,983	21,441	23,919
Investment properties	16	31	31	29
Right-of-use assets	17(b)	-	-	3,802
Prepaid land lease payments	17(a)	1,626	1,828	-
Goodwill	18	20,428	21,239	23,352
Other intangible assets	19	6,561	7,379	9,640
Interests in associates	20	13,012	13,994	20,461
AFS financial assets	21	1,415	-	-
Equity investments designated at FVTOCI	21	-	1,400	1,396
Financial assets measured at fair value through profit or loss ("FVTPL")	22	-	327	295
Financial assets measured at amortised cost	23	295	268	332
Derivative financial instruments	24	389	95	77
Long-term prepayments	27	758	2,119	1,423
Deferred tax assets	36	2,088	1,822	1,579
Other non-current assets		1,107	690	581
Total non-current assets		66,693	72,633	86,886
CURRENT ASSETS				
Inventories	25	22,575	22,411	28,229
Trade and bills receivables	26	26,047	24,834	24,967
Contract assets	32	-	457	423
Prepayments, deposits and other receivables	27	4,222	4,531	6,441
Financial assets measured at FVTPL	22	-	1,776	308
Financial assets measured at amortised cost	23	2,007	2,838	3,981
Derivative financial instruments	24	103	97	19
Pledged deposits	28	1,279	1,810	1,211
Other deposit with limited use	28	-	-	5
Cash and cash equivalents	28	35,292	36,561	34,963
		91,525	95,315	100,547
Assets and disposal group held for sale	29	83	144	21
Total current assets		91,608	95,459	100,568

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of financial position (continued)

		As at 31 December		
		2017	2018	2019
	Notes	*RMB'M*	*RMB'M*	*RMB'M*
CURRENT LIABILITIES				
Trade and bills payables	30	43,062	47,937	53,059
Other payables and accruals	31	14,645	16,620	19,726
Receipt in advance/contract liabilities	32	5,890	5,533	5,583
Interest-bearing borrowings	33	17,028	9,314	13,315
Lease liabilities	17(c)	-	-	595
Tax payable		1,296	1,187	1,278
Provisions	34	1,624	1,640	1,992
Derivative financial instruments	24	23	36	99
Financial liabilities measured at FVTPL	43	-	219	43
		83,568	82,486	95,690
Liabilities directly associated with assets classified as held for sale	29	-	32	-
Total current liabilities		83,568	82,518	95,690
NET CURRENT ASSETS		8,040	12,941	4,878
TOTAL ASSETS LESS CURRENT LIABILITIES		74,733	85,574	91,764
NON-CURRENT LIABILITIES				
Interest-bearing borrowings	33	16,129	15,635	13,370
Lease liabilities	17(c)	-	-	1,980
Convertible and exchangeable bonds	44	6,211	9,192	7,005
Deferred income	35(a)	442	555	628
Deferred tax liabilities	36	344	405	1,154
Derivative financial instruments	24	249	-	-
Provisions for pensions and similar obligations	48	950	935	1,122
Provisions	34	1,051	1,207	1,399
Put option liabilities	35(b)	917	1,792	55
Other non-current liabilities		45	45	61
Total non-current liabilities		26,338	29,766	26,774
Net assets		48,395	55,808	64,990

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of financial position (continued)

		As at 31 December		
		2017	2018	2019
	Notes	*RMB'M*	*RMB'M*	*RMB'M*
EQUITY				
Share capital	37	6,098	6,369	6,580
Reserves	39(a)	27,502	33,373	41,307
Equity attributable to owners of the Company		33,600	39,742	47,887
Non-controlling interests	39(b)	14,795	16,066	17,103
Total equity		48,395	55,808	64,990

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of financial position (continued)

Approved and authorised for issue by the Board of Directors on 30 July2020.

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I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of changes in equity

	Notes	Attributable to owners of the Company															
				Reserves													
		Issued equity RMB'M	Share held for the restricted share award scheme RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedges reserve RMB'M	Available-for-sale financial assets reserve RMB'M	Equity method investments reserve RMB'M	Reserve funds RMB'M	Convertible and exchangeable bonds reserves RMB'M	Retained profits RMB'M	Exchange differences on translation of financial statements reserve 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 2017		6,098	(1)	1,400	(6)	34	6	34	2,076	-	17,228	490	83	21,345	27,442	11,428	38,870
Profit for the year		-	-	-	-	-	-	-	-	-	6,944	-	-	6,944	6,944	2,200	9,144
Other comprehensive income for the year:																	
- Share of other comprehensive loss of associates		-	-	-	-	-	-	(307)	-	-	-	-	-	(307)	(307)	(1)	(308)
- Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		-	-	-	-	12	-	-	-	-	-	-	-	12	12	-	12
- Exchange differences on translating foreign operations		-	-	-	-	-	-	-	-	-	-	(251)	-	(251)	(251)	-	(251)
- Changes arising from re-measurement of defined benefit plans		-	-	-	(4)	-	-	-	-	-	-	-	-	(4)	(4)	-	(4)
- Change in fair value of AFS financial assets		-	-	-	-	-	(3)	-	-	-	-	-	-	(3)	(3)	-	(3)
Total comprehensive income for the year		-	-	-	(4)	12	(3)	(307)	-	-	6,944	(251)	-	6,391	6,391	2,199	8,590
Capital injection of non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	7
Dividend payable to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(285)	(285)
Dividend payments		-	-	-	-	-	-	-	-	-	(1,512)	-	-	(1,512)	(1,512)	-	(1,512)
Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Cancellation of restricted share		(-)	1	(1)	-	-	-	-	-	-	-	-	-	(1)	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control		-	-	109	-	-	-	-	-	-	-	-	-	109	109	211	320
Deemed disposal of associates		-	-	-	-	-	-	-	-	-	-	-	743	743	743	-	743
Transfer to capital reserve		-	-	209	-	-	-	-	(21)	-	(188)	-	-	-	-	-	-
Transfer to reserves fund		-	-	-	-	-	-	-	47	-	(47)	-	-	-	-	-	-
Issue of exchangeable bonds		-	-	-	-	-	-	-	-	431	-	-	-	431	431	-	431
Conversion of convertible and exchangeable bonds of a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,223	1,223
Other changes		-	-	-	-	-	-	-	-	-	(4)	-	-	(4)	(4)	24	20
At 31 December 2017		6,098	-	1,717	(10)	46	3	(273)	2,102	431	22,421	239	826	27,502	33,600	14,795	48,395

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of changes in equity (continued)

	Notes	Attributable to owners of the Company														
			Reserves													
		Issued equity RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedges reserve RMB'M	FVTOCI reserve RMB'M	Equity method investments reserve RMB'M	Reserve funds RMB'M	Convertible and exchangeable bonds reserve RMB'M	Retained profits RMB'M	Exchange differences on translation of financial statements reserve RMB'M	Other reserves RMB'M	Total reserves RMB'M	Total RMB'M	Non-controlling interests RMB'M	Total equity RMB'M
At 31 December 2017		6,098	1,717	(10)	46	3	(273)	2,102	431	22,421	239	826	27,502	33,600	14,795	48,395
Adjustment on initial application of IFRS 9	2.2	-	-	-	-	-	41	-	-	(10)	-	-	31	31	38	69
Adjustment on initial application of IFRS 15	2.2	-	-	-	-	-	-	-	-	(45)	-	-	(45)	(45)	(45)	(90)
At 1 January 2018(As restated)		6,098	1,717	(10)	46	3	(232)	2,102	431	22,366	239	826	27,488	33,586	14,788	48,374
Profit for the year		-	-	-	-	-	-	-	-	7,484	-	-	7,484	7,484	2,416	9,900
Other comprehensive income for the year																
- Share of other comprehensive loss of associates		-	-	-	-	-	166	-	-	-	-	-	166	166	11	177
- Effective portion of changes in fair value of hedging instrument for cashflow hedges, net of tax		-	-	-	(6)	-	-	-	-	-	-	-	(6)	(6)	-	(6)
- Exchange differences on translating foreign operations		-	-	-	-	-	-	-	-	-	516	-	516	516	116	632
- Changes arising from re-measurement of defined benefit plans		-	-	80	-	-	-	-	-	-	-	-	80	80	-	80
- Change in fair value of equity investments designated at FVTOCI		-	-	-	-	(29)	-	-	-	-	-	-	(29)	(29)	(11)	(40)
Total comprehensive income for the year		-	-	80	(6)	(29)	166	-	-	7,484	516	-	8,211	8,211	2,532	10,743
Issue of shares		271	1,862	-	-	-	-	-	-	-	-	-	1,862	2,133	-	2,133
Dividend payments		-	-	-	-	-	-	-	-	(2,085)	-	-	(2,085)	(2,085)	-	(2,085)
Capital injection of non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	462	462
Dividend payable to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	(569)	(569)
Transfer to reserves fund		-	-	-	-	-	-	246	-	(246)	-	-	-	-	-	-
Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	(288)	(288)
Acquisition of non-controlling interests		-	(491)	-	-	-	-	-	-	-	-	-	(491)	(491)	(457)	(948)
Changes in ownership interests in subsidiaries that do not result in a loss of control		-	-	-	-	-	-	-	-	-	-	-	-	-	18	18
Deemed disposal of associates		-	-	-	-	-	-	-	-	-	-	22	22	22	-	22
Issue of convertible bonds		-	-	-	-	-	-	-	473	-	-	-	473	473	-	473
Business combination under common control		-	(2,091)	-	-	-	-	-	-	-	-	-	(2,091)	(2,091)	-	(2,091)
Transfer to capital reserve		-	606	-	-	-	-	(61)	-	(545)	-	-	-	-	-	-
Other changes		-	-	-	-	-	(-)	-	-	(16)	-	-	(16)	(16)	(420)	(436)
At 31 December 2018		6,369	1,603	70	40	(26)	(66)	2,287	904	26,958	755	848	33,373	39,742	16,066	55,808

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of changes in equity (continued)

	Notes	Issued equity RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedges reserve RMB'M	FVTOCI reserve RMB'M	Equity method investments reserve RMB'M	Reserve funds RMB'M	Convertible and exchangeable bonds reserve RMB'M	Retained profits RMB'M	Exchange differences on translation of financial statements reserve RMB'M	Other reserves 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 31 December 2018	6,369	1,603	70	40	(26)	(66)	2,287	904	26,958	755	848	33,373	39,742	16,066	55,808	
Adjustment on initial application of IFRS 16	2.2	-	-	-	-	-	-	-	-	(47)	-	-	(47)	(47)	(14)	(61)
At 1 January 2019(As restated)		6,369	1,603	70	40	(26)	(66)	2,287	904	26,911	755	848	33,326	39,695	16,052	55,747
Profit for the year		-	-	-	-	-	-	-	-	8,206	-	-	8,206	8,206	4,129	12,335
Other comprehensive income for the year																
- Share of other comprehensive loss 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 for the year		-	-	(10)	(36)	(3)	84	-	-	8,206	510	-	8,751	8,751	4,153	12,904
Dividend payments		-	-	-	-	-	-	-	-	(2,235)	-	-	(2,235)	(2,235)	-	(2,235)
Capital injection of non-controlling interest		-	23	-	-	-	-	-	-	-	-	-	23	23	737	760
Dividend payable to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	(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

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of cash flows

	Notes	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
		Year ended 31 December		
Cash flows from operating activities				
Profit before tax				
From continuing operations		10,212	11,326	10,606
From a discontinued operation	11	447	456	4,025
Adjustments for:				
Finance costs		1,396	1,473	1,763
Interest income	5	(367)	(545)	(677)
Share of profits and losses of associates		(1,189)	(1,325)	(1,409)
Dividends income from AFS financial assets	5	(41)	-	-
Dividends income from equity investment designated at FVTOCI	5	-	(105)	(39)
Gain on disposal of AFS financial assets	5	(1)	-	-
Gain on disposal of equity investment designated at FVTOCI	5	-	-	(2)
Gain on disposal of financial assets/liabilities measured at FVTPL, net	5	(49)	(129)	(36)
Net gain on disposal of associates and subsidiaries		(154)	(259)	(3,824)
Loss/(gain) on disposal of non-current assets, net		179	(214)	(396)
Fair value (gain)/loss on financial assets/ liabilities at FVTPL	5	(614)	153	(72)
Depreciation of property, plant and equipment	15	2,643	2,589	2,998
Depreciation of investment properties	16	2	2	2
Depreciation of right-of-use assets	17(b)	-	-	898
Amortisation of other non-current assets	6	9	11	13
Amortisation of prepaid land lease payments	17(a)	44	40	-
Amortisation of intangible assets	19	431	515	752
Provision for obsolete and slow-moving inventories, net	6	552	556	576
Impairment of trade and bills receivables, net	26	64	80	131
Impairment of prepayments, deposits and other receivables, net	27	(7)	188	233
Impairment of AFS financial assets	6	27	-	-
Impairment of property, plant and equipment	15	4	32	11
Impairment of interests in associates	20	21	6	56
Impairment of intangible assets	19	10	-	-
Impairment of contract asset	32	-	-	4
Equity-settled restricted share award scheme expense, net	6	395	386	477
Operating cash inflow before movements in working capital		14,014	15,236	16,090

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of cash flows (continued)

	Year ended 31 December		
	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
Operating cash inflow before movements in working capital	14,014	15,236	16,090
Increase in inventories	(6,715)	(676)	(3,949)
Decrease/(increase) in trade and bills receivables, prepayment, deposits and other receivables and contract assets	597	2,056	(908)
Increase in trade and bills payables, other payables and accruals, receipt in advance and contract liabilities	10,410	3,912	5,228
Change in other working capital	447	(210)	(157)
Cash generated from operations	18,753	20,318	16,304
Interest received	244	394	488
Income tax paid	(1,773)	(1,569)	(1,709)
Net cash generated from operating activities	17,224	19,143	15,083
Cash flows from investing activities			
Payment for purchases of non-current assets	(4,343)	(6,759)	(6,194)
Receipt of government grants related to assets	188	-	-
Proceeds from disposal of non-current assets	201	471	261
Payment for acquisition of subsidiaries, net of cash acquired	(377)	(103)	(2,730)
Proceeds from disposal of subsidiaries	261	658	(952)
Payment for acquisition of associates	(743)	(33)	-
Proceeds from disposal of associates	188	505	-
Purchases of AFS financial assets	(44)	-	-
Purchases of equity investments designated at FVTOCI	-	(156)	(221)
Proceeds from disposal of equity investments designated at FVTOCI	-	4	70
Dividends reccived from associates	201	239	348
Dividends reccived from AFS financial assets	37	-	-
Dividends reccived from equity investment designated at FVTOCI	-	25	35
Dividends reccived from investments	-	3	2
Purchases of financial assets measured at amortised cost and financial assets at FVTPL	(1,390)	(2,598)	(1,782)
Interest received from financial assets measured at amortised cost and financial assets at FVTPL	43	93	203
Net cash flows used in investing activities	(5,778)	(7,651)	(10,960)

I. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated statements of cash flows (continued)

	Year ended 31 December		
	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
Cash flows from financing activities			
Proceeds from issue of shares	-	2,133	-
Repurchase of shares	(1)	-	-
Proceeds from issue of convertible and exchangeable bonds	6,796	2,983	-
Payment of bond issuance costs	-	(68)	-
Proceed from borrowings	18,694	12,700	18,468
Repayment of borrowings	(23,334)	(22,418)	(19,018)
Redemption of convertible and exchangeable bond	-	-	(9)
Deposit for borrowing	(550)	30	
Dividends paid to shareholders	(1,512)	(2,085)	(2,235)
Dividends paid to non-controlling shareholders	(285)	(569)	(579)
Capital element of finance lease obligation	(17)	-	-
Interest element of finance lease obligation	(1)	-	-
Lease payments	-	-	(894)
Interest paid for borrowings	(1,109)	(1,162)	(1,388)
Changes in ownership interests in subsidiaries	1,294	(2,046)	(358)
Net cash flows used in financing activities	(25)	(10,502)	(6,013)
Net increase/(decrease) in cash and cash equivalents	11,421	990	(1,890)
Cash and cash equivalents at beginning of the year	24,233	35,292	36,561
Effect of foreign exchange rate changes, net	(362)	279	292
Cash and cash equivalents at end of the year	35,292	36,561	34,963
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances	19,486	21,687	18,890
Time deposits	15,806	14,874	16,073
Cash and cash equivalents as stated in the statement of financial position	35,292	36,561	34,963

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 RMB 150 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.

The Company's registered office is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province, and the headquarters is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province. The Company is mainly engaged in manufacturing and trading as well as R&D of refrigerator, air-conditioner, freezer, washing machine, water heater, dishwashers, gas stove and relevant products and commercial circulation business.

In the opinion of the directors, the ultimate controlling parent company of the Company is Haier Group Corporation.

The Company is an investment holding company. 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. Domestic 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 (Note 11).

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 *RMB'M*	Percentage of equity attributable to the Company 2017		2018		2019		Principal activities	Type of legal status	Note
			Direct	Indirect	Direct	Indirect	Direct	Indirect			
Haier Electronics Group Co., Ltd.	The People Republic of China ("the PRC") and Hong Kong/Bermuda	2,805	14.01	29.68	14.01	30.95	14.00	31.87	Investment holding, manufacture and sale of washing machines and water heaters, distribution and logistics service	Limited liability company	(i)
Wonder Global (BVI) Investment Limited	The United State of America ("USA")/British Virgin Islands ("BVI")	18,596	-	100	-	100	-	100	Manufacture and sale of household appliances and logistics service	Limited liability company	(ii)
Haier Singapore Investment Holding Co., Ltd.	Singapore and other overseas areas/Singapore	5,358	-	100	-	100	-	100	Manufacture and sale of household appliances	Limited liability company	(ii)
Qingdao Haier Air Conditioner Gen. Corp., Ltd	PRC/PRC	218	99.95	-	100	-	100	-	Manufacture and operation of household air-conditioners	Limited liability company	(iv)
Guizhou Haier Electronics Co., Ltd.	PRC/PRC	141	59	-	59	-	59	-	Manufacture and sale of refrigerator refrigerator	Limited liability company	(iv)
Hefei Haier Air-conditioning Co., Limited	PRC/PRC	12	100	-	100	-	100	-	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Wuhan Haier. Electronics Co., Ltd.	PRC/PRC	62	60	-	60	-	60	-	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	PRC/PRC	356	100	-	100	-	100	-	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Information Plastic Development Co., Ltd.	PRC/PRC	78	100	-	100	-	100	-	Manufacture of plastic product	Limited liability company	(iv)
Dalian Haier Precision Products Co., Ltd.	PRC/PRC	48	90	-	90	-	90	-	Manufacture and sale of precise plastics	Limited liability company	(iv)
Hefei Haier Plastic Co., Ltd.	PRC/PRC	34	94.12	5.88	94.12	5.88	94.12	5.88	Manufacture and sale of plastic parts	Limited liability company	(iv)
Qingdao Haier Moulds Co., Ltd.	PRC/PRC	158	75	25	75	25	75	25	Research and manufacture of precise mould and product	Limited liability company	(iv)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital *RMB'M*	Percentage of equity attributable to the Company 2017		2018		2019		Principal activities	Type of legal status	Note
			Direct	Indirect	Direct	Indirect	Direct	Indirect			
Qingdao Meier Plastic Powder Co., Ltd.	PRC/PRC	12	40	60	40	60	40	60	Manufacture of plastic powder, plastic sheet and high performance coatings	Limited liability company	(iv)
Chongqing Haier Precision Plastic Co., Ltd.	PRC/PRC	65	90	10	90	10	90	10	Plastic products, sheet metal work, electronics and hardware	Limited liability company	(iv)
Chongqing Haier Intelligent Electronics Co., Ltd.	PRC/PRC	10	90	10	90	10	90	10	Manufacture and sale of electronics and automatic control system equipment	Limited liability company	(iv)
Qingdao Haier Robot Co., Ltd.	PRC/PRC	16	50	-	50	-	100	-	Research, development, manufacture and sale of robot	Limited liability company	(iv)
Qingdao Haier Refrigerator Co., Ltd.	PRC/PRC	207	100	-	100	-	100	-	Manufacture and production of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Refrigerator (International) Co., Ltd.	PRC/PRC	260	75	-	75	-	100	-	Manufacture and production of refrigerators	Limited liability company	(iv)
Qingdao Haier Whole Set Home Appliance Service Co., Ltd.	PRC/PRC	120	98.33	-	98.33	-	98.33	-	Research, development and sales of health series of small home appliance	Limited liability company	(iv)
Qingdao Haier Intelligent Electronics Co., Ltd.	PRC/PRC	292	100	-	100	-	100	-	Design and development of electronics and automatic control system	Limited liability company	(iv)
Qingdao Haier Special Refrigerator Co., Ltd.	PRC/PRC	166	100	-	100	-	100	-	Manufacture and sales of fluorine-free refrigerators	Limited liability company	(iv)
Qingdao Haier Dishwasher Co., Ltd.	PRC/PRC	180	100	-	100	-	100	-	Manufacture and production of dish washing machine and gas stove	Limited liability company	(iv)
Qingdao Haier Special Freezer Co., Ltd.	PRC/PRC	388	96.06	-	96.06	-	96.06	-	Research, manufacture and sales of freezer and other refrigeration products	Limited liability company	(iv)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital *RMB'M*	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2018 Direct	2018 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Dalian Haier Air-conditioning Co., Ltd.	PRC/PRC	110	90	-	90	-	90	-	Manufacture and production of air-conditioners	Limited liability company	(iv)
Dalian Haier Refrigerator Co., Ltd.	PRC/PRC	110	90	-	90	-	90	-	Manufacture and production of refrigerators	Limited liability company	(iv)
Qingdao Haier Electronic Plastic Co., Ltd.	PRC/PRC	60	80	-	80	-	80	-	Development, assembling and sales of plastics, electronics and product	Limited liability company	(iv)
Wuhan Haier Freezer Co., Ltd.	PRC/PRC	50	95	5	95	5	95	5	Research, manufacture and sales of freezer and other refrigeration products	Limited liability company	(iv)
Qingdao Haidarui Procurement Service Co., Ltd.	PRC/PRC	110	98	2	98	2	98	2	Development, purchase and sales of electrical product and components	Limited liability company	(iv)
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	PRC/PRC	330	98.91	1.09	98.91	1.09	98.91	1.09	Development and application of household appliances, communication, electronics and network engineering technology	Limited liability company	(iv)
Chongqing Haier Air-conditioning Co., Ltd.	PRC/PRC	130	76.92	23.08	76.92	23.08	76.92	23.08	Manufacture and sales of air conditioners	Limited liability company	(iv)
Qingdao Haier Precision Products Co., Ltd.	PRC/PRC	10	-	70	-	70	-	70	Development and manufacture of precise plastic, metal plate, mould and electronic products for household appliances	Limited liability company	(iv)
Qingdao Haier Air Conditioning Equipment Co., Ltd.	PRC/PRC	20	-	70	-	70	-	100	Manufacture of household appliances and electronics company	Limited liability	(iv)
Dalian Free Trade Zone Haier Air-conditioning Trading Co., Ltd.	PRC/PRC	1	-	100	-	100	-	100	Domestic trade liability company	Limited	(iv)
Dalian Free Trade Zone Haier Refrigerator Trading Co., Ltd.	PRC/PRC	1	-	100	-	100	-	100	Domestic trade liability company	Limited	(iv)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital *RMB'M*	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2018 Direct	2018 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Qingdao Ding Xin Electronics Technology Co., Ltd.	PRC/PRC	20	-	100	-	100	-	100	Manufacture and sale of electronic parts	Limited liability company	(iv)
Chongqing Haier Electronics Sales Co., Ltd.	PRC/PRC	10	95	5	95	5	95	5	Household appliance sales	Limited liability company	(iv)
Chongqing Haier Refrigeration Appliance Co., Ltd.	PRC/PRC	108	84.95	15.05	84.95	15.05	84.95	15.05	Manufacture and production of refrigerator	Limited liability company	(iv)
Hefei Haier Refrigerator Co., Ltd.	PRC/PRC	49	100	-	100	-	100	-	Manufacture and production of refrigerator	Limited liability company	(iv)
Wuhan Haier Energy and Power Co., Ltd.	PRC/PRC	8	-	75	-	75	-	75	Energy service	Limited liability company	(iv)
Qingdao Haier HVAC Engineering Co., Ltd	PRC/PRC	8	-	100	-	100	-	100	Air-conditioning	Limited liability company	(iv)
Chongqing Gooddaymart Electric Appliance Sale Co., Ltd.	PRC/PRC	5	-	51	-	51	-	51	Sales of household appliances and electronics	Limited liability company	(iv)
Qingdao Haier (Jiaozhou) Air-conditioning Co., Ltd.	PRC/PRC	119	-	100	-	100	-	100	Manufacture and sale of air-conditioners	Limited liability company	(iv)
Qingdao Haier Component Co., Ltd.	PRC/PRC	80	-	100	-	100	-	100	Manufacture and sales of plastic and precise sheet metal products	Limited liability company	(iv)
Haier Shareholdings (Hong Kong) Limited	PRC/PRC	25,076	100	-	100	-	100	-	Investment holding	Limited liability company	(iv)
Shenyang Haier Refrigerator Co., Ltd.	PRC/PRC	100	100	-	100	-	100	-	Manufacture and sales of refrigerator	Limited liability company	(iv)
Foshan Haier Freezer Co., Ltd.	PRC/PRC	100	100	-	100	-	100	-	Manufacture and sales of freezer	Limited liability company	(iv)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital *RMB'M*	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2018 Direct	2018 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Zhengzhou Haier Air-conditioning Co., Ltd.	PRC/PRC	100	100	-	100	-	100	-	Manufacture and sales of air conditioner company	Limited liability	(iv)
Qingdao Haidayuan Procurement Service Co., Ltd.	PRC/PRC	20	100	-	100	-	100	-	Development, purchase and sales of electrical product and components company	Limited liability	(iv)
Qingdao Haier Intelligent Technology Development Co., Ltd.	PRC/PRC	130	100	-	100	-	100	-	Development and research of household appliances company	Limited liability	(iv)
Qingdao Hai Ri High-Tech Model Co., Ltd.	PRC/PRC	7	-	100	-	100	-	100	Design, manufacture and sales of product model and mould company	Limited liability	(iv)
Qingdao Hai Gao Design and Manufacture Co., Ltd.	PRC/PRC	1	-	75	-	75	-	75	Industrial design and prototype production company	Limited liability	(iv)
Beijing Haier Guangke Digital Technology Co., Ltd.	PRC/PRC	6	-	55	-	55	-	55	Development, promotion and transfer of technology company	Limited liability	(iv)
Shanghai Haier Medical Technology Co., Ltd.	PRC/PRC	28	-	100	-	100	-	100	Wholesale and retail of medical facility company	Limited liability	(iv)
Qingdao Haier Technology Co., Ltd.	PRC/PRC	80	100	-	100	-	100	-	Development and sales of software and information product company	Limited liability	(iv)
Qingdao Haier Technology Investment Co., Ltd.	PRC/PRC	302	100	-	100	-	100	-	Entrepreneurship investment and consulting company	Limited liability	(iv)
Qingdao Casarte Smart Living Appliances Co., Ltd.	PRC/PRC	10	-	100	-	100	-	100	Development, production and sales of appliances company	Limited liability	(iv)
Qingdao Haichuangyuan Appliances Sales Co., Ltd.	PRC/PRC	-	-	100	-	100	-	100	Sales of household appliances and digital products company	Limited liability	(iv)
Haier Overseas Electric Appliance Co., Ltd.	PRC/PRC	40	100	-	100	-	100	-	Sales of household appliances, international freight forwarding company	Limited liability	(iv)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Name	Place of Incorporation/ registration of business	Issued ordinary/ registered share capital *RMB'M*	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2018 Direct	2018 Indirect	2019 Direct	2019 Indirect	Principal activities	Type of legal status	Note
Haier Group (Dalian) Electrical Appliances Industry Co., Ltd.	PRC/PRC	5	100	-	100	-	100	-	Sales of household appliances, international freight forwarding company	Limited liability	(iv)
Qingdao Haier Central Air-conditioner Co., Ltd.	PRC/PRC	110	-	100	-	100	-	100	Production and sales of air conditioners and refrigeration equipment	Limited liability company	(iv)
Chongqing Haier Home Appliance Sale Hefei Co., Ltd.	PRC/PRC	-	-	100	-	100	-	100	Household appliance sales liability company	Limited	(iv)
Beijing Haier Zhongyou Netmedia Co., Ltd.	PRC/PRC	15	-	51	-	51	-	51	Radio and television program liability company	Limited	(iv)
Qingdao Weixi Smart Technology Co., Ltd.	PRC/PRC	4	-	71.43	-	71.43	-	71.43	Intelligent bathroom liability company	Limited	(iv)
Haier U+smart Technology (Beijing) Co., Ltd.	PRC/PRC	143	100	-	100	-	100	-	Software development liability company	Limited	(iv)
Qingdao Haier Industry Intelligence Research Institute Co., Ltd.	PRC/PRC	34	100	-	100	-	100	-	Industrial intelligent technology liability company	Limited	(iv)
Haier (Shanghai) ApplianceCo., Ltd.	PRC/PRC	5	100	-	100	-	100	-	Sales, research and development of household appliances company	Limited liability	(iv)
Haier New Zealand Investment Holding Company Limited	New Zealand/New Zealand	2,240	-	-	100	-	100	-	production and distribution of home appliances company	Limited liability	(iii)

* The English names of PRC 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION OF THE GROUP (CONTINUED)

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

Notes:
(i) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by Ernst & Young, a certified public accounting firm registered in Hong Kong.

(ii) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by Mazars LLP, a certified public accounting firm registered in USA.

(iii) The statutory financial statements for the years ended 31 December 2018 and 2019 prepared in accordance with International Financial Reporting standards have been audited by PricewaterhouseCoopers New Zealand.

(iv) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with Chinese accounting standards have been audited by Hexin Certified Public Accountants LLP, registered in the PRC.

All companies comprising the Group have adopted December 31, as their financial year end.

2.1 BASIS OF PREPARATION

Theses consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Application of new and amendments to IFRSs

For the purpose of preparing and presenting the consolidated financial statements for the years ended 31 December 2017, 2018 and 2019, the Group has consistently applied International Accounting Standards ("IASs"), IFRSs, amendments and interpretations ("(IFRIC)-Int") issued by the International Accounting Standards Board (the "IASB") which are effective for the Group's annual accounting period beginning on 1 January 2019, except for IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* with effect from 1 January 2018 and IFRS 16 *Leases* with effect from 1 January 2019 and IAS 17 *Leases* that applicable for each of the years ended 31 December 2017 and 2018. The accounting policies are set out in Note 2.3 to the consolidated financial statements below.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Impacts of adoption of IFRS 9 and IFRS 15 on the consolidated financial statements

The following table summarises the impacts of the adoption of IFRS 9 and IFRS 15 on the Group's consolidated statement of financial position at 1 January 2018 and shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new IFRSs have not been included. As a result, the sub- totals and totals disclosed cannot be recalculated from the numbers provided.

	At 31 December 2017 *RMB'M*	IFRS 9 *RMB'M*	IFRS 15 *RMB'M*	At 1 January 2018 *RMB'M*
Non-current assets				
Interests in associates	13,012	(32)	-	12,980
AFS financial assets	1,415	(1,415)	-	-
Equity investments designated at fair value through other comprehensive income ("FVTOCI")	-	1,409	-	1,409
Financial assets measured at fair value through profit or loss ("FVTPL")	-	7	-	7
Deferred tax assets	2,088	(59)	17	2,046
Other non-current assets	1,107	-	1	1,108
Current assets				
Inventories	22,575	-	(188)	22,387
Trade and bills receivables	26,047	139	-	26,186
Prepayments, deposits and other receivables	4,222	20	121	4,363
Contract assets	-	-	428	428
Current liabilities				
Receipt in advance	5,890	-	(5,890)	-
Contract liabilities	-	-	6,130	6,130
Other payables and accruals	14,645	-	302	14,947
Non-current liability				
Provisions	1,051	-	(73)	978
Equity				
Equity method investments reserve	(273)	41	-	(232)
Retained profits	22,421	(10)	(45)	22,366
Non-controlling interests	14,795	38	(45)	14,788

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) Impacts of adoption of IFRS 16 on the consolidated financial statements

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

	Increase/ (decrease) *RMB'M*
Assets	
Increase in right-of-use assets	4,910
Decrease in prepaid land lease payments	(1,828)
Increase in deferred tax assets	22
Decrease in prepayments, deposits and other receivables	(39)
Increase in total assets	3,065
Liabilities	
Increase in lease liabilities	3,153
Decrease in trade and bill payable	(22)
Decrease in other payables and accruals	(5)
Increase in total liabilities	3,126
Equity	
Decrease in retained profits	(47)
Decrease in non-controlling interests	(14)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(c) IFRS 9 Financial Instruments

Impact on changes in accounting policies of application on IFRS 9 "Financial Instruments"

From 1 January 2018, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 disclosed in Note 2.3 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(c) IFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of IFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included.

(i) Classification and measurement

	IAS 39 carrying amounts at 31 December 2017 *RMB'M*	Reclassification *RMB'M*	IFRS 9 carrying amounts at 1 January 2018 *RMB'M*
Financial assets measured at FVTOCI			
Listed equity instrument	-	27	27
Unlisted equity instrument	-	1,388	1,388
Financial assets classified as available-for sale ("AFS") financial assets under IAS 39			
Listed equity investments	27	(27)	-
Unlisted equity investments	1,388	(1,388)	-

Classification and measurement of financial assets and financial liabilities measured at amortised cost

All recognised financial assets and financial liabilities that are within the scope of IFRS 9 are subsequently measured at amortised cost.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis. Based on assessment by the directors, the directors consider the ECL for trade receivables is insignificant at 1 January 2018.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(c) IFRS 9 Financial Instruments (continued)

Impairment under ECL model (continued)

Except for those which had been determined as credit impaired under IAS 39, ECL for other Financial assets measured at amortised cost, including other assets, amount due from a related company, other receivables and deposits and bank balances and cash, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

For deposits and other receivables, the directors make periodic collective as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience with available reasonable and supportive forward-looking information. Based on assessment by the directors, the directors consider the ECL for deposits and other receivables is insignificant.

(d) IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 Jaunary 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15, prior period comparative figures have not been restated. The Company recognises revenue mainly from the following major sources which arise from contracts with customers:

- manufacture and sales of refrigerators/freezers
- manufacture and sales of kitchen appliances
- manufacture and sales of air conditioner
- manufacture and sales of washing machine
- manufacture and sales of water home appliances

Information about the Company's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Note 2.3 to the consolidated financial statements.

IFRS 15 was generally adopted without restating any other comparative information. The adoption of IFRS 15 in the current period does not result in any significant impact on the amounts reported in the financial information and/or disclosures set out in the consolidated financial statements at the earliest period presented.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(e) IFRS 16 Leases

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of prepaid land lease, land and building, machinery and equipment, Motor vehicles and furniture, fixture and equipment were determined on a portfolio basis; and

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(e) IFRS 16 Leases (continued)

As a lessee (continued)

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the interest rate implicit in the lease or incremental borrowing rate of the relevant group entities at the date of initial application.

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

	RMB'M
Operating lease commitments as at 31 December 2018	3,903
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(356)
	3,547
Discounted operating lease commitments and lease liabilities as at 1 January 2019	3,153

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(e) IFRS 16 Leases (continued)

As a lessee (continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets *RMB'M*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		3,092
Reclassified from prepaid land lease payments as at 1 January 2019	(a)	1,868
Adjustments on rental deposits at 1 January 2019	(b)	(1)
Adjustments on deferred tax assets at 1 January 2019		(22)
Less: Accrued lease liabilities relating to properties at 1 January 2019	(c)	(27)
		4,910

Notes:

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB40 millions and RMB1,828 millions respectively were reclassified to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied under other receivables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB1 millions was adjusted to refundable rental deposits paid and right-of-use assets.

(c) These relate to accrued lease liabilities of several operating leases in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities under trade and bill payable and other payables and accruals as at 1 January 2019 was adjusted to right-of-use assets at transition.

Effective from 1 January 2019, leasehold lands which were classified as prepaid land lease payments are measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(e) IFRS 16 Leases (continued)

As a lessee (continued)

The recognised right-of-use assets related to the following types of assets:

	RMB'M
Prepaid land lease payments	1,868
Land and building	2,803
Motor vehicles	2
Furniture, fixtures and equipment	237
	4,910

The following table summarises the impact of transition to IFRS 16 on retained profits and non-controlling interests at 1 January 2019:

	At 31 December 2018 *RMB'M*	Reclassification *RMB'M*	Recognition of leases *RMB'M*	At 1 January 2019 *RMB'M*
Equity				
Retained profits	26,958	-	(47)	26,911
Non-controlling interests	16,066	-	(14)	16,052

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

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

Amendments to IFRS 3	Definition of a Business[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 17	Insurance Contracts[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 16	COVID-19 Related Rent Concession[5]

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after 1 January 2023.
4 No mandatory effective date yet determined but available for adoption.
5 Effective for annual periods beginning on or after 1 June 2020.

In addition to the above new and amendments to IFRSs, a revised *Conceptual Framework for Financial Reporting* was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS issued by the IASB. 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 except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non- controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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 (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non- controlling interests are measured at their fair value.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merger accounting for business combination involving businesses under common control (continued)

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 are 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 Corp, entered into an asset swap agreement, pursuant to which Guanmei agreed to acquire and Haier International agreed to sell 51% equity interest in Qingdao Haishi Water Equipment Co., Ltd. ("Qingdao Haishi") at a consideration of approximately RMB1,074 millions 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 Corporation ("Haier Corp") both before and after the completion of the Asset Swap, the acquisition of Qingdao Haishi was accounted for using the principles of merger accounting.

On 9 September 2019, the Company acquired 100% equity interest in Qingdao Gooday Health Industry Development Co., Ltd ("Gooday Health") at a cash consideration of RMB34 millions (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 Corporation ("Haier Corp") and is currently principally engaged in manufacturing water treatment appliances. Pursuant to the Acquisition, the Company became an indirect holding company of Gooday Health. Since the Company and Gooday Health were ultimately controlled by Haier Corp both before and after the completion of the Acquisition, the Acquisition was accounted for using the principles of merger accounting.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to relevant assets at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash- generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash- generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The consolidated financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal / partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of IFRS 9 and investment properties which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2)

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2) (continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

(a) Sale of goods

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

(i) Rights of return

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (continued)

Input method (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

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

(b) 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2) (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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (upon application of IFRS 15 in accordance with transition in Note 2.2) (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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to application of IFRS 15 on 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

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

(e) dividend income, when the shareholders' right to receive payment has been established.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2.2)

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2.2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand- alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, plant and machinery, tools, furniture and fixtures and motor vehicles 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2.2) (continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of- use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment properties.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2.2) (continued)

Lease liabilities (continued)

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2.2) (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 lessee (prior to application of IFRS 16 on 1 January 2019)

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (prior to application of IFRS 16 on 1 January 2019) (continued)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in Note 2.2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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).

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 a joint arrangement or 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 or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs (continued)

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs and termination benefits (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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs and termination benefits (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.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Pension schemes

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs and termination benefits (continued)

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

Pension schemes (continued)

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right- of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

Depreciation is recognised so as to write off the cost of assets other than freehold land and properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% to 19%
Leasehold improvements	10% to 50%
Machinery and equipment	5% to 50%
Furniture, fixtures and equipment	5% to 33%
Motor vehicles	9% to 35%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (continued)

Investment properties are properties held to earn rentals and for capital appreciation (including properties under construction for such purposes).

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates used for this purpose from 3% to 5%.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of IFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash- generating unit) for which the estimates of future cash flows have not been adjusted.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss , unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss , unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of certain products are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments or receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments or receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments or receivables. When these debt instruments or receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/ will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other gains or losses" line item in profit or loss.

(iv) 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets

The Group performs impairment assessment under ECL model on financial assets (including trade and bills receivables and other receivables) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings (should tailor to reporting entity's specific facts and circumstances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (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.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(e) the disappearance of an active market for that financial asset because of financial difficulties

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

Except for investments in debt instruments that are measured at FVTOCI, financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire , or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

A financial liability is held for trading if: (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities measured at amortised cost

Financial liabilities including borrowings, trade payables and others are subsequently measured at amortised cost, using the effective interest method.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial liabilities and equity (continued)

Convertible and exchangeable bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible loan notes using the effective interest method.

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Financial liabilities and equity (continued)

Derecognition of financial liabilities (continued)

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;

- the effect of credit risk does not dominate the value changes that result from that economic relationship; and

- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Hedge accounting (continued)

Fair value hedges (continued)

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains or losses' line item.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Upon applications of IFRS 9 in accordance with transition in Note 2.2) (continued)

Hedge accounting (continued)

Hedges of net investments in foreign operations (continued)

Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in the translation reserve are reclassified to profit or loss on disposal of the foreign operation.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For fair value hedge of debt instruments at amortised cost or debt instruments at FVTOCI, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins. In the case of debt instruments at FVTOCI, amortisation applies in the same manner but to the extent of the cumulative hedging gain or loss previously recognised in profit or loss.

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Financial instruments (before application of IFRS 9 on 1 January 2018)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at FVTPL.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at FVTPL are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at FVTPL are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at FVTPL. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses and losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial assets (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

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

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

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Derecognition of financial assets (continued)

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (before application of IFRS 9 on 1 January 2018) (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at FVTPL (continued)

Financial liabilities designated upon initial recognition as at FVTPL are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

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

Cash and cash equivalents

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

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

Dividends

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

A party is considered to be related to the Group if: (continued)

(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 Grouper 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 judgments, 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 judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition from sales of goods at a point in time (upon applications of IFRS15 in accordance with transition in Note 2.2)

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

Control over Haier Electronics Group Co., Ltd.

Note 39 describes that Haier Electronics Group Co., Ltd. is a subsidiary of the Group although the Group has only 43.69%, 44.96% and 45.87% of ownership interest in Haier Electronics Group Co., Ltd for the years ended 31 December 2017, 2018 and 2019, respectively. Haier Electronics Group Co., Ltd. is listed on the Main Board of The Stock Exchange of Hong Kong Limited. The remaining 56.31%, 55.04% and 54.13% voting rights for the years ended 31 December 2017, 2018 and 2019, respectively was held by a lot in dividend who will not group in voting. Details of Haier Electronics Group Co., Ltd. are set out in Note 39.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgments in applying accounting policies (continued)

Control over Haier Electronics Group Co., Ltd. (continued)

The directors of the Company assessed whether or not the Group has control over Haier Electronics Group Co., Ltd. based on whether the Group has the practical ability to direct the relevant activities of Haier Electronics Group Co., Ltd. unilaterally. In making the assessment, the directors of the Company considered the Group's majority of voting rights in Haier Electronics Group Co., Ltd., concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Haier Electronics Group Co., Ltd. and therefore the Group has control over Haier Electronics Group Co., Ltd..

Significant influence over Bank of Qingdao Co., Ltd.

Note 20 describes that Bank of Qingdao Co., Ltd. is an associate of the Group, although the Group only owns 9.61%, 9.61% and 8.65%of wnership interest in Bank of Qingdao Co., Ltd as at 31 December 2017, 2018 and 2019. The Group has significant influence over Bank of Qingdao Co., Ltd. by virtue of the contractual right to appoint two out of the six directors to the board of directors of that company. Details of Bank of Qingdao Co., Ltd. are set out in Note 20.

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

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

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

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 asset

Deferred tax asset at 31 December 2017, 2018 and 2019 were RMB2,088 millions, RMB1,822 millions and RMB1,579 millions respectively, in relation to unused tax losses for certain operating subsidiaries has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses for non-operating subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Fair value measurement of financial instruments

The fair value of the unlisted equity investments as at 31 December 2017, 2018 and 2019 was RMB Nil, RMB1,380 millions and RMB1,374 millions, are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See Note 21 for further disclosures.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

Provision of expected credit losses for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on days past due as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 26.

Estimated impairment of property, plant and equipment, right-of-use assets and other intangible assets

Property, plant and equipment, right-of-use assets and other intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

Useful lives of items of property, plant and equipment

Management determines the estimated useful lives and related depreciation for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. The depreciation charge will increase when the useful lives are less than the previously estimated useful lives, or management will write off or write down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2017, 2018 and 2019, the carrying amount of the property, plant and equipment were RMB18,983 millions, RMB21,441 millions and RMB23,919 millions respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 for the years ended 31 December 2017, 2018 and 2019. As at 31 December 2017, 2018 and 2019, the carrying amount of goodwill are approximately RMB20,428 millions, RMB21,239 millions, RMB23,352 millions, respectively. Further details are given in Note 18 to the consolidated financial statements.

Estimated impairment of interests in associates

Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associate and the proceeds from the ultimate disposal of the investment taking into account of factors, including discount rate, dividend payout rate etc. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Impairment losses of interests in associates were recognised for the years ended 31 December 2017, 2018 and 2019 was RMB 21 millions, RMB 6 millions and RMB56 millions respectively. As at 31 Decemer 2017, 2018 and 2019, the net carrying amount of the investment in associates are approximately RMB13,012 millions, RMB13,994 millions, RMB20,461 millions respectively. Further details are given in Note 20 to the 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 2017, 2018 and 2019, the net carrying amount of inventories (after impairment provision) were RMB22,575 millions, RMB22,411 millions and RMB28,229 millions respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Product warranty provisions

Product warranty provisions are made with reference to the sales volume and the expected unit cost for warranties. The assessment of the provision amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the product warranty provisions and the provision amount charged/reversed in the period in which such estimate has been changed. As at 31 December 2017, 2018 and 2019, the product warranty amounted to RMB2,655 millions, RMB2,827 millions and RMB3,058 millions retrospectively. Further details are included in Note 34 to the consolidated financial statements.

Determining the lease term

As explained in Note 2.2 and 2.3, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying assets to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

1. the domestic refrigerator business segment manufactures and sells refrigerator within PRC ("Domestic Refrigerators/Freezers");

2. the domestic kitchen appliances business segment manufactures and sells kitchen appliances within PRC ("Domestic Kitchen Appliances");

3. the domestic air conditioner business segment manufactures and sells air conditioner within PRC ("Domestic Air-conditioners");

4. the domestic washing machines business segments manufactures and sells washing machines within PRC ("Domestic Washing Machines");

5. the domestic water appliances business segments manufactures and sells water appliances within PRC ("Domestic Water Home Appliances");

6. the overseas home appliances and smart home business segments manufacture and sells home appliances and smart home appliances worldwide other than PRC ("Smart Home Business Overseas"); and

7. the others comprise business less than quantitative thresholds. ("Other Business").

Upon the completion of the Asset Swap as detailed in Note 2.3 to the 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 compreising of interests-bearing borrowings, convertible and exchangeable bonds).

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017

Continuing operations

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Segment revenue								
Segment revenue from external customers	26,416	1,940	21,555	18,421	7,932	69,914	7,987	154,165
Inter-segment revenue	2,010	149	2,623	1,472	46	773	51,486	58,559
Total	28,426	2,089	24,178	19,893	7,978	70,687	59,473	212,724
Reconciliation:								
Inter-segment eliminations								(58,559)
Total								154,165
Segments results	1,692	35	968	1,816	864	2,858	610	8,843
Reconciliation:								
Elimination of inter-segment results								(48)
								8,795
Corporate and other unallocated income								1,847
Corporate and other unallocated expenses								(223)
Finance costs								(1,396)
Share of profits and losses of associates								1,189
Profit before taxation								10,212

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018

Continuing operations

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Segment revenue								
Segment revenue from external customers	29,638	2,271	23,420	20,853	8,812	74,896	17,704	177,594
Inter-segment revenue	1,976	193	3,224	1,655	43	528	60,221	67,840
Total	31,614	2,464	26,644	22,508	8,855	75,424	77,925	245,434
Reconciliation:								
Inter-segment eliminations								(67,840)
Total								177,594
Segments results	2,090	19	1,141	1,971	1,029	3,077	376	9,703
Reconciliation:								
Elimination of inter-segment results								(49)
								9,654
Corporate and other unallocated income								2,138
Corporate and other unallocated expenses								(327)
Finance costs								(1,464)
Share of profits and losses of associates								1,325
Profit before taxation								11,326

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019

Continuing operations

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home 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								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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

As at 31 December 2017

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Segment assets	4,594	785	11,139	7,126	2,083	35,655	40,419	101,801
Reconciliation:								
Elimination of segment assets								(21,809)
Goodwill								20,428
Interests in associates								13,012
AFS financial assets								1,415
Deferred tax assets								2,088
Financial assets measured at amortised cost								2,007
Derivative financial instruments								103
Other receivables								2,368
Other non-current assets								289
Pledged deposits								1,279
Cash and cash equivalents								35,292
Assets and disposal group held for sale								28
Total assets								158,301
Segment liabilities	18,312	927	4,970	5,947	3,684	15,247	39,252	88,339
Reconciliation:								
Elimination of segment liabilities								(21,408)
Tax payable								1,296
Other payables								863
Derivative financial instruments								249
Interest-bearing borrowings								33,064
Deferred tax liabilities								344
Convertible and exchangeable bonds								6,211
Other non-current liabilities								31
Put option liabilities								917
Total liabilities								109,906

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

As at 31 December 2018

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Segment assets	4,977	1,711	14,369	8,221	2,752	33,831	47,424	113,285
Reconciliation:								
Elimination of segment assets								(29,693)
Goodwill								21,239
Interests in associates								13,994
Equity investments designated at FVTOCI								1,400
Deferred tax assets								1,822
Financial assets measured at FVTPL								1,776
Financial assets measured at amortised cost								2,838
Derivative financial instruments								97
Pledged deposits								1,810
Cash and cash equivalents								36,561
Assets and disposal group held for sale								144
Other receivables								2,246
Other non-current financial assets								573
Total assets								168,092
Segment liabilities	23,184	1,314	7,379	5,592	3,316	16,366	45,970	103,121
Reconciliation:								
Elimination of segment liabilities								(29,415)
Tax payable								1,187
Other payables								829
Derivative financial instruments								36
Financial liabilities measured at FVTPL								219
Interest-bearing borowings								24,855
Deferred tax liabilities								405
Convertible and exchangeable bonds								9,192
Liabilities directly associated with assets classified as held for sale								32
Other non-current liabilities								31
Put option liabilities								1,792
Total liabilities								112,284

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

As at 31 December 2019

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home 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 deposit								1,211
Other deposits with limited use								5
Cash and cash equivalents								34,963
Other receivables								2,988
Assets and disposal group held for sale								21
Other non-current financial assets								602
Total assets								187,454
Segment liabilities	30,598	1,468	8,590	7,447	4,135	23,786	48,312	124,336
Reconciliation:								
Elimination of segment liabilities								(39,098)
Tax payable								1,278
Other payable								892
Derivative financial instruments								99
Financial liabilities at FVTPL								43
Interest-bearing borowings								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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Other segment information:								
Product warranty and installation provisions	1,354	99	1,105	548	451	818	-	4,375
Provision for obsolete and slow-moving inventories, net	76	7	135	71	17	134	112	552
Impairment of trade and bills receivable, net	8	2	(2)	-	-	29	27	64
Impairment of prepayments, deposits and other receivables and other assets, net	21	-	-	-	-	3	29	53
(Gain)/Loss on disposal of non-current assets, net	4	1	4	(4)	(2)	80	(6)	77
Depreciation and amortisation	314	11	236	116	77	2,026	192	2,972

For the year ended 31 December 2018

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Other segment information:								
Product warranty and installation provisions	1,153	84	940	596	522	906	-	4,201
Provision for obsolete and slow-moving inventories, net	72	15	106	86	26	84	167	556
Impairment of trade and bills receivable, net	5	(1)	6	8	(3)	41	24	80
Impairment of prepayments, deposits and other receivables and other assets, net	63	4	53	-	-	36	70	226
(Gain)/Loss on disposal of non-current assets, net	(84)	3	2	(2)	(1)	30	-	(52)
Depreciation and amortisation	314	14	247	129	88	2,017	210	3,019

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019

	Domestic Refrigerators/ Freezers *RMB'M*	Domestic Kitchen Appliances *RMB'M*	Domestic Air-conditioners *RMB'M*	Domestic Washing Machines *RMB'M*	Domestic Water Home Appliances *RMB'M*	Smart Home Business Overseas *RMB'M*	Other Business *RMB'M*	Total *RMB'M*
Other segment information:								
Product warranty and installation 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
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
(Gain)/Loss 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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
PRC	82,715	100,394	103,887
Other country/regions	71,450	77,200	94,119
	154,165	177,594	198,006

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

(b) Non-current assets

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
PRC	12,241	15,357	14,237
Other country/regions	17,509	18,494	25,566
	29,750	33,851	39,803
Interests in associates	13,012	13,994	20,461
Goodwill	20,428	21,239	23,352
AFS financial assets	1,415	-	-
Equity investments designated at FVTOCI	-	1,400	1,396
Financial assets measured at FVTPL	-	327	295
Deferred tax assets	2,088	1,822	1,579
	66,693	72,633	86,886

The non-current asset information above is based on the locations of the assets and excludes interests in associates, goodwill, AFS financial assets, equity investments designated at FVTOCI, financial assets measured at FVTPL and deferred tax assets.

Information about major customers

For the years ended 31 December 2017, 2018 and 2019, no single customer of the Group contributed 10% or more to the total revenue of the Group.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. REVENUE, OTHER GAINS OR LOSSES

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

	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
Sale of goods	153,915	177,325	197,746
Rendering of services	250	269	260
	154,165	177,594	198,006

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

Sale of goods

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

Rendering of services

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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. REVENUE, OTHER GAINS OR LOSSES (CONTINUED)

An analysis of other gains or loss from contining operation is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Treasury and investment income:			
Interest income from:			
Bank	309	449	525
Wealth management products	43	69	130
Other	15	27	22
Cash discount income	179	171	162
Dividend income from:			
AFS financial assets	41	-	-
Equity investment designated at FVTOCI	-	105	39
	587	821	878
Compensation received from:			
Suppliers	329	356	279
Controlling shareholder ("Haier Corp")	32	2	-
Legal settlement	171	-	-
Gain/(loss) on disposal of:			
Non-current assets, net	(77)	52	399
AFS financial assets, net	1	-	-
Equity investment designated at FVTOCI	-	-	2
Financial assets/liabilities measured at FVTPL, net	49	129	36
Subsidiaries	129	178	(4)
Government grants (Note (a))	902	899	1,256
Rental income from investment properties (Note (b))	21	12	13
Net fair value gain/(loss) on financial assets/liabilities at FVTPL	614	(153)	72
Net foreign exchange(losses)/gains	(589)	2	276
Sundry income	59	91	117
	2,228	2,389	3,324

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. REVENUE, OTHER GAINS OR LOSSES (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 2017, 2018 and 2019 amounted to approximately RMB13 millions, RMB9 millions and RMB5 millions respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Cost of inventories sold	103,327	124,729	138,666
Provision for obsolete and slow-moving inventories, net (Note(a))	552	556	576
Cost of services	122	130	151
	104,001	125,415	139,393
Depreciation of property, plant and equipment	2,643	2,589	2,998
Depreciation of investment properties	2	2	2
Depreciation of right-of-use assets	-	-	898
Amortisation of prepaid land lease payments	44	40	-
Amortisation of intangible assets	431	515	752
Amortisation of other non-current assets	9	11	13
Discontinued operation impact on depreciation and amortisation	(157)	(138)	(292)
	2,972	3,019	4,371
Employee benefit expense: (including directors' and chief executive's remuneration — Note 8):			
Salaries, bonuses, allowances and benefits in kind	14,656	17,709	20,157
Pension scheme contributions	1,789	1,376	1,882
Equity-settled restricted share award scheme expense, net	395	386	477
	16,840	19,471	22,516

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (CONTINUED)

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Impairment of trade and bills receivables, net (Note(b))	64	80	131
(Reversal of)/impairment of prepayments, deposits and other receivables and long term prepayments, net (Note(b))	(7)	188	233
Impairment of AFS financial assets (Note(b))	27	-	-
Impairment of property, plant and equipment (Note(c))	4	32	11
Impairment of interests in associates (Note(b))	21	6	56
Impairment of other intangible assets (Note(b))	10	-	-
Impairment of contract assets (Note(b))	-	-	4
	119	306	435

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Research and development costs	4,510	5,104	6,221
Auditor's remuneration	10	9	10
Minimum lease payments under operating leases	641	871	-
Expenses relateing to short-term lease	-	-	356
Variable lease payments not included in the measurement of lease liabilities	-	-	93
Product warranty provisions	4,375	4,201	5,078
Foreign exchange differences, net	589	(2)	(276)
Loss/(gain) on disposal/write-off of non-current assets, net (Note(b))	77	(52)	(399)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (CONTINUED)

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Interest on borrowings	1,208	1,081	1,078
Interest on convertible and exchangeable bonds	12	168	274
Interest on finance leases	1	-	-
Interest on lease liabilities	-	-	98
Other finance costs	175	215	282
	1,396	1,464	1,732

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 *RMB' 000*	2018 *RMB' 000*	2019 *RMB' 000*
Fees	200	200	351
Other emoluments:			
Salaries, bonuses, allowances and benefits in kind	3,042	3,042	4,209
Equity-settled Restricted Share Award Scheme expense	14,866	37,241	40,255
Pension scheme contributions	82	89	147
	17,990	40,372	44,611
	18,190	40,572	44,962

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Independent non-executive directors

The remuneration of independent non-executive directors during the years ended 31 December 2017, 2018 and 2019 is as follows:

	Year ended 31 December 2017				
	Fees	Salaries, Bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Wu Cheng	-	200	-	-	200
Dai Deming	-	200	-	-	200
Shi Tiantao	-	200	-	-	200
	-	600	-	-	600

	Year ended 31 December 2018				
	Fees	Salaries, Bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Wu Cheng	-	200	-	-	200
Dai Deming	-	200	-	-	200
Shi Tiantao	-	200	-	-	200
	-	600	-	-	600

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Independent non-executive directors (continued)

The remuneration of independent non-executive directors during the years ended 31 December 2017, 2018 and 2019 is as follows: (continued)

	Year ended 31 December 2019				
	Fees	Salaries, Bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Wu Cheng (Resigned on 18 June 2019)	-	125	-	-	125
Dai Deming	-	200	-	-	200
Shi Tiantao	-	200	-	-	200
Qian Daqun	-	75	-	-	75
	-	600	-	-	600

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Executive directors and the chief executive

The remuneration of executive directors and the chief executive during the years ended 31 December 2017, 2018 and 2019 is as follows:

	Year ended 31 December 2017				
	Fees	Salaries, Bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Executive director					
Liang Haishan (chief executive)	200	1,700	8,259	82	10,241
Tan Lixia	-	142	6,607	-	6,749
Peng Jianfeng	-	200	-	-	200
Wu Changqi	-	200	-	-	200
Zhou Hongbo	-	200	-	-	200
Liu Haifeng David	-	-	-	-	-
	200	2,442	14,866	82	17,590

	Year ended 31 December 2018				
	Fees	Salaries, Bonuses, allowances and benefits in kind	Equity-settled Restricted Share Award Scheme expense	Pension scheme contributions	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Executive director					
Liang Haishan (chief executive)	200	1,700	20,689	89	22,678
Tan Lixia	-	142	16,552	-	16,694
Peng Jianfeng	-	200	-	-	200
Wu Changqi	-	200	-	-	200
Zhou Hongbo	-	200	-	-	200
Liu Haifeng David	-	-	-	-	-
	200	2,442	37,241	89	39,972

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Executive directors and the chief executive (continued)

The remuneration of executive directors and the chief executive during the years ended 31 December 2017, 2018 and 2019 is as follows: (continued)

	Year ended 31 December 2019				
	Fees *RMB' 000*	Salaries, Bonuses, allowances and benefits in kind *RMB' 000*	Equity-settled Restricted Share Award Scheme expense *RMB' 000*	Pension scheme contributions *RMB' 000*	Total *RMB' 000*
Executive director					
Liang Haishan (chief executive)	200	1,700	21,277	88	23,265
Tan Lixia	-	34	17,022	-	17,056
Li Huagang (Appointed on 18 June 2019)	151	1,275	1,956	59	3,441
Wu Changqi	-	200	-	-	200
Lin Sui (Appointed on 18 June 2019)	-	75	-	-	75
Yan Yan (Appointed on 18 June 2019)	-	75	-	-	75
Peng Jianfeng (Retired on 18 June 2019)	-	125	-	-	125
Zhou Honggbo (Retired on 18 June 2019)	-	125	-	-	125
Liu Haifeng (Retired on 18 June 2019)	-	-	-	-	-
	351	3,609	40,255	147	44,362

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included 2 directors, 2 directors and 3 directors for the years ended 31 December 2017, 2018 and 2019 and 1 of them is the chief executive, details of whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining 3, 3 and 2 highest paid non-director employees for the years ended 31 December 2017, 2018 and 2019 who are neither a director nor chief executive of the Company are as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	2,446	2,551	3,188
Equity-settled Restricted Share Award Scheme expense	2,624	16,445	15,764
Pension scheme contributions	106	110	118
	5,176	19,106	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		
	2017	2018	2019
HK$1,500,001 to HK$2,000,000	2	-	-
HK$4,000,001 to HK$4,500,000	1	-	-
HK$5,000,001 to HK$5,500,000	-	1	-
HK$5,500,001 to HK$6,000,000	-	1	1
HK$16,000,001 to HK$16,500,000	-	-	1
HK$17,000,001 to HK$17,500,000	-	1	-
Total	3	3	2

During the the years ended 31 December 2017, 2018 and 2019, awarded shares were granted to these non-director and non-chief executive highest paid employees in respect of their services to the Group under the Restricted Share Award Scheme of the Company. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the consolidated financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAX EXPENSES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current			
Charge for the year	1,672	1,487	1,649
Deferred (Note 36)	(251)	306	(65)
Total tax charge for the year from continuing operations	1,421	1,793	1,584
Current			
Charge for the year	94	82	60
Deferred (Note 36)	-	7	652
Total tax charge for the year from a discontinuing operation	94	89	712

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAX EXPENSES (CONTINUED)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for during the years ended 31 December 2017, 2018 and 2019.

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Profit before tax from continuing operations	10,212	11,326	10,606
Profit before tax from a discontinued operation	447	456	4,025
	10,659	11,782	14,631
Tax at the statutory tax rate	2,667	2,945	3,656
Lower tax rates enacted by local authorities	(501)	(817)	(866)
Adjustments in respect of current tax of previous periods	(106)	(180)	(261)
Tax effect of share of profit or losses to associates	(179)	(199)	(211)
Income not subject to tax	(90)	(25)	(164)
Expenses not deductible for tax	68	88	128
Deductible temporary differences not recognised	(344)	70	14
Total tax charge for the year	1,515	1,882	2,296
Total tax charge for the year from continuing operations	1,421	1,793	1,584
Total tax charge for the year from a discontinued operation	94	89	712

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. DISCONTINUED OPERATION

The consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017 and 2018 and the period from 1 January to 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 years ended 31 December 2017 and 2018 and the period from 1 January to to 25 July 2019, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2017, 2018 and 2019 has been prepared to present the state of affairs of the Group, Qingdao Haishi and Gooday Health as if the corporate structure of the Group immediately after the completion of the Asset Swap and the Acquisition had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at 31 December 2017, 2018 and 2019.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. DISCONTINUED OPERATION (CONTINUED)

On 26 July 2019, the Group completed the Asset Swap as further detailed in Notes 2.3 and 4 to the 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.

The results of the Bingji Group for the period from 1 January to 25 July 2019 (i.e., the period prior to the classification of the Bingji Group as a discontinued operation) and years ended 31 December 2017 and 2018 are presented below:

	Note	Year ended 31 December 2017 *RMB'M*	2018 *RMB'M*	Period from 1 January to 25 July 2019 *RMB'M*
Revenue		9,000	10,144	4,907
Cost and expenses		(8,553)	(9,688)	(4,710)
Profit from the discontinued operation		447	456	197
Gain recognised on the remeasurement of fair value of the discontinued operation		-	-	3,191
Gain recognised on disposal of the discontinued operation		-	-	637
Profit before tax from the discontinued operation		447	456	4,025
Income tax:				
Related to pre-tax profit	10	(94)	(89)	(47)
Related to remeasurement of fair value	10	-	-	(665)
Profit for the year from discontinued operation		353	367	3,313
Attributable to:				
Owners of the Company		100	93	1,491
Non-controlling interests		253	274	1,822
		353	367	3,313

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. DISCONTINUED OPERATION (CONTINUED)

The net cash flows incurred by the Bingji Group for the period from 1 January to 25 July 2019 and years ended 31 December 2017 and 2018 are as follows:

	Note	Year ended 31 December 2017 *RMB'M*	Year ended 31 December 2018 *RMB'M*	Period from 1 January to 25 July 2019 *RMB'M*
Operating activities		454	114	(161)
Investing activities		(862)	(1,659)	20
Financing activities		1,930	407	(283)
Net cash outflow		1,522	(1,138)	(424)
Earning per share:				
- Basic, from discontinued operations (RMB per share)	13	0.02	0.02	0.23
- Diluted,from discontinued operations (RMB per share)	13	0.02	0.02	0.23

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	Year ended 31 December 2017	Year ended 31 December 2018	Period from 1 January to 25 July 2019
Profit attributable to ordinary equity holders of the Company from the discontinued operation (RMB million)	100	93	1,491
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (Note 13)	6,097,402,727	6,148,015,152	6,381,003,276
Weighted average number of ordinary shares used in the diluted earnings per share calculation (Note 13)	6,097,402,727	6,148,015,152	6,381,003,276

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. DIVIDENDS

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Proposed final dividend	2,085	2,235	2,467
Dividend paid during the year	1,512	2,085	2,235

	2017 *RMB*	2018 *RMB*	2019 *RMB*
Dividend per share	0.342	0.351	0.375

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting

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

The calculation of the basic earnings per share amount is based on the profit 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 the years ended 31 December 2017, 2018 and 2019, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2017 *RMB'M*	2018 *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	6,844	7,391	6,715
From a discontinued operation	100	93	1,491
	6,944	7,484	8,206

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE COMPANY (CONTINUED)

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Profit for the year attributable to owners of the Company	6,944	7,484	8,206
Less:			
Profit for the year from discontinued operations	(100)	(93)	(1,491)
Earnings for the purpose of basic earnings per share from continuing operation	6,844	7,391	6,715
Effect of dilutive potential ordinary shares:			
Interest on convertible and exchangeable bonds	12	165	170
Profit for the year attributable to convertible and exchangeable bonds holders	(304)	(338)	(645)
Earnings for the purpose of diluted earnings per share from continuing operations	6,552	7,218	6,240
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	6,097,402,727	6,148,015,152	6,381,003,276

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. RELATED PARTY TRANSACTIONS

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

Relationship	Nature of transactions	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Associates	Sale of goods and services	2,326	1,737	1,566
	Logistics service fees	121	103	23
	Purchase of goods and services	10,985	13,061	15,841
	Interest income	60	105	94
	Interest expenses	277	124	63
Haier	Sale of goods and services	2,617	2,996	2,634
Affiliates	Logistics service fees	70	66	51
(Note)	Purchase of goods and services	23,936	19,222	20,120
	Other service fee expenses	299	375	181

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

Note:
Haier Affiliates include subsidiaries under common control of ultimate controlling company, Haier Corp and its associates.

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

	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Short term employee benefits	4,652	4,862	6,020
Post-employment benefits	225	280	290
Equity-settled Restricted Share Award Scheme expense	16,041	44,295	46,068
Total compensation paid to key management personnel	20,918	49,437	52,378

Further details of directors' and chief executive's emoluments are included in Note 8 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:							
At 1 January 2017	8,020	218	16,046	275	1,112	1,831	27,502
Additions	287	36	746	15	41	2,528	3,653
Acquisition of subsidiaries (Note 40)	138	14	22	7	7	1	189
Disposal of subsidiaries (Note 41)	-	-	-	-	-	(1)	(1)
Disposals/write-off	(106)	(15)	(914)	(46)	(89)	-	(1,170)
Transfer from construction in progress	828	12	1,761	41	93	(2,735)	-
Exchange differences	(86)	(4)	(402)	-	(2)	(12)	(506)
At 31 December 2017 and 1 January 2018	9,081	261	17,259	292	1,162	1,612	29,667
Additions	31	72	526	19	68	4,626	5,342
Acquisition of subsidiaries (Note 40)	-	-	-	2	2	-	4
Disposal of subsidiaries (Note 41)	(163)	(26)	(12)	(92)	(17)	(7)	(317)
Disposals/write-of	(168)	(52)	(698)	(22)	(45)	-	(985)
Transfer from construction in progress	507	-	1,590	36	218	(2,351)	-
Transfer	-	(21)	-	-	21	-	-
Exchange differences	122	-	440	(1)	2	18	581
At 31 December 2018 and 1 January 2019	9,410	234	19,105	234	1,411	3,898	34,292
Additions	23	308	1,071	4	126	4,825	6,357
Acquisition of subsidiaries (Note 40)	790	-	465	4	168	58	1,485
Disposal of subsidiaries (Note 41)	(1,725)	(57)	(62)	(105)	(22)	(632)	(2,603)
Disposals/write-off	(302)	(20)	(1,169)	(11)	(109)	-	(1,611)
Transfers	1,286	8	3,786	29	625	(5,734)	-
Exchange differences	96	(8)	271	2	51	11	423
At 31 December 2019	9,578	465	23,467	157	2,250	2,426	38,343
Accumulated depreciation and impairment:							
At 1 January 2017	2,223	62	5,831	141	532	2	8,791
Depreciation provided for the year	439	40	2,020	49	95	-	2,643
Elimainated on disposals/write-off	(27)	(1)	(572)	(42)	(39)	(2)	(683)
Impairment provided for the year	-	-	4	-	-	-	4
Exchange differences	(3)	(1)	(68)	(1)	2	-	(71)
At 31 December 2017 and 1 January 2018	2,632	100	7,215	147	590	-	10,684
Depreciation provided for the year	443	30	1,903	30	183	-	2,589
Elimainated on disposal of subsidiaries (Note 41)	(12)	(14)	(2)	(7)	(9)	-	(44)
Elimainated on disposals/write-off	(28)	(52)	(518)	(18)	(24)	-	(640)
Transfers	-	(5)	-	-	5	-	-
Impairment provided for the year	-	-	5	-	4	23	32
Exchange differences	34	-	193	(1)	3	1	230
At 31 December 2018 and 1 January 2019	3,069	59	8,796	151	752	24	12,851
Depreciation provided for the year	469	97	2,147	23	262	-	2,998
Elimainated on disposal of subsidiaries (Note 41)	(346)	(31)	(38)	(85)	(12)	-	(512)
Elimainated on disposals/write-off	(191)	(20)	(826)	(10)	(97)	-	(1,144)
Impairment provided for the year	-	-	1	-	-	10	11
Exchange differences	42	(9)	173	1	13	-	220
At 31 December 2019	3,043	96	10,253	80	918	34	14,424
Carrying amounts							
At 31 December 2019	6,535	369	13,214	77	1,332	2,392	23,919
At 31 December 2018	6,341	175	10,309	83	659	3,874	21,441
At 31 December 2017	6,449	161	10,044	145	572	1,612	18,983

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2017, 2018 and 2019, certain of the Group's land and buildings with an aggregate net book value of approximately RMB2,047 millions , RMB1,652 millions and RMB1,173 millions, respectively, which did not have building ownership certificates registered under the names of the respective subsidiaries of the Company, respectively.

With respect to the above properties, the Group's investment properties and prepaid land lease payments, in prior years, Haier Corp issued to the Group three undertakings, pursuant to which Haier Corp agreed to provide other suitable properties to the Group to ensure the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against any losses arising from the above defective property title issue. The aggregate net book value of the Group's buildings indemnified by Haier Corp as at 31 December 2017 and 2018 amounted to approximately RMB117 millions and RMB114 millions, respectively. Due to the relocation of the factories and the Asset Swap transaction, there was no building without ownership certificates under the names of the respective subsidiaries of the Company indemnified by Haier Corp as at 31 December 2019.

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.

At 31 December 2017, 2018 and 2019, certain of the Group' s land and buildings with an aggregate carrying amount of approximately RMB122 millions, RMB55 millions and RMB55 millions were pledged to secure bank loans granted to the Group (Note 33).

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. INVESTMENT PROPERTIES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At 1 January, net of accumulated depreciation	35	31	31
Depreciation provided for the year	(2)	(2)	(2)
Exchange realignment	(2)	2	-
At 31 December, net of accumulated depreciation	31	31	29
At 31 December			
Cost	46	48	48
Accumulated depreciation	(15)	(17)	(19)
Net carrying amount	31	31	29

The Group's investment properties consist of one commercial property in Hong Kong and two industrial properties in PRC.

The fair values of the Group's investment properties in Hong Kong were approximately RMB 22 millions, RMB 27 millions and RMB 24 millions, as at 31 December 2017, 2018 and 2019 respectively.

The fair values of the Group's investment properties in PRC were approximately RMB 25 millions, RMB 39 millions and RMB 38 millions, as at 31 December 2017, 2018 and 2019 respectively.

The fair value measurements of the Group's investment properties are categorised within Level 3. The fair value of the Group's investment properties has been determined by reference to the valuation reports prepared by the independent external professional valuers.

The valuation technique is the discounted cash flow method 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 two industrial properties in PRC 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 PRC 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2017, 2018 and 2019, the Group's investment property in PRC with a carrying amount of approximately RMB 11 million, RMB 10 million and RMB 9 million, respectively, did not have a building ownership certificate registered under the name of the respective subsidiary of the Company. The Group obtained an undertaking from Haier Corp in relation to this property title issue, details of which are set out in Note 15 to the 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. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	2017 *RMB'M*	2018 *RMB'M*
Carrying amount at 1 January	1,542	1,669
Additions	183	395
Disposals	(1)	(101)
Disposal of subsidiaries (Note 41)	(13)	(57)
Amortisation provided for the year	(44)	(40)
Exchange realignment	2	2
Carrying amount at 31 December	1,669	1,868
Analysed into:		
Current portion (included in prepayment, deposits and other assets)	43	40
Non-current portion	1,626	1,828
	1,669	1,868

As at 31 December 2017, certain of the Group's leasehold lands with an aggregate carrying amount of RMB 5 millions were pledged to secure bank loans granted to the Group (Note 33).

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. LEASES (CONTINUED)

The Group as a leasee (continued)

(b) Right-of-use assets

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

	Prepaid land lease payments *RMB'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	1,047	2,347	26	114	268	3,802

As at 31 December 2017, 2018, 2019, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB 122 millions, RMB 41 millions and RMB 105 millions respectively, did not have land use right certificates registered under the names of the Group. As at 31 December 2017 and 2018, the Group obtained undertakings from Haier Corp in relation to this title issue, details of which are set out in Note 15 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. LEASES (CONTINUED)

The Group as a leasee (continued)

(c) Lease liabilities

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

	2019
	RMB'000
Carrying amount at 1 January	3,153
New leases	1,469
Interest expenses recognised during the year	125
Payments	(894)
Disposal of subsidiaries (Note 41)	(1,023)
Exchange realignment	(255)
Carrying amount at 31 December	2,575
Analysed into:	
Current portion	595
Non-current portion	1,980
	2,575

The maturity analysis of lease liabilities is disclosed in Note 47 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. LEASES (CONTINUED)

The Group as a leasee (continued)

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

	2019 *RMB'M*
Interest on lease liabilities	98
Depreciation charge of right-of-use assets	644
Expense relating to:	
Short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	356
Variable lease payments not included in the measurement of lease liabilities	93
Total amount recognised in profit or loss	1,191

(e) The total cash outflow for leases is disclosed in Note 42(c) to the consolidated financial statements.

The Group as a lessor

The Group leases its investment properties (Note 16) consisting of one commercial property in Hong Kong and two industrial properties in Hefei and Dalian, the PRC, under operating lease arrangements. Rental income recognised by the Group was RMB21 millions, RMB12 millions and RMB13 millions for the years ended 31 December 2017, 2018 and 2019 respectively, details of which are included in Note 5 to the 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:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Within one year	18	27	13
In the second to fifth years, inclusive	11	37	19
After five years	1	9	7
	30	73	39

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. GOODWILL

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Cost:			
At 1 January	21,611	20,428	21,239
Acquisition of subsidiaries (Note 40)	32	161	2,061
Disposal of subsidiaries (Note 41)	-	(317)	(285)
Exchange realignment	(1,215)	967	337
At 31 December	20,428	21,239	23,352
Net carrying amount	20,428	21,239	23,352

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

Logistics business segment (discontinued operation):

- Qingdao Goodaymart Wisdom Union Co, Ltd. ("Qingdao Furnishing Service");
- Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. ("Shanghai Beiye Supply Chain");
- Guizhou Peiji Logistics Group Co., Ltd. ("Peiji Logistics");
- Shanghai Guangde Logistics Co., Ltd. ("Grand Logistics");
- Shengfeng Logistics Group Co., Ltd ("Shengfeng Logistics");

Domestic water appliances business segment:

- Qingdao Strauss Water Equipment Co., Ltd.;

Smart Home Business Overseas segment:

- GE Appliances;
- GREENoneTEC Solarindustrie GmbH. ("GoT");
- Haier New Zealand Investment Holding Company Limited ("HNZ"); and
- Candy S.p.A ("Candy")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. GOODWILL (CONTINUED)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Notes	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Qingdao Furnishing Services		6	6	-
Shanghai Beiye Supply Chain		69	69	-
Peiji Logistics		-	161	-
Grand Logistics		29	29	-
Shengfeng Logistics		317	-	-
Qingdao Strauss Water Equipment Co., Ltd.		83	83	83
GE Appliances	(i)	19,420	20,391	20,725
GoT		3	3	3
HNZ	(i)	501	497	509
Candy	(i)	-	-	2,032
Net carrying amount		20,428	21,239	23,352

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. GOODWILL (CONTINUED)

Notes:

(i) The recoverable amounts of GE Appliances, HNZ, Candy-SDA and Candy-MDA have been determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management.

Assumptions were used in the value in use calculation of the above cash-generating units as at 31 December 2017, 2018 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

	2017	2018	2019
Discount rates	10.00%	10.84%	11.11%
Terminal growth rate	4.70% to 5.40%	4.84% to 5.50%	2.50% to 3.79%
EBITDA rate	9.0% to 10.8%	8.42% to 9.23%	8.65% to 10.11%

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

	2017	2018	2019
Discount rates	14.03%	13.78%	13.19%
Terminal growth rate	15.0% to 23.1%	9.40% to 15.70%	0.63% to 3.08%
EBITDA rate	8.13% to 11.74%	2.22% to 5.76%	2.90% to 6.23%

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

	2017	2018	2019
Discount rates	N/A	N/A	9.83%
Terminal growth rate	N/A	N/A	10.73% to 46.3%
The pre-tax discount rate	N/A	N/A	2.11% to 7.14%

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

	2017	2018	2019
Discount rates	N/A	N/A	9.83%
Terminal growth rate	N/A	N/A	8.92% to 14.39%
EBITDA rate	N/A	N/A	2.22% to 3.36%

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. GOODWILL (CONTINUED)

Notes: (continued)

(i) (continued)

Revenue growth rate - The basis used to determine the revenue growth rate is the average growth rate achieved in the years immediately before the budget year, increased for expected market development.

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the actual gross margin achieved in the year immediately before the budget year.

Discount rates - The discount rates used are before tax and reflect specific risks relating to the relevant units.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2017	1,196	3,898	1,282	620	6,996
Additions	123	59	2	243	427
Acquisition of subsidiaries (Note 40)	-	-	-	8	8
Write-off / Disposals	-	(54)	-	(10)	(64)
Amortisation provided for the year	(156)	(111)	-	(164)	(431)
Impairment provided for the year	-	-	-	(10)	(10)
Exchange realignment	(60)	(223)	(63)	(19)	(365)
As at 31 December 2017 and 1 January 2018	1,103	3,569	1,221	668	6,561
Additions	81	2	-	1,015	1,098
Disposal of subsidiaries (Note 41)	-	-	-	(2)	(2)
Disposals	(12)	-	-	(19)	(31)
Amortisation provide for the year	(146)	(93)	-	(276)	(515)
Exchange realignment	24	176	31	37	268
As at 31 December 2018 and 1 January 2019	1,050	3,654	1,252	1,423	7,379
Additions	150	140	-	911	1,201
Acquisition of subsidiaries (Note 40)	-	6	1,451	335	1,792
Disposal of subsidiaries (Note 41)	-	-	-	(56)	(56)
Disposals	-	-	-	(14)	(14)
Amortisation provided for the year	(164)	(112)	-	(476)	(752)
Exchange realignment	5	72	19	(6)	90
As at 31 December 2019	1,041	3,760	2,722	2,117	9,640

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. INTERESTS IN ASSOCIATES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Cost of investments in associates	8,750	8,768	14,168
Share of post-acquisition profits and other comprehensive income, net of dividends received	4,283	5,253	6,376
Impairment loss	(21)	(27)	(83)
	13,012	13,994	20,461

Particulars of the material associates are as follows:

Name	Place of incorporation/ registration of business	Paid-up capital or registered capital *'000*	Percentage of equity attributable to the Company 2017	2018	2019	Principal activities	Type of legal activity
Haier Group Finance Co., Ltd	PRC/ PRC	RMB7,000	42.00%	42.00%	42.00%	Financing	Limited liability company
CONTROLADORA MABE S.A. de C.V.	Mexico	US$271,957	48.41%	48.41%	48.41%	Manufacture of household appliances	Limited liability company
Bank of Qingdao Co., Ltd	PRC/ PRC	RMB4,509,690	9.61%	9.61%	8.65%	Commercial bank	Limited liability company

The following table illustrates summarised financial position of Haier Group Finance Co., Ltd, CONTROLADORA MABE S.A.de C.V.and Bank of Qingdao Co., Ltd information as at 31 December 2017, 2018 and 2019 and summarised financial performance information for the years ended 31 December 2017, 2018 and 2019, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. INTERETS IN ASSOCIATES (CONTINUED)

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets	68,439	59,525	61,570
Non-current assets, excluding goodwill	7,914	6,772	5,906
Current liabilities	(62,030)	(51,569)	(52,897)
Non-current liabilities	(3,173)	(1,857)	(268)
Net assets, excluding goodwill	11,150	12,871	14,311

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Revenue	2,653	2,564	2,541
Profit for the year	1,427	1,644	1,720
Other comprehensive income	(60)	78	20
Total comprehensive income for the year	1,367	1,722	1,740
Dividends received	210	210	126
Share of results of Haier Finance	600	690	722

Reconciliation on to the Group's interest in Haier Finance:

Net assets of Haier Finance, excluding goodwill	11,150	12,871	14,311
Proportion of the Group's ownership	42%	42%	42%
The Group's share of net assets of Haier Finance	4,683	5,406	6,011

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. INTERETS IN ASSOCIATES (CONTINUED)

CONTROLADORA MABE S.A. de C.V. ("CONTROLADORA")

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets	5,825	6,402	6,554
Non-current assets, excluding goodwill	10,304	10,722	11,977
Current liabilities	(7,048)	(8,730)	(8,493)
Non-current liabilities	(5,837)	(4,762)	(5,735)
Net assets, excluding goodwill	3,244	3,632	4,303

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Revenue	19,990	20,407	22,678
Profit for the year	387	299	730
Other comprehensive income	(373)	62	89
Total comprehensive income for the year	14	361	819
Dividends received	33	-	67
Share of results of CONTROLADORA	221	145	353

Reconciliation on to the Group's interest in CONTROLADORA:

	2017	2018	2019
Net assets of CONTROLADORA excluding goodwill	3,244	3,632	4,303
Goodwill on acquisition	2,922	2,922	2,922
	6,166	6,554	7,225
Proportion of the Group's ownership	48.41%	48.41%	48.41%
The Group's share of net assets of CONTROLADORA	2,985	3,173	3,498

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. INTERETS IN ASSOCIATES (CONTINUED)

Bank of Qingdao Co., Ltd.

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets	130,366	181,350	238,853
Non-current assets, excluding goodwill	175,910	136,308	134,769
Current liabilities	(203,654)	(223,355)	(264,535)
Non-current liabilities	(76,499)	(66,806)	(78,609)
Non-controlling interests	(493)	(512)	(563)
Net assets, excluding goodwill	25,630	26,985	29,915

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Revenue	5,568	7,371	9,616
Profit for the year	1,904	2,043	2,335
Other comprehensive income	(949)	1,016	105
Total comprehensive income for the year	955	3,059	2,440
Dividends received	77	78	78
Share of results of Bank of Qingdao Co., Ltd.	180	146	153

Reconciliation on to the Group's interest in Bank of Qingdao Co., Ltd.:

	2017	2018	2019
Net assets of the Bank of Qingdao Co., Ltd., excluding goodwill	25,630	26,985	29,915
Proportion of the Group's ownership	9.61%	9.61%	8.65%
The Group's share of net assets of Bank of Qingdao Co., Ltd.	2,463	2,593	2,587

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. INTERETS IN ASSOCIATES (CONTINUED)

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Share of results of the associates for the year	188	344	181
Share of the associates' other comprehensive (loss)/profits	(12)	23	53
Aggregate carrying amount of the Group's investments in the associates	2,881	2,822	8,365

The Group's trade receivable and payable balances with the associates are disclosed in Notes 26 and 30 to the consolidated financial statements, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. AVAILABLE-FOR-SALE INVESTMENTS/EQUITY INVESTMENTS DESIGNATED AT FVTOCI

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
AFS financial assets			
Listed equity investments, at fair value:			
- Qingdao East soft Communication Technology Co., Ltd	15	-	-
- Other	12	-	-
Unlisted equity investments, at cost:			
- Sinopec Marketing Co, Limited	1,282	-	-
- Other	106	-	-
	1,415	-	-
Equity investments designated at FTVOCI			
Listed equity investments, at fair value:			
- Qingdao East soft Communication Technology Co., Ltd	-	9	11
- Other	-	11	11
Unlisted equity investments, at fair value:			
- Sinopec Marketing Co, Limited	-	1,262	1,243
- Other	-	118	131
	-	1,400	1,396

Upon initial application of IFRS 9, as of 1 January 2018, the equity investments were reclassified from available for sale financial assets to equity investments designated at FVTOCI.

The above equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature. Details of valuation techniques used to estimate the fair values of the above equity investments are set out in Note 47 to the consolidated financial statements.

During the years ended 31 December 2017, 2018 and 2019, the Group received dividends in the amount of approximately RMB41 millions, RMB105 millions and RMB39 millions respectively from the above investments.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL ASSETS MEASURED AT FVTPL

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets			
Current portion of wealth management products	-	1,568	198
Foreign currency forward contracts	-	189	85
Investment in other equity instruments	-	19	25
	-	1,776	308
Non-current assets:			
Non-current portion of wealth Management products	-	327	295
	-	2,103	603

As at 31 December 2017, 2018 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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets			
Wealth management products	2,007	2,838	3,981
Non-current assets:			
Consignment loan	5	22	24
Long-term receivables	290	246	308
	295	268	332
	2,302	3,106	4,313

As at 31 December 2017, 2018 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. The expected credit losses for the wealth management products are immaterial to the Group.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Non-current assets			
Derivative financial instruments	46	95	77
Foreign currency forward contracts	343	-	-
	389	95	77
Current assets			
Foreign currency forward contracts	21	39	17
Forward commodity contract	-	-	2
Interest rate swaps	82	58	-
	103	97	19
	492	192	96
Current liabilities			
Foreign currency forward contracts	23	25	85
Forward commodity contract	-	11	-
Interest rate swaps	-	-	14
	23	36	99
Non-current liabilities			
Foreign currency forward contracts	242	-	-
Others	7	-	-
	249	-	-
	272	36	99

25. INVENTORIES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Raw material	3,644	2,439	2,953
Work in progress	455	205	408
Finished goods	18,476	19,767	24,868
	22,575	22,411	28,229

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. TRADE AND BILLS RECEIVABLES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Trade receivables	13,417	10,879	11,461
Impairment	(445)	(346)	(445)
Trade receivables, net	12,972	10,533	11,016
Bills receivables	13,075	14,301	13,966
Impairment	-	-	(15)
Bills receivables, net	13,075	14,301	13,951
Total	26,047	24,834	24,967

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of expected credit loss (2017: loss allowance), is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
1 to 3 months	11,552	9,143	9,247
3 months to 1 year	1,103	943	1,276
1 to 2 years	173	262	266
2 to 3 years	121	98	93
Over 3 years	23	87	134
	12,972	10,533	11,016

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in the ECL (2017: loss allowance) of trade receivables and bills receivable are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At 1 January	409	445	346
Impairment losses, net (Note 6)	64	80	131
Amount written off as uncollectible	(21)	(35)	(83)
Acquisition of subsidiaries	7	9	120
Disposal of subsidiaries	(1)	(149)	(57)
Exchange realignment	(13)	(4)	3
At 31 December	445	346	460

Impairment under IAS 39 for the year ended 31 December 2017 included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39 provision for individually impaired trade receivables and a carrying amount before provision was approximately RMB445 millions and RMB13,417 millions respectively.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 *RMB'M*
Less than 1 year	12,655
1 to 2 years past due	173
2 to 3 years past due	121
Over 3 years past due	23
	12,972

As at 31 December 2018 and 2019, impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The expected credit loss 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018

	Less than 1 year	Past due 1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	2.68%	5.36%	5.42%	35.15%	3.18%
Gross carrying amount (*RMB'M*)	10,363	276	103	137	10,879
Expected credit losses (*RMB'M*)	278	15	5	48	346

As at 31 December 2019

	Less than 1 year	Past due 1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	3.89%	2.97%	5.30%	4.08%	3.88%
Gross carrying amount (*RMB'M*)	10,949	274	99	139	11,461
Expected credit losses (*RMB'M*)	426	8	5	6	445

Included in the Group's trade and bills receivables are amounts due from Haier Group Corporation and its subsidiaries (collectively refered to ("Haier Affiliates"), approximately RMB648 millions, RMB721 millions and RMB849 millions respectively, amounts due from associate for Haier Affiliates approximately RMB38 millions, RMB47 millions and RMB10 millions respectively and amounts due from an associate approximately RMB243 millions, RMB430 millions and RMB507 millions as at 31 December 2017, 2018 and 2019 respectively. All of these amounts are repayable on credit terms similar to those offered to the major customers of the Group. Further details of the sales to these related parties are set out in Note 14 to the consolidated financial statements.

At 31 December 2017, 2018 and 2019, certain of the Group's bills receivable of approximately RMB10,123 millions, RMB11,138 millions and RMB12,706 millions were pledged to secure certain of the Group's bills payable (Note 30) respectively.

At 31 December 2017, 2018 and 2019, certain of the Group's trade receivables of approximately RMB57 millions, RMB1,356 millions and RMB396 millions were pledged to secure loans granted to the Group (Note 33).

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current			
Dividend receivables (Note a)	5	5	5
Interest receivables (Note a)	207	234	273
Taxes recoverable (Note a)	1,953	1,659	2,578
Prpaid land lease payments (Note a)	43	40	-
Prepayments (Note a)	614	594	1,273
Deposits (Note a)	86	5	3
Other receivables (Note a)	1,094	1,625	2,228
Loan to associates (Note a)	297	289	-
Right-of-return assets (Note a)	-	323	374
	4,299	4,774	6,734
Less: Impairment	(77)	(243)	(293)
	4,222	4,531	6,441
Non-current			
Long-term prepayments (Note b)	758	2,119	1,423
	4,980	6,650	7,864

Notes:

(a) Included in the Group's prepayments, deposits and other receivables are amounts due from Haier Affiliates of RMB202 millions, RMB317 millions and RMB754 millions and amounts due from associates of RMB5 millions, RMB5 millions and RMB71 millions as at 31 December 2017, 2018 and 2019 respectively. The balance at 31 December 2019 also included amounts due from controlling shareholders (and their affiliates) of RMB 215 millions. All of these amounts are unsecured, interest-free and repayable on demand.

Prepayments, deposits and other receivables mainly represent prepayments and the deposits with suppliers and other parties. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at the 31 December 2017, 2018 and 2019 were 1.79%, 5.09% and 4.35% respectively. The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

(b) Included in the Group's long-term prepayments are advances made to Haier Affiliates relating to the Group's property, plant and equipment with an aggregate amount of RMB360 millions, RMB408 millions and RMB185 millions as at 31 December 2017, 2018 and 2019 respectively. The amounts are unsecured, interest-free and repayable on demand.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

The movements in the ECL (2017: loss allowance) of prepayments and other receivables are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At beginning of year	98	77	243
Impairment losses, net (Note 6)	(7)	188	233
Amount written off as uncollectible	(14)	(5)	(179)
Acquisition of subsidiaries	1	5	-
Disposal of subsidiaries	-	(22)	(4)
Exchange realignment	(1)	-	-
At end of year	77	243	293

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.3% to 0.4%, 0.3% to 0.4% and 0.3% to 0.4% per annum for the years ended 31 December 2017, 2018 and 2019 respectively. The pledged deposits carry interest rate which range from 0.30% to 1.95%, 0.30% to 3.20% and 0.39% to 3.20% per annum for the years ended 31 December 2017, 2018 and 2019 respectively. The pledged bank deposits will be released upon the settlement of relevant bills payables (Note 30).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB1,271 millions, RMB1,779 millions and RMB1,204 millions have been pledged to secure bills payables (Note 30) respectively as at 31 December 2017, 2018 and 2019 respectively and are therefore classified as current assets.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Cash and bank balances	20,765	23,497	20,106
Time deposits	15,806	14,874	16,073
	36,571	38,371	36,179
Less:			
Cash and bank balances and time deposits pledged for:			
Bills payable (Note 30)	(1,271)	(1,779)	(1,204)
Bank guarantees	(8)	(31)	(7)
Pledged deposits	(1,279)	(1,810)	(1,211)
Other deposit with limited use:	-	-	(5)
Cash and cash equivalents	35,292	36,561	34,963

As at 31 December 2017, 2018 and 2019, the cash and bank balances and time deposits of the Group, denominated in RMB, amounted to RMB24,434 millions, RMB28,028 millions and RMB26,505 millions respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the deposit rates of the respective periods. The bank balances and pledged deposits are deposited with creditworthy banks or financial institutions with no recent history of default.

Included in the Group's cash and cash equivalents are deposits of approximately RMB13,584 millions, RMB14,456 millions and RMB16,566 millions placed with Haier Corp Finance Co., Ltd., as at 31 December 2017, 2018 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 deposits ranges from 0.30% to 1.95%, 0.30% to 3.20% and 0.39% to 3.20% per annum for the years ended 31 December 2017, 2018 and 2019 respectively. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in Note 14 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
	(Notes a & b)	(Notes c & d)	(Note e)
Assets	83	144	21
Liabilities	-	32	-

Notes:

(a) During the years ended 31 December 2015 and 2014, Qingdao Haier Refrigerator (International) Co., Ltd. and Qingdao Haier Air Conditioner Gen Corp., Ltd signed a demolition compensation agreement with the local goverment with regards to certain land use rights with the local government. The Group classified the land use rights as a disposal group held for sale and are presented separately in the consolidated statement of financial position, approximately RMB56 millions. The land use right has been classified, and the transaction was completed for the year ended 31 December 2018.

(b) During the year ended 31 December 2017, Fisher & Paykel Appliances Holdings Limited ("FPA"), one of subsidiaries of the Group, designed to disposal of plants and land use right, which are expected to be sold within twelve months, are carrying at a cost amounted to approximately RMB27 millions and located in Mexico. The plants and land use right have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position, and the transaction was completed for the year ended 31 December 2018.

(c) In 2018, the Group agreed to sell its entire 58.08% equity interest in Shengfeng Logistics Co., Ltd. to its non-controlling shareholders for approximately RMB798 millions, of which 50.37% equity interest was disposed of in 2018, and the remaining 7.71% equity interest was disposed of in 2019 and is carried at fair value of approximately RMB106 millions as at 31 December 2018, and the transaction was completed in 2019.

(d) In 2018, the Group agreed to sell its entire 67.45% equity interest in Shanghai Guangfulai Co., Ltd., an indirect subsidiary, to its non-controlling shareholders for approximately RMB6 millions, and the transaction was completed in 2019.

(e) During the year ended 31 December 2019, the Group designed to disposal of land use right of Qingdao Haier Refrigerator (International) Co., Ltd. with the fair value of approximately RMB21 millions signed a demolition compensation agreement with the local goverment 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. TRADE AND BILLS PAYABLES

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Trade payables	26,347	27,899	33,751
Bills payables	16,715	20,038	19,308
	43,062	47,937	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:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Within 1 year	42,631	47,369	52,492
1 to 2 years	127	300	169
2 to 3 years	107	53	156
Over 3 years	197	215	242
	43,062	47,937	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 payables are amounts due to Haier Affiliates of approximately RMB2,706 millions, RMB3,502 millions and RMB4,076 millions and amounts due from an associate of RMB453 millions, RMB598 millions and RMB268 millions as at 31 December 2017, 2018 and 2019 respectively. Further details of the purchases from these related parties are set out in Note 14 to the consolidated financial statements.

At 31 December 2017, 2018 and 2019, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to approximately RMB1,271 millions, RMB1,779 millions and RMB1,204 millions respectively (Note 28) and the Group's bills receivable amounting to RMB10,123 millions, RMB11,138 millions and RMB12,706 millions respectively (Note 26).

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. OTHER PAYABLES AND ACCRUALS

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Other payables and accruals	12,993	14,801	17,491
Refund liabilities:			
Volume rebate	1,332	1,357	1,695
Sales return	265	372	459
Deferred income (Note 35(a))	55	90	81
	14,645	16,620	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 RMB967 millions, RMB718 millions and RMB1,470 millions, amounts due from associate for HaierAffiliates of nil, RMB625,000and RMB12 millions and amounts due to associates of RMB6 millions, RMB6 millions and RMB17 millions as at 31 December 2017, 2018 and 2019 respectively. All of these amounts are unsecured, interest-free and repayable on demand.

32. CONTRACT ASSETS/RECEIPT IN ADVANCE/CONTRACT LIABILITIES

Contract assets

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Retention for rendering service	-	457	427
Impairment of contract assets	-	-	(4)
	-	457	423
Current	-	457	423
Non-current	-	-	-
	-	457	423

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. CONTRACT ASSETS/RECEIPT IN ADVANCE/CONTRACT LIABILITIES (CONTINUED)

Contract assets (continued)

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.

Receipt in advance/Contract liabilities

The Group's engineering services contracts include payment schedules which require stage payments over the engineering period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum as part of its credit risk management policies. The Group typically require 10% of total contract sum for credit risk management.

The Group's receipt in advance/contract liabilities are analysed as follows:

Contract liabilities mainly include short-term advances received from customers for sales of products and provision of after-sales and logistics services and other value-added customer services.

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Receipt in advance/contract liabilities			
Sale of goods	5,775	5,463	5,582
Rendering of services	115	70	1
	5,890	5,533	5,583

Note: It represented the revenue not yet been billed to the customers nor yet certified by representatives appointed by the customers.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. CONTRACT ASSETS/RECEIPT IN ADVANCE/CONTRACT LIABILITIES (CONTINUED)

Receipt in advance/Contract liabilities (continued)

	2018 *RMB'M*	2019 *RMB'M*
Contract liabilities		
As at 1 January (Impact of adopting IFRS 9 on 2018)	5,890	5,533
Consideration received from customers over the amounts of revenue recognised	5,437	5,506
Less:		
Revenue recognised that was included in the contract during the year	(5,794)	(5,456)
As at 31 December	5,533	5,583

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Recipt in advance	5,890	-	-

There were contract liabilities of approximately RMB5,794 millions and RMB5,456 millions brought forward from the prior year and recognised during the years ended 31 December 2018 and 2019 as revenue from continuing operations from sales of goods and rendering of services, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest bearing borrowings is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current			
Bank loan – unsecured	7,632	2,110	5,286
Bank loans — secured	9,393	7,199	8,029
Other loan — unsecured	-	5	-
Other loan — secured	3	-	-
	17,028	9,314	13,315
Non-current			
Bank loan – unsecured	288	90	8,878
Bank loans — secured	15,841	15,545	4,492
	16,129	15,635	13,370
	33,157	24,949	26,685
Unsecured	7,920	2,205	14,164
Secured	25,237	22,744	12,521
	33,157	24,949	26,685

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Analysed into:			
Loans repayable:			
Within one year or on demand	17,028	9,314	13,315
In the second year	7,925	4,551	6,599
In the third to fifth years, inclusive	8,151	11,035	6,723
Beyond five years	53	49	48
	33,157	24,949	26,685

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. INTEREST-BEARING BORROWINGS (CONTINUED)

The analysis of the carrying amount of interest-bearing borrowings is as follows: (continued)

	2017	2018	2019
Effective interest rate			
Current			
Bank loan – unsecured	0.13% to 9.15%	0.7% to 14%	0.45% to 12%
Bank loans — secured	0.5% to 12%	0.085% to 4.35%	0.17%to 4.62%
Other loan – unsecured	-%	4.3%	-%
Other loan — secured	10%	-%	-%
Non-current			
Bank loan – unsecured	1.35%	0.85% to 5.7%	0.8% to 3.61%
Bank loans — secured	2.5% to 3.5%	1.29% to 3.45%	0.52%to 3.60%

Included in the Group's interest-bearing borrowings of approximately RMB3,852 millions, RMB1,388 millions and RMB1,884 millions placed with Haier Corp Finance Co., Ltd. ("Haier Finance") as at 31 December 2017, 2018 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 deposits ranges from 2.7% to 4.75%, 2.9% to 5.7% and 2.7% to 4.62% per annum for the years ended 31 December 2017, 2018 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 to the consolidated financial statements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. INTEREST-BEARING BORROWINGS (CONTINUED)

Certain of the Group's loans are guaranteed by:

(i) Haier Group Corporation, the controlling shareholder of the Company, approximately RMB 21,038 millions, RMB 22,198 millions and RMB12,175 millions as at 31 December 2017, 2018 and 2019; and

(ii) Non-controlling shareholder of the Company, approximately RMB 31 millions, RMB 22 millions and Nil as at 31 December 2017, 2018 and 2019 respectively.

Certain of the Group's loans are secured by:

(i) mortgages over the Group's land and buildings, which had an aggregate carrying amount as at 31 December 2017, 2018 and 2019 of approximately RMB122 millions, RMB55 millions and RMB55 millions.

(ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value at 31 December 2017 of approximately, RMB5 millions; and

(iii) pledge of the Group's trade and bills receivables totalling approximately RMB 4,830 millions, RMB 373 millions and RMB212 millions as at 31 December 2017, 2018 and 2019 respectively.

At the end of the reporting period, the Group's interest-bearing borrowings were denominated in the following currencies:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
United States dollar	28,604	21,350	14,033
Renminbi	4,125	2,755	2,055
Other currencies	428	844	10,597
	33,157	24,949	26,685

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. PROVISIONS

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Product warranties	2,655	2,827	3,058
Legal claim	20	20	20
Others	-	-	313
	2,675	2,847	3,391
Portion classified as current liabilities	(1,624)	(1,640)	(1,992)
Non-current portion	1,051	1,207	1,399

The movements in product warranties are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At 1 January	2,314	2,655	2,827
Additional provision (Note 6)	4,375	4,201	5,078
Acquisition of subsidiaries	4	-	172
Amounts utilised during the year	(4,019)	(4,051)	(5,035)
Exchange realignment	(19)	22	16
At 31 December	2,655	2,827	3,058

The Group provides installation services and warranties of three to eight years to its customers for washing machines, water heaters and water purifiers, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volume and past experience of the level of installation services rendered, repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movements in legal claim are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At 1 January	16	20	20
Additional provision	3	-	2
Amounts utilised during the year	-	(1)	(1)
Exchange realignment	1	1	(1)
At 31 December	20	20	20

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. DEFERRED INCOME/PUT OPTION LIABILITIES

a) Deferred Income

The movement of deferred income is set out below:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
As at 1 January	343	497	645
Compensation received during the year	242	278	203
Credit to profit or loss	(88)	(131)	(109)
Exchange realignment	-	1	(26)
At 31 December	497	645	709
Current portion included in other payables and accruals (Note 31)	(55)	(90)	(81)
Non-current portion	442	555	628

Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statements of profit or loss and other comprehensive income when received and no specific conditions are required. Those government grants recognised are recognised as other income, the government grants recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Qingdao Goodaymart Logistics Co., Ltd. ("Gooday Logistics") to sell their respective interests in those entities to the Group at prices to be determined based on agreed formulae.

(a) During the year ended 31 December 2017, as part of the purchase agreement in relation to the Group's acquisition of a 51% interest in GoT, the seller, which has then become the non-controlling shareholder of GoT, was granted a put option to sell the remaining 49% interest in GoT which is valid no later than 31 December 2027, to the Group at a price to be determined based on an agreed formula. The put option liability is carried at fair value of approximately RMB56 millions as at 31 December 2017, and is categorised in Level 3 of the fair value measurement.

(b) During the year ended 31 December 2017, as part of the joint venture agreement in relation to the capital contribution to Gooday Logistics, the new investors, which have then become the non-controlling shareholders of Gooday Logistics, were granted put options which is valid no later than 31 December 2017,to sell their interest in Gooday Logistics to the Group at prices to be determined based on an agreed formula. The put option liabilities are carried at fair value of approximately RMB861 millions as at 31 December 2017, and is categorised in Level 2 of the fair value measurement.

The put option liabilities as at 31 December 2018 arose from the put options granted to noncontrolling shareholders of the Group's subsidiaries namely, GoT, Gooday Logistics and Peiji Logistics, to sell their respective interests in those entities to the Group at prices to be determined based on agreed formulae, and they were carried at fair values amounting to approximately RMB56 millions, RMB1,587 millions and RMB149 millions, respectively. All are valid no later than 31 December 2027.

Subsequent to the completion of the Asset Swap on 26 July 2019, Gooday logistics and Peiji logistics have become associates to the Group. Other than the put option liability attributable to Gooday Logistics which was categorised in Level 2 of the fair value hierarchy, all the put option liabilities were categorised in Level 3 of the fair value hierarchy.

The put option liabilities as at 31 December 2019 arose from the put option granted to a noncontrolling 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 millions and categorised in Level 3 of the fair value measurement.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

Deferred tax assets

	Provisions *RMB'M*	Accruals and payables *RMB'M*	Unrealised profits *RMB'M*	Others *RMB'M*	Total *RMB'M*
At 1 January 2017	206	1,707	306	11	2,230
Deferred tax credited/(charged) to the statement of profit or loss during the year, net	(20)	(49)	112	548	591
Deferred tax credited to the statement of other comprehensive income during the year	-	-	-	23	23
Acquisition of subsidiaries (Note 40)	-	-	-	2	2
Exchange differences	-	-	-	10	10
At 31 December 2017 and 1 January 2018	186	1,658	418	594	2,856
Deferred tax credited/(charged) to the statement of profit or loss during the year, net	114	(289)	46	105	(24)
Acquisition of subsidiaries (Note 40)	-	-	-	5	5
Disposal of subsidiaries (Note 41)	-	-	-	(15)	(15)
At 31 December 2018	300	1,369	464	689	2,822
Impact of adoption of IFRS 16	-	27	-	-	27
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 differences	-	-	-	9	9
At 31 December 2019	330	1,640	648	848	3,466

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. DEFERRED TAX (CONTINUED)

The movements in deferred tax assets and deferred tax liabilities during the year are as follows: (continued)

Deferred tax liabilities

	With holding taxes *RMB'M*	Differences of depreciation and amortisation *RMB'M*	Others *RMB'M*	Total *RMB'M*
At 1 January 2017	7	542	185	734
Deferred tax credited to the statement of profit or loss during the year, net	155	153	32	340
Deferred tax credited to the statement of other comprehensive income during the year	-	-	30	30
Acquisition of subsidiaries (Note 40)	-	-	8	8
At 31 December 2017 and 1 January 2018	162	695	255	1,112
Deferred tax (charged)/credited to the statement of profit or loss during the year, net	(84)	424	(51)	289
Deferred tax credited to the statement of other comprehensive income during the year	-	-	8	8
Disposal of subsidiaries (Note 41)	-	-	(2)	(2)
Exchange differences	-	-	(2)	(2)
At 31 December 2018 and 1 January 2019	78	1,119	208	1,405
Deferred tax credited to the statement of profit or loss during the year, net	-	263	730	993
Deferred tax charged to the statement of other comprehensive income duringthe year	-	-	(6)	(6)
Acquisition of subsidiaries (Note 40)	-	653	-	653
Disposal of subsidiaries (Note 41)	-	(4)	-	(4)
At 31 December 2019	78	2,031	932	3,041

For presentation purpose, certain deferred tax assets and liabilities have been offset in the statementof financial position. The following is an analysis of the deferred tax balance of the Group for financialreporting purpose:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Net deferred tax assets recognised in the consolidated statement of financial position	2,088	1,822	1,579
Net deferred tax liabilities recognised in the consolidated statement of financial position	(344)	(405)	(1,154)
Net deferred tax assets	1,744	1,417	425

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. DEFERRED TAX (CONTINUED)

Deferred tax assets have not been recognised in respect of certain tax losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 5% or 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, 2018 and 2019, the Group has recognised deferred tax liabilities of RMB162 millions, RMB77 millions and RMB77 millions respectively in relation to withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. SHARE CAPITAL

The movements of the Company's issued share capital and share premium account during the years ended 31 December 2017, 2018 and 2019 are as follows:

	Number of shares *RMB'M*	Share capital *RMB'M*
As at 1 January 2017, 31 December 2017 and 1 January 2018	6,098	6,098
Issuance of D shares	271	271
As at 31 December 2018 and 1 January 2019	6,369	6,369
Converted convertible bonds to shares	211	211
As at 31 December 2019	6,580	6,580

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME

The Group operates a restricted share award scheme (the "Restricted Share Award Scheme"), which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the Restricted Share Award Scheme, the Company may purchase the scheme shares in the open market and hold the purchased shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest or are issued and new scheme shares are allotted to the trustee. The board of the Company has the discretion to decide whether the awarded shares are to be purchased or subscribed.

	Weighted average exercise price RMB per share	Number of awarded shares '000
As at 1 January 2017	4.57	228
Forfeited/lapsed of restricted share	4.57	(228)
As at 31 December 2017	-	-

39. RESERVES AND NON-CONTROLLING INTERESTS

(a) Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 15 to 17 of the annual report.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. RESERVES AND NON-CONTROLLING INTERESTS (CONTINUED)

(b) Non-controlling interests

Reconciliation of movements of non-controlling interestsare as follows:

	Share of net assets of subsidiaries *RMB'M*	Conversion of convertible and exchangeable bond of a subsidiary *RMB'M*	Total *RMB'M*
At 1 January 2017	11,373	55	11,428
Share of profit for the year	2,199	-	2,199
Capital injection of non-controlling interest	7	-	18
Dividend payable to non-controlling interest	(285)	-	(285)
Disposal of subsidiaries	(12)	-	(12)
Changes in ownership interests in subsidiaries that do not result in a loss of control	211	-	211
Conversion of convertible and exchangeable bonds of a subsidiary	1,278	(55)	1,223
Other changes	24	-	24
At 31 December 2017	14,795	-	14,795
Change of accounting policy	(7)	-	(7)
As restated	14,788	-	14,788
Share of profit for the year	2,532	-	2,532
Capital injection of non-controlling interest	462	-	462
Dividend payable to non-controlling interest	(569)	-	(569)
Disposal of subsidiaries	(288)	-	(288)
Acquisition from non-controlling interests	(457)	-	(457)
Change in ownership interests in subsidiaries that do not result in a loss of control	18	-	18
Other changes	(420)	-	(420)
At 31 December 2018	16,066	-	16,066

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. RESERVES AND NON-CONTROLLING INTERESTS (CONTINUED)

(b) Non-controlling interests (continued)

Reconciliation of movements of non-controlling interestsare as follows: (continued)

	Share of net assets of subsidiaries *RMB'M*	Conversion of convertible and exchangeable bond of a subsidiary *RMB'M*	Total *RMB'M*
At 31 December 2018	16,066	-	16,066
Change of accounting policy	(14)	-	(14)
As restated	16,052	-	16,052
Share of profit for the year	4,153	-	4,153
Capital injection of non-controlling interest	737	-	737
Dividend payable to non-controlling interest	(579)	-	(579)
Disposal of subsidiaries	(1,904)	-	(1,904)
Change in ownership interests in subsidiaries that do not result in a loss of control	(1,264)	-	(1,264)
Acquisition from non-controlling interests	(121)	-	(121)
Other changes	29	-	29
At 31 December 2019	17,103	-	17,103

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. RESERVES AND NON-CONTROLLING INTERESTS (CONTINUED)

(b) Non-controlling interests (continued)

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	Place of incorporation and principal place of business	Proportion of ownership interests and voting Rights held by non-controlling interests	Profit allocated to non-controlling interests	Accumulated non-controlling interests
			RMB'M	*RMB'M*
31 December 2019				
Haier Electronics Group Co., Ltd	Hong Kong	54.13%	4,079	16,109
Individually immaterial subsidiaries with non-controlling interest			50	994
			4,129	17,103
31 December 2018				
Haier Electronics Group Co., Ltd	Hong Kong	55.04%	2,286	15,061
Individually immaterial subsidiaries with non-controlling interest			130	1,005
			2,416	16,066
31 December 2017				
Haier Electronics Group Co., Ltd	Hong Kong	56.31%	2,090	13,933
Individually immaterial subsidiaries with non-controlling interest			110	862
			2,200	14,795

Note:

Haier Electronics Group Co., Ltd is listed on the stock exchange of Hong Kong. Although the Group has only 43.69%, 44.96% and 45.87% ownership in Haier Electronics Group Co., Ltd, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Haier Electronics Group Co., Ltd on the basis of the Group's absolute size of shareholding and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 56.31%, 55.04% and 54.13% ownership interests in Haier Electronics Group Co., Ltd are owned by thousands of shareholders that are unrelated to the Group, None Individually holding more than 1%

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Current assets	34,783	37,333	35,533
Non-current assets	8,872	10,544	14,525
Current liabilities	(18,978)	(19,215)	(19,012)
Non-current liabilities	(1,646)	(2,476)	(1,407)
Equity attributable to owners of the Company	20,806	24,010	29,221
Non-controlling interests	2,225	2,176	418

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Revenue	78,740	76,336	75,880
Expenses	(75,245)	(72,238)	(68,362)
Profit for the year	3,495	4,098	7,518
Profit attributable to:			
owners of the Company	3,332	3,845	7,351
non-controlling interest	163	253	167
Profit for the year	3,495	4,098	7,518

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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)

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Other comprehensive income attributable to:			
owners of the Company	(51)	102	43
non-controlling interest	(65)	124	48
Other comprehensive income for the year	(116)	226	91
Total comprehensive income attributable to:			
owners of the Company	3,281	3,947	7,394
non-controlling interest	98	377	215
Total comprehensive income for the year	3,379	4,324	7,609

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Net cash inflow from operating activities	4,166	4,352	4,705
Net cash outflow from investing activities	(2,538)	(4,131)	(3,325)
Net cash inflow/(outflow) from financing activities	772	(529)	(1,602)
Net cash inflow/(outflow)	2,400	(308)	(222)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS

(a) On 17 May 2017, the Group acquired a 51% interest in GoT, which is engaged in the manufacturing and sale of water heaters. The acquisition was made as part of the Group's strategy to further develop its water heater business. The purchase consideration was in the form of cash which comprised (i) a lump-sum payment of approximately EUR7 millions (equivalent to approximately RMB52 millions); and (ii) a contingent consideration to be determined with reference to GoT's annual operating results from 2017 to 2019, which is included in the "other non-current liabilities" in the consolidated statement of financial position. As part of the purchase agreement, the Group was granted a call option to purchase from the seller the remaining 49% interest in GoT which is valid until and as long as the seller still holds any equity interest in GoT; while the seller was granted a put option to sell to the Group the remaining 49% interest in GoT which is valid no later than 31 December 2027. The call option and the put option are included in "other non-current assets" and "put option liabilities", respectively, in the consolidated statement of financial position.

The Group has elected to measure the non-controlling interests in GoT at the noncontrolling interest's proportionate share of GoT's identifiable net assets.

The fair values of the identifiable assets and liabilities of GoT as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	167
Other intangible assets	7
Deferred tax assets	2
Inventories	29
Trade and other receivables	33
Prepayments, deposits and other receivables	14
Trade and bills payables	(10)
Other payables and accruals	(30)
Interest-bearing borrowings	(86)
Provisions	(4)
Deferred income	(3)
Deferred tax liabilities	(8)
Total identifiable net assets at fair value	111
Non-controlling interests	(54)
	57
Goodwill on acquisition	3
	60

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(a) (continued)

	RMB'M
Satisfied by:	
Cash consideration	52
Other non-current assets	6
Other non-current liabilities	(6)
Put option liabilities	8
	60

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB33 millions and RMB14 millions, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB34 millions and RMB4 millions, respectively, of which trade and bills receivables of approximately RMB1 millions are expected to be uncollectible.

The Group incurred transaction costs of approximately RMB6 millions for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss

The initial amount of contingent consideration recognised was approximately RMB6 millions, which was determined using the Monte Carlo Simulation model and is categorised in Level 3 of the fair value measurement, as further detailed in Note 45 to the consolidated financial statements. The consideration is due for final measurement and payment to the seller in 2020.

Significant unobservable valuation inputs for the fair value measurement of the contingent consideration are as follows:

Projected average earnings before interest, taxes, depreciation and amortisation ("EBITDA") of GoT	EUR2,004,000 to EUR4,713,000
Discount rate	1.23%

A significant increase/(decrease) in EBITDA of GoT would result in a significant increase/(decrease) in the fair value of the contingent consideration. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) in the fair value of the contingent consideration.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(a) (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	(52)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(52)
Transaction costs of the acquisition included in cash flows used in operating activities	(6)
	(58)

Since the acquisition, GoT contributed approximately RMB144 millions to the Group's revenue and loss of approximately RMB1 millions to the consolidated profit for the year ended 31 December 2017.

(b) On 31 August 2017, the Group increased its interest in Shanghai Grand Logistics Co., Ltd. ("Grand Logistics") from 17% to 57% at nil consideration in accordance with the equity interest adjustment clause (classified as a derivative financial instrument under other non-current assets) as stipulated in the investment agreement entered into in 2015. Grand Logistics was a then 17% owned investee company classified as an AFS investment, which is engaged in the provision of cold-chain logistics services. The transaction was made as part of the Group's strategy to expand its logistics service business.

The Group has elected to measure the non-controlling interests in Grand Logistics at the noncontrolling interest's proportionate share of Grand Logistics's identifiable net assets.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(b) (continued)

The fair values of the identifiable assets and liabilities of Grand Logistics as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	22
Other intangible assets	1
AFS financial assets	1
Trade and bill receivables	39
Prepayments, deposits and other receivables	18
Cash and cash equivalents	3
Trade and bills payables	(33)
Other payables and accruals	(16)
Interest-bearing borrowings	(34)
Total identifiable net assets at fair value	1
Non-controlling interests	(2)
	(1)
Goodwill on acquisition	29
	28
Satisfied by:	
AFS financial assets	8
Other non-current assets	20
	28

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to approximately RMB39 millions and RMB15 millions, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB40 millions and RMB15 millions, respectively, of which trade and bills receivables of approximately RMB1 millions is expected to be uncollectible.

The Group incurred transaction costs of approximately RMB724,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(b) (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	-
Cash and bank balances acquired	3
Net inflow of cash and cash equivalents included in cash flows from investing activities	3
Transaction costs of the acquisition included in cash flows used in operating activities	(1)
	2

Since the acquisition, Grand Logistics contributed approximately RMB67 millions to the Group's revenue and loss of approximately RMB8 millions to the consolidated profit for the year ended 31 December 2017.

(c) On 6 July 2018, the Group acquired a 60% equity interest in Peiji Logistics, which is engaged in the freight forwarding business at a cash consideration of approximately RMB163 millions during the year ended 31 December 2018. The acquisition was made as part of the Group's strategy to further develop its logistics business. The Group has elected to measure the non-controlling interests in Peiji Logistics at the non-controlling interest's proportionate share of Peiji Logistics's identifiable net assets.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(c) (continued)

The fair values of the identifiable assets and liabilities of Peiji Logistics as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	4
Deferred tax assets	5
Long-term prepayments	2
Inventories	23
Trade and bill receivables	449
Prepayments, deposits and other receivables	86
Other current assets	2
Cash and bank balances	11
Trade and bills payables	(315)
Other payables and accruals	(73)
Interest-bearing borrowings	(165)
Tax payable	(18)
Contract liabilities	(6)
Payroll obligations, provisions for pensions and similar obligations	(4)
Total identifiable net assets at fair value	1
Non-controlling interests	1
	2
Goodwill on acquisition	161
	163
Satisfied by:	
Cash consideration	163

The fair values of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB449 millions and RMB86 millions, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to approximately RMB465 millions and RMB91 millions, respectively, of which trade and bills receivables and other receivables of approximately RMB16 millions and RMB5 millions, respectively, are expected to be uncollectible.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(c) (continued)

The Group incurred transaction costs of approximately RMB6 millions for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	(163)
Cash and bank balances acquired	11
Net outflow of cash and cash equivalents included in cash flows from investing activities	(152)
Transaction costs of the acquisition included in cash flows used in operating activities	(6)
	(158)

Since the acquisition, Peiji Logistics contributed RMB672 millions to the Group's revenue and RMB27 millions to the consolidated profit for the year ended 31 December 2018.

(d) On 4 January 2019, the Group made a capital contribution of approximately RMB3,666 millions (eqivalent to approximately EUR467 millions) 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(d) (continued)

The fair values of the identifiable assets and liabilities of Candy as at the date of acquisition were as follows:

	RMB'M
Property, plant and equipment	1,483
Other intangible assets	1,790
Interests in associates	37
Deferred tax assets	261
Other non-current assets	82
Inventories	1,958
Trade and other receivables	1,317
Prepayments, deposits and other receivables	627
Cash and bank balances	976
Trade and bills payables	(3,036)
Other payables and accruals	(445)
Provision	(258)
Interest-bearing borrowings	(2,101)
Contract liabilities	(14)
Tax payable	(145)
Deferred tax liabilities	(653)
Other non-current liabilities	(100)
Long-term payables	(127)
Total identifiable net assets at fair value	1,652
Non-controlling interests	(26)
	1,626
Goodwill on acquisition	2,040
	3,666
Satisfied by:	
Cash consideration	3,666

The fair values and gross contractual amounts of the trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition were approximately RMB1,317 millions and RMB627 millions (equivalent to approximately EUR167 millions and EUR79 millions), respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(d) (continued)

The Group incurred transaction costs of approximately RMB8 millions (equivalent to approximately EUR989,000) for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'M
Cash consideration	(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 millions (equivalent to approximately EUR16 millions) to the consolidated loss for the year ended 31 December 2019.

(e) On 12 April 2019, the Group made a capital contribution of approximately RMB20 millions and a loan of approximately RMB22 millions to acquire a 51% equity interest in Shanghai Feisheng International Logistics Co., Ltd. ("Feisheng Logistics"), which is engaged in the logistics service business. The purchase consideration was a contingent consideration to be determined with reference to Feisheng Logistics's annual operating results in the next three years, and the fair value of Feisheng Logistics on acquisition date was approximately RMB53 millions , and the corresponding amount shared by the non-controlling shareholders was approximately RMB26 millions 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 Firs International at the noncontrolling interest's proportionate share of Firs International's identifiable net assets.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(e) (continued)

The fair values of the identifiable assets and liabilities of Firs International 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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. BUSINESS COMBINATIONS (CONTINUED)

(e) (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 RMB60 millions and RMB14 millions, respectively.

The Group incurred transaction costs of approximately RMB130,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The initial amount of the contingent consideration recognised was approximately RMB6 millions 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 millionsto RMB14 millions
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, Firs International contributed approximately RMB2 millions to the consolidated profit for the year ended 31 December 2019,which was included in the discontinued operation of the Group.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. DISPOSAL OF SUBSIDIARIES

	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
Net assets disposed of:			
Property, plant and equipment	1	273	2,091
Right-of-use assets	-	-	2,053
Prepaid land lease payments	13	57	-
Goodwill	-	317	285
Other intangible assets	-	2	56
Interests in associates	-	93	-
Long-term prepayments	-	-	76
Deferred tax assets	-	15	59
Other non-current assets	-	10	-
Inventories	31	56	-
Trade and bills receivables	36	401	2,216
Prepayments, deposits and other receivables	36	158	473
Pledged deposits	-	-	7
Cash and bank balances	11	70	938
Other financial assets	-	-	2,074
Asset and disposal group held for sale	-	-	124
Trade and bills payables	(18)	(138)	(2,096)
Other payables and accruals	(39)	(71)	(775)
Receipt in advance	(14)	-	-
Contract liabilities	-	(58)	(58)
Interest-bearing borrowings	-	(130)	(12)
Lease liabilities	-	-	(1,023)
Tax payable	(8)	(4)	(82)
Liabilities directly associated to the assets-classified as held for sale	-	-	(14)
Deferred income	-	(11)	(88)
Deferred tax liabilities	-	(2)	(4)
Put option liabilities	-	-	(1,771)
Exchange fluctuation reserve	-	1	2
Non-controlling interests	(12)	(287)	(1,904)
	37	752	2,627
Gain on disposal of subsidiaries, net	(2)	79	(2)
Gain recognised on the remeasurement of fair value of the discontinued operation	-	-	3,190
Gain recognised on disposal of the discontinued operation	-	-	636
	35	831	6,451

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Satisfied by:			
Cash	34	703	1
Other receivables	1	22	-
Assets classified as held for sale	-	106	-
Interests in associates	-	-	5,376
Deemed distributions for business combination under common control	-	-	1,074
	35	831	6,451

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Cash consideration received	34	703	1
Cash and bank balance disposed of	(11)	(70)	(938)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	23	633	(937)
Analysed into:			
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	23	633	(937)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of approximately RMB1,533 millions and RMB1,469 millions, respectively, in respect of lease arrangements for buildings and plant and machinery (2018: Nil).

During the year ended 31 December 2018, the Group purchased property, plant and equipment by endorsing bills receivable with an aggregate carrying amount of approximately RMB15 millions (2017: RMB 44 millions).

(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*	Finance lease *RMB'M*
As at 1 January 2017	301	38,729	-	1,223	17
Changes from financing cash flows	(2,906)	(4,640)	-	6,796	(18)
Foreign exchange movement	(155)	(1,052)	-	(166)	
Acquisition of subsidiaries	-	120	-	-	-
Interest expense	1,383	-	-	12	1
Disposal of subsidiaries	(13)	-	-	-	-
Dividends payable to the shareholders	1,512	-	-	-	-
Dividends payable to non-controlling shareholders	285	-	-	-	-
Conversion of convertible and exchangeable bonds	-	-	-	(1,223)	-
Equity portion of convertible and exchangeable bond	-	-	-	(431)	-
As at 31 December 2017 and 1 January 2018	407	33,157	-	6,211	-

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (continued)

	Other payables and accruals in relation to financing activities *RMB'M*	Interest-bearing borrowings *RMB'M*	Lease liabilities *RMB'M*	Convertible and exchangeable bonds *RMB'M*	Finance lease *RMB'M*
As at 31 December 2017 and 1 January 2018	407	33,157	-	6,211	-
Changes from financing cash flows	(3,884)	(9,718)	-	2,983	-
Foreign exchange movement	(216)	1,486	-	303	
Acquisition of subsidiaries	15	165	-	-	-
Interest expense	1,305	-	-	168	-
Amounts reclassified as held for sale	-	(11)	-	-	-
Disposal of subsidiaries	(3)	(130)	-	-	-
Dividends payable to non-controlling shareholders settled by offsetting against trade receivables	(6)	-	-	-	-
Dividends payable to the shareholders	2,085	-	-	-	-
Dividends payable to non-controlling shareholders	569	-	-	-	-
Equity portion of convertible and exchangeable bond	-	-	-	(473)	-
As at 31 December 2018	272	24,949	-	9,192	-
Effect of adoption of IFRS 16	-	-	3,153	-	-
As at 1 January 2019 (As restated)	272	24,949	3,153	9,192	-
Changes from financing cash flows	(4,202)	(550)	(894)	(9)	-
Foreign exchange movement	(33)	171	(255)	153	-
New leases	-	-	1,469	-	-
Acquisition of subsidiaries	-	2,116	-	-	-
Interest expense	1,364	-	125	274	-
Amounts reclassified as held for sale	-	11	-	-	-
Disposal of subsidiaries	(22)	(12)	(1,023)	-	-
Dividends payable to the then holding company of a subsidiary	2,235	-	-	-	-
Dividends payable to non-controlling shareholders	579	-	-	-	-
Conversion of convertible bonds	-	-	-	(2,605)	-
As at 31 December 2019	193	26,685	2,575	7,005	-

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

	2019
	RMB'M
Within operating activities	(448)
Within financing activities	(894)
	(1,342)

43. FINANCIAL LIBILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2018	2019
	RMB'M	*RMB'M*	*RMB'M*
Foreign currency forward contracts	-	212	43
Forward currency option	-	7	-
	-	219	43

44. CONVERTIBLE AND EXCHANGEABLE BONDS

In the year 2014, the Group and the Alibaba Group agreed on a strategic collaboration through the Strategic Investments Agreements to further develop the Group's logistics business carried out by Gooday Logistics, a then indirect wholly-owned subsidiary of the Company.

According to the Convertible and Exchangeable Bond Agreement entered into between the Group and the Alibaba Group on 20 March 2014, Haier Electronics Group Co., Ltd. ("Haier Electronics"), issued convertible and exchangeable bonds (the "CEB") to Alibaba Group with a principal amount of HK$1,316,036,000 (equivalent to RMB1,055,023,000). The CEB is interest-bearing at a rate of 1.5% per annum and is due to mature on 20 March 2017. The CEB is convertible into ordinary shares of Haier Electronics at a conversion price of HK$19.334 per share (the "Conversion Right") or exchangeable into the ordinary shares of Goodaymart Logistics (the "Exchange Right"), at the option of the CEB holders. If the Conversion Right is exercised, all interests accrued up to the date of the conversion will be payable and taken into account in arriving at the number of convertible shares. If the Exchange Right is exercised, no interest will be payable by Haier Electronics.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. CONVERTIBLE AND EXCHANGEABLE BONDS (CONTINUED)

The fair value of the liability component of the CEB amounting to RMB1,000 millions was estimated at the issuance date using an equivalent market interest rate for a similar bond without conversion and exchange options. During the year 31 December 2017, the CEB was fully converted by Alibaba Group.

On 21 November 2017, Harvest International Company Limited, a wholly owned subsidiary of the Company, issue a principal amount of HK$8,000 million (equivalent to RMB6,730 million) convertible and exchangeable bonds. The convertible and exchangeable bonds mature at the five anniversaries of the issue date with zero coupon interest rate and bears effective interest rate of 1% per annum.

On 18 December 2018, the Company issued an RMB3,000 million convertible corporate bond. The convertible bond issued has a maturity of 6 years. 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.

On 16 December 2019, the Company early redeemed the convertible corporate bond at RMB100.20 per bond from the bond holder. 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 fair value of the convertible and exchangeable bonds on the issuance date were recognised into as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Liability component	6,300	8,807	6,300
Equity component	431	904	431
	6,731	9,711	6,731

The movement of the liability component of CEB and convertible and exchangeable bonds is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
At 1 January	1,223	6,211	9,192
Additions	6,300	2,507	-
Interest expense	12	168	274
Exercise of CEB	(1,223)	-	(2,605)
Redemption of CEB	-	-	(9)
Exchange realignment	(101)	306	153
At 31 December	6,211	9,192	7,005

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

Financial assets

As at 31 December 2017

	Derivative designated as hedges *RMB'M*	Loans and receivables *RMB'M*	AFS financial asset *RMB'M*	Total *RMB'M*
AFS financial assets	-	-	1,415	1,415
Trade and bills receivables	-	26,047	-	26,047
Other receivables	-	3,479	-	3,479
Financial assets measured at amortised cost	-	2,302	-	2,302
Derivative financial instruments	492	-	-	492
Pledged deposits	-	1,279	-	1,279
Cash and cash equivalents	-	35,292	-	35,292
	492	68,399	1,415	70,306

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments are as follows: (continued)

Financial assets (continued)

As at 31 December 2018

	Financial assets at FVTPL -designated as such upon initial recognition *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	-	1,400	-	-	1,400
Trade and bills receivables	-	14,301	-	10,533	24,834
Other receivables	-	-	-	3,569	3,569
Financial assets at FVTPL	2,103	-	-	-	2,103
Financial assets measured at amortised cost	-	-	-	3,106	3,106
Derivative financial instruments	-	-	192	-	192
Pledged deposits	-	-	-	1,810	1,810
Cash and cash equivalents	-	-	-	36,561	36,561
	2,103	15,701	192	55,579	73,575

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments are as follows: (continued)

Financial assets (continued)

As at 31 December 2019

	Financial assets at FVTPL -designated as such upon initial recognition *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
Other receivables	-	-	-	4,791	4,791
Financial assets at FVTPL	603	-	-	-	603
Financial assets measured at amortised cost	-	-	-	4,313	4,313
Derivative financial instruments	-	-	96	-	96
Pledged deposits				1,211	1,211
Other deposits with limited use	-	-	-	5	5
Cash and cash equivalents	-	-	-	34,963	34,963
	603	15,347	96	56,299	72,345

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments are as follows: (continued)

Financial liabilities

As at 31 December 2017

	Financial liabilities measured at FVTPL *RMB'M*	Financial liabilities measured at amortised cost *RMB'M*	Total *RMB'M*
Trade and bills payables	-	43,062	43,062
Other payables	-	12,993	12,993
Derivative financial instruments	272	-	272
Interest-bearing borrowings	-	33,157	33,157
Put option liabilities	917	-	917
Convertible and exchangeable bonds	-	6,211	6,211
Contingent considerations	5	-	5
	1,194	95,423	96,617

As at 31 December 2018

	Financial liabilities measured at FVTPL *RMB'M*	Financial liabilities measured at amortised cost *RMB'M*	Total *RMB'M*
Trade and bills payables	-	47,937	47,937
Other payables	-	14,801	14,801
Financial liabilities at FVTPL	219	-	219
Derivative financial instruments	36	-	36
Interest-bearing borrowings	-	24,949	24,949
Put option liabilities	1,792	-	1,792
Convertible and exchangeable bonds	-	9,192	9,192
Contingent considerations	5	-	5
	2,052	96,879	98,931

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments are as follows: (continued)

Financial liabilities (continued)

As at 31 December 2019

	Financial liabilities measured at FVTPL *RMB'M*	Financial liabilities measured at amortised cost *RMB'M*	Total *RMB'M*
Trade and bills payables	-	53,059	53,059
Other payables	-	17,491	17,491
Financial liabilities at FVTPL	43	-	43
Derivative financial instruments	99	-	99
Interest-bearing borrowings	-	26,685	26,685
Put option liabilities	55	-	55
Convertible and exchangeable bonds	-	7,005	7,005
Lease liabilities	-	2,575	2,575
	197	106,815	107,012

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The management estimate the carrying amount financial instruments carried at amorised cost approximately its fair value.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other deposits with limitd use, certain other financial assets measured at amortised cost, trade receivables, other receivables, trade and bills payables and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of unlisted equity investments in Sinopec Marketing Co, Limited, which was designated at FVTOCI, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires management to determine comparable public companies (peers) based on industry and place of business, and to calculate an appropriate price multiple, such as price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. Management believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period. The fair values of the remaining unlisted equity investments designated at FVTOCI are determined with reference to their respective latest available transaction prices.

(b) The fair values of put option liabilities have been estimated using the discounted cash flow model by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, or by the combination of the discounted cash flow model and the Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group invests in unlisted investments, which represent wealth management products included in other financial assets at FVTPL issued by banks in Mainland China and Hong Kong. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of bills receivable and interest-bearing borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing borrowings was assessed to be insignificant.

Below is a summary of significant unobservable inputs (level 3 inputs of fair value measurement) to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017, 2018 and 2019:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted investment at FVTOCI	Valuation multiples	Average P/E multiple of peers	2017: Nil 2018:15.61-15.92 2019:16.92-17.27	1% increase (decrease) in multiple would result in increase (decrease) in fair value by 2017:Nil 2018:RMB12,615,000 2019:RMB12,429,000
		Discount for lack of marketability	2017: Nil 2018:14%-16% 2019:9%-11%	1% increase (decrease) in risk-free interest rate would result in increase (decrease) in fair value by 2017: Nil 2018: RMB14,841,000 2019: RMB13,810,000
Put option liabilities	Monte Carlo Simulation	Risk-free interest rate	2017: 0.34%-2.34% 2018:0.47%-1.47% 2019:Nil	1% increase (decrease) in multiple would result in increase (decrease) in fair value by 2017:RMB780,000 (RMB343,000) 0.5% increase (decrease) in multiple would result in increase(decrease) in fair value by 2018:RMB 285,000 (RMB288,000 2019:Nil

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017, 2018 and 2019: (continued)

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Put option liabilities (continued)		Median Volatility of comparable companies	2017:10.40%-12.40% 2018:14.14%-16.14% 2019:Nil	1% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by 2017:RMB351,000 (RMB991,000) 2018: RMB7,113,000 (RMB7,991,000) 2019:Nil
		Weighted average of capital (WACC)	2017: Nil 2018:12.11%-14.11% 2019: Nil	1% increase (decrease) in WACC would result in in increase (decrease) in in fair value by 2017:Nil 2018: RMB9,131,000 (RMB9,868,000) 2019: Nil

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2017

	Level 1 *RMB'M*	Level 2 *RMB'M*	Level 3 *RMB'M*	Total *RMB'M*
AFS financial assets	27	-	-	27
Derivative financial instruments	-	446	46	492
	27	446	46	519

As at 31 December 2018

	Level 1 *RMB'M*	Level 2 *RMB'M*	Level 3 *RMB'M*	Total *RMB'M*
Equity investments designated at FVTOCI	20	-	1,380	1,400
Bills receivables	-	-	14,301	14,301
Financial assets at FVTPL	-	2,084	19	2,103
Derivative financial instruments	-	97	95	192
	20	2,181	15,795	17,996

As at 31 December 2019

	Level 1 *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	-	19	77	96
	22	597	15,427	16,046

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value

As at 31 December 2017

	Level 1 *RMB'M*	Level 2 *RMB'M*	Level 3 *RMB'M*	Total *RMB'M*
Derivative financial instruments	-	272	-	272
Put option liabilities	-	862	55	917
Convertible and exchangeable bonds	-	-	6,213	6,213
Contingent considerations	-	-	5	5
	-	1,134	6,273	7,407

As at 31 December 2018

	Level 1 *RMB'M*	Level 2 *RMB'M*	Level 3 *RMB'M*	Total *RMB'M*
Financial liabilities at FVTPL	-	219	-	219
Derivative financial instruments	-	36	-	36
Put option liabilities	-	1,588	204	1,792
Convertible and exchangeable bonds	-	-	9,160	9,160
Contingent considerations	-	-	5	5
	-	1,843	9,369	11,212

As at 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
Convertible and exchangeable bonds	-	-	7,087	7,087
	-	142	7,142	7,284

During the years ended 31 December 2017, 2018 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, lease liabilities and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in Mainland China and Hong Kong in currencies other than the units' functional currencies (i.e., RMB or Hong Kong dollar).

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on other components of the Group's equity.

	2017		2018		2019	
	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax
	%	*RMB'M*	%	*RMB'M*	%	*RMB'M*
If RMB strengthens against the United States dollar	5	687	5	719	5	563
If RMB weakens against the United States dollar	(5)	(687)	(5)	(719)	(5)	(563)
If RMB strengthens against the Japan dollar	5	(13)	5	12	5	17
If RMB weakens against the Japan dollar	(5)	13	(5)	(12)	(5)	(17
If RMB strengthens against the Euro	5	(19)	5	(33)	5	381
If RMB weakens against the the Euro	(5)	19	(5)	33	(5)	(381)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, and financial assets included in prepayments, deposits and other receivables and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group trades only with recognised and creditworthy third parties and Haier Affiliates. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise cash and cash equivalents, pledged deposits, and financial assets included in prepayments, deposits and other receivables and other financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments and they were all classified within stage 1 as at 31 December 2017, 2018 and 2019, which is mainly based on past due information unless other information is available without undue cost or effort.

Since the Group trades only with recognised and creditworthy third parties and Haier Affiliates, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors. The credit risk of the Group's trade and bills receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts and the Group applies the simplified approach in calculating ECLs of its trade and bills receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and other receivables are respectively disclosed in Notes 26 and 27 to the consolidated financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings and lease liabilities. It is the Group's policy to renew its loan agreements with major local banks where the Group operates upon the maturity of the Group's short and long term borrowings when funding is needed.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

As at 31 December 2017

	On demand or no fixed terms of repayment *RMB'M*	Within one year *RMB'M*	Over one year *RMB'M*	Total *RMB'M*
Trade and bills payables	-	43,062	-	43,062
Other payables	12,993	-	-	12,993
Interest-bearing borrowings	-	17,028	16,129	33,157
Derivative financial instrument	-	23	249	272
Put option liabilities	-	-	917	917
Other non-current liabilities	-	-	45	45
Convertible and exchangeable bonds	-	-	6,211	6,211
	12,993	60,113	23,551	96,657

As at 31 December 2018

	On demand or no fixed terms of repayment *RMB'M*	Within one year *RMB'M*	Over one year *RMB'M*	Total *RMB'M*
Trade and bills payables	-	47,937	-	47,937
Other payables	14,801	-	-	14,801
Interest-bearing borrowings	-	9,314	15,635	24,949
Financial liabilities at FVTPL	-	219	-	219
Derivative financial instrument	-	36	-	36
Put option liabilities	-	-	1,792	1,792
Other non-current liabilities	-	-	45	45
Convertible and exchangeable bonds	-	-	9,192	9,192
	14,801	57,506	26,664	98,971

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

As at 31 December 2019

	On demand or no fixed terms of repayment *RMB'M*	Within one year *RMB'M*	Over one year *RMB'M*	Total *RMB'M*
Trade and bills payables	-	53,059	-	53,059
Other payables	17,491	-	-	17,491
Interest-bearing borrowings	-	13,315	13,370	26,685
Financial liabilities at FVTPL	-	43	-	43
Derivative financial instrument	-	99	-	99
Lease liabilities	-	595	1,980	2,575
Put option liabilities	-	-	55	55
Other non-current liabilities	-	-	61	61
Convertible and exchangeable bonds	-	-	7,005	7,005
	17,491	67,111	22,471	107,073

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS

The Group sponsors a funded defined benefit plan for qualifying employees of its subsidiaries in theUnited 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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

	2017			2018			2019		
	Current *RMB'M*	Non-current *RMB'M*	Total *RMB'M*	Current *RMB'M*	Non-current *RMB'M*	Total *RMB'M*	Current *RMB'M*	Non-current *RMB'M*	Total *RMB'M*
Defined pension benefit (i)	87	569	656	89	457	546	84	578	662
Termination benefits	-	114	114	-	230	230	-	324	324
Provision for work-related injury compensation	-	267	267	-	248	248	-	220	220
Total	87	950	1,037	89	935	1,024	84	1,122	1,206

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) 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.

The amounts recognised in the consolidated statement of financial position and the movements in the net defined pension benefit over the years are as follows:

(1) Haier Asia Co., Ltd pension plan

	2017	2018	2019
Discount rates	0.50%	0.50%	0.50%
Compensation increases	2.00%	2.00%	2.00%

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening defined benefit obligation	314	303	324
Current service cost	10	9	9
Interest cost	1	1	1
Remeasurement (gains)/losses:			
Exchange differences on foreign plans	(8)	20	11
Benefits paid	(14)	(9)	(11)
Closing defined benefit obligation	303	324	334

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit

(1) Haier Asia Co., Ltd pension plan (continued)

Movements in the present value of the plan assets in the current year were as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening fair value of plan assets	300	307	326
Interest income	1	1	6
Remeasurement (gains)/losses:			
Return on plan assets (excluding amounts included in net interest expense)	13	(9)	16
Contributions from the employer	16	15	15
Exchange differences on foreign plans	(9)	21	13
Benefits paid	(14)	(9)	(8)
Closing fair value of plan assets	307	326	368

The net asset/(net liabilities) of the defined benefit obligations are as follows.

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Balance at begin of fiscal year	14	(4)	(2)
Components of defined benefit cost recognised in profit or loss	10	9	4
Components of defined benefit cost recognised in other comprehensive income	(13)	9	(16)
Other reconciling items	(15)	(16)	(20)
Balance at fiscal year-end	(4)	(2)	(34)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit (continued)

(2) Roper Corporation pension plan

	2017	2018	2019
Discount rates	3.58%	4.30%	3.27%

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening defined benefit obligation	147	145	118
Current service cost	6	6	5
Interest cost	5	5	2
Prior service cost	4	9	-
Remeasurement (gains)/losses:			
Actuarial gains and losses	-	(44)	18
Exchange differences on foreign plans	(8)	6	2
Benefits paid	(9)	(9)	(7)
Closing defined benefit obligation	145	118	138

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit (continued)

(2) Roper Corporation pension plan (continued)

The net asset of the defined benefit obligations are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Balance at begin of fiscal year	147	145	118
Components of defined benefit cost recognised in profit or loss	15	20	7
Components of defined benefit cost recognised in other comprehensive income	-	(44)	18
Other reconciling items	(17)	(3)	(5)
Balance at fiscal year-end	145	118	138

(3) Haier U.S. Appliance Solutions, Inc. pension plan

Movements in the present value of the plan assets in the current year were as follows:

	2017	2018	2019
Discount rates	3.37%	4.13%	3.06%
Compensation increases	3.75%	N/A	N/A

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit (continued)

(3) Haier U.S. Appliance Solutions, Inc. pension plan (continued)

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening defined benefit obligation	385	384	326
Current service cost	5	-	-
Prior service cost	18	-	-
Interest cost	13	11	9
Remeasurement (gains)/losses:			
Actuarial gains and losses	-	(55)	(1)
Exchange differences on foreign plans	(23)	16	5
Benefits paid	(14)	(30)	(29)
Closing defined benefit obligation	384	326	310

The net asset of the defined benefit obligations are as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Balance at begin of fiscal year	385	384	326
Components of defined benefit cost recognised in profit or loss	36	11	9
Components of defined benefit cost recognised in other comprehensive income	-	(55)	(1)
Other reconciling items	(37)	(14)	(24)
Balance at fiscal year-end	384	326	310

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit (continued)

(4) Haier U.S. Appliance Solutions, Inc.

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2017	2018	2019
Discount rates	3.35%	4.00%	2.96%
Compensation increases	3.75%	N/A	N/A

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening defined benefit obligation	344	333	284
Current service cost	13	-	-
Interest cost	10	10	10
Others	(3)	-	-
Remeasurement (gains)/losses:			
Actuarial gains and losses	18	(15)	11
Exchange differences on foreign plans	(20)	14	4
Benefits paid	(29)	(58)	(52)
Closing defined benefit obligation	333	284	257

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(i) Defined pension benefit (continued)

(4) Haier U.S. Appliance Solutions, Inc. (continued)

Movements in the present value of the plan assets in the current year were as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Opening fair value of plan assets	8	226	201
Remeasurement (gains)/losses:			
Return on plan assets (excluding amounts included in net interest expense)	-	(2)	7
Contributions from the employer	254	24	26
Exchange differences on foreign plans	(7)	10	3
Benefits paid	(29)	(57)	(53)
Closing fair value of plan assets	226	201	184

The net asset of the defined benefit obligations are as follows.

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Balance at begin of fiscal year	336	107	83
Components of defined benefit cost recognised in profit or loss	20	10	10
Components of defined benefit cost recognised in other comprehensive income	18	(13)	4
Other reconciling items	(267)	(21)	(24)
Balance at fiscal year-end	107	83	73

49. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
Contracted, but not provided for :			
Property, plant and equipment	2,685	3,152	2,053

(b) Operating lease commitments

The Group leased certain properties under operating lease arrangements. Leases for properties were with terms of 12 months or less.

At 31 December 2017 and 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 *RMB'M*	2018 *RMB'M*
Within one year	1,032	1,439
In the second to fifth years, inclusive	1,262	2,014
After five years	466	450
	2,760	3,903

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
NON-CURRENT ASSETS			
Property, plant and equipment	133	157	246
Right-of-use assets	-	-	5
Prepaid land lease payments	6	6	-
Other intangible assets	8	12	11
Inerests in associates	3,098	3,176	3,177
Investments in subsidiaries	20,483	30,668	32,390
AFS financial assets	6	-	-
Equity investments designated at FVTOCI	-	5	5
Financial assets measured at amortised cost	8,600	-	-
Deferred tax assets	106	82	97
Other non-current assets	-	34	9
Total non-current assets	32,440	34,140	35,940
CURRENT ASSETS			
Inventories	90	125	234
Trade and bills receivables	288	223	1,182
Prepayments, deposits and other receivables	1,314	2,221	6,018
Financial assets measured at amortised cost	-	-	605
Cash and cash equivalents	2,071	7,069	5,624
Total current assets	3,763	9,638	13,663

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	2017 *RMB'M*	2018 *RMB'M*	2019 *RMB'M*
CURRENT LIABILITIES			
Trade and bills payables	310	335	3,412
Other payables and accruals	21,356	21,916	27,007
Contract liabilities	2,466	2,391	17
Interest-bearing borrowings	-	1,500	-
Tax payable	47	62	67
Total current liabilities	24,179	26,204	30,503
NET CURRENT LIABILITIES	(20,416)	(16,566)	(16,840)
TOTAL ASSETS LESS CURRENT LIABILITIES	12,024	17,574	19,100
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	20	20	20
Convertible and exchangeable bonds	-	2,511	-
Deferred income	30	60	52
Deferred tax liabilities	36	29	44
Total non-current liabilities	86	2,620	116
Net assets	11,938	14,954	18,984
EQUITY			
Share capital	6,097	6,368	6,579
Reserves (Note)	5,841	8,586	12,405
Total equity	11,938	14,954	18,984

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

Note:

A summary of the Company's reserves is as follows:

	Contributed surplus *RMB'M*	Capital redemption reserve *RMB'M*	Share option reserve *RMB'M*	Awarded Share reserve *RMB'M*	Retained profits *RMB'M*	Other comprehensive income *RMB'M*	Convertible and exchangeable bonds reserves *RMB'M*	Total reserve *RMB'M*
At 1 January 2017	2,002	59	(1)	1,390	2,258	(11)	-	5,697
Total comprehensive income for the year	-	-	-	-	1,431	(32)	-	1,399
Transfer to awarded share Reserve	-	-	-	47	(47)	-	-	-
Transfer of awarded share reserve upon the expiry of awarded shares	(1)	-	1	-	-	-	-	-
Others	(15)	272	-	-	-	-	-	257
Dividend payment	-	-	-	-	(1,512)	-	-	(1,512)
At 31 December 2017	1,986	331	-	1,437	2,130	(43)	-	5,841
Adjustment on initial application of IFRS 9 and IFRS 15	-	-	-	-	(16)	15	-	(1)
At 1 January 2018 (restated)	1,986	331	-	1,437	2,114	(28)	-	5,840
Total comprehensive income for the year	-	-	-	-	2,457	36	-	2,493
Issue of shares	1,862	-	-	-	-	-	-	1,862
Transfer to awarded share reserve	-	-	-	246	(246)	-	-	-
Others	-	3	-	-	-	-	473	476
Dividend payment	-	-	-	-	(2,085)	-	-	(2,085)
At 31 December 2018 and 1 January 2019	3,848	334	-	1,683	2,240	8	473	8,586
Total comprehensive income for the year	-	-	-	-	3,670	3	-	3,673
Issue of shares	2,890	-	-	-	-	-	(473)	2,417
Transfer to awarded share reserve	-	-	-	367	(367)	-	-	-
Others	-	(36)	-	-	-	-	-	(36)
Dividend payment	-	-	-	-	(2,235)	-	-	(2,235)
At 31 December 2019	6,738	298	-	2,050	3,308	11	-	12,405

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.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. EVENTS AFTER THE REPORTING PERIOD

(a) Since the outbreak of pneumonia epidemic caused by COVID-19 at home and abroad in early 2020, the Company's prevention and control of pneumonia epidemic is continuing globally and various measures have been taken to mitigate the impact of the epidemic on the Company's production and operation. The epidemic has brought uncertainty to the production and operation and may affect the Company's operation and financial condition. The Company will continue to assess and actively respond to the impact of the epidemic on its financial condition and operating results.

(b) According to the resolution of the 7th meeting of the 10th session of the Board of Directors of the Company held on 28 April 2020, the profit for the year is proposed to be distributed on the basis of the total number of shares on the registration date when the plan is implemented in the future, the Company will declare cash dividend of RMB 3.75 (including taxes) for every 10 shares to all shareholders.

(c) On 17 July 2020, the Group issued an ultra-short-term financing bonds at a principal amount of RMB30 millions which is unsecured, bears a fixed interest rate of 1.45% per annum in within 180 days from the issue date at its principal amount of RMB30 millions.

The ultra-short-term financing bonds have been approved by National Association of Financial Market Institutional Investors and registered in Shanghai Clearing House.

(d) According to the resolution of the 9th meeting of the 10th session of the Board of Directors of the Company held on 29 July 2020, the Company intends to dispose 54.50% shares of Haier COSMO IOT Ecosystem Technology Co., Ltd. ("Haier COSMO"), which held by the Company with corresponding to the registered capital of approximately 749 million, to 青岛海尔生态投资有限公司 (unofficially translated as "Qingdao Haier Eco Investment Co., Ltd.") at a consideration of approximately RMB 4.06 million. After the disposal, the Company will respectively hold 10.74% and 8.01% of the shares in Haier COSMO directly and indirectly, in total of 18.75% of the shares in Haier COSMO through the Company's controlling subsidiaries. Haier COSMO will not be included in the scope of the Group.

The Company has no other significant event after the balance sheet date that needs to be disclosed.